NEW ISSUE, BOOK-ENTRY ONLY

STATE OF WASHINGTON

Ratings:	
Fitch:	AA
Moody's:	Aa1
Standard & Poor's:	AA
Insured Bonds* Ratings:	
Fitch:	AAA
Moody's	Aaa
Standard & Poor's	AAA

$461,170,000
Various Purpose General Obligation Refunding Bonds, Series R-2006A

Dated: **Date of Initial Delivery (Expected July 26, 2005)** **Due:** **January 1, 2006, and each July 1 thereafter, as shown herein**

The Various Purpose General Obligation Refunding Bonds, Series R-2006A (the "Bonds"), are general obligations of the State of Washington (the "state") to which the state has pledged its full faith, credit and taxing power. Interest on the Bonds is payable semiannually on each January 1 and July 1, beginning January 1, 2006. The principal of the Bonds is payable on January 1, 2006, and each July 1 thereafter, beginning July 1, 2006, through and including July 1, 2024, as set forth on page i hereof. The Bonds may be subject to redemption prior to maturity at the times and prices set forth herein under "The Bonds—Redemption Provisions."

The Bonds are issuable as fully registered bonds under a book-entry only system, initially registered in the name of Cede & Co. (the "Registered Owner"), as bond owner and nominee for The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository for the Bonds. Individual purchases of the Bonds will be made in book-entry form only. The Bonds will be issued in the denomination of $5,000 each or any integral multiple thereof. Purchasers will not receive certificates representing their interest in the Bonds purchased. The principal of and interest on the Bonds are payable by the fiscal agency of the state, as paying agent, registrar, transfer agent, and authenticating agent (the "Bond Registrar") (currently The Bank of New York), to DTC, which in turn is obligated to remit such principal and interest to the DTC participants for subsequent disbursement to beneficial owners of the Bonds, as described herein under "The Bonds—Book-Entry System."

In the opinion of Bond Counsel to the state, under existing federal law and assuming compliance with applicable requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issue date of the Bonds, interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the alternative minimum tax applicable to individuals. However, while interest on the Bonds also is not an item of tax preference for purposes of the alternative minimum tax applicable to corporations, interest on the Bonds received by corporations is taken into account in the computation of adjusted current earnings for purposes of the alternative minimum tax applicable to corporations, interest on the Bonds received by certain S corporations may be subject to tax, and interest on the Bonds received by foreign corporations with United States branches may be subject to a foreign branch profits tax. Receipt of interest on the Bonds may have other federal tax consequences for certain taxpayers. See "Tax Exemption of the Bonds" and "Certain Other Federal Tax Consequences" under "Tax and Legal Information" herein.

Payment of the principal of and interest on the Insured Bonds when due will be insured by a financial guaranty insurance policy to be issued by Ambac Assurance Corporation simultaneously with the delivery of the Insured Bonds*.

Ambac

This cover page contains certain information for quick reference only. It is not a summary of this issue. Investors must read the entire Official Statement to obtain information essential to the making of an informed decision. The Bonds are offered when, as and if issued, subject to approval of tax exemption and legality by Foster Pepper & Shefelman PLLC, Seattle, Washington, Bond Counsel to the state, and certain other conditions.

It is anticipated that the Bonds will be available for delivery through the facilities of DTC in New York, New York, or to the Bond Registrar on behalf of DTC by Fast Automated Securities Transfer on or about July 26, 2005.

* Insured Bonds are the Bonds maturing on July 1 in the years 2012 through and including 2024.

No dealer, broker, salesperson, or other person has been authorized by the state to give any information or to make any representations with respect to the Bonds other than those contained in this Official Statement and, if given or made, such information or representations must not be relied upon. 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 Bonds 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. 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 in "Other Bond Information—Bond Insurance" and Appendix F, provided by Ambac Assurance Corporation. Estimates and opinions included herein should not be interpreted as statements of fact. The information and expressions of opinion stated herein are subject to change without notice. The delivery of this Official Statement shall not, under any circumstances, create any implication that there has been no change in the information or opinions set forth herein or in the affairs of the state, or any agency or instrumentality thereof, 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 Bonds.

Ambac Assurance makes no representation regarding the Bonds or the advisability of investing in the Bonds and makes no representation regarding, nor has it participated in the preparation of, the Official Statement other than the information supplied by Ambac Assurance and presented under the heading "Bond Insurance—Ambac Assurance Corporation."

IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT LEVELS ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED OR RECOMMENCED AT ANY TIME.

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.

MATURITY SCHEDULE

STATE OF WASHINGTON
$461,170,000
Various Purpose General Obligation Refunding Bonds, Series R-2006A[1]

Maturity Dates	Principal Amounts	Interest Rates	Yields	Prices	CUSIP
January 1, 2006	$ 2,550,000	3.000%	2.650%	100.146%	93974BET5
July 1, 2006	240,000	3.000	2.650	100.318	93974BEU2
July 1, 2007	5,115,000	4.000	2.750	102.333	93974BEV0
July 1, 2008	5,330,000	4.000	2.930	102.982	93974BEW8
July 1, 2009	5,570,000	5.000	3.070	107.092	93974BEX6
July 1, 2010	15,275,000	5.000	3.250	107.911	93974BEY4
July 1, 2011	20,180,000	5.000	3.360	108.749	93974BEZ1
July 1, 2012	31,530,000	5.000	3.440	109.544	93974BFA5
July 1, 2013	33,180,000	5.000	3.560	109.871	93974BFB3
July 1, 2014	34,905,000	5.000	3.620	110.447	93974BFC1
July 1, 2015	38,840,000	5.000	3.700	110.719	93974BFD9
July 1, 2016	39,490,000	5.000	3.790	109.933[2]	93974BFE7
July 1, 2017	41,735,000	5.000	3.830	109.586[2]	93974BFF4
July 1, 2018	44,150,000	5.000	3.920	108.810[2]	93974BFG2
July 1, 2019	25,760,000	5.000	3.980	108.296[2]	93974BFH0
July 1, 2020	27,125,000	5.000	4.040	107.786[2]	93974BFJ6
July 1, 2021	28,510,000	5.000	4.060	107.616[2]	93974BFK3
July 1, 2022	19,555,000	5.000	4.060	107.616[2]	93974BFL1
July 1, 2023	20,545,000	5.000	4.130	107.025[2]	93974BFM9
July 1, 2024	21,585,000	5.000	4.170	106.689[2]	93974BFN7
Total	$ 461,170,000				

(1) Authorized by Chapters 39.42 and 39.53 RCW and Resolutions Numbers 875 and 945.

(2) Priced to the July 1, 2015, par call date.

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The 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 BONDS

Issuer:	State of Washington (the "state").
Offering:	The Various Purpose General Obligation Refunding Bonds, Series R-2006A (the "Bonds"), are dated the date of their initial delivery.
Interest Payments:	Interest on the Bonds is payable semiannually on each January 1 and July 1, beginning January 1, 2006.
Principal Payments:	Principal of the Bonds is payable at maturity on January 1, 2006, and each July 1 thereafter, beginning July 1, 2006, through and including July 1, 2024.
Optional Redemption:	The state may redeem the Bonds maturing on or after July 1, 2016, as a whole or in part on any date on or after July 1, 2015 (with the maturities to be redeemed to be selected by the state and randomly within a maturity in such manner as the Bond Registrar shall determine), at par plus accrued interest to the date fixed for redemption.
Form of Bonds:	The Bonds will be issued in fully registered, book-entry only form, in the denomination of $5,000 each, or any integral multiple thereof within a single maturity.
Bond Registrar:	The fiscal agency of the state (currently, The Bank of New York) will act as paying agent, authenticating agent, transfer agent, and registrar for the Bonds. Payments of principal of and interest on the Bonds will be paid by the state to the Bond Registrar, which in turn will remit such payments to DTC. DTC will remit payments to beneficial owners in accordance with the operational arrangements then in effect at DTC.
Security:	The Bonds are general obligations of the state, and the full faith, credit and taxing power of the state are pledged irrevocably to the payment of the Bonds.
Purpose:	The Bonds are being issued to refund certain outstanding general obligation bonds of the state for debt service savings and to pay for the costs of issuance of the Bonds.
Legal Opinion:	The Bonds are offered when, as and if issued, subject to approval of tax exemption and legality by Foster Pepper & Shefelman PLLC, Seattle, Washington, Bond Counsel to the state, and certain other conditions.
Bond Ratings:	The Bonds have been rated by Moody's Investors Service, Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., and Fitch.
Continuing Disclosure:	The state has entered into an undertaking for the benefit of the owners of the Bonds 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" in the Official Statement.

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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

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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 via the Internet at the Office of the Washington 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 Bonds. This inactive textual reference to the state's website is not a hyperlink and does not incorporate the state's website by reference.

CONTACT INFORMATION

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OFFICIAL STATEMENT

STATE OF WASHINGTON

$461,170,000
Various Purpose General Obligation Refunding Bonds, Series R-2006A

The purpose of this Official Statement, including the cover hereof and the appendices hereto, is to provide certain information, including with respect to the State of Washington (the "state"), in connection with the offering and sale of its Various Purpose General Obligation Refunding Bonds, Series R-2006A (the "Bonds").

Numerous state agencies including, in particular, the Office of the State Treasurer, the Department of Revenue, the State Attorney General, the Economic and Revenue Forecast Council, the Department of Retirement Systems, and the Office of Financial Management have assisted the State Finance Committee in assembling the information contained herein. All references to and summaries of certain provisions of the Constitution and laws of the state and any other documents and agreements referred to herein do not purport to be complete and are qualified in their entirety by reference to the complete provisions thereof. 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 more complete information. Copies thereof are available for inspection at the Office of the State Treasurer upon request. Any statements involving estimates, projections or forecasts are to be construed as such, rather than statements of facts or representations that such estimates, projections or forecasts will be realized.

Reference is made to Resolutions Nos. 875 and 945 (collectively, the "Bond Resolutions") of the State Finance Committee (the "Committee"), authorizing the issuance of the Bonds, for the definitions of capitalized terms not otherwise defined herein.

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 (Section 43.33.030 of the Revised Code of Washington ("RCW")), 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 its official duties in accordance with prescribed policies of the Committee.

THE BONDS

Authority and Purpose

The $461,170,000 principal amount of the Bonds are being issued pursuant to chapters 39.42 and 39.53 RCW and Resolutions Nos. 875 and 945. The Bonds are being issued for the purpose of refunding certain various purpose general obligation bonds of the state for debt service savings and to pay the costs of issuance of the Bonds.

Description

The Bonds are dated the date of their initial delivery and will be issued as fully registered, book-entry only bonds in the denominations of $5,000 each or any integral multiple thereof.

Interest on the Bonds will be calculated on the basis of a 360-day year and twelve 30-day months, and will be payable semiannually on each January 1 and July 1, beginning January 1, 2006, at the rates shown on page i hereof. Principal of the Bonds is payable on January 1, 2006, and each July 1 thereafter, beginning July 1, 2006, through and including July 1, 2024, in the amounts shown on page i hereof.

Pursuant to authority granted in chapter 43.80 RCW, the Committee appoints one or more fiscal agents for the state with the authority to act as paying agent, transfer agent, authenticating agent, and bond registrar for all obligations issued by the state and its political subdivisions. The fiscal agent appointed by the Committee from time to time is herein referred to as the Fiscal Agent or the Bond Registrar. The Committee is currently under contract with The Bank of New York to act as the fiscal agent for the State of Washington for a term that began February 1, 2002, and will continue to January 31, 2007. Under the terms of the current fiscal agency contract, The Bank of New York will authenticate the Bonds for delivery to DTC and will remit payments received from the state as principal and interest to DTC. See "Book-Entry Bonds."

Redemption Provisions

Optional Redemption. The state may redeem the Bonds maturing on or after July 1, 2016, as a whole or in part on any date on or after July 1, 2015 (with the maturities to be redeemed to be selected by the state and randomly within a maturity in such manner as the Bond Registrar shall determine), at par plus accrued interest to the date fixed for redemption.

Mandatory Redemption. The Bonds are not subject to mandatory redemption.

Notice of Redemption. Notice of redemption shall be given by the Bond Registrar not less than 30 nor more than 60 days prior to the date fixed for redemption by first-class mail, postage prepaid, to the registered owners of the Bonds to be redeemed at the address appearing on the bond register maintained by the Bond Registrar; *provided, however*, as long as the Bonds are in book-entry form, notice of redemption will be given in accordance with the operational arrangements then in effect at DTC. The state will not provide notice of redemption to any beneficial owners of the Bonds.

Book-Entry System

The information in this section has been provided by DTC. The state makes no representation for the accuracy or completeness thereof, or for the absence of material changes in such information subsequent to the date hereof. Beneficial Owners should confirm the following with DTC or the Participants (as hereinafter defined).

The Bonds will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository for the Bonds. Individual purchases will be made in book-entry form only, and purchasers will not receive physical certificates representing their interests in the Bonds purchased. For information about the DTC book-entry system, see Appendix E—Book-Entry Transfer System.

Termination of Book-Entry System. If DTC resigns as the securities depository and no substitute can be obtained, or if the state has determined that it is in the best interest of the beneficial owners of the Bonds that they be able to obtain certificates, the ownership of the Bonds may be transferred to any person as described in the Master Assignment of Payments and the Bonds no longer will be held in fully immobilized form. New bonds then will be issued in appropriate denominations and registered in the names of the bond owners.

State and Bond Registrar Responsibilities. Neither the state, the Committee nor the Bond Registrar will have any responsibility or any liability to the Beneficial Owners for any error, omission, action, or failure to act on the part of DTC with respect to the following:

(i) proper recording of beneficial ownership interests of the Bonds;

(ii) proper transfers of such beneficial ownership interests;

(iii) the payment, when due, to the Beneficial Owners of principal of and premium, if any, or interest on the Bonds;

(iv) any notices to Beneficial Owners, or

(v) any other matter pertaining to the Bonds.

PLAN OF REFUNDING

Upon delivery of the Bonds, the state will enter into an Escrow Agreement with US Bank National Association, as Escrow Agent, to provide for the refunding of the various purpose general obligation bonds (the "Refunded Bonds") set forth below. The refunding is being undertaken to achieve debt service savings. The Escrow Agreement creates an irrevocable trust fund to be held by the Escrow Agent and to be applied solely to the payment of the Refunded Bonds. The net proceeds of the Bonds will be deposited with the Escrow Agent and invested in non-callable direct obligations of the United States of America or other investments authorized under RCW 39.53.010 (referred to herein as "Government Obligations") that will mature and bear interest at rates sufficient to pay the principal of and accrued interest and premium, if any, coming due on the respective redemption dates of the Refunded Bonds.

The Government Obligations and earnings thereon are held solely for the benefit of the registered owners of the Refunded Bonds.

The mathematical accuracy of (i) the computations of the adequacy of the maturing principal amounts of and interest on the Government Obligations to be held by the Escrow Agent to pay principal and interest and the redemption premium, if any, on the Refunded Bonds as described above, and (ii) the computations supporting the conclusion of Bond Counsel that the Bonds are not "arbitrage bonds" under Section 148 of the Internal Revenue Code of 1986, as amended, will be verified by McGladrey & Pullen, LLP, independent certified public accountants.

The following table lists the Refunded Bonds.

Bond	Maturity Date	Interest Rate (%)	Par Amount ($)	Call Date	Call Price (%)
Various Purpose GO Bonds, Series 1994A, dated 10/01/1993					
Serials	10/01/2011	4.750	4,530,000	08/25/2005	100
	10/01/2012	4.750	15,145,000	08/25/2005	100
	10/01/2013	4.750	16,000,000	08/25/2005	100
Term	10/01/2015	4.875	34,775,000	08/25/2005	100
Term	10/01/2018	4.500	59,890,000	08/25/2005	100
Subtotal			130,340,000		
Various Purpose GO Bonds, Series 1997C, dated 01/01/1997					
Serials	01/01/2008	5.100	5,005,000	01/01/2007	100
	01/01/2009	5.250	5,260,000	01/01/2007	100
	01/01/2010	5.300	5,530,000	01/01/2007	100
	01/01/2011	5.375	5,820,000	01/01/2007	100
	01/01/2012	5.375	6,125,000	01/01/2007	100
	01/01/2013	5.400	6,455,000	01/01/2007	100
	01/01/2014	5.500	6,805,000	01/01/2007	100
Term	01/01/2016	5.000	14,730,000	01/01/2007	100
Serial	01/01/2017	5.500	7,975,000	01/01/2007	100
Term	01/01/2019	5.250	17,285,000	01/01/2007	100
Term	01/01/2022	5.000	29,720,000	01/01/2007	100
Subtotal			110,710,000		
Various Purpose GO Bonds, Series 2000A, dated 10/01/1999					
Serials	07/01/2010	5.500	9,450,000	07/01/2009	100
	07/01/2011	5.500	10,890,000	07/01/2009	100
	07/01/2012	5.500	11,410,000	07/01/2009	100
	07/01/2013	5.500	11,965,000	07/01/2009	100
	07/01/2014	5.500	12,550,000	07/01/2009	100
	07/01/2015	5.500	15,280,000	07/01/2009	100
	07/01/2016	5.500	14,605,000	07/01/2009	100
	07/01/2017	5.625	15,465,000	07/01/2009	100
	07/01/2018	5.625	16,405,000	07/01/2009	100
	07/01/2019	5.625	17,320,000	07/01/2009	100
	07/01/2020	5.625	18,305,000	07/01/2009	100
	07/01/2021	5.625	19,295,000	07/01/2009	100
Term	07/01/2024	5.625	64,770,000	07/01/2009	100
Subtotal			237,710,000		
Total Refunded Bonds			478,760,000		

SECURITY FOR THE BONDS

Pledge of Full Faith and Credit

The Bonds are general obligations of the state, and the full faith, credit and taxing power of the state are pledged irrevocably to the payment of the Bonds.

FUTURE SALES OF OBLIGATIONS

The state currently anticipates that it will authorize and issue approximately $300 million various purpose general obligation bonds and approximately $250 million motor vehicle fuel tax general obligation bonds in the summer of 2005, and approximately $360 million various purpose general obligation bonds and $300 million motor vehicle fuel tax general obligation bonds in the spring of 2006.

In addition, when and if market conditions allow refunding of additional higher rate bonds, such refundings will be considered.

ECONOMIC AND REVENUE FORECASTS

Revenue, budgetary and economic information concerning the state government and Washington State 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 16, 2005. A press release summarizing the results of the June 16, 2005, economic results and forecasts is available on the state's website (*www.erfc.wa.gov)*. The next forecast will be released on or about September 15, 2005. 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

Except as otherwise disclosed below, 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 Bonds or in any other manner affecting the validity of the Bonds, the security for the Bonds or the proceedings or authority pursuant to which they are to be sold and issued or the pledge or application of any moneys provided for the payment of the Bonds.

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. The trial has been stayed pending further review of whether program changes and funding requests to the State Legislature by the Department of Social and Health Services will resolve claims. A similar lawsuit, *Marr v. Eastern State Hospital*, has been filed on behalf of patients at Eastern State Hospital. In *Pierce County, et al. v. DSHS*, plaintiffs seek damages and injunctive relief in a challenge to the state's mental health system. 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. A trial date is not currently scheduled. *Arc, et al. v. Quasim* and *Boyle v. Braddock* are 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. At the suggestion of the Ninth Circuit, the parties have engaged in mediation in an attempt to resolve the relevant issues. The Ninth Circuit recently 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. If these claims are not resolved by mediation, it is difficult to estimate with any certainty the potential costs of program changes that may be necessary to comply with whatever order is finally entered. 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.

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 from 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. *W.R. 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 refunds due the plaintiff were approximately $152 million. In the 2005 legislative session, the State Legislature enacted a stand-alone estate tax which applies to estates of decedents who die on or after May 17, 2005, and whose gross estates exceed $1.5 million in 2005 or $2 million thereafter. 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. The state has filed a petition for review with the Washington Supreme Court. If the Supreme Court declines to review the decision or affirms the decision, the State Legislature would have to reprioritize program expenditures in the budget process.

In the past there has been periodic litigation involving reimbursement for state-paid medical care. Currently, there is one lawsuit which raises issues such as eligibility for Medicaid benefits and the proper formula for cost reimbursement. It is difficult to predict whether this case, *Spokane County v. DSHS*, will result in any significant amount of reimbursement under the theories presented. The plaintiffs allege that mental health services were provided to individuals who were improperly terminated and should have been included in the applicable formula for payments to the Regional Support Networks. The case was filed in July 2003, and very little action has been taken by the Plaintiffs to pursue the matter. The amount of damages claimed is uncertain, although the damage claim is likely to be in the millions of dollars. A second lawsuit, *Capital Medical Center et al v. DSHS*, involves claims by hospitals that provided emergency medical care to uninsured individuals under a now-discontinued state program. The program required that coverage would begin only after the individual had incurred a minimum of $2,000 in emergency medical expenses, and the Department rules required that this amount remain a patient liability. The 26 plaintiff hospitals are now claiming that the requirement was only an eligibility condition, and that they should be reimbursed from the amounts deducted from their bills to satisfy the requirement. As with the case discussed above, it is difficult to predict the outcome, but if there is an unfavorable result, the judgment against the department could be as high as $40 million. In a recently filed action, *Regency Pacific v. DSHS*, 18 nursing homes claim improper and inadequate Medicaid reimbursement due to alleged errors in the Department's rate calculation dating back to 2002. The Department is evaluating what the potential claims may be in this matter. If any of these cases results in substantial judgments or settlements, there may be a need to reprioritize agency program expenditures in the budget process.

In the school funding arena, *School Districts' Alliance For Adequate Funding of Special Education v. State* was recently filed in Thurston County Superior Court by a coalition of eleven school districts. The case alleges that the State Legislature underfunded special education by approximately $178 million dollars during the 2001-03 Biennium. The districts have requested a declaration from the court that the formula and process the state uses to fund special education is flawed and an order directing the State Legislature to meet its constitutional requirement to fully fund special education. A trial date of October 3, 2005, has been established. If the state is unsuccessful in the litigation and the court grants the plaintiffs' requested relief, the State Legislature would have to perform a review of the costs of special education and potentially have to reprioritize program expenditures in the budget process. There is also a threatened legal challenge to the state's current process of funding all basic education. Such an action could pose potentially greater costs than the special education case. The basic education lawsuit is expected sometime in 2005.

In January 2001, Washington Treaty Tribes and the United States renewed a lawsuit in federal district court against the state raising the issue of whether the Indian Treaties include a right of environmental protection for salmon habitat. This matter is referred to as Phase II of *U.S. v. Washington*. The case involves the specific question of whether the Treaty "right of taking fish" imposes a duty to ensure that

roadway culverts do not reduce the number of salmon available for harvest. The case has been in settlement discussions for the past two years, trial has now been set for July 2006. The Washington State Department of Transportation, the agency with the greatest exposure in the case, currently has estimated that the cost of fixing the existing fish passage barriers will be at least several hundred million dollars over the next 20 years. However, many of these projects and the related expenditures are expected to be carried out by the state whether or not plaintiffs are successful in this matter. Accordingly, it cannot be predicted whether a settlement or any judgment would require a different amount or schedule of expenditures than have already been estimated and expected to be spent by the state.

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.

Initiative 776

Initiative Measure No. 776 ("I-776") was approved by voters on November 5, 2002. I-776 reduced combined license tab fees for light trucks from between $37 and $55 per year, depending upon vehicle weight, to $30 per year. I-776 also repealed certain government-imposed excise taxes and fees levied on motor vehicles, including, among others, (i) local option vehicle license fees of up to $15 per year imposed by counties or qualified cities or towns with voter approval, and (ii) voter-approved high capacity transportation motor vehicle excise taxes ("high capacity transportation MVET") imposed by regional transit authorities (including the high capacity transportation MVET of 0.3 percent of vehicle value currently imposed by Sound Transit). Pierce County, the City of Tacoma, King County, and several individual voters challenged I-776 as a violation of two state constitutional provisions, the single subject rule and the prohibition on passage of laws impairing existing contracts. The latter claim arose from certain general obligation bonds issued by King County that included a specific pledge of revenues repealed by I-776. On December 4, 2002, the superior court granted the plaintiffs' request for preliminary injunction against implementing I-776. On October 30, 2003, the Washington State Supreme Court ruled that I-776 did not violate either state constitutional provision. I-776 went into effect thereafter. The case has been remanded back to the Superior Court for determination of issues remaining in the case, including whether I-776's repeal of the MVET would impair existing Sound Transit bond contracts, which include a pledge of the MVET. The Superior Court upheld the constitutionality and legality of I-776 with regard to all remaining issues except the question of impairment to Sound Transit's bonds. The court held that prohibiting Sound Transit from collecting the MVET would be an impairment of the bond contracts. The decision of the Superior Court has been appealed to the Washington Supreme Court. While the precise impact of I-776 cannot be predicted, the state does not expect the provisions of I-776 to affect adversely its ability to make payments in the amounts and at the times required under the Bond Resolutions.

Future Initiative Legislation

Other tax and fee initiative measures may be filed, but it cannot be predicted whether any such initiative might gain sufficient signatures to qualify for submission to the State Legislature and/or the voters or, if submitted, would ultimately be approved.

TAX AND LEGAL INFORMATION

Approval of Counsel

Legal matters incident to the authorization, issuance and sale of the Bonds by the state are subject to the approving legal opinion of Foster Pepper & Shefelman PLLC, Bond Counsel to the state. The form of the opinion of such firm with respect to the Bonds is attached hereto as Appendix B. The opinion of Bond Counsel is given based on factual representations made to Bond Counsel, and under existing law, as of the date of initial delivery of the Bonds, and Bond Counsel assumes no obligation to revise or supplement its opinion to reflect any facts or circumstances that may thereafter come to its attention, or any changes in law that may thereafter occur. The opinion of Bond Counsel is an expression of its professional judgment on the matters expressly addressed in its opinion and does not constitute a guarantee of result. Bond Counsel will be compensated only upon the issuance and sale of the Bonds.

Tax Exemption of the Bonds

Exclusion from Gross Income. In the opinion of Bond Counsel, under existing federal law and assuming compliance with applicable requirements of the Code that must be satisfied subsequent to the issue date of the Bonds, interest on the Bonds will be excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the alternative minimum tax applicable to individuals.

Continuing Requirements. The state is required to comply with certain requirements of the Code after the date of issuance of the Bonds in order to maintain the exclusion of the interest on the Bonds from gross income for federal income tax purposes, including, without limitation, requirements concerning the qualified use of proceeds of the Bonds and the facilities financed or refinanced with proceeds of the Bonds, limitations on investing gross proceeds of the Bonds in higher yielding investments in certain circumstances, and the requirement to comply with the arbitrage rebate requirement to the extent applicable to the Bonds. The state has covenanted in the Bond Resolutions to comply with those requirements, but if the state fails to comply with those requirements, interest on the Bonds could become taxable retroactive to the date of issuance of the Bonds.

Corporate Alternative Minimum Tax. While interest on the Bonds also is not an item of tax preference for purposes of the alternative minimum tax applicable to corporations, under Section 55 of the Code, tax-exempt interest, including interest on the Bonds received by corporations is taken into account in the computation of adjusted current earnings for purposes of the alternative minimum tax applicable to corporations (as defined for federal income tax purposes). Under the Code, alternative minimum taxable income of a corporation will be increased by 75 percent of the excess of the corporation's adjusted current earnings (including any tax-exempt interest) over the corporation's alternative minimum taxable income determined without regard to such increase. A corporation's alternative minimum taxable income, so computed, that is in excess of an exemption of $40,000, which exemption will be reduced (but not below zero) by 25 percent of the amount by which the corporation's alternative minimum taxable income exceeds $150,000, is then subject to a 20 percent minimum tax.

A small business corporation is exempt from the corporate alternative minimum tax for any taxable year beginning after December 31, 1997, if its average annual gross receipts during the three-taxable-year period beginning after December 31, 1993, did not exceed $5,000,000, and its average annual gross receipts during each successive three-taxable-year period thereafter ending before the relevant taxable year did not exceed $7,500,000.

Tax on Certain Passive Investment Income of S Corporations. Under Section 1375 of the Code, certain excess net passive investment income, including interest on the Bonds, received by an S corporation (a corporation treated as a partnership for most federal tax purposes) that has Subchapter C earnings and profits at the close of the taxable year may be subject to federal income taxation at the highest rate applicable to corporations if more than 25 percent of the gross receipts of such S corporation is passive investment income.

Foreign Branch Profits Tax. Interest on the Bonds may be subject to the foreign branch profits tax imposed by Section 884 of the Code when the Bonds are owned by, and effectively connected with a trade or business of, a United States branch of a foreign corporation.

Certain Other Federal Tax Consequences

Bonds Not "Qualified Tax-Exempt Obligations" for Financial Institutions. Section 265 of the Code provides that 100 percent of any interest expense incurred by banks and other financial institutions for interest allocable to tax-exempt obligations acquired after August 7, 1986, will be disallowed as a tax deduction. However, if the tax-exempt obligations are obligations other than private activity bonds, are issued by a governmental unit that, together with all entities subordinate to it, does not reasonably anticipate issuing more than $10,000,000 of tax-exempt obligations (other than private activity bonds and other obligations not required to be included in such calculation) in the current calendar year, and are designated by the governmental unit as "qualified tax-exempt obligations," only 20 percent of any interest expense deduction allocable to those obligations will be disallowed.

The state is a governmental unit that, together with its subordinate entities, reasonably anticipates issuing more than $10,000,000 of tax-exempt obligations (other than private activity bonds and other obligations not required to be included in such calculation) during the current calendar year and has not designated the Bonds as "qualified tax-exempt obligations" for purposes of the 80 percent financial institution interest expense deduction. Therefore, no interest expense of a financial institution allocable to the Bonds is deductible for federal income tax purposes.

Reduction of Loss Reserve Deductions for Property and Casualty Insurance Companies. Under Section 832 of the Code, interest on the Bonds received by property and casualty insurance companies will reduce tax deductions for loss reserves otherwise available to such companies by an amount equal to 15 percent of tax-exempt interest received during the taxable year.

Effect on Certain Social Security and Retirement Benefits. Section 86 of the Code requires recipients of certain Social Security and certain Railroad Retirement benefits to take receipts or accruals of interest on the Bonds into account in determining gross income.

Other Possible Federal Tax Consequences. Receipt of interest on the Bonds may have other federal tax consequences for certain taxpayers as to which prospective purchasers of the Bonds should consult their own tax advisors.

Original Issue Premium. The Bonds have been sold at prices reflecting original issue premium ("Premium Bonds"). An amount equal to the excess of the purchase price of a Premium Bond over its stated redemption price at maturity constitutes premium on such Premium Bond. A purchaser of a Premium Bond must amortize any premium over such Premium Bond's term using constant yield principles, based on the purchaser's yield to maturity. The amount of amortizable premium allocable to an interest accrual period for a Premium Bond will offset a like amount of qualified stated interest on such Premium Bond allocable to that accrual period, and may affect the calculation of alternative minimum tax liability described above. As premium is amortized, the purchaser's basis in such Premium Bond is reduced by a corresponding amount, resulting in an increase in the gain (or decrease in the loss) to be recognized for federal income tax purposes upon a sale or disposition of such Premium Bond prior to its maturity. Even though the purchaser's basis is reduced, no federal income tax deduction is allowed. Purchasers of Premium Bonds, whether at the time of initial issuance or subsequent thereto, should consult with their own tax advisors with respect to the determination and treatment of premium for federal income tax purposes and with respect to state and local tax consequences of owning such Premium Bonds.

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 Bond Resolutions to enter into a written undertaking in the form of a Disclosure Agreement for the benefit of the holders of the Bonds (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, 2006, for the fiscal year ended June 30, 2005, 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 (the "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 to be 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 Bonds, 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 Bonds;

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

(viii) optional, contingent or unscheduled Bond calls (other than scheduled 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 Bonds; 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 Bonds. The Undertaking, or any provision thereof, shall 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 Bonds; 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 Bond 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 Bonds. The Undertaking inures to the benefit of the State Treasurer and any holder of the Bonds, 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 BOND INFORMATION

Bond Insurance

The following information has been furnished by Ambac Assurance Corporation ("Ambac Assurance") for use in this Official Statement. Reference is made to Appendix F for a specimen of Ambac Assurance's policy.

Payment Pursuant to Financial Guaranty Insurance Policy. Ambac Assurance has made a commitment to issue a financial guaranty insurance policy (the "Financial Guaranty Insurance Policy") relating to the R-2006A Bonds, maturing on July 1, 2012 through 2024, inclusive, hereafter referred to as the "Insured Bonds" effective as of the date of issuance of the Insured Bonds. Under the terms of the Financial Guaranty Insurance Policy, Ambac Assurance will pay to The Bank of New York, in New York, New York or any successor thereto (the "Insurance Trustee") that portion of the principal of and interest on the Insured Bonds which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor (as such terms are defined in the Financial Guaranty Insurance Policy). Ambac Assurance will make such payments to the Insurance Trustee on the later of the date on which such principal and interest becomes Due for Payment or within one business day following the date on which Ambac Assurance shall have received notice of Nonpayment from the Trustee/Paying Agent/Bond Registrar. The insurance will extend for the term of the Insured Bonds and, once issued, cannot be canceled by Ambac Assurance.

The Financial Guaranty Insurance Policy will insure payment only on stated maturity dates and on mandatory sinking fund installment dates, in the case of principal, and on stated dates for payment, in the case of interest. If the Insured Bonds become subject to mandatory redemption and insufficient funds are available for redemption of all outstanding Insured Bonds, Ambac Assurance will remain obligated to pay principal of and interest on outstanding Insured Bonds on the originally scheduled interest and principal payment dates including mandatory sinking fund redemption dates. In the event of any acceleration of the principal of the Insured Bonds, the insured payments will be made at such times and in such amounts as would have been made had there not been an acceleration.

In the event the Bond Registrar has notice that any payment of principal of or interest on an Insured Bond which has become Due for Payment and which is made to a Holder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from its registered owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such registered owner will be entitled to payment from Ambac Assurance to the extent of such recovery if sufficient funds are not otherwise available.

The Financial Guaranty Insurance Policy does not insure any risk other than Nonpayment, as defined in the Policy. Specifically, the Financial Guaranty Insurance Policy does not cover:

1. payment on acceleration, as a result of a call for redemption (other than mandatory sinking fund redemption) or as a result of any other advancement of maturity.

2. payment of any redemption, prepayment or acceleration premium.

3. nonpayment of principal or interest caused by the insolvency or negligence of any Trustee , Paying Agent or Bond Registrar, if any.

If it becomes necessary to call upon the Financial Guaranty Insurance Policy, payment of principal requires surrender of the Insured Bonds to the Insurance Trustee together with an appropriate instrument of assignment so as to permit ownership of such Insured Bonds to be registered in the name of Ambac Assurance to the extent of the payment under the Financial Guaranty Insurance Policy. Payment of interest pursuant to the Financial Guaranty Insurance Policy requires proof of Holder entitlement to interest payments and an appropriate assignment of the Holder's right to payment to Ambac Assurance.

Upon payment of the insurance benefits, Ambac Assurance will become the owner of the Insured Bonds, appurtenant coupon, if any, or right to payment of principal or interest on such Insured Bonds and will be fully subrogated to the surrendering Holder's rights to payment.

Ambac Assurance Corporation. Ambac Assurance Corporation ("Ambac Assurance") is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin and licensed to do business in 50 states, the District of Columbia, the Territory of Guam, the Commonwealth of Puerto Rico and the U.S. Virgin Islands, with admitted assets of approximately $8,585,000,000 (unaudited) and statutory capital of approximately $5,251,000,000 (unaudited) as of March 31, 2005. Statutory capital consists of Ambac Assurance's policyholders' surplus and statutory contingency reserve. Standard & Poor's Credit Markets Services, a Division of The McGraw-Hill Companies, Moody's Investors Service and Fitch Ratings have each assigned a triple-A financial strength rating to Ambac Assurance.

Ambac Assurance has obtained a ruling from the Internal Revenue Service to the effect that the insuring of the Insured Bonds by Ambac Assurance will not affect the treatment for federal income tax purposes of interest on such Insured Bonds and that insurance proceeds representing maturing interest paid by Ambac Assurance under policy provisions substantially identical to those contained in its financial guaranty insurance policy shall be treated for federal income tax purposes in the same manner as if such payments were made by the Obligor of the Insured Bonds.

Ambac Assurance makes no representation regarding the Insured Bonds or the advisability of investing in the Insured Bonds and makes no representation regarding, nor has it participated in the preparation of, the Official Statement other than the information supplied by Ambac Assurance and presented under this heading.

Available Information. The parent company of Ambac Assurance, Ambac Financial Group, Inc. (the "Company"), is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the "SEC"). These reports, proxy statements and other information can be read and copied at the SEC's public reference room at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. The SEC maintains an internet site at http://www.sec.gov that contains reports, proxy and information statements and other information regarding companies that file electronically with the SEC, including the Company. These reports, proxy statements and other information can also be read at the offices of the New York Stock Exchange, Inc. (the "NYSE"), 20 Broad Street, New York, New York 10005.

Copies of Ambac Assurance's financial statements prepared in accordance with statutory accounting standards are available from Ambac Assurance. The address of Ambac Assurance's administrative offices and its telephone number are One State Street Plaza, 19th Floor, New York, New York 10004 and (212) 668-0340.

Incorporation of Certain Documents by Reference. The following documents filed by the Company with the SEC (File No. 1-10777) are incorporated by reference in this Official Statement:

1. The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2004 and filed on March 15, 2005;

2. The Company's Current Report on Form 8-K dated April 5, 2005 and filed on April 11, 2005;

3. The Company's Current Report on Form 8-K dated and filed on April 20, 2005;

4. The Company's Current Report on Form 8-K dated May 3, 2005 and filed on May 5, 2005; and

5. The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended March 31, 2005 and filed on May 10, 2005.

All documents subsequently filed by the Company pursuant to the requirements of the Exchange Act after the date of this Official Statement will be available for inspection in the same manner as described above in "Available Information".

Bond Ratings

The Bonds have been rated "AA," "Aa1" and "AA" by Fitch, Moody's Investors Service Inc. and Standard & Poor's Ratings Group, a division of The McGraw-Hill Companies, Inc. respectively. The Insured Bonds are also rated "AAA", "Aaa", and "AAA" by Fitch, Moody's Investors Service Inc. and Standard & Poor's Ratings Group, a division of The McGraw-Hill Companies, Inc. respectively, with the condition that upon delivery of the Insured Bonds, the Financial Guaranty Insurance Policy will be issued by Ambac Assurance. The state furnished certain information and materials to the rating agencies regarding the Bonds and the state. Generally, rating agencies base their ratings on the information and materials furnished to them and on their own investigations, studies and assumptions. Such ratings will reflect only the respective views of such rating agencies and are not a recommendation to buy, sell or hold the Bonds. An explanation of the significance of such ratings may be obtained from any of the rating agencies furnishing the same.

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

Financial Advisors

Seattle-Northwest Securities Corporation and Montague DeRose and Associates, LLC have served as financial advisors to the state relative to the preparation of the Bonds for sale and other factors relating to the Bonds. The financial advisors have not audited, authenticated or otherwise verified the information set forth in this Official Statement or other information relative to the Bonds. The financial advisors make no guaranty, warranty or other representation on any matter related to the information contained in the Official Statement.

The payment of compensation to Seattle-Northwest Securities Corporation as financial advisor is contingent upon the successful delivery of the Bonds to, and full payment for the Bonds by, the successful bidders. Montague DeRose and Associates, LLC is paid on a retainer basis as financial advisor and its compensation is not contingent upon the successful delivery of the Bonds.

Underwriter of the Bonds

The Bonds are being purchased by Morgan Stanley & Co., Incorporated, (the "Underwriter") at a price of $ 500,099,683.67, and will be reoffered at a price of $501,525,556.75, as reflected by the prices or yields set forth on page i of this Official Statement.

The Underwriter may offer and sell the Bonds to certain dealers (including dealers depositing Bonds into investment trusts) and others at prices lower than the initial offering prices set forth on page i 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.

Delivery of Bonds

It is expected that the Bond closing will take place in Seattle, Washington, on or about July 26, 2005. The Bonds will be delivered through the facilities of DTC in New York, New York, or to the Bond Registrar on behalf of DTC by Fast Automated Securities Transfer.

Official Statement

The purpose of this Official Statement is to supply information to prospective buyers of interests in the Bonds. Quotations and summaries and explanations of the Bonds and documents contained in this Official Statement do not purport to be complete, and reference is made to such documents for full and complete statements of their provisions.

Excerpts from the state's 2004 Comprehensive Annual Financial Report (the "CAFR") are attached as Appendix D. Copies of the state's entire 2004 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.

Michael J. Murphy, the State Treasurer and Chairman, has reviewed and approved this Official Statement on behalf of the state pursuant to the Bond Resolutions of the Committee.

STATE OF WASHINGTON

By: /s/

State Treasurer and Chairman,
State Finance Committee

Dated: July 12, 2005

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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 59.39 percent of total state tax revenues for the fiscal year ending June 30, 2004.

The retail sales tax and its companion use tax represent the largest source of state tax revenue, accounting for 47.59 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 15.86 percent of total state taxes for the fiscal year ending June 30, 2004. 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 manufacturing and wholesaling businesses. Retail firms pay 0.471 percent, and services pay 1.5 percent.

The motor vehicle fuel tax represented approximately 7.07 percent of all state taxes for Fiscal Year 2004. The 2004 tax rate is 28 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 11.66 percent of all state tax revenues for Fiscal Year 2004. 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 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 are 3.32 percent for Fiscal Year 2000 and 2.87 percent for Fiscal Year 2001. The fiscal growth factors for the 2001-03 Biennium are 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")).

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.

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 2004 CAFR. The state's fiscal 2004 CAFR contains Annual Financial Statements prepared in accordance with GAAP as promulgated by GASB (the "2004 Annual Financial Statements"), a copy of which has been filed with each nationally recognized municipal securities information repository ("NRMSIR"). Excerpts from the state's 2004 CAFR are attached as Appendix D. Copies of the state's entire 2004 CAFR are available on the Office of Financial Management's website at *http://www.ofm.wa.gov/cafr/2004/cafr04toc.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 2004. 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 $3 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 and special municipal districts.

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 which 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 in March 2005. 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 June 16, 2005. 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 2005 Forecast. Expenditures for the 2003-05 and 2005-07 Biennia are based on the 2005 Supplemental Operating Budget and the 2005-07 Operating Budget passed by the Legislature in April 2005 and signed by the Governor on May 17, 2005. 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	$ 977
GENERAL FUND-STATE REVENUE		
Retail Sales and Use Taxes	$ 12,769	$ 14,244
Real Estate Excise	1,320	1,375
Business and Occupation	4,197	4,689
Property Tax	2,772	2,802
Other Taxes	2,087	1,892
Subtotal Tax Revenue	**$ 23,145**	**$ 25,002**
Other Nontax Revenue	$ 398	$ 434
Other Financing	2	(51)
Transfers from Other Funds into State General Fund	453	219
Federal Fiscal Relief (Grant Portion)	90	0
Changes in Reserves/Other Adjustments	155	0
TOTAL GENERAL FUND-STATE REVENUE (2)	**$ 24,648**	**$ 26,580**
Federal Revenue	$ 10,453	$ 11,486
Private/Local Revenue	558	329
TOTAL GENERAL FUND-STATE REVENUE	**$ 35,659**	**$ 38,395**

(1) Based on the June 2005 General Fund-State Revenue Forecast.
(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	$ 10,915
Higher Education	2,696	2,901
Other Education	40	44
Total Education	**$ 12,915**	**$ 13,860**
Human Services		
Department of Social and Health Services	$ 6,804	$ 7,884
Federal Fiscal Relief—FMAP	(108)	0
Department of Corrections	1,261	1,390
Other Human Services	171	185
Total Human Services	**$ 8,128**	**$ 9,459**
Natural Resources and Recreation	$ 347	$ 367
Governmental Operations	426	456
Other Expenditures [3]		
Debt Service	$ 1,236	$ 1,417
Other Expenditures	620	392
Total Other Expenditures	**$ 1,856**	**$ 1,809**
TOTAL GENERAL FUND-STATE EXPENDITURES	**$ 23,672**	**$ 25,952**
Federal	$ 10,453	$ 11,486
Private/Local	558	329
TOTAL GENERAL FUND-STATE EXPENDITURES	**$ 34,683**	**$ 37,767**
Ending General Fund-State Balance	**$ 977**	**$ 628**

(1) Based on the 2003-05Budget 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 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 2005 economic and revenue forecast incorporated the advance Gross Domestic Product ("GDP") estimate for the first quarter of 2005. According to the advance estimate, real GDP grew at a 3.1 percent rate in the first quarter of 2005, down from 3.8 percent in the fourth quarter. The decline in final sales was even sharper, from 3.4 percent to 1.9 percent. Consumers, whose spending increased at a 3.5 percent rate, more than accounted for all the growth in final sales. Fixed investment growth slowed to 5.0 percent in the first quarter from 10.5 percent in the fourth quarter, due primarily to a slowdown in the growth rate of business spending on equipment and software from 18.4 percent to 6.9 percent. Net exports subtracted nearly 1.5 percentage points from GDP growth in the first quarter, as the 7.0 percent increase in exports in the first quarter was overwhelmed by the 14.7 percent increase in imports. Government spending increased just 0.6 percent in the first quarter.

Payroll employment growth slowed to 1.4 percent in the first quarter from 1.7 percent in the fourth quarter, but the unemployment rate declined from 5.43 percent to 5.27 percent. Inflation, as measured by the Consumer Price Index, slowed to 2.4 percent in the first quarter of 2005 from 3.6 percent in the fourth quarter. For once, core inflation in the first quarter was slightly higher at 2.6 percent, as both food and energy inflation moderated. Housing starts increased at a 21.4 percent annual rate, from 1.975 million units in the fourth quarter of 2004 to 2.085 million units in the first quarter of 2005, while the mortgage rate increased from 5.73 percent to 5.75 percent. Housing starts in the U.S. have not been this strong since 1978. On May 3rd, the Federal Open Market Committee ("FOMC") raised its target for the federal funds rate by 25 basis points to 3.00 percent. The new national forecast indicates slightly weaker GDP and employment growth than the forecast adopted in March, but the personal income forecast is stronger due to higher inflation.

The June forecast assumes that the underlying trend is for slower growth, but that the economy has dipped earlier than anticipated under the weight of high oil prices. Assuming that oil prices hold in the region of $50 per barrel, growth is expected to stabilize in the second quarter and most likely improve in the third. The strong employment report for April (released after the forecast was completed) suggests that the improvement may come through even more quickly, in the second quarter. But the underlying trend heading into 2006 is expected again to be towards softer growth. The key reasons to anticipate weaker growth next year are an easing of spending growth by a stretched consumer and a softer housing market. GDP growth is expected to slow to 3.4 percent this year from 4.4 percent in 2004. Slower growth is expected in the next two years as the recovery matures. The forecast calls for growth rates of 2.9 percent per year in 2006 and 2007. Nonfarm payroll employment rose 1.1 percent in 2004, which was the first significant increase in four years. The forecast assumes employment growth will improve to 1.6 percent this year, slowing to 1.4 percent in 2006 and 0.9 percent in 2007. The unemployment rate also improved in 2004 for the first time in four years, declining to 5.53 percent from 5.99 percent in 2003. The unemployment rate is expected to decline again this year, to 5.18 percent. Unemployment is expected to be little changed during the next two years, with rates of 5.19 percent and 5.26 percent in 2006 and 2007, respectively. Inflation, as measured by the implicit price deflator for personal consumption expenditures, accelerated to 2.2 percent in 2004 from 1.9 percent in 2003 and 1.4 percent in 2002. Rising energy costs continue to boost overall inflation. Excluding food and energy, inflation increased to 1.5 percent in 2004 from 1.3 percent in 2003. Energy will add to inflation again this year, but will help restrain inflation in 2006 and 2007 as prices finally decline. The forecast expects inflation rates of 2.3 percent in 2005, declining to 2.0 percent per year in 2006 and 2007. The forecast assumes 25-basis-point increases in the federal funds at each FOMC meeting through November, pushing the funds rate to 4.00 percent by year end.

Washington State Economic Forecast

The state's employment growth rate improved to 3.7 percent in the first quarter of 2005 from an also strong 3.4 percent in the fourth quarter of 2004. The state has not experienced such an increase in employment since 1997, in the middle of the last aerospace upturn. Manufacturing employment rose 2.8 percent in the first quarter, following a 3.6 percent increase in the fourth quarter. The strong manufacturing employment growth in the first quarter was mostly due to aerospace employment, which rose at an 11.4 percent rate, the second consecutive double-digit increase. Manufacturing employment other than aerospace rose only 0.2 percent rate, though. Every nonmanufacturing sector expanded in the first quarter, led by the strong construction sector, which grew 14.0 percent following an 11.9 percent increase in the fourth quarter. Trade, transportation and utilities employment growth was also strong, with a 5.0 percent growth rate, as was information, up 4.2 percent, led by an 8.2 percent increase in software employment. Professional and business services employment grew 4.1 percent, and education and health services employment increased 3.5 percent. Financial activities employment and leisure and hospitality employment both grew 1.5 percent and other services employment rose 1.4 percent. In the public sector, federal government employment increased 7.2 percent, but state and local government employment inched up at a 0.6 percent rate.

Washington's personal income in the fourth quarter of 2004 was $6.115 billion (2.5 percent) lower than the estimate made in March, of which $0.987 million was due to the error in the non-recurring Microsoft dividend estimate. The revision to total personal income in the fourth quarter, excluding the dividend error, was a reduction of $5.128 billion (2.3 percent). Nonwage personal income, excluding the special dividend, was $1.072 billion (1.1 percent) below the March estimate, while total wages were $4.056 billion (3.3 percent) lower. Software wages were $0.108 billion (2.3 percent) higher than expected, but non-software wages were $4.164 billion (3.6 percent) lower.

The number of housing units authorized by building permit declined by 6,000 from 57,800 in the fourth quarter of 2004 to a still strong 51,700 in the first quarter of 2005. Housing has not been this strong in the state since 1990. The strength recently has been mostly in the single family market, where permits rose by 400 from 39,100 to 39,500. Multi-family permits fell 6,400, though, from 57,800 to 51,700.

The forecast also reflects Seattle consumer price data through April 2005. After trailing the national average during 2002, 2003 and 2004, Seattle inflation increased in the first four months of this year, rising at an annual rate of 7.2 percent compared to 4.8 percent for the U.S. city average.

The state aerospace employment forecast is essentially unchanged since February, except to recognize slightly stronger growth through May, which adds about 400 jobs. That difference is maintained through the end of 2007. The forecast now expects an increase of 14,100 from the first quarter of 2004 through the fourth quarter of 2007. The software wage forecast is virtually identical to the assumption made in March. Microsoft stock options are expected to continue to decline, but income from stock grants will grow. Software employment is expected to increase 3,900 from the first quarter of 2005 to the fourth quarter of 2007, compared to 4,400 in the March forecast. As in March, the forecast reflects the AT&T Wireless-Cingular merger. The forecast assumes a total reduction of 2,500 jobs during the last three quarters of 2005. Also as in March, the forecast for state personal income includes the special $3.00 Microsoft dividend that was paid in December. In March, the state's share of the $99.400 billion U.S. total was assumed to be $23.446 billion. The actual Bureau of Economic Analysis estimate for the state was $22.459 billion, a difference of about $1 billion. Since the dividend was nonrecurring, the discrepancy only affected fourth quarter 2004 personal income.

Nonfarm payroll employment in the state increased 1.7 percent in 2004, following a 0.1 percent rise in 2003 and declines in 2001 and 2002. The forecast continues to expect a relatively weak recovery, due to the sluggish U.S. economy and only a modest upturn in aerospace. The forecast expects employment growth to improve to 2.8 percent this year, then retreat to 2.1 percent in 2006 and 1.8 percent in 2007.

Personal income growth in the state, excluding the special Microsoft dividend, improved to 4.3 percent in 2004 from 2.8 percent in 2003 and is expected to continue to improve to 5.3 percent this year and 6.7 percent next year, slowing slightly to 6.2 percent in 2007. Housing activity remains very strong. Housing permits increased by 7,300 in 2004 to 50,100, which is the highest annual total since 1979. 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 three years. Partially offsetting this will be stronger population growth, which should boost multi-family activity. The forecast expects housing permits to decline to 48,300 in 2005, 46,800 in 2006, and 46,300 in 2007. The state's weak economy has slowed inflation in the area in spite of soaring energy costs. Inflation, as measured by the Seattle consumer price index, declined in 2004 to 1.2 percent from 1.6 percent in 2003. The strengthening local economy should result in somewhat higher inflation in the next three years. The forecast expects inflation rates of 3.4 percent in 2005, 2.5 percent in 2006, and 2.2 percent in 2007.

Alternative Economic Forecasts

The Washington State Economic and Revenue Forecast Council also provided an optimistic forecast and a pessimistic forecast in June 2005.

Optimistic Forecast. Six 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 appears to have accelerated in recent years, continues. Second, foreign economic growth is stronger. A stronger world economy boosts US exports and strengthens domestic manufacturing. Third, business investment is stronger. Fourth, the federal government budget deficit is lower. Fifth, housing starts are stronger. And finally, the optimistic scenario assumes that oil prices run about $5 per barrel lower than in the baseline. These assumptions produce a rosier outlook, with the economy growing 0.3 percentage point faster than in the baseline during 2005 and 1.1 percentage points faster during 2006. 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 Federal Reserve to keep the federal funds rate below the baseline value. Since productivity growth is higher, potential GDP is higher and remains so throughout the forecast period. Job growth is also stronger. Nonfarm employment is 503,000 higher than in the baseline at the end of 2005 and 1,549,000 higher at the end of 2006. Because job growth is strong, the unemployment rate stays below its baseline rate over 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. Washington's wages also grow faster than in the baseline. The strong economy raises Seattle CPI inflation above the baseline forecast in the optimistic scenario, in spite of strong productivity growth. The initial level of personal income in the state is also higher in the optimistic scenario, and population growth and construction employment growth are stronger. By the end of the 2005-07 Biennium, nonagricultural employment in the state is higher by 67,500 jobs than in the baseline forecast and personal income is $12.9 billion higher. The optimistic scenario generated $58 million (0.2 percent) more revenue in the current biennium and $1.080 billion (4.3 percent) more revenue in the next 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 US economy. It also assumes that the dollar weakens rapidly, as foreign investors avoid the spiraling trade deficit and lose confidence in the dollar. 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 tightening, the stock and bond markets both 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 raises rates further in 2006. Between the higher interest rates and persistently high energy prices, consumer confidence begins to waver. Consumers rein in discretionary spending and the US economy slows. At the same time, hiring lags, causing the unemployment rate to

climb. 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 0.3 percentage point below the baseline rate in 2005 and 1.4 percentage points lower in 2006. At the state level, the recovery in aerospace employment is much slower than in the baseline. Data revisions show that the initial level of state personal income is lower than was assumed in the baseline. Population growth is also slower in this scenario. Construction employment begins to decline again in the second half of 2005, rather than continuing to rise as in the baseline. Because of the weak economy, wage growth in the state and Seattle inflation are weaker than in the baseline forecast, in spite of the higher inflation assumption in the national pessimistic forecast. By the end of the 2005-07 Biennium, nonagricultural employment in the state is 72,600 lower than the baseline forecast, and personal income is $11.4 billion lower. The pessimistic scenario produced $63 million (0.3 percent) less revenue in the 2003-05 Biennium and $931 million (3.7 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 $24.243 billion, an increase of 8.5 percent from the 2001-03 Biennium, plus a carry-forward of $405 million. This figure includes $195 million for noneconomic changes for the estate and agrilink taxes, as well as $452 million in revenue from other funds that was deposited into the General Fund. The balance sheet has also been updated for $155 million in adjustments, which again 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 $25.6 billion, a 5.6 percent increase from the 2003-05 Biennium, plus a carry-forward of $977 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 $219 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 $25.95 billion for General Fund-State, which is an increase of $2.3 billion or 9.6 percent over the 2003-05 Biennium. This expenditure level is within the $26.04 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
2005 Legislative Changes	4
Changes in Reserves and Other Adjustments	607
Total Sources	**$ 24,558**
Total Expenditures	**$ 23,672**
Ending General Fund-State Balance	**$ 887**
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	**$ 977**

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	$ 977
Revenue	
June 2005 Forecast	$ 25,031
2005 Legislative Changes	354
Changes in Reserves and Other Adjustments	219
Total Sources	**$ 26,580**
Total Expenditures	**$ 25,952**
Ending General Fund-State Balance	**$ 628**
Emergency Reserve Fund Account Balance	**0**
Revised Ending General Fund-State Balance	**$ 628**

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 28 cents per gallon went into effect on July 1, 2003.

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 total $5.9 billion budget bill contained funding for $3.7 billion in capital expenditures, including $3.4 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.

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) revenues deposited in the state general fund that are derived from the state real estate excise tax in support of the common schools, (ii) the state lottery revenues, and (iii) 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 limitation on general obligation debt, which is currently the more restrictive of the constitutional and statutory limitations, the state's estimated general obligation debt capacity (excluding Committee-authorized short-term debt described above) is calculated as follows:

Estimated arithmetic mean of general state revenues for fiscal years ending June 30, 2003, 2004, and 2005 (1)	$11,000,725,954
7% of such arithmetic mean (maximum annual debt service on general obligation debt to be outstanding may not exceed this sum)	$ 770,050,817
Maximum annual debt service on outstanding general obligation debt (7/26/2005)	$ 636,497,691
Uncommitted portion of debt service limitation (7/26/2005)	$ 133,553,125
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)	$ 1,707,257,168

(1) Preliminary, subject to change. The arithmetic means of general state revenues for fiscal years ending a) June 30, 2002, 2003, and 2004, b) June 30, 2001, 2002, and 2003, c) June 30, 2000, 2001, and 2002, d) June 30, 1999, 2000, and 2001, e) June 30, 1998, 1999, and 2000, f) June 30, 1997, 1998, and 1999, and g) June 30, 1996, 1997, and 1998, were $9,932,495,848.84, $9,129,881,312.38, $8,885,895,256, $8,655,884,795, $8,305,755,187, $7,918,308,401, and $7,559,859,280, respectively. Source: "Certification of the Debt Limitation of the State of Washington" for fiscal years 1999 through 2004.

(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.

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 July 26, 2005, there will be outstanding $2,387,288,801 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.

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 of the 23 cents per gallon tax effective April 1, 1991, 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 [3]	882,671,375	99,866,758	512,808,590
July 1, 2004 – June 30, 2005 [3]	900,506,820	98,680,401	535,038,275

(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 (March 2005). Effective July 1, 2003, the fuel tax was raised from 23 cents to 28 cents per gallon (RCW 82.36.025).

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 1999:

GENERAL STATE REVENUES
STATUTORY
(in Millions)

Fiscal Year	General State Revenues
2004	$ 11,457.616
2003	9,397.528
2002	8,942.343
2001	9,049.773
2000	8,655.570
1999	8,252.312

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 July 26, 2005, the state's general obligation bonds and general obligation bonds secured by motor vehicle fuel tax revenue.

General Obligation Bonds.....	$ 7,448,761,302
Motor Vehicle Fuel Tax General Obligation.....	2,387,288,801
	$ 9,836,050,103

An additional $3,165,528,029 principal amount of general obligation bonds and $8,187,256,199 principal amount of motor vehicle fuel tax general obligation bonds will be authorized but unissued as of July 26, 2005. 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 15.16 times by general state revenues of $11.458 billion for the fiscal year ending June 30, 2004. Coverage of the projected annual debt service on all outstanding motor vehicle fuel tax general obligation bonds is 4.76 times based upon estimated gasoline tax revenues of $905.846 million for the fiscal year ending June 30, 2005.

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 July 26, 2005 BOND OFFERING

Fiscal Year Ending June 30th	Outstanding 7/26/2005 (1)		July 26, 2005 Bond Offering (2,5)		
	Principal	Interest (4)	Principal	Interest	Total (3)
2006	$ 346,504,229	$ 274,501,913	$ 2,550,000	$ 9,858,969	$ 633,415,111
2007	477,303,126	432,316,314	240,000	22,818,150	932,677,590
2008	491,766,495	408,555,237	5,115,000	22,712,250	928,148,982
2009	489,225,442	388,995,588	5,330,000	22,503,350	906,054,380
2010	469,282,068	369,936,674	5,570,000	22,257,500	867,046,242
2011	438,256,505	350,307,927	15,275,000	21,736,375	825,575,807
2012	420,119,996	334,526,998	20,180,000	20,850,000	795,676,994
2013	430,868,025	311,880,038	31,530,000	19,557,250	793,835,312
2014	449,859,330	289,500,475	33,180,000	17,939,500	790,479,306
2015	472,516,039	278,441,866	34,905,000	16,237,375	802,100,280
2016	480,936,906	272,364,547	38,840,000	14,393,750	806,535,203
2017	476,494,398	273,546,476	39,490,000	12,435,500	801,966,374
2018	452,112,936	252,074,799	41,735,000	10,404,875	756,327,610
2019	428,468,956	235,488,822	44,150,000	8,257,750	716,365,528
2020	427,699,795	222,377,899	25,760,000	6,510,000	682,347,694
2021	380,448,597	177,565,910	27,125,000	5,187,875	590,327,381
2022	359,003,166	140,036,107	28,510,000	3,797,000	531,346,273
2023	346,457,665	125,701,117	19,555,000	2,595,375	494,309,157
2024	326,885,048	111,567,684	20,545,000	1,592,875	460,590,607
2025	288,336,412	99,421,763	21,585,000	539,625	409,882,801
2026	281,319,233	86,446,909	-	-	367,766,141
2027	234,640,154	74,559,231	-	-	309,199,385
2028	177,150,733	66,254,247	-	-	243,404,980
2029	145,519,100	61,250,275	-	-	206,769,375
2030	83,705,749	55,983,126	-	-	139,688,875
2031	-	-	-	-	-
	$ 9,374,880,103	$ 5,693,601,941	$ 461,170,000	$ 262,185,344	$ 15,791,837,388

Note: Totals may not add due to rounding.

	Principal	Interest
(1) **Outstanding Bonds by Revenue Pledge**		
(a) General State Revenues	6,987,591,302	3,967,913,372
(b) Motor Vehicle Fuel Tax	2,387,288,801	1,725,688,569
Total Bonds Outstanding (after defeasance of the refunded bonds)	$ 9,374,880,103	$ 5,693,601,941
(2) **July 26, 2005 Bond Offering**		
(a) Series R-2006A, dated 7/26/2005	$ 461,170,000	$ 262,185,344
Total July 26, 2005 Offering	$ 461,170,000	$ 262,185,344
(3) **Total Bonds Outstanding Following July 26, 2005 Offering**	$ 9,836,050,103	$ 5,955,787,285

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

SCHEDULE NO. 2

SUMMARY - DEBT STRUCTURE BY REVENUE PLEDGE

General Obligation [1]

	6/30/2001	6/30/2002	6/30/2003	6/30/2004	6/30/2005	7/26/2005 [2]
Outstanding						
General State Revenues and Components						
General State Revenues	$ 6,540,745,000	$ 6,786,803,651	$ 6,827,099,728	$ 7,215,204,278	$ 7,575,311,302	$ 7,448,761,302
Retail Sales Tax Revenue	2,485,000	1,490,000	445,000	- - - - - -	- - - - - -	- - - - - -
Subtotal	$ 6,543,230,000	$ 6,788,293,651	$ 6,827,544,728	$ 7,215,204,278	$ 7,575,311,302	$ 7,448,761,302
Motor Vehicle Fuel Tax Revenue	$ 1,135,885,000	$ 1,395,980,000	$ 1,720,296,935	$ 2,113,536,136	$ 2,404,758,801	$ 2,387,288,801
Total - Outstanding	$ 7,679,115,000	$ 8,184,273,651	$ 8,547,841,664	$ 9,328,740,413	$ 9,980,070,103	$ 9,836,050,103
Annual Debt Service Requirements						
Fiscal Year	$ 789,213,368	$ 825,972,401	$ 836,219,533	$ 827,723,419	$ 896,463,314	$ 933,659,319
Authorized -- Unissued						
General State Revenues	$ 1,697,723,029	$ 1,196,003,029	$ 2,033,548,029	$ 2,446,723,029	$ 3,165,528,029	$ 3,165,528,029
Motor Vehicle Fuel Tax Revenue	2,253,275,000	1,915,200,000	1,514,793,065	3,655,958,864	3,087,256,199	8,187,256,199
Total - Unissued	$ 3,950,998,029	$ 3,111,203,029	$ 3,548,341,094	$ 6,102,681,893	$ 6,252,784,228	$ 11,352,784,228
Issued (New Money and Refunding)						
Fiscal Year	$ 1,345,245,000	$ 1,017,470,000	$ 1,528,646,935	$ 1,624,334,200	$ 1,523,297,666	$ 461,170,000

(1) No limited obligations debt are outstanding or authorized.

(2) Includes current offering dated July 26, 2005 -- after defeasance of the refunded bonds.

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
2006	$755,900,376	$177,758,944	$475,484,229	$458,175,090	$933,659,319
2007	755,610,181	177,067,409	477,543,126	455,134,464	932,677,590
2008	745,397,438	182,751,544	496,881,495	431,267,487	928,148,982
2009	718,970,055	187,084,325	494,555,442	411,498,938	906,054,380
2010	686,517,110	180,529,132	474,852,068	392,194,174	867,046,242
2011	651,535,476	174,040,331	453,531,505	372,044,302	825,575,807
2012	628,126,668	167,550,326	440,299,996	355,376,998	795,676,994
2013	622,343,160	171,492,152	462,398,025	331,437,288	793,835,312
2014	612,830,762	177,648,544	483,039,330	307,439,975	790,479,306
2015	624,656,326	177,443,955	507,421,039	294,679,241	802,100,280
2016	623,617,557	182,917,646	519,776,906	286,758,297	806,535,203
2017	612,159,174	189,807,201	515,984,398	285,981,976	801,966,374
2018	566,262,734	190,064,876	493,847,936	262,479,674	756,327,610
2019	526,018,828	190,346,699	472,618,956	243,746,572	716,365,528
2020	492,831,542	189,516,153	453,459,795	228,887,899	682,347,694
2021	410,407,553	179,919,828	407,573,597	182,753,785	590,327,381
2022	354,384,922	176,961,351	387,513,166	143,833,107	531,346,273
2023	329,262,797	165,046,360	366,012,665	128,296,492	494,309,157
2024	301,657,469	158,933,138	347,430,048	113,160,559	460,590,607
2025	251,396,844	158,485,957	309,921,412	99,961,388	409,882,801
2026	211,711,281	156,054,860	281,319,233	86,446,909	367,766,141
2027	168,062,125	141,137,260	234,640,154	74,559,231	309,199,385
2028	125,611,250	117,793,730	177,150,733	66,254,247	243,404,980
2029	99,320,375	107,449,000	145,519,100	61,250,275	206,769,375
2030	50,737,375	88,951,500	83,705,749	55,983,126	139,688,875
2031	0	0	0	0	0
Total	$11,925,329,377	$4,166,752,218	$9,962,480,103	$6,129,601,492	$16,092,081,595

(1) Includes current offering dated July 26, 2005 -- after defeasance of the refunded bonds.

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)
2001	$ 1,286.49	3.97%	0.43%	1.56%
2002	1,389.88	4.23%	0.42%	1.58%
2003	1,460.84	4.37%	0.41%	1.58%
2004*	1,500.38	4.24%	0.41%	1.58%
2005*	1,572.03	4.39%	0.42%	1.68%

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)
2001	5,974.90	$ 193,498	$ 825,972	$ 492,681,068	$ 7,686,649
2002	6,041.70	198,371	836,220	532,296,068	8,397,260
2003	6,098.30	203,890	827,723	563,600,366	8,908,653
2004*	6,167.80	218,291	896,463	585,655,515	9,254,055
2005*	6,256.90	223,855	932,678	585,655,515	9,836,050

(1) Population -- Office of the Forecast Council, "Washington Economic and Revenue Forecast June 2005," Table A5.1.

(2) Personal Income -- Office of the Forecast Council, "Washington Economic and Revenue Forecast June 2005," 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 July 26, 2005.

* Estimate.

State Bonded Debt by Source of Payments

General Obligation		
Payable from General State Revenues	$6,310,322,811 (1)	
First Payable from Other Sources	3,525,727,292 (2)	
Limited Obligation	0	$9,836,050,103

	General Obligation Debt		
	Payable From General State Revenues	First Payable from Other Sources	Total State Bonded Debt
Debt to True Market Value.....	1.08%	0.60%	1.68%
Per Capita Debt.....	$1,044.46	$583.57	$1,628.03

(1) Outstanding bonds as of July 26, 2005.

(2) Certain state general obligation bonds are payable first from sources other than general state revenues ($1,138,438,491 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 April 30, 2005.

	Outstanding	2003-2005 Debt Service Requirement	Final Maturity
Master Installment Program, 1993	$ 10,488,120	$ 6,241,125	2016
Equipment Series, Competitive	54,062,224	40,616,158	2015
Local Real Estate	5,482,381	1,923,904	2017
Quarterly Combined	58,135,000	4,159,018	2019
Bellevue Community College, RE2003C	15,560,000	1,430,616	2023
Dept. of Personnel Human Resources System	38,985,000	718,224	2016
Bellingham Technical College Classroom Additions	175,000	88,870	2008
Whatcom, Columbia Basin and Yakima CC, 2000A	4,565,000	942,180	2020
Bates Purchase of Land and Improvement KBTC TV	3,470,000	634,416	2020
Edmonds Community College	3,600,000	710,649	2018
Combined Community Colleges 2001A	4,860,000	1,659,878	2017
Combined Community Colleges 2001B	5,600,000	1,944,101	2015
Combined Community Colleges 2004A	13,130,000	1,024,049	2024
Combined Community Colleges 2004F	8,510,000	0	2020
Central Washington Snoqualmie Hall at Edmonds	4,790,000	772,205	2023
State Department of Corrections, 1998	1,386,775	756,914	2009
Department of Corrections Spokane- Brownstone	2,740,000	479,545	2021
Department of Ecology 2003 Refunding	25,715,000	2,081,390	2016
Department of Ecology 2001 Refunding	34,810,000	10,381,075	2012
State Department of Licensing, 1998	5,655,000	1,111,560	2018
State Department of Transportation, 1999	2,730,000	5,609,890	2005
Department of Veterans Administration	3,505,000	739,823	2016
Tacoma Co-location Project, Series 1996	12,990,000	2,704,068	2020
State Department of General Administration, 1999A	9,175,000	1,416,678	2022
State Department of General Administration, 1999B	7,425,000	1,469,849	2019
Kelso Building and Land, 2000	3,860,000	932,389	2015
General Administration, Isabella Bush Building	3,725,000	455,373	2018
Highline Community College 2003	12,455,000	631,255	2023
Pierce College Classroom Building	360,000	193,200	2008
Secretary of State Regional Archive Building	11,910,000	1,979,034	2018
South Puget Sound Community College, 1999	4,380,000	902,638	2020
The Evergreen State College , Childcare Center, 2003	1,355,000	375,747	2005
University of Washington, 1999	8,765,000	2,190,570	2021
University of Washington, 2001	1,450,000	241,564	2021
University of Washington, 2001B	5,635,000	958,253	2022
University of Washington, 2001C	4,395,000	1,191,755	2013
UW, Sandpoint Phase 2B	3,320,000	558,435	2022
UW, Sand Point Bldg 29	4,525,000	741,955	2016
UW, Sand Point Bldg 5 Phase IIC 2002E	2,525,000	394,759	2023
UW, Sand Point Bldg 5 and 29	4,325,000	267,907	2023
Whatcom Community College Child Care Center	595,000	164,230	2013
State Convention and Trade Center Expansion	172,400,000	27,218,178	2017
Liquor Control Board Distribution Center, 1996	9,415,000	5,387,630	2010
Port Angeles Office Building	350,000	120,290	2012
Washington State University, 1996	6,555,000	1,611,937	2017
Total Certificates of Participation/Financing Contracts	$ 599,844,500	$ 136,133,282	

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.

State Unemployment Compensation Fund

Currently, unemployed workers are entitled to up to 30 weeks of regular unemployment insurance benefits, with a maximum state liability of $14,880 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 $109.

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 provided for six tax schedules with average yields ranging from 2.3 percent to 4.0 percent of taxable wages, depending on the reserve fund level. Each schedule has a maximum tax rate of 5.4 percent to conform to federal requirements. The highest tax schedule is in effect when the reserve fund level is below one percent of total wages, which was the case in 1985, 1986 and 1987. Growth in the trust fund triggered tax schedules with lower yields. The lowest tax schedule was in effect from 1990 through 1993. The reserve fund level continued to increase until June 30, 1993, after which it decreased slightly from 4.4 percent to 4.2 percent.

The 1993 Legislature concluded that the trust fund level was higher than necessary. In 1993, the Legislature enacted the new, lower tax schedule AA, and the 1995 Legislature enacted lower trust fund controls.

Changes in benefit and financing provisions were enacted by the legislature in 2003. The new law will place limits on the maximum weekly benefit amount and will reduce the computed benefit amounts for some claimants. The new financing provisions will not take effect until 2005. The 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

* 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 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 2003 valuations, expressed as a percentage of the active members' compensation.

(ii) *Unfunded Actuarial Present Value of Fully Projected Benefits.* This is the unfunded actuarial present value of the state's total commitment to pensions, including the unfunded actuarial present value of benefits accrued to date for active, inactive and retired members, and the actuarial present value of projected future accruals for active members. (Contribution rates are derived from this data.)

(iii) *Unfunded Actuarial Present Value of Credited Projected Benefits.* This is the amount by which liabilities exceed assets. Liabilities are calculated by the Credited Projected Benefits Method. Benefits are projected to retirement, including future salary increases but only service earned to date.

(iv) *Funding Ratio.* The Funding Ratio is assets divided by liabilities. Liabilities are calculated by the Credited Projected Benefits Method.

(v) *Unfunded Actuarial Accrued Liability-Entry Age Cost Method.* 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 systems. Contributions toward the Unfunded Actuarial Accrued Liability have been developed as a level percentage of expected future payrolls. The current statute, chapter 41.45 RCW, requires the existing Unfunded Actuarial Accrued Liability, 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 Firefighters' 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.

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. 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) ultimate 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
(Dollars in Millions)

	PRS [3]		TRS		SERS[3]		LEOFF		WSP	System Totals
Most Recent Valuation Date: September 30, 2003										
Contribution Rates	(1)	(2)	(1)	(2)	(1)	(2)	(1)	(2)		
State	5.73%	5.73%	6.74%	6.74%	NA	7.56%	0.00%	2.88%	4.51%	
Employee	6.00%	3.38%	6.00%	2.48%	NA	3.51%	0.00%	7.20%	4.51%	
Employer (Other than State)	5.73%	5.73%	6.74%	6.74%	NA	7.56%	0.00%	4.32%	NA	
Unfunded Actuarial Present Value of Fully Projected Benefits	$ 3,407		$ 2,952		$ 314		$ 1,181		$ 63	$ 7,917
Unfunded Actuarial Present Value of Credited Projected Benefits	$ (520)		$ (276)		$ (225)		$ (1,068)		$ (124)	$ (2,213)
Funding Ratio (Assets/Actuarial Present Value of Credited Projected Benefits)	105%		102%		138%		116%		123%	107%
Unfunded Actuarial Accrued Liability (Entry Age Cost Method)	$ 1,389		$ 1,416		NA		$ (462)		NA	$ 2,343
Contribution Rate [4] to Fund Unfunded Actuarial Accrued Liability (Entry Age Cost Method)	2.10%		2.80%		2.10%		NA		NA	
Remaining Funding Period for Unfunded Actuarial Accrued Liability (Entry Age 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 Fully Projected Benefits, Unfunded Actuarial Present Value of Credited Projected Benefits, and Unfunded Actuarial Accrued Liability represent the state's portion only, approximately 53 percent for PERS and SERS. The contribution rate in respect of the Unfunded Actuarial Accrued Liability 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, 2005 (September 1, 2005, for the Teachers Retirement System and the School Employees Retirement System).

Source: Office of State Actuary

STATE CONTRIBUTIONS TO RETIREMENT SYSTEMS
(Dollars in Thousands)

Fiscal Year Ending June 30	PERS [1]	TERS [2]	SERS [2]	LEOFF [2]	Volunteer Firefighters [2][3]	WSP [4]	Judicial [1][2]
2000	$146,700	$258,300	NA	$ 17,100	$ 2,700	$ 0	$ 7,300
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	10,300	3,300	0	6,200
2004	45,900	41,300	9,100	12,300	3,300	0	6,200

(1) State Agency Appropriations. Contributions commingled in each agency's operations budget.
(2) General Fund-State transfers.
(3) Nonappropriated: volunteer firefighters receive 40 percent of state tax on fire insurance premiums.
(4) Prior to the 2000 valuation, school employees were members of PERS 2.

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.
1998-2005
(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	198.4	2.5	8,878.9	1.8	191.6	1.1	8,575.1	0.3
2003	203.9	2.8	9,161.8	3.2	193.2	0.9	8,683.6	1.3
2004	218.3	7.1	9,673.0	5.6	202.5	4.8	8,971.4	3.3
2005[3]	223.9	2.5	10,215.8	5.6	202.9	0.2	9,257.8	3.2
2006[3]	238.9	6.7	10,800.8	5.7	212.2	4.6	9,591.8	3.6

(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 2005.
(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)

	2000	2001	2002	2003	2004
Resident Civilian Labor Force	3,051.1	3,050.5	3,109.4	3,160.3	3,233.6
Unemployment	152.0	189.1	228.0	233.5	201.3
Unemployment Rate[2]	5.0%	%6.2	7.3%	7.4%	6.2%
Total Employment	2,899.2	2,861.4	2,881.4	2,926.8	3,032.3
Nonagricultural Wage and Salary Workers Employed in Washington					
Nonfarm Employment	2,711.6	2,697.4	2,654.0	2,657.8	2,702.2
Durable Manufacturing Employment	236.5	225.0	199.3	183.8	182.2
Aerospace Employment	86.2	87.3	75.7	65.3	61.4
Computer Employment	34.4	32.4	26.2	23.4	22.1
Nondurable Manufacturing Employment	95.4	91.1	85.7	83.3	81.3
Natural Employment	10.0	9.8	9.4	8.6	9.2
Construction Employment	160.6	158.8	154.2	156.2	164.3
Trade, Transportation, Communication, and Utilities Employment	531.9	523.8	509.3	509.8	519.4
Information Employment	97.6	99.0	93.6	92.3	92.5
Software Employment	32.2	35.9	36.1	37.3	39.2
Financial Employment	142.3	145.2	146.2	151.9	152.1
Professional Employment	303.8	296.9	290.2	290.5	302.4
Education Employment	291.9	298.3	306.8	312.8	319.4
Leisure Employment	251.7	247.1	245.4	249.0	255.5
Other Service Employment	106.2	96.9	97.8	98.9	100.3
Government Employment	483.4	505.4	516.2	520.7	523.8

(1) Averages of monthly data.

(2) Unemployment rate as of March 2005 equals 5.2%.

Source: Washington State Office of the Forecast Council

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

	State		United States	
	1994	**2004**	**1994**	**2004**
Manufacturing				
Nondurable Manufacturing				
Food and Kindred	1.7	1.3	1.3	1.1
Pulp and Paper	0.7	0.5	0.6	0.4
Other	1.8	1.3	4.1	2.6
Subtotal	4.1	3.0	6.0	4.1
Durable Manufacturing				
Lumber and Wood	1.0	0.7	0.5	0.4
Primary Metals	0.5	0.2	0.6	0.4
Fabricated Metals	0.7	0.6	1.4	1.1
Machinery	0.5	0.5	1.2	0.9
Computers	1.1	0.8	1.4	1.0
Transportation Equipment	4.4	2.7	1.7	1.3
Other	1.2	1.2	2.1	1.7
Subtotal	9.4	6.7	8.9	6.8
Total Manufacturing	13.5	9.8	14.9	10.9
Nonmanufacturing				
Natural Products	0.4	0.3	0.6	0.4
Construction	5.3	6.1	4.5	5.3
Trade, Transportation, Communication, Utilities	19.7	19.2	20.2	19.4
Information Services	2.6	3.4	2.4	2.4
Financial Services	5.4	5.6	6.0	6.1
Professional	10.0	11.2	10.6	12.5
Education	10.7	11.8	11.2	12.9
Leisure	9.3	9.5	8.8	9.5
Other Services	4.1	3.7	3.9	4.1
Government	19.0	19.4	16.9	16.4
Total Nonmanufacturing	86.5	90.2	85.1	89.1
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	3,051	142,610	152	5,710	5.0	4.0	125.6
2001	3,050	143,925	189	6,985	6.2	4.8	130.5
2002	3,109	145,125	228	8,643	7.3	5.8	126.8
2003	3,160	146,509	233	8,775	7.4	6.0	123.3
2004	3,234	147,390	201	8,143	6.2	5.5	112.7
2005*	3,289	148,901	185	7,706	5.6	5.2	108.6
2006*	3,362	151,005	195	7,834	5.8	5.2	112.0

* The 2005 and 2006 figures are based on the June 2005 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 2004 of $52.5 million.

WASHINGTON'S TWENTY-FIVE LARGEST PUBLIC COMPANIES, RANKED BY 2003 REVENUES (in Millions)

		Revenues			Revenues
1.	Costco Wholesale Corp.	$ 42,546	14.	Potlatch Corp.	$ 1,507
2.	Microsoft Corp.	32,187	15.	Western Wireless Corp.	1,501
3.	Weyerhaeuser	19,873	16.	Plum Creek Timber Co. Inc.	1,196
4.	Washington Mutual	18,013	17.	Avista Corp.	1,123
5.	AT&T Wireless Services	16,695	18.	Unova Inc.	1,123
6.	Paccar Inc.	8,195	19.	Nextel Partners Inc.	1,123
7.	Safeco Corp.	7,358	20.	Labor Ready Inc.	1,019
8.	Nordstrom Inc.	5,975	21.	Longview Fibre Co.	891
9.	Amazon.com Inc.	5,264	22.	Esterline Technology Corp.	773
10.	Starbucks Coffee Co.	4,076	23.	Getty Images Inc.	563
11.	Expeditors International Inc.	2,625	24.	The Nautilus Group Inc.	523
12.	Puget Sound Energy	2,492	25.	Washington Federal Savings	499
13.	Alaska Air Group Inc.	2,445			465

Source: Puget Sound Business Journal 2005 Book of Lists

WASHINGTON COMPANIES IN FORTUNE 500 IN 2004
(Dollars in Millions)

	Company	Rank	Revenues	Headquarters/Location
1.	Costco Wholesale	29	$ 42,546	Issaquah
2.	Microsoft Corp.	46	32,187	Redmond
3.	Weyerhaeuser Co.	95	19,873	Federal Way
4.	Washington Mutual Inc.	103	18,629	Seattle
5.	AT&T Wireless	120	16,695	Redmond
6.	Paccar	250	8,195	Bellevue
7.	Safeco Corp.	267	7,358	Seattle
8.	Nordstrom Inc.	286	6,492	Seattle
9.	Amazon.com	342	5,264	Seattle
10.	Starbucks	425	4,076	Seattle
11.	Expeditors International	582	2,625	Seattle
12.	Puget Energy	598	2,492	Bellevue
13.	Alaska Air Group	611	2,445	Seattle
14.	Potlatch	855	1,507	Spokane
15.	Western Wireless	858	1,501	Bellevue
16.	Plum Creek Timber	992	1,196	Seattle

Source: Fortune Magazine Fortune 500, February 2005

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 1996-2003
(Dollars in Billions)

Fiscal Year	Washington	% Change	United States	% Change
1996	62.8	1.5	2,577.6	5.3%
1997	66.7	6.2	2,715.3	5.3
1998	72.1	8.1	2,845.7	4.8
1999	77.2	7.1	3,026.3	6.3
2000	83.4	8.0	3,291.5	8.8
2001	85.6	2.7	3,418.3	3.9
2002	84.4	(1.4)	3,520.8	3.0
2003	86.2	2.1	3,660.5	4.0

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
1999-2006

Calendar Year	Washington	United States (1)
1999	42,752	1,647,250
2000	39,021	1,573,333
2001	38,345	1,601,167
2002	40,200	1,710,250
2003	42,825	1,852,500
2004	50,089	1,951,833
2005(2)	48,268	2,068,669
2006(2)	46,812	1,835,291

(1) Actual housing starts prior to current year.
(2) 2005 and 2006 figures are based on the June 2005 forecast.

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

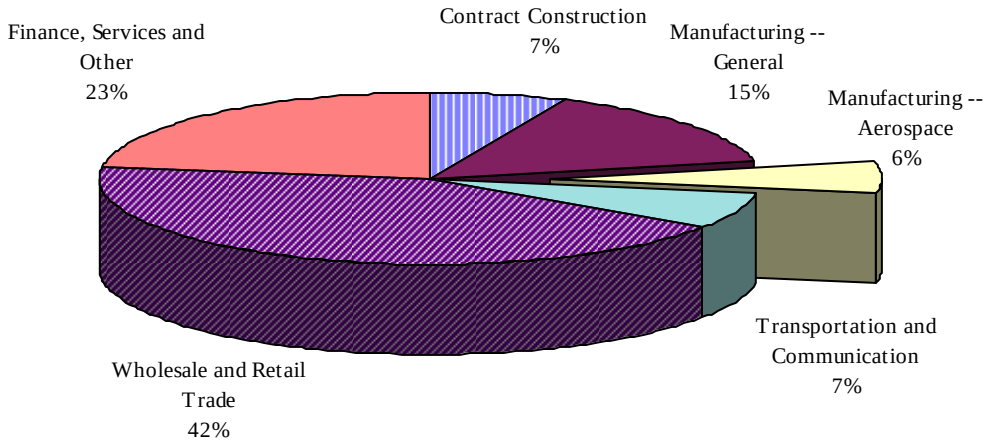
Federal, State and Local Government

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 2003.

Gross Business Income by Industry Sector 2003



Source: Department of Revenue, "Quarterly Business Review Calendar Year 2003", Table 1.

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APPENDIX B

PROPOSED FORM OF LEGAL OPINION

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FOSTER PEPPER & SHEFELMAN PLLC
ATTORNEYS AT LAW

[FORM OF APPROVING LEGAL OPINION]

State of Washington
c/o State Finance Committee
Olympia, Washington

We have served as bond counsel in connection with the issuance by the State of Washington (the "State") of the bonds described below (the "Bonds"):

$461,170,000
STATE OF WASHINGTON
VARIOUS PURPOSE GENERAL OBLIGATION
REFUNDING BONDS, SERIES R-2006A
DATED JULY 26, 2004*

The Bonds are issued pursuant to Chapters 39.42 and 39.53 RCW (collectively, the "Refunding Bond Act"), Resolutions Nos. 875, 945 and 1019 of the State Finance Committee of the State adopted on April 1, 1998, July 31, 2001, and July 12, 2005, respectively (collectively, the "Bond Resolution"), and other proceedings duly had and taken in conformity therewith. The Bonds are issued for the purpose of providing funds with which to pay the cost of refunding certain outstanding various purpose general obligation bonds of the State to provide a debt service savings to the State and to pay the administrative costs of such refunding and the costs of issuance and sale of the Bonds. Capitalized terms used in this opinion which are not otherwise defined shall have the meanings given to such terms in the Bond Resolution.

We have not been engaged nor have we undertaken to review the accuracy, completeness or sufficiency of the official statement or other offering material related to the Bonds (except to the extent, if any, stated in the official statement), and we express no opinion relating thereto, or relating to the undertaking by the State to provide ongoing disclosure pursuant to SEC Rule 15c2-12.

As to questions of fact material to our opinion, we have relied upon representations of the State contained in the Bond Resolution and in the certified proceedings and other certifications of public officials and others furnished to us

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Washington

without undertaking to verify the same by independent investigation.

Under the Internal Revenue Code of 1986, as amended (the "Code"), the State is required to comply with certain requirements after the date of issuance of the Bonds in order to maintain the exclusion of the interest on the Bonds from gross income for federal income tax purposes, including, without limitation, requirements concerning the qualified use of Bond proceeds and the facilities financed or refinanced with Bond proceeds, limitations on investing gross proceeds of the Bonds in higher yielding investments in certain circumstances and the arbitrage rebate requirement to the extent applicable to the Bonds. The State has covenanted in the Bond Resolution to comply with those requirements, but if the State fails to comply with those requirements, interest on the Bonds could become taxable retroactive to the date of issuance of the Bonds. We have not undertaken and do not undertake to monitor the State's compliance with such requirements.

Based upon the foregoing, as of the date of initial delivery of the Bonds to the purchaser thereof and full payment therefor, it is our opinion that under existing law:

1. The Bonds are lawfully authorized and issued pursuant to and in full compliance with the Constitution and statutes of the State, including the Refunding Bond Act.

2. The Bonds have been legally issued and constitute valid general obligations of the State, except to the extent that the enforcement of the rights and remedies of the holders and owners of the Bonds may be limited by laws relating to bankruptcy, insolvency, moratorium, reorganization or other similar laws of general application affecting the rights of creditors, by the application of equitable principles and the exercise of judicial discretion.

3. The State has lawfully and unconditionally pledged its full faith, credit and taxing power to pay principal of and interest on the Bonds.

4. Assuming compliance by the State after the date of issuance of the Bonds with applicable requirements of the Code, the interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the alternative minimum tax applicable to individuals; however, while interest on the Bonds also is not an item of tax preference for purposes of the alternative minimum tax applicable to corporations, interest on the Bonds received by corporations is to be taken into account in the computation of adjusted current earnings for purposes of the alternative minimum tax applicable to corporations, interest on the Bonds received by certain S corporations may be subject to tax, and interest on the Bonds received by foreign corporations with United States branches may be subject to a foreign branch profits tax. We express no opinion regarding any other federal, state or local tax consequences of receipt of interest on the Bonds.

State of Washington
[Date]

The State has not designated the Bonds as "qualified tax-exempt obligations" pursuant to Section 265(b)(3) of the Code.

This opinion is given as of the date hereof and we assume no obligation to update, revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

We bring to your attention the fact that the foregoing opinions are expressions of our professional judgment on the matters expressly addressed and do not constitute guarantees of result.

Respectfully yours,

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APPENDIX C

BONDS OUTSTANDING

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The following table identifies the amounts of authorized, issued and outstanding General Obligation Bonds of the state:

DEBT AUTHORIZATION SECURED BY
GENERAL STATE REVENUE AND/OR COMPONENTS
July 26, 2005

Subject to Statutory Debt Limitation

Chapter and Laws	Bonds Authorized	Issued [1]	Bonds Outstanding [1]	Unissued
Ch. 138 -- Laws of 1965 (R-92C)	$ 195,985,500	$ 195,985,500	$ 11,785,000	$ -
Ch. 138 -- Laws of 1965 (R-93A)	86,305,000	86,305,000	46,875,000	-
Ch. 138 -- Laws of 1965 (R-93B)	172,305,000	172,305,000	56,300,000	-
Ch. 138 -- Laws of 1965 (R-96B)	121,520,000	121,520,000	49,425,000	-
Ch. 138 -- Laws of 1965 (R-96C)	55,960,000	55,960,000	33,980,000	-
Ch. 138 -- Laws of 1965 (R-98A)	86,820,000	86,820,000	83,975,000	-
Ch. 138 -- Laws of 1965 (R-99A)	67,980,000	67,980,000	47,510,000	-
Ch. 138 -- Laws of 1965 (R-2000A)	73,795,000	73,795,000	28,925,000	-
Ch. 138 -- Laws of 1965 (R-2001A)	351,595,000	351,595,000	222,870,000	-
Ch. 138 -- Laws of 1965 (R-2001T)	12,050,000	12,050,000	1,445,000	-
Ch. 138 -- Laws of 1965 (R-2002A)	49,560,000	49,560,000	25,515,000	-
Ch. 138 -- Laws of 1965 (R-2003A)	563,780,000	563,780,000	518,320,000	-
Ch. 138 -- Laws of 1965 (R-2003C)	57,775,000	57,775,000	55,795,000	-
Ch. 138 -- Laws of 1965 (R-2004A)	118,590,000	118,590,000	115,460,000	-
Ch. 138 -- Laws of 1965 (R-2004C)	116,625,000	116,625,000	115,100,000	-
Ch. 138 -- Laws of 1965 (R-2005A)	340,175,000	340,175,000	340,175,000	-
Ch. 138 -- Laws of 1965 (R-2006A)	382,100,000	382,100,000	382,100,000	-
Ch. 125 -- Laws of 1988	18,887,360	18,887,360	4,040,080	-
Ch. 14 -- Laws of 1989, 1st Ex. Sess., as amended	623,775,000	595,425,569	291,793,585	28,349,431
Ch. 31 -- Laws of 1991, 1st Sp. Sess., as amended	379,680,000	368,100,000	147,610,000	11,580,000
Ch. 12 -- Laws of 1993, 1st Sp. Sess	429,137,000	420,544,716	214,616,817	8,592,284
Ch. 17 -- Laws of 1995, 2nd Sp. Sess., as amended	735,080,000	706,576,667	528,052,329	28,503,333
Ch. 456 -- Laws of 1997, Regular Sess	592,565,000	568,380,000	430,285,000	24,185,000
Ch. 380 -- Laws of 1999, Regular Sess	1,003,770,000	965,387,000	908,427,000	38,383,000
Ch. 9 -- Laws of 2001, 2nd Sp. Sess	905,575,000	853,308,000	787,613,000	52,267,000
Ch. 240 -- Laws of 2002, Regular Sess	89,700,000	83,375,000	82,335,000	6,325,000
Ch. 3 -- Laws of 2003, 1st Sp. Sess	1,212,000,000	631,190,000	610,270,000	580,810,000
Ch. 18 -- Laws of 2003, 1st Sp. Sess	772,500,000	181,565,000	180,615,000	590,935,000
Ch. 487 -- Laws of 2005, Regular Sess	1,434,000,000	-	-	1,434,000,000
Subtotal	$ 11,049,589,860	$ 8,245,659,812	$ 6,321,212,811	$ 2,803,930,048

(1) Includes current offering dated July 26, 2005 -- after defeasance of the refunded bonds.

Excluded From Statutory Debt Limitation

Chapter and Laws	Bonds Authorized	Issued [1]	Bonds Outstanding [1]	Unissued
Ch. 138 -- Laws of 1965 (211-1985A-X2)	$ 3,330,000	$ 3,330,000	$ -	-
Ch. 138 -- Laws of 1965 (212-AK)	2,142,000	2,142,000	-	-
Ch. 138 -- Laws of 1965 (659-AQ-A)	7,590,000	7,590,000	-	-
Ch. 138 -- Laws of 1965 (665-AQ-B)	13,680,000	13,680,000	-	-
Ch. 138 -- Laws of 1965 (666-AT)	9,490,000	9,490,000	-	-
Ch. 138 -- Laws of 1965 (196-BC)	6,478,500	6,478,500	-	-
Ch. 138 -- Laws of 1965 (661-BK)	7,689,000	7,689,000	1,360,000	-
Ch. 138 -- Laws of 1965 (213-W)	5,540,000	5,540,000	-	-
Ch. 138 -- Laws of 1965 (R-93A-Ex)	119,750,000	119,750,000	49,205,000	-
Ch. 138 -- Laws of 1965 (R-93B-Ex)	58,645,000	58,645,000	43,170,000	-
Ch. 138 -- Laws of 1965 (R-96B Ex)	36,930,000	36,930,000	14,115,000	-
Ch. 138 -- Laws of 1965 (R-96C Ex)	28,240,000	28,240,000	16,850,000	-
Ch. 138 -- Laws of 1965 (R-97A Ex)	25,026,467	25,026,467	25,026,467	-
Ch. 138 -- Laws of 1965 (R-98A Ex)	37,985,000	37,985,000	36,760,000	-
Ch. 138 -- Laws of 1965 (R-99A Ex)	25,140,000	25,140,000	17,180,000	-
Ch. 138 -- Laws of 1965 (R-2000A)	6,775,000	6,775,000	2,650,000	-
Ch. 138 -- Laws of 1965 (R-2001A)	54,045,000	54,045,000	37,810,000	-
Ch. 138 -- Laws of 1965 (R-2002A)	12,835,000	12,835,000	6,340,000	-
Ch. 138 -- Laws of 1965 (R-2003A)	42,095,000	42,095,000	37,830,000	-
Ch. 138 -- Laws of 1965 (R-2003C)	19,185,000	19,185,000	18,520,000	-
Ch. 138 -- Laws of 1965 (R-2004A)	5,550,000	5,550,000	5,400,000	-
Ch. 138 -- Laws of 1965 (R-2004C)	2,390,000	2,390,000	2,360,000	
Ch. 138 -- Laws of 1965 (R-2005A)	3,425,000	3,425,000	3,425,000	-
Ch. 138 -- Laws of 1965 (R-2006A)	79,070,000	79,070,000	79,070,000	-
Ch. 34 -- Laws of 1982 as amended	21,697,181	21,697,181	6,037,924	-
Ch. 14 -- Laws of 1989, 1st Ex. Sess., as amended	47,170,000	32,405,000	15,620,000	14,765,000
Ch. 15 -- Laws of 1990, 1st Ex. Sess	10,000,000	10,000,000	2,496,950	-
Ch. 31 -- Laws of 1991, 1st Sp. Sess., as amended	247,145,000	243,132,302	134,802,433	4,012,698
Ch. 17 -- Laws of 1995, 2nd Sp. Sess., as amended	10,310,000	9,420,000	7,980,000	890,000
Ch. 220 -- Laws of 1997, Regular Sess	300,000,000	294,944,718	270,989,718	5,055,282
Ch. 456 -- Laws of 1997, Regular Sess	45,670,000	43,635,000	37,020,000	2,035,000
Ch. 380 -- Laws of 1999, Regular Sess	127,945,000	109,280,000	99,565,000	18,665,000
Ch. 9 -- Laws of 2001, 2nd Sp. Sess	128,435,000	121,295,000	116,120,000	7,140,000
Ch. 147 -- Laws of 2003, Regular Sess	349,500,000	40,465,000	39,845,000	309,035,000
Subtotal	$ 1,900,898,148	$ 1,539,300,167	$ 1,127,548,491	$ 361,597,981
Total	$ 12,950,488,008	$ 9,784,959,979	$ 7,448,761,302	$ 3,165,528,029

(1) Includes current offering dated July 26, 2005 -- after defeasance of the refunded bonds.

BOND AUTHORIZATION AND OUTSTANDING DEBT
MOTOR VEHICLE FUEL TAX REVENUE
July 26, 2005

Chapter and Laws	Bonds Authorized	Issued (1)	Bonds Outstanding (1)	Unissued
Ch. 138 -- Laws of 1965 (432-Ferry Vessels)	$ 14,720,000	$ 14,720,000	$ -	-
Ch. 138 -- Laws of 1965 (430-Highways)	70,270,000	70,270,000	3,535,000	-
Ch. 138 -- Laws of 1965 (431-UAB)	36,105,000	36,105,000	2,660,000	-
Ch. 138 -- Laws of 1965 (R-93C)	104,075,000	104,075,000	27,105,000	-
Ch. 138 -- Laws of 1965 (R-95C)	53,685,000	53,685,000	27,960,000	-
Ch. 138 -- Laws of 1965 (R-96A)	13,475,000	13,475,000	3,045,000	-
Ch. 138 -- Laws of 1965 (R-2000B)	18,740,000	18,740,000	7,265,000	-
Ch. 138 -- Laws of 1965 (R-2001B)	119,640,000	119,640,000	72,495,000	-
Ch. 138 -- Laws of 1965 (R-2002B)	25,580,000	25,580,000	13,185,000	-
Ch. 138 -- Laws of 1965 (R-2003B)	70,325,000	70,325,000	67,065,000	-
Ch. 138 -- Laws of 1965 (R-2004B)	57,045,000	57,045,000	55,570,000	-
Ch. 138 -- Laws of 1965 (R-2004D)	156,475,000	156,475,000	154,420,000	-
Ch. 138 -- Laws of 1965 (R-2005B)	95,800,000	95,800,000	95,800,000	-
Ch. 7 -- Laws of 1967, Ex. Sess. (Sections 13-23) as amended by Ch 11, Laws of 1993	12,350,000	12,350,000	8,190,000	-
Ch. 360 -- Laws of 1977, 1st Ex. Sess.	34,620,000	34,620,000	505,000	-
Ch. 180 -- Laws of 1979, 1st Ex. Sess.	28,480,000	28,480,000	2,705,000	-
Ch. 212 -- Laws of 1979, 1st Ex. Sess.	80,000,000 [1]	-	-	80,000,000
Ch. 315 -- Laws of 1981	36,860,000	36,860,000	8,560,000	-
Ch. 316 -- Laws of 1981	148,375,000	148,375,000	7,795,000	-
Ch. 293 -- Laws of 1990	15,000,000	13,400,000	8,860,000	1,600,000
Ch. 158 -- Laws of 1992	107,890,000	107,890,000	68,995,000	-
Ch. 431 -- Laws of 1993, as amended	191,365,000	191,365,000	134,820,000	-
Ch. 432 -- Laws of 1993	84,390,000	9,195,000	4,220,000	75,195,000
Ch. 440 -- Laws of 1993	92,450,000	77,880,000	68,975,000	14,570,000
Ch. 15 -- Laws of 1995, 2nd Sp. Sess.	20,320,000	14,110,000	10,975,000	6,210,000
Ch. 321 -- Laws of 1998	1,900,000,000	1,330,318,801	1,278,868,801	569,681,199
Ch. 147 -- Laws of 2003	2,600,000,000	260,000,000	253,715,000	2,340,000,000
Ch. 315 -- Laws of 2005	5,100,000,000	-	-	5,100,000,000
Total	$ 11,288,035,000	$ 3,100,778,801	$ 2,387,288,801	$ 8,187,256,199

(1) No sale scheduled pending results of toll bridge feasibility studies.

Grand Total	$ 24,238,523,008	$ 12,885,738,780	$ 9,836,050,103	$ 11,352,784,228

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APPENDIX D

EXCERPTS FROM 2004 AUDITED GENERAL PURPOSE FINANCIAL STATEMENTS

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INDEPENDENT AUDITOR'S REPORT

December 16, 2004

The Honorable Gary Locke
Governor, State of Washington

Dear Governor Locke:

We have audited the accompanying basic 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, 2004, as listed in the table of contents. These financial statements are the responsibility of the state's management. Our responsibility is to express an opinion 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 14 percent and 51 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 generally accepted auditing standards in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. 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 opinion.

In our opinion, based on our report and the report of other auditors, the basic 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, 2004, and the results of its operations and cash flows of its proprietary funds for the fiscal year then ended, in conformity with accounting principles generally accepted in the Unites States of America.

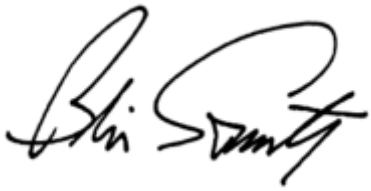
In accordance with *Government Auditing Standards* in the United States of America, we will issue our report on our consideration of the State of Washington's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's discussion and analysis and the required supplementary information are not a required part of the basic financial statements, but are supplementary information the Governmental Accounting Standards Board requires. We applied limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion thereon.

Our audit was made 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, and the budgetary reports (CAF1054) referenced in Note 1.E.1 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 other data included in this report, designated as the introductory and statistical sections in the table of contents, has not been audited by us and, accordingly, we express no opinion on such data.

Sincerely,



BRIAN SONNTAG,CGFM
STATE AUDITOR

Basic Financial Statements

Government-wide Financial Statements

State of Washington
Statement of Net Assets
June 30, 2004
(expressed in thousands)

	Primary Government			
	Governmental Activities	Business-Type Activities	Total	Component Units
ASSETS				
Cash and pooled investments	$ 4,085,386	$ 3,340,797	$ 7,426,183	$ 37,197
Taxes receivable (net of allowance)	2,463,109	4,728	2,467,837	-
Other receivables (net of allowance)	861,330	1,230,560	2,091,890	1,398
Internal balances (net)	5,717	(5,717)	-	-
Due from other governments	2,356,632	72,812	2,429,444	-
Inventories	79,259	74,763	154,022	-
Investments, noncurrent	3,129,127	10,224,834	13,353,961	23,799
Other assets	129,553	88,818	218,371	20,117
Capital assets (Note 6):				
Non-depreciable assets	14,833,863	187,665	15,021,528	34,677
Depreciable assets, net of depreciation	6,459,675	1,264,369	7,724,044	432,722
Total capital assets, net of depreciation	21,293,538	1,452,034	22,745,572	467,399
Total Assets	34,403,651	16,483,629	50,887,280	549,910
LIABILITIES				
Accounts payable	958,539	111,232	1,069,771	1,705
Contracts and retainage payable	81,260	30,186	111,446	2,342
Accrued liabilities	402,819	224,746	627,565	115
Obligations under securities lending	948,119	1,442,576	2,390,695	-
Due to other governments	656,781	38,327	695,108	-
Deferred revenue	384,430	44,398	428,828	759
Long-term liabilities (Note 7):				
Due within one year	688,348	1,819,349	2,507,697	-
Due in more than one year	10,636,990	16,825,896	27,462,886	37,000
Total Liabilities	14,757,286	20,536,710	35,293,996	41,921
NET ASSETS				
Invested in capital assets, net of related debt	7,816,518	522,368	8,338,886	428,057
Restricted for:				
Unemployment compensation	-	1,624,239	1,624,239	-
Other purposes	438,643	-	438,643	22,276
Capital projects	749,568	-	749,568	-
Expendable permanent fund principal	664,262	-	664,262	-
Nonexpendable permanent endowments	1,254,059	-	1,254,059	-
Unrestricted (deficit)	8,723,315	(6,199,688)	2,523,627	57,656
Total Net Assets	$ 19,646,365	$ (4,053,081)	$ 15,593,284	$ 507,989

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, 2004
(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	$ 918,215	$ 448,505	$ 388,436	$ 2,572
Education--elementary and secondary (K-12)	6,085,686	10,933	648,235	-
Education--higher education	4,215,975	1,250,347	1,476,306	22,357
Human services	9,347,664	358,769	5,247,719	18,923
Adult corrections	643,802	5,560	2,895	4,816
Natural resources and recreation	651,282	339,387	127,872	31,364
Transportation	1,309,913	677,359	50,935	438,519
Intergovernmental grants	329,525	-	-	-
Interest on long-term debt	478,239	-	-	-
Total governmental activities	23,980,301	3,090,860	7,942,398	518,551
Business-type Activities:				
Workers' compensation	2,388,818	1,515,427	7,480	-
Unemployment compensation	1,744,694	1,345,000	450,444	-
Higher education student services	1,130,446	1,128,029	10,515	31
Health insurance programs	1,043,729	1,041,636	-	-
Other	951,164	1,027,565	9	4,272
Total business-type activities	7,258,851	6,057,657	468,448	4,303
Total Primary Government	$ 31,239,152	$ 9,148,517	$ 8,410,846	$ 522,854
Total Component Units	$ 29,982	$ 11,139	$ 369	$ 500

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
$ (78,702)	$ -	$ (78,702)	
(5,426,518)	-	(5,426,518)	
(1,466,965)	-	(1,466,965)	
(3,722,253)	-	(3,722,253)	
(630,531)	-	(630,531)	
(152,659)	-	(152,659)	
(143,100)	-	(143,100)	
(329,525)	-	(329,525)	
(478,239)	-	(478,239)	
(12,428,492)	-	(12,428,492)	
-	(865,911)	(865,911)	
-	50,750	50,750	
-	8,129	8,129	
-	(2,093)	(2,093)	
-	80,682	80,682	
-	(728,443)	(728,443)	
(12,428,492)	(728,443)	(13,156,935)	
			$ (17,974)
6,234,499	-	6,234,499	-
2,078,265	-	2,078,265	-
1,527,208	-	1,527,208	-
3,252,617	116,194	3,368,811	-
294,400	285,883	580,283	16
13,386,989	402,077	13,789,066	16
958,497	(326,366)	632,131	(17,958)
45,911	-	45,911	-
199,194	(199,194)	-	-
1,203,602	(525,560)	678,042	(17,958)
18,442,763	(3,527,519)	14,915,244	525,947
$ 19,646,365	$ (4,053,079)	$ 15,593,286	$ 507,989

Fund Financial Statements

GOVERNMENTAL FUNDS
Balance Sheet
June 30, 2004
(expressed in thousands)

	General	Higher Education Special Revenue	Higher Education Endowment	Nonmajor Governmental Funds	Total
Assets:					
Cash and pooled investments	$ 748,137	$ 139,357	$ 305,541	$ 2,715,321	$ 3,908,356
Investments	-	833,891	2,080,193	186,110	3,100,194
Taxes receivable (net of allowance)	2,361,117	-	-	101,992	2,463,109
Other receivables (net of allowance)	290,258	207,792	24,030	463,375	985,455
Due from other funds	131,972	144,285	39	240,842	517,138
Due from other governments	738,862	105,086	-	1,392,582	2,236,530
Inventories	16,482	8,692	-	33,836	59,010
Total Assets	$ 4,286,828	$ 1,439,103	$ 2,409,803	$ 5,134,058	$ 13,269,792
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	$ 603,919	$ 46,130	$ 1	$ 274,529	$ 924,579
Contracts and retainages payable	11,799	375	1,555	66,181	79,910
Accrued liabilities	119,624	84,389	6,884	82,231	293,128
Obligations under security lending agreements	321,902	102,353	267,741	254,980	946,976
Due to other funds	498,021	44,053	173,534	175,540	891,148
Due to other governments	79,400	12,403	-	112,228	204,031
Deferred revenues	1,133,825	135,571	8,751	475,806	1,753,953
Claims and judgments payable, current	2,228	-	-	10,326	12,554
Total Liabilities	2,770,718	425,274	458,466	1,451,821	5,106,279
Fund Balances:					
Reserved for:					
Encumbrances	114,087	157,559	-	523,022	794,668
Inventories	14,749	8,692	-	33,836	57,277
Permanent funds	-	-	1,951,337	168,204	2,119,541
Other specific purposes	37,207	172,493	-	1,194,747	1,404,447
Unreserved, designated for:					
Working capital	964,631	-	-	-	964,631
Unrealized gains	-	3,809	-	-	3,809
Higher education	-	155,679	-	-	155,679
Special Revenue Funds	-	-	-	174	174
Debt Service Funds	-	-	-	288,231	288,231
Unreserved, undesignated	385,436	515,597	-	-	901,033
Unreserved, undesignated reported in nonmajor:					
Special Revenue Funds	-	-	-	1,474,023	1,474,023
Total Fund Balances	1,516,110	1,013,829	1,951,337	3,682,237	8,163,513
Total Liabilities and Fund Balances	$ 4,286,828	$ 1,439,103	$ 2,409,803	$ 5,134,058	$ 13,269,792

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, 2004
(expressed in thousands)

Total fund balances for governmental funds		$ 8,163,513
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	$ 14,798,014	
Depreciable assets, net of depreciation	6,172,043	
Total capital assets		20,970,057
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.		1,370,760
Accrued current interest on general obligation bonds		(185,674)
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.		(70,828)
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	(10,096,005)	
Accrued interest on bonds	(44,213)	
Claims and judgments	(77,425)	
Other obligations	(383,820)	
Total long-term liabilities		(10,601,463)
Net assets of governmental activities		$ 19,646,365

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, 2004
(expressed in thousands)

	General	Higher Education Special Revenue	Higher Education Endowment	Nonmajor Governmental Funds	**Total**
Revenues:					
Retail sales and use taxes	$ 6,174,008	$ -	$ -	$ 60,491	$ 6,234,499
Business and occupation taxes	2,018,718	-	-	59,547	2,078,265
Property taxes	1,392,963	-	-	134,245	1,527,208
Excise taxes	622,951	-	-	64,379	687,330
Motor vehicle and fuel taxes	-	-	-	925,723	925,723
Other taxes	1,016,412	-	-	630,815	1,647,227
Licenses, permits, and fees	75,513	505	-	589,554	665,572
Timber sales	5,465	-	8,256	125,933	139,654
Other contracts and grants	253,180	491,978	-	12,413	757,571
Federal grants-in-aid	5,916,782	1,005,025	-	779,747	7,701,554
Charges for services	44,504	1,032,316	7	461,568	1,538,395
Investment income (loss)	4,795	66,533	188,578	34,494	294,400
Miscellaneous revenue	84,645	122,773	3,530	491,729	702,677
Contribution and donations	-	-	45,911	-	45,911
Total Revenues	17,609,936	2,719,130	246,282	4,370,638	24,945,986
Expenditures:					
Current:					
General government	514,567	-	-	345,771	860,338
Human services	8,988,660	-	-	973,769	9,962,429
Natural resources and recreation	268,096	-	-	374,909	643,005
Transportation	27,037	426	-	1,269,489	1,296,952
Education	6,977,364	2,560,841	24	546,540	10,084,769
Intergovernmental	26,678	-	-	302,847	329,525
Capital outlays	67,471	101,937	-	1,372,288	1,541,696
Debt service:					
Principal	10,140	9,247	-	395,341	414,728
Interest	120	4,310	-	463,261	467,691
Total Expenditures	16,880,133	2,676,761	24	6,044,215	25,601,133
Excess of Revenues Over (Under) Expenditures	729,803	42,369	246,258	(1,673,577)	(655,147)
Other Financing Sources (Uses):					
Bonds issued	-	-	-	1,167,659	1,167,659
Refunding bonds issued	-	-	-	456,675	456,675
Payment to refunded bond escrow agent	-	-	-	(481,000)	(481,000)
Notes issued	4,960	11,475	-	1,680	18,115
Bond issue premium (discount)	-	8	-	70,873	70,881
Capital lease acquisitions	44	-	-	-	44
Transfers in	308,108	207,913	4,230	1,579,648	2,099,899
Transfers (out)	(895,006)	(250,539)	(43,624)	(674,459)	(1,863,628)
Total Other Financing Sources (Uses)	(581,894)	(31,143)	(39,394)	2,121,076	1,468,645
Net change in fund balances	147,909	11,226	206,864	447,499	813,498
Fund Balances - Beginning, as restated	1,368,201	1,002,603	1,744,473	3,234,738	7,350,015
Fund Balances - Ending	$ 1,516,110	$ 1,013,829	$ 1,951,337	$ 3,682,237	$ 8,163,513

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, 2004
(expressed in thousands)

Net change in fund balances--total governmental funds		$ 813,498
Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:		
Capital outlay	1,585,173	
Depreciation expense	(350,079)	
Excess of capital outlay over depreciation expense		1,235,094
Bond proceeds provide current financial resources to governmental funds, however, issuing debt increases long-term liabilities in the statement of net assets. In the current period, proceeds were received from:		
Bonds and bond anticipation notes issued	(1,167,659)	
Refunding bonds issued	(456,675)	
Notes issued	(18,115)	
Bond issue premium	(70,881)	
Capital leases issued	(44)	
Total bond proceeds		(1,713,374)
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. In the current year, these amounts consist of:		
Bond principal retirement	414,728	
Payments to the bond refunding agent	481,000	
Total long-term debt repayment		895,728
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.		39,213
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.		(9,524)
Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:		
Increase in accrued and accreted interest	(36,186)	
Increase in compensated absences	(10,438)	
Increase in miscellaneous liabilities	(6,973)	
Increase in claims and judgments	(3,436)	
Total additional expenditures		(57,033)
Change in net assets of governmental activities		$ 1,203,602

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

PROPRIETARY FUNDS
Statement of Fund Net Assets

June 30, 2004
(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	$ 26,552	$ 1,126,145	$ 342,435	$ 327,517	$ 1,822,649	$ 165,295
Investments	1,269,197	-	3,184	245,767	1,518,148	1,325
Taxes receivable (net of allowance)	-	-	-	4,728	4,728	-
Other receivables (net of allowance)	588,195	489,425	127,345	25,595	1,230,560	3,652
Due from other funds	11,264	3,566	44,493	48,512	107,835	61,301
Due from other governments	1,480	6,229	32,234	19,909	59,852	4,794
Inventories	177	-	32,099	42,487	74,763	20,249
Prepaid expenses	1	-	5,314	780	6,095	1,774
Total Current Assets	1,896,866	1,625,365	587,104	715,295	4,824,630	258,390
Noncurrent Assets:						
Investments, noncurrent	9,161,021	-	146,996	916,817	10,224,834	39,344
Other noncurrent assets	-	-	-	82,723	82,723	-
Capital Assets:						
Land	3,240	-	19,891	77,532	100,663	1,395
Buildings	62,441	-	1,070,069	400,816	1,533,326	59,495
Other improvements	1,020	-	62,838	5,658	69,516	21,033
Furnishings, equipment, and collections	35,595	-	235,455	55,552	326,602	552,002
Accumulated depreciation	(27,094)	-	(539,861)	(98,120)	(665,075)	(344,897)
Construction in progress	4,942	-	82,060	-	87,002	34,453
Total Noncurrent Assets	9,241,165	-	1,077,448	1,440,978	11,759,591	362,825
Total Assets	$ 11,138,031	$ 1,625,365	$ 1,664,552	$ 2,156,273	$ 16,584,221	$ 621,215
Liabilities						
Current Liabilities:						
Accounts payable	$ 4,166	$ -	$ 65,226	$ 41,840	$ 111,232	$ 33,960
Contracts and retainages payable	2,270	-	9,494	18,422	30,186	1,345
Accrued liabilities	128,172	-	88,137	127,526	343,835	16,916
Obligations under security lending agreements	1,269,197	-	-	173,379	1,442,576	1,143
Bonds and notes payable	2,898	-	19,613	39,502	62,013	4,559
Due to other funds	18,725	344	47,157	66,402	132,628	20,743
Due to other governments	-	674	211	5,322	6,207	86
Deferred revenues	13,542	-	30,623	233	44,398	1,237
Claims and judgments payable, current	1,569,942	-	-	68,307	1,638,249	81,423
Total Current Liabilities	3,008,912	1,018	260,461	540,933	3,811,324	161,412
Non-Current Liabilities:						
Claims and judgments payable, long-term	15,021,157	-	-	1,929	15,023,086	463,774
Bonds and notes payable	39,886	-	564,769	282,849	887,504	48,745
Other long-term liabilities	10,096	-	7,901	897,391	915,388	18,112
Total Non-Current Liabilities	15,071,139	-	572,670	1,182,169	16,825,978	530,631
Total Liabilities	18,080,051	1,018	833,131	1,723,102	20,637,302	692,043
Net Assets:						
Invested in capital assets, net of related debt	37,359	-	346,069	138,940	522,368	270,178
Restricted for:						
Unemployment compensation	-	1,624,347	-	-	1,624,347	-
Other specific purposes	-	-	-	-	-	-
Unrestricted	(6,979,379)	-	485,352	294,231	(6,199,796)	(341,006)
Total Net (Deficit) Assets	$ (6,942,020)	$ 1,624,347	$ 831,421	$ 433,171	$ (4,053,081)	$ (70,828)

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, 2004
(expressed in thousands)

	Business-Type Activities Enterprise Funds					Governmental Activities
	Workers' Compensation	Unemployment Compensation	Higher Education Student Services	Nonmajor Enterprise Funds	Total	Internal Service Funds
Operating Revenues:						
Sales	$ -	$ -	$ 122,184	$ 468,212	$ 590,396	$ 125,290
Less: Cost of goods sold	-	-	75,454	314,562	390,016	107,351
Gross profit	-	-	46,730	153,650	200,380	17,939
Charges for services	17	-	928,590	50,676	979,283	491,959
Premiums and assessments	1,453,380	1,324,644	-	1,039,975	3,817,999	96,173
Federal aid for unemployment insurance benefits	-	450,320	-	-	450,320	-
Lottery ticket proceeds	-	-	-	481,440	481,440	-
Miscellaneous revenue	62,030	20,356	72,067	7,660	162,113	46,181
Total Operating Revenues	1,515,427	1,795,320	1,047,387	1,733,401	6,091,535	652,252
Operating Expenses:						
Salaries and wages	108,557	-	427,854	74,847	611,258	220,447
Employee benefits	26,272	-	71,716	20,659	118,647	48,648
Personal services	2,641	-	25,361	17,232	45,234	16,151
Goods and services	60,248	-	414,742	107,134	582,124	248,651
Travel	2,796	-	15,410	1,701	19,907	3,761
Premiums and claims	2,172,545	1,744,694	327	1,033,765	4,951,331	29,756
Lottery prize payments	-	-	-	295,488	295,488	-
Depreciation and amortization	6,261	-	51,116	16,584	73,961	53,449
Miscellaneous expenses	7,109	-	15,427	27,270	49,806	404
Total Operating Expenses	2,386,429	1,744,694	1,021,953	1,594,680	6,747,756	621,267
Operating Income (Loss)	(871,002)	50,626	25,434	138,721	(656,221)	30,985
Nonoperating Revenues (Expenses):						
Earnings (loss) on investments	171,169	60,132	20,542	34,040	285,883	2,214
Interest expense	(2,389)	-	(33,039)	(50,700)	(86,128)	(3,328)
Distributions to other governments	-	-	-	(34,951)	(34,951)	-
Other revenue (expenses)	7,480	124	15,703	137,441	160,748	(759)
Total Nonoperating Revenues (Expenses)	176,260	60,256	3,206	85,830	325,552	(1,873)
Income (Loss) Before Contributions and Transfers	(694,742)	110,882	28,640	224,551	(330,669)	29,112
Capital Contributions	-	-	31	4,272	4,303	3,674
Transfers in	296,274	-	155,712	43,070	495,056	44,202
Transfers (out)	(297,539)	-	(162,742)	(233,971)	(694,252)	(37,775)
Net Contributions and Transfers	(1,265)	-	(6,999)	(186,629)	(194,893)	10,101
Change in Net Assets	(696,007)	110,882	21,641	37,922	(525,562)	39,213
Net Assets - Beginning, as restated	(6,246,013)	1,513,465	809,780	395,249	(3,527,519)	(110,041)
Net Assets - Ending	$ (6,942,020)	$ 1,624,347	$ 831,421	$ 433,171	$ (4,053,081)	$ (70,828)

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, 2004
(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	$ 1,406,809	$ 1,246,855	$ 1,037,468	$ 2,008,509	$ 5,699,641	$ 716,823
Payments to suppliers	(1,502,735)	(1,743,677)	(550,712)	(1,717,503)	(5,514,627)	(391,780)
Payments to employees	(134,972)	-	(494,253)	(114,431)	(743,656)	(266,203)
Other receipts (payments)	41,860	491,483	72,085	7,293	612,721	46,244
Net Cash Provided (Used) by Operating Activities	(189,038)	(5,339)	64,588	183,868	54,079	105,084
Cash Flows from Noncapital Financing Activities:						
Transfers in	296,274	-	155,712	43,070	495,056	44,202
Transfers out	(297,539)	-	(162,742)	(233,971)	(694,252)	(37,775)
Operating grants and donations received	7,322	124	7,026	2	14,474	896
Taxes and license fees collected	5	-	-	136,523	136,528	-
Distributions to other governments	-	-	-	(34,951)	(34,951)	-
Net Cash Provided (Used) by Noncapital Financing Activities	6,062	124	(4)	(89,327)	(83,145)	7,323
Cash Flows from Capital and Related Financing Activities:						
Interest paid	(2,389)	-	(33,173)	(13,774)	(49,336)	(3,442)
Principal payments on long-term capital financing	(2,723)	-	(37,462)	(46,174)	(86,359)	(6,276)
Proceeds from long-term capital financing	-	-	137,595	30,725	168,320	4,857
Proceeds from sale of capital assets	-	-	35,683	1,952	37,635	41,879
Acquisitions of capital assets	(5,487)	-	(145,175)	(4,242)	(154,904)	(127,619)
Net Cash or Pooled Investments Provided by (Used in) Capital and Related Financing Activities	(10,599)	-	(42,532)	(31,513)	(84,644)	(90,601)
Cash Flows from Investing Activities:						
Receipt of interest	423,964	60,132	20,612	(2,109)	502,599	2,257
Proceeds from sale of investment securities	5,670,702	-	47,313	333,967	6,051,982	1,834
Purchases of investment securities	(5,874,539)	-	(50,965)	(351,653)	(6,277,157)	(2,125)
Net Cash Provided by (Used in) Investing Activities	220,127	60,132	16,960	(19,795)	277,424	1,966
Net Increase (Decrease) in Cash and Pooled Investments	26,552	54,917	39,012	43,233	163,714	23,772
Cash and Pooled Investments, July 1	-	1,071,228	303,423	284,284	1,658,935	141,523
Cash and Pooled Investments, June 30	$ 26,552	$ 1,126,145	$ 342,435	$ 327,517	$ 1,822,649	$ 165,295
Cash Flows from Operating Activities:						
Operating Income (Loss)	$ (871,002)	$ 50,626	$ 25,434	$ 138,721	$ (656,221)	$ 30,985
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operations:						
Depreciation	6,261	-	51,116	16,584	73,961	53,449
Provision for uncollectible accounts	8,019	-	5,903	13	13,935	24
Other non-cash items	(21,507)	-	-	-	(21,507)	-
Change in Assets: Decrease (Increase)						
Receivables (net of allowance)	(45,311)	(56,981)	(13,027)	(31,785)	(147,104)	2,884
Inventories	5	-	(1,736)	(5,253)	(6,984)	(1,314)
Prepaid expenses	26	-	433	276	735	(311)
Change in Liabilities: Increase (Decrease)						
Payables	734,471	1,016	(3,535)	65,312	797,264	19,367
Net Cash or Cash Equivalents Provided by (Used in) Operating Activities	$ (189,038)	$ (5,339)	$ 64,588	$ 183,868	$ 54,079	$ 105,084

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

PROPRIETARY FUNDS
Statement of Cash Flows

Concluded

For the Fiscal Year Ended June 30, 2004
(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	$ -	$ -	$ 31	$ 4,272	$ 4,303	$ 3,674
Amortization of long-term lotto prize liability	-	-	-	34,132	34,132	-
Increase (decrease) in fair value of investments	(252,659)	-	(137)	(65,114)	(317,910)	(91)
Refunding bonds issued	-	-	4,380	-	4,380	-
Refunded bonds redeemed	-	-	4,160	-	4,160	-
Gain (loss) on on refunding activity	-	-	387	-	387	-
Amortization of debt premium (issue costs/discount)	-	-	(25)	-	(25)	-
Accretion of interest on zero coupon bonds	-	-	-	2,901	2,901	-

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

FIDUCIARY FUNDS
Statement of Fiduciary Net Assets

June 30, 2004
(expressed in thousands)

	Private-Purpose Trust	Local Government Investment Pool	Pension and Other Employee Benefit Plans	Agency Funds
Assets:				
Cash and pooled investments	$ 5,233	$ 2,747,577	$ 44,094	$ 279,758
Investments	-	2,463,130	-	1,500
Other receivables (net of allowance)	4,654	4,747	195,195	99,771
Due from other funds	91	-	24,888	490,619
Due from other governments	-	-	48,028	26,787
Total Current Assets	9,978	5,215,454	312,205	898,435
Noncurrent Assets:				
Investments, noncurrent	28,299	298,799	49,958,322	193,186
Other noncurrent assets	-	-	-	67,269
Capital Assets:				
Furnishings, equipment, and collections	86	-	-	-
Accumulated depreciation	(78)	-	-	-
Total Noncurrent Assets	28,307	298,799	49,958,322	260,455
Total Assets	$ 38,285	$ 5,514,253	$ 50,270,527	$ 1,158,890
Liabilities:				
Accounts payable	$ 3,438	$ -	$ -	$ 15,723
Contracts and retainages payable	-	-	-	19,078
Accrued liabilities	4,065	449,838	84,845	504,281
Obligations under security	-	298,800	3,317,990	25,430
Due to other funds	20	52	26,677	130,604
Due to other governments	-	-	-	391,731
Other long-term liabilities	28,322	-	-	72,043
Total Liabilities	35,845	748,690	3,429,512	$ 1,158,890
Net Assets:				
Net assets held in trust for:				
Pension benefits	-	-	45,097,255	
Deferred compensation participants	-	-	1,743,760	
Local government pool participants	-	4,765,563	-	
Individuals, organizations & other governments	2,440	-	-	
Total Net Assets	$ 2,440	$ 4,765,563	$ 46,841,015	

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, 2004
(expressed in thousands)

	Private-Purpose Trust	Local Government Investment Pool	Pension and Other Employee Benefit Plans
Additions:			
Contributions:			
Employers	$ -	$ -	$ 174,860
Members	-	-	502,385
State	-	-	31,038
Pool participants	-	11,397,569	147,660
Total Contributions	-	11,397,569	855,943
Investment Income:			
Net appreciation (depreciation) in fair value	-	-	5,453,059
Income (loss) on investing activities	(3)	-	-
Interest and dividends	-	55,755	1,049,743
Less: Investment expenses	-	-	(58,289)
Net Investment Income	(3)	55,755	6,444,513
Other additions:			
Transfers from other pension plans	-	-	25,418
Transfers in	5,483	-	-
Other contracts, grants and miscellaneous	42,453	-	2,636
Total other additions	47,936	-	28,054
Total Additions	47,933	11,453,324	7,328,510
Deductions:			
Pension benefits	-	-	1,949,048
Pension refunds	-	-	110,434
Transfers to other pension plans	-	-	25,418
Transfers out	48,985	-	-
Administrative expenses	2,652	3,287	1,087
Distributions to pool participants	-	11,668,653	73,485
Payments to or on behalf of individuals, organizations and other governments in accordance with trust agreements	267	-	-
Total Deductions	51,904	11,671,940	2,159,472
Net Increase (Decrease)	(3,971)	(218,616)	5,169,038
Net Assets - Beginning, as restated	6,411	4,984,179	41,671,977
Net Assets - Ending	$ 2,440	$ 4,765,563	$ 46,841,015

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

COMPONENT UNITS
Statement of Fund Net Assets
June 30, 2004
(expressed in thousands)

	Public Stadium	Nonmajor Component Units	Total
Assets			
Current Assets:			
Cash and pooled investments	$ 4,160	$ 2,775	$ 6,935
Investments	-	30,262	30,262
Other receivables (net of allowance)	7	1,391	1,398
Prepaid expenses	30	322	352
Total Current Assets	4,197	34,750	38,947
Noncurrent Assets:			
Investments, noncurrent	21,676	2,123	23,799
Other noncurrent assets	-	19,765	19,765
Capital Assets:			
Land	34,677	-	34,677
Buildings	450,745	-	450,745
Furnishings and equipment	25,605	1,144	26,749
Accumulated depreciation	(43,900)	(872)	(44,772)
Total Noncurrent Assets	488,803	22,160	510,963
Total Assets	$ 493,000	$ 56,910	$ 549,910
Liabilities			
Current Liabilities:			
Accounts payable	$ 191	$ 1,514	$ 1,705
Contracts and retainages payable	2,342	-	2,342
Accrued liabilities	36	79	115
Deferred revenues	-	759	759
Total Current Liabilities	2,569	2,352	4,921
Non-Current Liabilities:			
Other long-term liabilities	37,000	-	37,000
Total Non-Current Liabilities	37,000	-	37,000
Total Liabilities	39,569	2,352	41,921
Net Assets:			
Invested in capital assets, net of related debt	427,785	272	428,057
Restricted for deferred sales tax	21,676	-	21,676
Restricted for other purposes	-	600	600
Unrestricted	3,970	53,686	57,656
Total Net (Deficit) Assets	$ 453,431	$ 54,558	$ 507,989

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, 2004
(expressed in thousands)

	Public Stadium	Nonmajor Component Units	**Total**
Program Revenues:			
Charges for services	$ 868	10,271	$ 11,139
Operating grants and contributions	-	369	369
Capital grants and contributions	500	-	500
Total Program Revenues	1,368	10,640	12,008
Expenses:			
Operating Expenses:			
Salaries and wages	313	3,752	4,065
Employee benefits	53	946	999
Personal services	147	596	743
Goods and services	160	2,675	2,835
Travel	4	24	28
Depreciation and amortization	18,562	125	18,687
Miscellaneous expenses	1,504	14	1,518
Total Operating Expenses	20,743	8,132	28,875
Nonoperating Expenses:			
Pass through grants	-	369	369
Interest	-	738	738
Total Nonoperating Expenses	-	1,107	1,107
Total Expenses	20,743	9,239	29,982
General Revenues:			
Earnings (loss) on investments	(20)	36	16
Total General Revenues	(20)	36	16
Change in Net Assets	(19,395)	1,437	(17,958)
Net Assets - Beginning	472,826	53,121	525,947
Net Assets - Ending	$ 453,431	$ 54,558	$ 507,989

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, 2004

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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, not discretely reported according to the fund structure of the American Institute of Certified Public Accountants college and university reporting model.

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 Administrator for 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 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 Ave, 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 units 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 $467 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 program. 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 536 accounts that are combined into 55 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 pension plans, 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 provided that they are verifiable, unconditional, probable of collection, measurable and available. All other accrued revenue sources are determined to be available if collectible within 12 months.

Property taxes are levied in December for the following calendar year. The first half-year collections are due by April 30, and the second half-year collections are due by October 31. Since the state is on a fiscal year ending June 30, the first half-year collections are recognized as revenue, if 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 expendable available 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 weighted average 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 $1.7 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 paid. 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, please refer to the notes to RSI presented later in this report.

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 45 percent of the eligible subscribers in Fiscal Year 2004. 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 the governing board totaled $98.4 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, 2003, has been restated as follows (expressed in thousands):

	Fund equity at June 30, 2003, as previously reported	Fund Reclassification	Prior Period Adjustment	Fund equity as restated, July 1, 2003
Governmental Funds:				
General	$ 1,368,201	-	-	$ 1,368,201
Higher Education Special Revenue	952,690	49,913	-	1,002,603
Higher Education Endowment	1,744,473	-	-	1,744,473
Nonmajor Governmental	3,136,256	62,454	36,028	3,234,738
Proprietary Funds:				
Enterprise Funds:				
Workers' Compensation	(6,246,013)	-	-	(6,246,013)
Unemployment Compensation	1,513,465	-	-	1,513,465
Higher Education Student Services	-	810,288	(508)	809,780
Nonmajor Enterprise Funds	764,103	(368,854)	-	395,249
Internal Service Funds:				
Nonmajor Internal Service Funds	(106,966)	(11,352)	8,277	(110,041)
Fiduciary Funds:				
Private Purpose Trust	62,816	(56,405)	-	6,411
Local Government Investment Pool	4,984,179	-	-	4,984,179
Pension and Other Employee Benefit Plans	41,671,977	-	-	41,671,977
Component Units:				
Public Stadium	472,826	-	-	472,826
Nonmajor Component Units	53,121	-	-	53,121

Fund Reclassification – The state reported the Tobacco Settlement Authority (TSA), a blended component unit, as an enterprise fund in Fiscal Year 2003. With the issuance of GASB Technical Bulletin No. 2004-1 the state discovered that the TSA was more properly recorded as a governmental activity. As a result, certain beginning balances were required to be restated to effect proper fund classification.

The state discovered that certain accounts were misclassified as private purpose trust funds. As a result, certain beginning fund balances were restated to effect proper fund classification.

The Office of the Secretary of State reclassified certain activities to effect a more proper fund classification. Certain activities previously accounted for within an internal service fund were reclassified to a non-major governmental fund and a non-major enterprise fund.

The state reported the Higher Education Student Services Fund as a non-major enterprise fund in Fiscal Year 2003. In Fiscal Year 2004, this fund meets the criteria established by GASB Statement No. 34 to be reported as a major fund and is reclassified accordingly.

Prior Period Adjustment – Prior period adjustments of $45 million and $19 million respectively were recorded in the following non-major governmental funds: the Human Services Fund and the Tobacco Settlement Securitization Bond Fund. These adjustments properly reflect the accrual of tobacco settlement revenues for Fiscal Year 2003, which were collected in Fiscal Year 2004.

The Department of Ecology recorded a prior period adjustment in the General Obligation Bond Fund, which is a non-major governmental fund. The $28 million adjustment corrected the prior year recording of a certificates of participation refunding.

The University of Washington recorded a prior period adjustment in the General Services Fund, which is a non-major internal service fund. This adjustment of $8 million corrected amounts previously recorded as capital lease obligations. The University also recorded a $.5 million prior period adjustment in the Higher Education Student Services Fund, which is a major enterprise fund.

Note 3 - Deposits and Investments

As of June 30, 2004, the carrying amount of Washington's cash and investments was $76.8 billion. Total cash and investments at fiscal year-end amounted to $77 billion, including cash from outstanding checks and warrants. Of this amount, cash on hand amounted to $687 thousand, deposits with financial institutions amounted to $1.4 billion, and deposits in the federal Unemployment Trust Fund amounted to $1 billion. The remaining $ 74.6 billion represented the total carrying amount of investments.

Deposits by type, at June 30, 2004, are as follows (expressed in thousands):

Type of Deposit	Carrying Amount	Bank Balance	Insured/ Collateralized	Uninsured/ Uncollateralized
Demand deposits	$ 279,326	$ 409,579	$ 347,249	$ 62,330
Certificates of deposit	893,425	893,425	887,425	6,000
Cash with fiscal and escrow agents	81,373	80,493	52,859	27,634
Total Deposits	$ 1,254,124	$ 1,383,497	$ 1,287,533	$ 95,964

DEPOSITS - At fiscal year end, 93.1 percent of the state's deposits with financial institutions were either insured or collateralized, with the remainder uninsured/uncollateralized. The Federal Deposit Insurance Corporation (FDIC) covers the state's insured deposits. The Washington Public Deposit Protection Commission (PDPC) provides collateral protection. 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.

INVESTMENTS - The State Investment Board, the Office of the State Treasurer, and the University of Washington manage approximately 96.3 percent of the state's investing activity. Management responsibilities and investment instruments as authorized by statute follow:

STATE INVESTMENT BOARD (SIB) - Statute designates SIB as having investment management responsibility for pension funds, the Workers' Compensation Fund, permanent funds (established at statehood), and other specific funds. Pursuant to statute (Chapter 43.33A RCW) and SIB policy, SIB is authorized and invests in the following: Treasury Bills; discount notes; repurchase agreements; reverse repurchase agreements; banker's acceptances; commercial paper; guaranteed investment contracts; U.S. government and agency (government sponsored corporations eligible for collateral purposes at the Federal Reserve) securities; nondollar bonds; investment grade corporate bonds; publicly traded mortgage-backed securities; privately placed mortgages; private placements of corporate debt; U.S. and foreign common stock; U.S. preferred stock; convertible securities; private equity including but not limited to investment corporations, partnerships, and limited liability companies for venture capital, leveraged buy-outs, real estate, or other forms of private equity; asset backed securities; and derivative securities including futures, options, options on futures, forward contracts, and swap transactions.

The SIB 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. SIB 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 SIB authority to invest in derivatives, international active equity managers may make limited investment 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, 2004. 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 the use, and holdings of derivative securities by passive equity index fund managers is unavailable. At June 30, 2004, the only derivative securities held directly by SIB were collateralized mortgage obligations (CMO's) of $2.9 billion.

State law and Board policy permit the SIB to participate in securities lending transactions. The Board has entered into agreements with State Street Corporation (SSC) to act as agent for the SIB in securities lending transactions. As SSC is the custodian bank for the SIB, it is counterparty to securities lending transactions. Therefore, all cash collateral reinvested by SSC is reflected as Category 3 for custodial credit risk disclosure purposes.

Securities were loaned and collateralized by the SIB's agents 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, or were securities whose primary trading market was located in the United States, or were sovereign debt that was 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, 2004 approximated $4.9 and $4.8 billion, respectively.

During Fiscal Year 2004, securities lending transactions could be terminated on demand by either the SIB or the borrower. The average term of overall loans was 45 days.

Cash collateral was invested by the SIBs agents in securities issued or guaranteed by the U.S. government, the SIBs short-term investment pool (average weighted maturity of 358 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. Noncash 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 loaned with the agreement that they could be returned in the future for exchange of the collateral. SSC indemnified the SIB 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. SSC 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 2004, there were no significant violations of legal or contractual provisions nor failures by any borrower to return loaned securities or to pay distributions thereon. Further, the SIB incurred no losses during Fiscal Year 2004 resulting from a default by either the borrowers or the securities lending agents.

The SIB has entered into a number of agreements that commit the state, upon request, to make additional investment purchases up to a stated amount. As of June 30, 2004, the state had the following unfunded investment commitments (expressed in thousands):

Private equity partnerships	$ 4,634,432
Real estate	677,372

OFFICE OF THE STATE TREASURER (OST) - The OST operates the state's Cash Management Account for investing cash in excess of daily requirements. Statute authorizes the OST to buy and sell the following types of instruments: U.S. government and agency securities, banker's acceptances, commercial paper, and certificates of deposit with qualified public depositories. Securities underlying repurchase and reverse repurchase agreements are limited to those stated above.

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, 2004, securities on loan approximated $886 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, 2004, 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 2004, 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.

Repurchase agreements are collateralized at 102 percent. The collateral is priced daily and held by the OST'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.

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

UNIVERSITY OF WASHINGTON – The University's investment policies permit it 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 University's custodian lends securities of the type on loan at year-end for collateral in the form of cash or other securities. U.S. securities are loaned verses collateral valued at 102 percent of the fair value of the securities plus any accrued interest. Non-U.S. securities are loaned versus collateral valued at 105 percent of the fair value of the securities plus any accrued interest. At year-end, the University has 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 ten days. Cash collateral is invested in a short-term investment pool. The relationship between the maturities of the investment pool and the University's loans is affected by the maturities of the securities loans made by other entities that use the custodian's pool, which the University cannot determine. Non-cash collateral cannot be sold unless the borrower defaults. Securities on loan at June 30, 2004, totaled $366 million.

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.

INVESTMENT ACTIVITY - The state's investments are categorized below per GASB Statement No. 3 to give an indication of the level of risk assumed at year-end. Category 1 includes investments that are insured, registered, or held by the state or its agent in the state's name. Category 2 includes uninsured and unregistered investments that are held by the counterparties' trust departments or agents in the state's name. Category 3 includes uninsured and unregistered investments held by counterparties, or their trust departments or agents, but not in the state's name.

Investments at June 30, 2004, by investment type, are listed below (expressed in thousands):

	Carrying Amount by GASB Categories				
Investment Type	**1**	**2**	**3**	**Carrying Amount**	**Fair Value**
Corporate bonds	$ 8,981,350	$ -	$ 68,716	$ 9,050,066	$ 9,041,479
Corporate stocks	4,434,458	-	-	4,434,458	4,434,411
U.S. government securities	2,294,905	-	-	2,294,905	2,221,480
Government securities	648,682	-	332,345	981,027	980,999
Collateralized mortgage obligations	3,010,284	-	-	3,010,284	3,010,259
Repurchase agreements	2,319,927	-	800,000	3,119,927	3,101,927
Asset backed securities	20,257	-	-	20,257	20,254
Commercial paper	499	-	282,616	283,115	282,617
Discount notes	4,677,803	-	-	4,677,803	4,675,322
Municipal bonds	7,507	-	-	7,507	7,511
Variable rate notes	149,986	-	2,004,317	2,154,303	2,154,303
Negotiable certificates of deposit	-	-	1,189,396	1,189,396	1,189,396
Other	161,887	1,174	159,055	322,116	322,118
	$ 26,707,545	$ 1,174	$ 4,836,445	31,545,164	31,442,076
Mutual funds				4,635,945	4,425,607
Mortgages				1,663,449	1,663,449
Real estate				4,196,467	4,194,949
Private equity				6,176,506	6,290,571
Guaranteed investment contracts				576,217	576,217
Investments held by broker-dealers under securities lending programs:					
U.S. government securities				5,290,839	5,290,839
U.S. agency securities				483,364	483,364
Other investments				335,072	335,072
Commingled investment funds					
Foreign				3,398,013	3,398,013
Domestic				16,169,390	16,169,390
Other investment types				116,611	158,014
Total Investments				$ 74,587,037	$ 74,427,561

Note 4 - Receivables and Deferred Revenues

A. Governmental Funds

Taxes Receivable

Taxes receivable at June 30, 2004, consisted of the following (expressed in thousands):

Taxes Receivable	General	Higher Education Special Revenue	Higher Education Endowment	Nonmajor Governmental Funds	Total
Property	$ 818,737	$ -	$ -	$ 721	$ 819,458
Sales	1,139,537	-	-	16,174	1,155,711
Business and occupation	339,616	-	-	-	339,616
Estate	17,948	-	-	-	17,948
Fuel	-	-	-	79,099	79,099
Other	73,166	-	-	6,138	79,304
Subtotals	2,389,004	-	-	102,132	2,491,136
Less: Allowance for uncollectible receivables	27,887	-	-	140	28,027
Total Taxes Receivable	$ 2,361,117	$ -	$ -	$ 101,992	$ 2,463,109

Other Receivables

Other receivables at June 30, 2004, consisted of the following (expressed in thousands):

Other Receivables	General	Higher Education Special Revenue	Higher Education Endowment	Nonmajor Governmental Funds	Total
Public assistance	$ 1,199,238	$ -	$ -	$ -	$ 1,199,238
Accounts receivable	16,502	80,717	768	54,706	152,693
Interest	-	7,326	6,970	4,933	19,229
Loans	865	121,806	-	231,568	354,239
Long-term contracts	2,719	-	8,245	107,729	118,693
Miscellaneous	10,997	15,881	8,122	85,623	120,623
Subtotals	1,230,321	225,730	24,105	484,559	1,964,715
Less: Allowance for uncollectible receivables	940,063	17,938	75	21,184	979,260
Total Other Receivables	$ 290,258	$ 207,792	$ 24,030	$ 463,375	$ 985,455

Note: 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.

Deferred Revenues

Deferred revenues at June 30, 2004, consisted of the following (expressed in thousands):

Deferred Revenues	General Fund	Higher Education Special Revenue	Higher Education Endowment	Nonmajor Governmental Funds	Total
Property taxes	$ 795,969	$ -	$ -	$ -	$ 795,969
Other taxes	282,226	-	-	17	282,243
Timber sales	2,719	-	8,245	102,948	113,912
Charges for services	7,612	42,881	-	15,107	65,600
Donable goods	202	-	-	-	202
Miscellaneous	45,097	92,690	506	357,734	496,027
Total Deferred Revenues	$ 1,133,825	$ 135,571	$ 8,751	$ 475,806	$ 1,753,953

B. Proprietary Funds

Taxes Receivable

Taxes receivable at June 30, 2004, consisted of $4.7 million in liquor taxes reported in Nonmajor Enterprise Funds.

Other Receivables

Other receivables at June 30, 2004, 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	$ 77,111	$ -	$ 188,342	$ 20,878	$ 286,331	$ 3,100
Interest	90,804	-	370	2,198	93,372	380
Loans	-	-	4	-	4	-
Miscellaneous	478,591	587,800	11,524	2,675	1,080,590	358
Subtotals	646,506	587,800	200,240	25,751	1,460,297	3,838
Less: Allowance for uncollectible receivables	58,311	98,375	72,895	156	229,737	186
Total Other Receivables	$ 588,195	$ 489,425	$ 127,345	$ 25,595	$ 1,230,560	$ 3,652

Deferred Revenues

Deferred revenues at June 30, 2004, consisted of the following (expressed in thousands):

	Business-Type Activities Enterprise Funds					Governmental Activities
Deferred Revenues	Workers' Compensation	Unemployment Compensation	Higher Education Student Services	Nonmajor Enterprise Funds	**Total**	Internal Service Funds
Charges for services	$ -	$ -	$ 10,906	$ 233	$ 11,139	$ 1,198
Miscellaneous	13,542		19,717	-	33,259	39
Total Deferred Revenues	$ 13,542	$ -	$ 30,623	$ 233	$ 44,398	$ 1,237

C. Fiduciary Funds

Other Receivables

Other receivables at June 30, 2004, 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	$ -	$ -	$ 2,363	$ 10,753
Interest	-	4,747	127,008	18,672
Loans	-	-	-	17
Miscellaneous	4,654	-	65,949	70,850
Subtotals	4,654	4,747	195,320	100,292
Less: Allowance for uncollectible receivables	-	-	125	521
Total Other Receivables	$ 4,654	$ 4,747	$ 195,195	$ 99,771

Note 5 - Interfund Balances and Transfers

A. Interfund Balances

The following balances at June 30, 2004, 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	$ 57,572	$ 7,297	$ -	$ 42,946	$ 299	$ -	$ -
Higher Educ. Special Revenue	24,532	16,833	-	8,568	46	-	8,921
Higher Education Endowment	-	-	-	-	-	-	-
Nonmajor Governmental Funds	120,023	150	2,203	87,347	1,258	344	25
Workers' Compensation	35	-	-	-	11,165	-	-
Unemployment Compensation	1,839	1,019	-	526	-	-	-
Higher Edcuation Student Services	1,324	17,558	-	-	-	-	6,351
Nonmajor Enterprise Funds	9,993	-	-	550	-	-	30
Internal Service Funds	21,555	747	-	15,957	5,862	-	-
Fiduciary Funds	261,148	449	171,331	19,646	95	-	31,830
Totals	$ 498,021	$ 44,053	$ 173,534	$ 175,540	$ 18,725	$ 344	$ 47,157

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**
$ 6,112	$ 362	$ 17,384	$ 131,972
8,199	4,958	72,228	144,285
-	-	39	39
5,303	1,296	22,893	240,842
-	54	10	11,264
-	-	182	3,566
6,321	91	12,848	44,493
37,508	330	101	48,512
2,753	13,474	953	61,301
206	178	30,715	515,598
$ 66,402	$ 20,743	$ 157,353	$ 1,201,872

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, 2004, consisted of the following (expressed in thousands):

	Transferred To						
Transferred From	General Fund	Higher Education Special Revenue	Higher Education Endowment	Nonmajor Governmental Funds	Workers Compensation Fund	Higher Education Student Services	Nonmajor Enterprise Funds
General Fund	$ 116,522	$ 8,369	$ -	$ 753,700	$ -	$ -	$ -
Higher Educ. Special Revenue	411	145,077	1,714	76,168	-	-	26,195
Higher Education Endowment	-	16,868	-	26,728	-	-	28
Nonmajor Governmental Funds	88,562	3,521	2,516	578,557	52	-	1,002
Workers' Compensation Fund	-	-	-	1,317	296,222	-	-
Higher Educ. Student Services	-	-	-	-	-	155,712	7,030
Nonmajor Enterprise Funds	53,612	33,452	-	138,067	-	-	8,815
Internal Service Funds	16	626	-	5,111	-	-	-
Private Purpose Funds	48,985	-	-	-	-	-	-
Totals	$ 308,108	$ 207,913	$ 4,230	$ 1,579,648	$ 296,274	$ 155,712	$ 43,070

Additionally, there are transfers within the state's Pension Funds. The transfers from Pension Funds are into other Pension 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 Funds	**Totals**
$ 10,932	$ 5,483	$ 895,006
974	-	250,539
-	-	43,624
249	-	674,459
-	-	297,539
-	-	162,742
25	-	233,971
32,022	-	37,775
-	-	48,985
$ 44,202	$ 5,483	$ 2,644,640

Note 6 - Capital Assets

A. Governmental Capital Assets

The following is a summary of governmental capital asset activity for the year ended June 30, 2004 (expressed in thousands):

Capital Assets	Balances July 1, 2003*	Additions	Deletions	Balances June 30, 2004
Capital assets, not being depreciated:				
Land	$ 1,137,698	60,242	(13,580)	$ 1,184,360
Highway System Infrastructure**	11,730,655	785,830	(3,660)	12,512,825
Construction in Progress	1,163,368	401,254	(532,660)	1,031,962
Art Collections, Library Reserves, and Museum and Historical Collections	107,972	1,232	(4,488)	104,716
Total capital assets, not being depreciated	14,139,693			14,833,863
Capital assets, being depreciated:				
Buildings	6,056,449	623,705	(16,393)	6,663,761
Accumulated depreciation	(2,019,649)	(178,589)	3,982	(2,194,256)
Net buildings	4,036,800			4,469,505
Furnishings, equipment, and collections	2,992,788	210,947	(80,579)	3,123,156
Accumulated depreciation	(1,701,701)	(162,397)	45,240	(1,818,858)
Net furnishings, equipment and collections	1,291,087			1,304,298
Other improvements	721,111	83,723	(40,579)	764,255
Accumulated depreciation	(264,355)	(44,519)	25,142	(283,732)
Net other improvements	456,756			480,523
Infrastructure (other)**	270,897	44,837	-	315,734
Accumulated depreciation	(92,363)	(18,022)	-	(110,385)
Net infrastructure (other)	178,534			205,349
Total capital assets, being depreciated, net	5,963,177			6,459,675
Governmental activities capital assets, net	$ 20,102,870			$ 21,293,538

*Beginning balances have been restated to reflect fund type reclassifications.
**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 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, 2004, (expressed in thousands):

Capital Assets	Balances July 1, 2003*	Additions	Deletions	Balances June 30, 2004
Capital assets, not being depreciated:				
Land	$ 86,061	14,671	(106)	$ 100,626
Construction in Progress	263,547	44,303	(220,848)	87,002
Art Collections	35	2	-	37
Total capital assets, not being depreciated	349,643			187,665
Capital assets, being depreciated:				
Buildings	1,290,689	248,748	(6,111)	1,533,326
Accumulated depreciation	(394,424)	(41,336)	1,753	(434,007)
Net buildings	896,265			1,099,319
Furnishings, equipment, and collections	288,475	62,745	(24,618)	326,602
Accumulated depreciation	(198,685)	(29,613)	20,311	(207,987)
Net furnishings, equipment, and collections	89,790			118,615
Other Improvements	33,573	2,733	(739)	35,567
Accumulated depreciation	(12,125)	(687)	124	(12,688)
Net other improvements	21,448			22,879
Infrastructure (other)	28,572	5,377	-	33,949
Accumulated depreciation	(8,068)	(2,325)	-	(10,393)
Net infrastructure (other)	20,504			23,556
Total capital assets, being depreciated, net	1,028,007			1,264,369
Business-type activities capital assets, net	$ 1,377,650			$ 1,452,034

*Beginning balances have been restated to reflect fund type reclassifications and prior period error correction.

C. Depreciation

Depreciation expense was charged to functions of the primary government as follows (expressed in thousands):

	Amount
Governmental Activities:	
General Government	$ 38,189
Education - Elementary and Secondary (K-12)	2,400
Education - Higher Education	221,492
Human Services	23,146
Adult Corrections	23,176
Natural Resources and Recreation	22,452
Transportation	72,672
Total Depreciation Expense - Governmental Activities	$ 403,527
Business-Type Activities:	
Workers' Compensation	$ 6,261
Unemployment Compensation	-
Higher Education Student Services	51,116
Health Insurance Programs	216
Other	16,368
Total Depreciation Expense - Business-Type Activities	$ 73,961

*Includes $53.4 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, 2004, are as follows (expressed in thousands):

D- Construction in Progress

Agency/Project Commitments	Construction In Progress June 30, 2004	Remaining Project Commitments
Office of the Secretary of State:		
Eastern Washington Regional Archives Building	$ 13,862	$ 1,382
Department of General Administration:		
Legislative and other buildings rehab., new office buildings, and other projects	157,566	347,670
Washington State Patrol:		
Spokane and Vancouver crime laboratories, and other projects	6,365	18,255
Military Department:		
Readiness centers and other projects	12,668	5,296
Department of Social and Health Services:		
State hospital and juvenile rehabilitation renovations, and other projects	101,940	37,219
Department of Veterans Affairs:		
240 Bed Skilled Nursing Center and other projects	28,796	15,479
Department of Corrections:		
Correctional centers construction, improvements, and other projects	206,137	247,386
Department of Transportation:		
State Highway System, maintenance facilities, and ferry vessels and terminals	159,514	802,312
Department of Fish and Wildlife:		
Hatchery renovations, site improvements, and other projects	19,444	11,948
Higher Education Facilities:		
University of Washington	103,910	194,788
Washington State University	30,346	231,085
Eastern Washington University	12,851	40,869
Central Washington University	50,501	5,259
The Evergreen State College	46,261	2,462
Western Washington University	21,782	11,895
Community and Technical Colleges	115,129	243,831
Other Agencies Miscellaneous Projects	31,892	34,718
Total Construction in Progress	$ 1,118,964	$ 2,251,854

Note 7 – Long-Term Liabilities

A. Bonds Payable

Bonds payable at June 30, 2004, 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 2004 was $6.3 billion, under the then current constitutional and statutory limitation. This computation excludes specific bond issues and types, which are not secured by general state revenues. Based on the debt limitation calculation, the debt service requirements as of June 30, 2004, did not exceed the authorized debt service limitation.

Computation of Legal Debt Limitation (expressed in millions)[1]	
Three year mean, general state revenues	$ 9,130
Legal Debt Limitation:	
Debt service limitation (7 percent of above)	$ 639
Less: Projected maximum annual debt service of outstanding bonds	594
Uncommitted Portion of Debt Service Limitation	$ 45
Remaining State general obligation debt capacity	$ 607
Plus: Debt outstanding subject to limitation	5,693
Maximum Debt Authorization Subject to Limitation	$ 6,300

[1] Source: Office of the State Treasurer – Certification of the Debt Limitation of the State of Washington for Fiscal Year 2004.

Authorized but unissued
The state had a total of $6,103 million in bonds authorized but unissued as of June 30, 2004, 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 1.1 to 7.0 percent. Variable rate demand obligations (VRDO) of $174.4 million as of June 30, 2004, are remarketed on a weekly basis. Interest rates on revenue bonds range from 2.0 to 9.0 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, conservation, and construction and improvements of highways, roads, and bridges. The state has also issued bonds for assistance to municipalities for construction of water and sewage treatment facilities and corrections facilities. In addition, bonds are authorized and issued to provide for the refunding of general obligation bonds outstanding. Outstanding general obligations bonds are presented in the Washington State Treasurer's Annual Report for 2004. 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, 2004, are as follows (expressed in thousands):

	Governmental Activities		Business-Type Activities		Totals	
General Obligation Bonds	Principal	Interest	Principal	Interest	Principal	Interest
By Fiscal Year:						
2005	$ 422,663	$ 444,850	$ 16,960	$ 6,407	$ 439,623	$ 451,257
2006	421,169	426,663	17,955	5,451	439,124	432,114
2007	434,298	410,610	19,150	4,436	453,448	415,046
2008	441,280	387,471	20,655	3,333	461,935	390,804
2009	454,306	367,958	11,335	4,899	465,641	372,857
2010-2014	2,119,365	1,558,265	35,843	16,374	2,155,208	1,574,639
2015-2019	2,294,750	1,159,779	29,037	44,916	2,323,787	1,204,695
2020-2024	1,724,909	641,277	4,425	11,835	1,729,334	653,112
2025-2029	846,965	291,033	-	-	846,965	291,033
2030-2034	13,676	43,929	-	-	13,676	43,929
Total Debt Service Requirements	$ 9,173,381	$ 5,731,835	$ 155,360	$ 97,651	$ 9,328,741	$ 5,829,486

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 recorded as a governmental activity. The state's Colleges and Universities issue revenue bonds for the purpose of housing, dining, parking, and student facilities construction. These bonds are recorded as a business-type activity.

Total debt service requirements for revenue bonds to maturity as of June 30, 2004, are as follows (expressed in thousands):

	Governmental Activities		Business-Type Activities		Totals	
Revenue Bonds	Principal	Interest	Principal	Interest	Principal	Interest
By Fiscal Year:						
2005	$ 550	$ 32,814	$ 11,648	$ 26,408	$ 12,198	$ 59,222
2006	110	32,796	12,325	26,159	12,435	58,955
2007	-	32,791	13,946	25,606	13,946	58,397
2008	10,675	32,791	14,582	24,961	25,257	57,752
2009	10,060	32,258	15,354	24,272	25,414	56,530
2010-2014	62,895	151,971	89,643	109,230	152,538	261,201
2015-2019	91,250	127,568	104,866	84,778	196,116	212,346
2020-2024	105,145	97,223	122,302	58,315	227,447	155,538
2025-2029	141,845	58,600	84,851	31,585	226,696	90,185
2030-2034	88,125	10,350	50,662	7,396	138,787	17,746
Total Debt Service Requirements	$ 510,655	$ 609,162	$ 520,179	$ 418,710	$ 1,030,834	$ 1,027,872

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 March 9, 2004, the state issued $119 million of Various Purpose General Obligation Refunding Bonds (Series R-2004C) with an average interest rate of 4.47 percent to refund $118.2 million of Various Purpose General Obligation Bonds from several different series with an average interest rate of 5.48 percent. The refunding resulted in an $11.9 million gross debt service savings over the next 17 years and an economic gain of $10.4 million.

On March 9, 2004, the state issued $156.5 million in Motor Vehicle Fuel Tax General Obligation Refunding Bonds (Series R-2004D) with an average interest rate of 4.49 percent to refund $151.3 million of Motor Vehicle Fuel Tax General Obligation bonds from several series with an average interest rate of 5.65 percent. The refunding resulted in a $15.8 million gross debt service savings over the next 18 years and an economic gain of $12.1 million.

On October 23, 2003, the state issued $124.1 million of Various Purpose General Obligation Refunding Bonds (Series R-2004A) with an average interest rate of 4.78 percent to refund $119.7 million of Various Purpose General Obligation Bonds from several series with an average interest rate of 5.80 percent. The refunding resulted in an $11.3 million gross debt service savings over the next 16 years and an economic gain of $8.3 million.

On October 23, 2003, the state issued $57 million of Motor Vehicle Fuel Tax General Obligation Refunding Bonds (Series RE-2004B) with an average interest rate of 4.81 percent to refund the remaining $55.3 million of Motor Vehicle Fuel Tax General Obligation Bonds from several series with an average interest rate of 5.94 percent. The refunding resulted in a $6.4 million gross debt service savings over the next 16 years and an economic gain of $4.2 million.

Business-Type Activities:

On April 6, 2004, University of Washington issued $4.38 million in Housing and Dining System Revenue and Refunding Bonds (Series 2004), with an average interest rate of 2.88 percent, to refund $4.16 million in outstanding Housing and Dining System Revenue Bonds with an average interest rate of 2.91 percent. The refunding resulted in $456,984 gross debt service savings over the next nine years and an economic gain of $387,691.

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, 2004, $530.8 million of general obligation bonded debt outstanding is considered defeased.

Revenue Bond Debt:

On June 30, 2004, $21.1 million of proprietary 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, 2004, are as follows (expressed in thousands):

	Governmental Activities		Business-Type Activities		Totals	
Certificates of Participation	Principal	Interest	Principal	Interest	Principal	Interest
By Fiscal Year:						
2005	$ 27,707	$ 14,677	$ 31,311	$ 16,587	$ 59,018	$ 31,264
2006	19,498	11,205	15,961	10,318	35,459	21,523
2007	18,041	10,421	15,220	9,663	33,261	20,084
2008	16,527	9,680	14,356	9,026	30,883	18,706
2009	19,621	8,976	17,637	8,406	37,258	17,382
2010-2014	100,400	33,866	83,526	28,175	183,926	62,041
2015-2019	59,563	9,193	56,482	8,722	116,045	17,915
2020-2024	12,704	1,210	12,056	1,148	24,760	2,358
2025-2029	-	-	-	-	-	-
Total Debt Service Requirements	$ 274,061	$ 99,228	$ 246,549	$ 92,045	$ 520,610	$ 191,273

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 2003 and 2004 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 2003	$ 14,883,099	2,489,547	(1,508,794)	$ 15,863,852
FY 2004	$ 15,863,852	2,267,506	(1,540,260)	$ 16,591,098

At June 30, 2004, $36.3 billion of unpaid claims and claim adjustment expenses are presented at their net present and settlement value of $16.6 billion. These claims are discounted at assumed interest rates of 4.0 percent (time loss and medical) to 6.5 percent (pensions) and adjusted at 4.0 percent (accident, medical aid, and claim adjustment expense) for a provision of uncertainty to arrive at a settlement value that is net of third party recoveries.

The claims and claim adjustment liabilities of $16.6 billion, as of June 30, 2004, include $8.2 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 $8.4 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 2003 and 2004 were as follows (expressed in thousands):

Risk Manangement Fund	Balances Beginning of Fiscal Year	Incurred Claims and Changes in Estimates	Claim Payments	Tort Defense Payments	Balances End of Fiscal Year
FY 2003	$ 402,470	153,250	(40,082)	(16,724)	$ 498,914
FY 2004	$ 498,914	59,882	(29,755)	(15,710)	$ 513,331

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, 2004, outstanding and actuarially determined claims against the state and its public authorities were $513.3 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, 2004, the Risk Management Fund held $71.0 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 2003 and 2004 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 2003	$ 46,926	332,047	(331,039)	$ 47,934
FY 2004	$ 47,934	431,539	(412,594)	$ 66,879

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, 2004, health insurance claims liabilities totaling $66.9 million are fully funded with cash and investments, net of obligations under securities lending agreements.

D. Leases

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

Leased land, buildings and equipment under capital leases as of June 30, 2004, include the following (expressed in thousands):

	Governmental Activities	Business-Type Activities
Land (non-depreciable)	$ 1,918	$ -
Buildings	39,355	6,271
Equipment	3,632	870
Less: Accumulated Depreciation	(8,315)	(1,143)
Totals	$ 36,590	$ 5,998

The following schedule presents future minimum payments for capital and operating leases as of June 30, 2004, (expressed in thousands):

	Capital Leases		Operating Leases	
Capital and Operating Leases	Governmental Activities	Business-Type Activities	Governmental Activities	Business-Type Activities
By Fiscal Year:				
2005	$ 6,300	$ 2,094	$ 102,462	$ 20,996
2006	6,865	2,617	88,430	20,225
2007	4,817	2,538	72,332	19,510
2008	2,801	2,248	59,415	17,382
2009	2,873	2,125	54,796	16,568
2010-2014	7,096	3,162	153,098	4,241
2015-2019	550	1,925	56,009	-
2020-2024	315	1,203	43,049	-
2025-2029	-	-	42,771	-
2030-2034	-	-	36,285	-
Total Future Minimum Payments	31,617	17,912	708,647	98,922
Less: Executory costs and interest costs	3,874	3,668	-	-
Net Present Value of future minimum lease payments	$ 27,743	$ 14,244	$ 708,647	$ 98,922

The total operating lease rental expense for Fiscal Year 2004 was $291.5 million.

E. Long-Term Liability Activity

Long-term liability activity for the Fiscal Year 2004 (expressed in thousands) was as follows:

Governmental Activities:	Beginning Balance * July 1, 2003	Additions	Reductions	Ending Balance June 30, 2004	Amounts Due Within One Year
Long-term Debt:					
GO Bonds Payable -					
General obligation (GO) bonds	$ 7,912,225	$ 1,424,350	$ 814,200	$ 8,522,375	$ 406,645
GO - zero coupon bonds (principal)	464,342	199,984	13,320	651,006	16,018
Subtotal - GO Bonds payable	8,376,567	1,624,334	827,520	9,173,381	422,663
Accreted Interest - GO - zero coupon bonds	152,603	25,638	-	178,241	-
Revenue Bonds Payable	517,905	-	7,250	510,655	550
Less: Deferred amounts for issuance discounts	(2,356)	-	(204)	(2,152)	-
Less: Unamortized bond issuance costs	(13,747)	-	(977)	(12,770)	-
Total Bonds Payable	9,030,972	1,649,972	833,589	9,847,355	423,213
Other Liabilities -					
Certificates of participation	276,276	18,115	20,330	274,061	27,707
Claims and judgments	593,554	26,371	36,593	583,332	97,633
Installment contracts	-	221	-	221	111
Leases	31,610	44	3,911	27,743	6,300
Compensated absences	398,536	271,648	257,889	412,295	44,086
Unfunded pension obligations	49,900	5,600	-	55,500	-
Other	191,365	1,212,966	1,279,508	124,831	89,298
Total Other Liabilities	1,541,241	1,534,965	1,598,231	1,477,983	265,135
Total	$ 10,572,213	$ 3,184,937	$ 2,431,820	$ 11,325,338	$ 688,348

* Beginning balance as restated, refer to Note 2.

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.

The revenue bonds 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, 2003	Additions	Reductions	Ending Balance June 30, 2004	Amounts Due Within One Year
Long-term Debt:					
GO Bonds Payable					
General obligation (GO) bonds	$ 143,139	$ -	$ 17,039	$ 126,100	$ 16,960
GO - zero coupon bonds (principal)	29,259	-	-	29,259	-
Subtotal - GO Bonds payable	172,398	-	17,039	155,359	16,960
Accreted Interest - GO - zero coupon bonds	17,843	2,901	-	20,744	-
Revenue Bonds Payable	454,642	81,127	15,590	520,179	11,648
Less: Deferred amounts on refunding	(3,603)	145	433	(3,891)	-
Less: Deferred amounts for issuance discounts	(1,705)	-	(67)	(1,638)	-
Less: Unamortized bond issuance costs	(850)	(950)	(59)	(1,742)	-
Total Bonds Payable	638,725	83,223	32,936	689,011	28,608
Other liabilities -					
Certificates of participation	247,594	28,979	30,023	246,550	31,311
Less: Deferred amounts for issuance discounts	(2,052)	3	(145)	(1,904)	-
Claims and judgments	15,915,336	1,496,547	750,549	16,661,334	1,638,249
Lottery prize annuities payable	529,154	42,721	73,841	498,034	70,491
Tuition benefits payable	350,000	121,895	9,601	462,294	-
Leases	5,882	9,390	1,027	14,245	2,094
Compensated absences	37,183	24,703	20,322	41,564	16,855
Other	37,128	51,229	54,240	34,117	31,742
Total Other Liabilities	17,120,225	1,775,467	939,458	17,956,234	1,790,742
Total	$ 17,758,950	$ 1,858,690	$ 972,394	$ 18,645,245	$ 1,819,350

* Beginning balance as restated, refer to Note 2.

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):

No Commitment Debt	Principal Balance
Washington State Housing Finance Commission	$ 2,197,004
Washington Higher Education Facilities Authority	385,871
Washington Health Care Facilities Authority	2,800,000
Washington Economic Development Finance Authority	306,337
Total No Commitment Debt	$ 5,689,212

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, 2004, 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	$ -	$ 93,121	$ -	$ -	$ 93,121
Investments with trustees	601	-	-	453	1,054
Long-term receivables	35,949	688	-	1,171,100	1,207,737
Long-term investments	-	73,917	-	22,323	96,240
Emergency reserve	-	-	-	43	43
Petty cash	657	4,767	-	828	6,252
Total Reserved for Other Specific Purposes	$ 37,207	$ 172,493	$ -	$ 1,194,747	$ 1,404,447

Note 10 - Deficit Net Assets

At June 30, 2004, there were two proprietary funds with deficit net assets.

The Workers' Compensation Fund, an enterprise fund, had deficit net assets of $6.9 billion at June 30, 2004. 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, 2004 (expressed in thousands):

Workers' Compensation Fund	Net Assets (Deficit)
Balance, July 1, 2003	$ (6,246,013)
Fiscal Year 2004 activity	(696,007)
Balance, June 30, 2004	$ (6,942,020)

The Risk Management Fund, an internal service fund, had deficit net assets of $445.0 million at June 30, 2004. The Risk Management Fund is used to account for the claims, torts, 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, 2004 (expressed in thousands):

Risk Management Fund	Net Assets (Deficit)
Balance, July 1, 2003	$ (484,313)
Fiscal Year 2004 activity	39,284
Balance, June 30, 2004	$ (445,029)

Note 11 - Retirement Plans

A. General

The state of Washington, through the Department of Retirement Systems, the Board for Volunteer Fire Fighters, and the Administrator for 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. 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.

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 .22 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.

ADMINISTRATOR FOR THE COURTS
As established in chapter 2.14 RCW, the Administrator for the Courts administers the Judicial Retirement Account (JRA), a defined contribution plan. Administration of JRA is funded through member fees.

TIAA/CREF
In addition to the retirement plans administered by the state of Washington, eligible higher education state employees may participate in the Teachers' Insurance and Annuity Association/College Retirement Equity Fund (TIAA/CREF) which is a privately administered defined contribution plan.

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, 2003, the date of the latest actuarial valuation for all plans except for VFFRPF which had an actuarial valuation performed on December 31, 2003.

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	54,372	3,142	18,355	1,385	77,254
PERS 2	10,904	16,089	72,343	44,919	144,255
PERS 3	86	770	9,771	7,777	18,404
TRS 1	33,855	1,649	10,898	277	46,679
TRS 2	957	2,493	6,936	701	11,087
TRS 3	385	2,418	18,646	28,617	50,066
SERS 2	736	1,902	14,613	6,891	24,142
SERS 3	306	1,648	11,492	16,218	29,664
LEOFF 1	8,054	14	991	0	9,059
LEOFF 2	316	439	10,557	4,003	15,315
WSPRS 1	735	93	825	220	1,873
WSPRS 2	-	-	-	34	34
JRS	129	3	21	-	153
Judges	17	-	-	-	17
JRA	4	11	189	-	204
VFFRPF	2,993	4,511	4,874	7,169	19,547
Total	113,849	35,182	180,511	118,211	447,753

Following is a summary of the number of government employers participating in state administered retirement plans as of June 30, 2004.

Number of Participating Employers

Plan	State Agencies	School Districts	Counties/ Municipalities	Other Political Subdivisions
PERS 1	155	246	207	251
PERS 2	170	-	269	448
PERS 3	147	-	170	214
TRS 1	83	284	-	-
TRS 2	40	269	-	-
TRS 3	42	292	-	-
SERS 2	9	288	-	-
SERS 3	10	288	-	-
LEOFF 1	-	-	99	22
LEOFF 2	9	-	221	137
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 2004, 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 such as Teachers' Insurance and Annuity Association/College Retirement Equity Fund (TIAA/CREF); judges of district and municipal courts; and employees of local governments. TIAA/CREF is 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.

The laws of 2004 established a Plan 1 minimum monthly benefit of $1,000, before optional payment reductions, for those members with at least 25 years of service and who have been retired at least 20 years.

There were no other material changes in PERS benefit provisions for the fiscal year ended June 30, 2004.

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 2004, 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 duty disability benefits. TRS Plan 1 members receive the following additional lump sum death benefits: retired members-$400 (if at least 10 years of membership service), active members-$600. Members on temporary disability receive a temporary life annuity of $180 per month payable up to two years. 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.

The laws of 2004 established a Plan 1 minimum monthly benefit of $1,000, before optional payment reductions, for those members with at least 25 years of service and who have been retired at least 20 years.

There were no other material changes in TRS benefit provisions for the fiscal year ended June 30, 2004.

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 2004, 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.

There were no material changes in SERS benefit provisions for the fiscal year ended June 30, 2004.

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 2004, 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 non-duty 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.

Legislation passed in the 2004 session allows members of LEOFF Plan 2 who leave service because of a line of duty disability 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, actuarially reduced for the difference between age 53 and age at retirement, 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 2004 session provides LEOFF Plan 2 survivors with a survivor allowance not subject to an actuarial reduction if the member was killed in the course of employment after having accumulated 10 years of service.

There were no other material changes in LEOFF benefit provisions for the fiscal year ended June 30, 2004 .

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 2004, the DRS-established rate on employee contributions was 5.5 percent compounded annually and posted 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.

Legislation passed in the 2004 session provides that beneficiaries of a WSPRS Plan 2 member with 10 years of service who is killed in the course of employment would receive retirement benefits without actuarial reduction for prior to normal retirement. The legislation applies to any member killed in the course of employment, as determined by the director of the Department of Labor and Industries, on or after June 10, 2004.

There were no other material changes in WSPRS benefit provisions for the fiscal year ended June 30, 2004.

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. JRS employees accrue no interest on contributions and may not elect to withdraw their contributions upon termination.

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, 2004.

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. Retirement benefits are financed on a pay-as-you-go basis from a combination of employee contributions, employer contributions, and a special funding situation in which the state pays the remaining contributions. Employees do not earn interest on their contributions, nor can 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, 2004.

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.

There were no material changes in VFFRPF benefit provisions for the fiscal year ended June 30, 2004.

C. Funding Policies

Contributions towards the amortization of the PERS 1 and TRS 1 unfunded actuarial accrued liability are suspended for the 2003-2005 biennium.

The estimated value of 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 2004 were based on the 2001 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 2004 were as follows:

PERS Actual Contribution Rates

	PLAN 1	PLAN 2	PLAN 3
Employer Rates:			
State agencies*	1.40%	1.40%	1.40%**
Local governmental units*	1.40%	1.40%	1.40%**
State gov't elected officials*	1.99%	1.40%	1.40%**
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 0.22 percent.
**Plan 3 defined benefit portion only.
***Variable from 5% to 15% based on rate selected by the member.

Teachers' Retirement System (TRS)

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

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

Required contribution rates (expressed as a percentage of current-year covered payroll) at the close of Fiscal Year 2004 were as follows:

TRS Actual Contribution Rates

	PLAN 1	PLAN 2	PLAN 3
Employer Rates *	1.39%	1.39%	1.39%**
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 0.22 percent.
** Plan 3 defined benefit portion only.
*** Variable from 5% to 15% based on rate selected by the member.

School Employees' Retirement System (SERS)

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

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

Required contribution rates (expressed as a percentage of current year covered payroll) at the close of Fiscal Year 2004 were as follows:

SERS Actual Contribution Rates

	PLAN 2	PLAN 3
Employer Rates:		
State agencies*	1.07%	1.07% **
Local governmental units*	1.07%	1.07% **
Employee Rates:		
State Agencies	0.85%	***
Local Governmental Units	0.85%	***

*The employer rates include an administrative expense rate of 0.22 percent.
**Plan 3 defined benefit portion only.
***Variable from 5% to 15% based on rate selected by the member.

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

Beginning July 1, 2000, Plan 1 employers and employees contribute zero percent as long as the plan remains fully funded. Employer and employee contribution rates are developed by the Office of the State Actuary to fully fund the plan. Plan 1 employers and employees are required to pay at the level adopted by the Department of Retirement Systems in accordance with chapter 41.45 RCW. 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 2004 were as follows:

LEOFF Actual Contribution Rates

	PLAN 1	PLAN 2
Employer Rates:		
Ports and Universities*	NA	5.29%
Local governmental units* (cities, counties, fire districts, etc)	0.22%	3.26%
Employee Rates:		
Ports and Universities	NA	5.07%
Local governmental units (cities, counties, fire districts, etc)	NA	5.07%
State of Washington	NA	2.03%

*The employer rates include an administrative expense rate of 0.22 percent.

The Legislature, by means of a special funding arrangement, appropriated money from the state General Fund to supplement the current service liability and fund the prior service costs of Plan 1 in accordance with the requirements of the Pension Funding Council. 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 2004, the state contributed $20.2 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 2004. 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 2004 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 2004, the state contributed $6 million.

Judges' Retirement Fund (Judges)

Contributions made are based on rates set in chapter 2.12 RCW. By statute, employees are required to contribute 6.5 percent with an equal amount contributed by the state. In addition, the state guarantees the solvency of the Judges' Retirement Fund on a pay-as-you-go basis. Each biennium, the Legislature, through biennial appropriations from the state General Fund, contributes amounts sufficient to meet benefit payment requirements. For Fiscal Year 2004, 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 of $10 per member.

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.

	2004	2003	2002
PERS Plan 1	$11.5	$28.8	$35.3
PERS Plan 2/3	34.3	18.5	26.2
TRS Plan 1	0.3	0.6	1.7
TRS Plan 2/3	0.2	0.1	0.4
SERS Plan 2/3	0.0	0.0	0.0
LEOFF Plan 1	0.0	0.0	0.0
LEOFF Plan 2	20.5	16.6	15.8
VFFRPF	4.4	3.3	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 Net Pension Obligation

The state's annual pension cost and net pension obligation (NPO), in millions, to the plans listed for the current year were as follows:

	WSPRS	JRS	Judges
Annual Required Contribution	$2.6	$18.5	$0.2
Interest on NPO	(2.3)	4.0	(0.2)
Adjustment to annual required contribution	3.5	(10.7)	0.6
Annual Pension Cost	3.8	11.8	0.6
Less Contributions Made	0.0	6.2	0.5
Increase (decrease) in NPO	3.8	5.6	0.1
NPO at beginning of year	(28.4)	49.9	(2.7)
NPO at end of year	(24.6)	55.5	(2.6)

The valuation date for the plans is September 30, 2003. The actuarial cost method for WSPRS is aggregate and for JRS and Judges is entry age normal. The unfunded or surplus amount is being amortized as a level dollar amount to December 31, 2008, for Judges and JRS. All other methods and assumptions are the same as used in funding and disclosed in "Notes to the Required Supplementary Information – Defined Benefit Pension Plans."

F. Three Year Trend Information

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

	2004	2003	2002
WSPRS			
Annual Pension Cost	$3.8	$1.2	$1.3
% of APC contributed	0.0	0.0	0.0
NPO	$(24.6)	$(28.4)	$(29.6)
JRS			
Annual Pension Cost	$11.8	$11.4	$10.7
% of APC contributed	52.5	54.6	57.9
NPO	$55.5	$49.9	$44.7
Judges			
Annual Pension Cost	$0.6	$0.4	$0.5
% of APC contributed	83.3	75.0	60.0
NPO	$(2.6)	$(2.7)	$(2.8)

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

A 30 percent market corridor was added to the asset valuation method for PERS, TRS, SERS, LEOFF and WSPRS. The corridor did not affect the results of the 9/30/03 actuarial valuations as the actuarial values of assets were within the 70 percent to 130 percent market value of assets corridor.

The methods used for the actuarial valuations were changed to include the value of gain-sharing benefits for PERS, TRS, and SERS. The revised methods were used for GASB purposes beginning with the 9/30/02 valuations, and for funding purposes beginning with the 9/30/03 valuations.

H. Changes in Benefit Provisions

As noted in Note 11B, the 2004 legislative session provided for the following changes in benefit provisions: A $1,000 minimum monthly benefit is established in PERS Plan 1 and TRS Plan 1, before optional payment reductions, for those members with at least 25 years of service and who have been retired at least 20 years.

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 final average salary.

Survivors of a LEOFF Plan 2 member with 10 years of service who is killed in the course of employment will receive retirement benefits without actuarial reduction.

Beneficiaries of a WSPRS Plan 2 member with 10 years of service who is killed in the course of employment will receive retirement benefits without actuarial reduction.

Chapter 242, Laws of 2004 creates the Public Safety Employees Retirement System (PSERS) effective July 1, 2006. The current actuarial valuations have not been adjusted for this law.

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 such as Teachers' Insurance and Annuity Association/College Retirement Equity Fund (TIAA/CREF); 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 2004, employee contributions required and made were $53.2 million, and plan refunds paid out were $26.6 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 2004, employee contributions required and made were $173.1 million and plan refunds paid out were $25.9 million.

School Employees' Retirement System Plan 3 (SERS 3)

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

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

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

For Fiscal Year 2004, employee contributions required and made were $43.8 million and plan refunds paid out were $12.4 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 Office of the Administrator for 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 Office of the Administrator for 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 $22.8 million for the fiscal year ended June 30, 2004. For Fiscal Year 2004, the contribution requirement for JRA was $1.1 million. Actual employer and employee contributions were $570 thousand each, for a total of $1.1 million. Plan benefits paid out for Fiscal Year 2004 totaled $282 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.

Teachers' Insurance and Annuity Association/College Retirement Equity Fund (TIAA/CREF)

TIAA/CREF, privately administered defined contribution plans, provide individual retirement fund contracts for each eligible employee. There are 37 state participating employers in the TIAA/CREF plan. Eligible employees include higher education faculty and other positions as designated by each institution; participation was established under chapter 28B.10 RCW. The employee must commence participation within the first two years of employment. Once eligible to participate in this system, members are vested immediately.

Employee contribution rates, which are based on age, range from 5 to 10 percent of salary. These rates are matched by the institution and sent to TIAA/CREF. The employer and employee obligations to contribute are established per chapter 28B.10 RCW. For Fiscal Year 2004, covered payroll for TIAA/CREF employees was $1.3 billion and the contribution requirement for TIAA/CREF was $215 million. Actual employer and employee contributions were $107 million each, for a total of $215 million. These contribution amounts represent approximately 8 percent each of covered payroll for employers and employees.

TIAA/CREF benefits are payable upon termination at the member's option unless the participant is reemployed in another institution which participates in TIAA/CREF. Upon retirement, participant accumulations are used to purchase an annuity. The benefits are determined as follows: TIAA - accumulations are converted to a fixed guaranteed annuity payable for life. In addition to the guaranteed annuity, a dividend payment is declared each year depending on investment performance; CREF - at retirement the value of the fund is converted to a variable annuity. This means the annuity is not guaranteed but rises and falls with the value of equity investments.

J. Plan Net Assets and Changes in Plan Net Assets

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 five percent of

each plan's net assets. Additional disclosure describing investments is provided in Note 3.

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, 2004

(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	$ 6,407	$ 798	$ 56	$ 5,299	$ 958	$ 2,931	$ 700
Receivables:							
Interest and dividends	27,027	31,166	1,245	22,870	10,948	3,463	4,421
Due from other funds	66	208	4,050	57	3,395	12,243	852
Due from other governments	4,625	7,681	2,824	3,827	3,068	15,177	1,289
Other (net of allowance)	14,610	16,261	647	12,205	5,721	1,799	2,298
Total Receivables	46,328	55,316	8,766	38,959	23,132	32,682	8,860
Investments, Noncurrent:							
Asset backed securities	33,403	38,572	1,541	28,261	13,545	4,285	5,469
Collaterialized mort obligligations	295,810	341,594	13,642	250,277	119,951	37,947	48,432
Commercial paper	41,035	47,387	1,892	34,719	16,640	5,264	6,719
Corporate bonds	907,382	1,047,824	41,847	767,712	367,943	116,400	148,563
Corporate stock	778,035	898,457	35,882	658,275	315,493	99,806	127,385
Govt securities domestic	122,052	140,942	5,629	103,265	49,492	15,657	19,983
Govt securities foreign	17,097	19,744	789	14,466	6,933	2,193	2,799
Government bonds	4,297	4,962	198	3,637	1,742	551	704
Repurchase agreements	117,963	134,485	5,357	99,677	47,801	14,902	19,294
Certificates of deposit	172,699	199,429	7,965	146,116	70,029	22,154	28,275
Mutual funds	3,753,885	4,334,897	568,061	3,176,065	1,522,196	1,543,822	614,610
Mortgages	298,783	345,029	13,779	252,793	121,156	38,328	48,919
Real estate	870,931	1,005,730	40,166	736,872	353,162	111,723	142,594
Private equity	1,290,356	1,490,073	59,509	1,091,737	523,238	165,527	211,265
Investments on loan	682,286	787,888	31,466	577,265	276,666	87,524	111,708
Short term investments	506,786	588,394	23,777	438,674	213,190	67,459	85,706
Other noncurrent investments	-	-	-	-	-	-	-
Total Investments, Noncurrent	9,892,800	11,425,407	851,500	8,379,811	4,019,177	2,333,542	1,622,425
Total Assets	$ 9,945,535	$ 11,481,521	$ 860,322	$ 8,424,069	$ 4,043,267	$ 2,369,155	$ 1,631,985
Liabilities:							
Obligations under security lending agreements	$ 705,422	$ 812,848	$ 32,469	$ 596,710	$ 286,014	$ 90,261	$ 115,498
Accrued liabilities	24,076	16,120	590	19,882	5,763	1,640	2,248
Due to other funds	164	4,896	139	163	12,731	3,372	4,181
Total Liabilities	729,662	833,864	33,198	616,755	304,508	95,273	121,927
Net Assets							
Net Assets Held in Trust for:							
Pension Benefits (Schedule of funding progress by plan begins on page 116)	9,215,873	10,647,657	827,124	7,807,314	3,738,759	2,273,882	1,510,058
Deferred Compensation Participants	-	-	-	-	-	-	-
Total Net Assets	$ 9,215,873	$ 10,647,657	$ 827,124	$ 7,807,314	$ 3,738,759	$ 2,273,882	$ 1,510,058

SERS Plan 3 Defined Contribution	LEOFF Plan 1	LEOFF Plan 2	WSPRS Plan 1/2	JRS	JRA	Judges	VFFRPF	Deferred Compensation	**Total**
$ 776	$ 2,093	$ 1,080	$ 753	$ 523	$ 7	$ 4,358	$ 16,704	$ 651	$ 44,094
1,277	13,803	8,534	1,944	4	-	-	306	-	127,008
3,954	32	14	-	-	-	4	13	-	24,888
3,864	-	5,603	55	15	-	-	-	-	48,028
664	7,231	4,476	1,010	-	-	-	159	1,106	68,187
9,759	21,066	18,627	3,009	19	-	4	478	1,106	268,111
1,581	17,066	10,559	2,404	-	-	-	378	-	157,064
14,003	151,137	93,511	21,290	-	-	-	3,348	-	1,390,942
1,943	20,966	12,972	2,953	-	-	-	465	-	192,955
42,954	463,605	286,840	65,308	-	-	-	10,272	-	4,266,650
36,831	397,519	245,951	55,999	-	-	-	8,810	-	3,658,443
5,778	62,359	38,583	8,784	-	-	-	1,381	-	573,905
809	8,735	5,405	1,231	-	-	-	194	-	80,395
203	2,195	1,358	309	-	-	-	50	-	20,206
5,499	60,065	36,919	8,505	97	1	760	4,233	114	555,672
8,175	88,236	54,593	12,430	-	-	-	1,955	-	812,056
367,327	1,917,957	1,186,668	270,181	-	8,521	-	42,501	1,170,196	20,476,887
14,144	152,656	94,451	21,505	-	-	-	3,382	-	1,404,925
41,229	444,981	275,316	62,684	-	-	-	9,860	-	4,095,248
61,083	659,276	407,904	92,872	-	-	-	14,609	-	6,067,449
32,298	348,599	215,681	49,107	-	-	-	7,726	-	3,208,214
24,393	258,760	167,185	36,680	4,337	-	-	5,722	-	2,421,063
-	-	-	-	-	4,426	-	-	571,822	576,248
658,250	5,054,112	3,133,896	712,242	4,434	12,948	760	114,886	1,742,132	49,958,322
$ 668,785	$ 5,077,271	$ 3,153,603	$ 716,004	$ 4,976	$ 12,955	$ 5,122	$ 132,068	$ 1,743,889	$ 50,270,527
$ 33,287	$ 360,212	$ 222,625	$ 50,787	$ 97	$ 1	$ 760	$ 10,885	$ 114	$ 3,317,990
605	8,163	4,092	1,337	141	-	12	161	15	84,845
851	25	154	1	-	-	-	-	-	26,677
34,743	368,400	226,871	52,125	238	1	772	11,046	129	3,429,512
634,042	4,708,871	2,926,732	663,879	4,738	12,954	4,350	121,022	-	45,097,255
-	-	-	-	-	-	-	-	1,743,760	1,743,760
$ 634,042	$ 4,708,871	$ 2,926,732	$ 663,879	$ 4,738	$ 12,954	$ 4,350	$ 121,022	$ 1,743,760	$ 46,841,015

Combining Statement of Changes in Plan Net Assets

Pension and Other Employee Benefit Funds

For the Fiscal Year Ended June 30, 2004
(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	$ 22,789	$ 69,377	$ -	$ 11,385	$ 29,921	$ -	$ 9,076
Members	61,835	63,870	53,208	45,379	3,719	173,052	3,792
State	-	-	-	-	-	-	-
Participants	-	-	-	-	-	-	-
Total Contributions	84,624	133,247	53,208	56,764	33,640	173,052	12,868
Investment Income:							
Net appreciation (depreciation) in fair value	1,113,199	1,225,571	86,157	938,287	424,261	281,619	171,621
Interest and dividends	217,555	241,433	10,842	183,629	84,579	27,550	34,164
Less: Investment expenses	(11,599)	(13,095)	(814)	(9,796)	(5,288)	(2,157)	(2,116)
Net Investment Income	1,319,155	1,453,909	96,185	1,112,120	503,552	307,012	203,669
Transfers from other pension plans	310	251	21,143	147	439	892	1,631
Other additions	-	-	-	-	1	-	-
Total Additions	1,404,089	1,587,407	170,536	1,169,031	537,632	480,956	218,168
Deductions:							
Pension benefits	828,765	86,174	-	692,243	13,417	-	6,692
Pension refunds	5,628	27,083	26,580	1,792	2,858	25,932	2,025
Transfers to other pension plans	4	22,917	252	-	1,003	380	545
Administrative expenses	414	191	-	111	43	-	41
Distributions to participants	-	-	-	-	-	-	-
Total Deductions	834,811	136,365	26,832	694,146	17,321	26,312	9,303
Net Increase	569,278	1,451,042	143,704	474,885	520,311	454,644	208,865
Net Assets - Beginning	8,646,595	9,196,615	683,420	7,332,429	3,218,448	1,819,238	1,301,193
Net Assets - Ending	$ 9,215,873	$ 10,647,657	$ 827,124	$ 7,807,314	$ 3,738,759	$ 2,273,882	$ 1,510,058

SERS Plan 3 Defined Contribution	LEOFF Plan 1	LEOFF Plan 2	WSPRS Plan 1/2	JRS	JRA	Judges	VFFRPF	Deferred Compensation	**Total**
$ -	$ 1	$ 30,773	$ 1	$ 196	$ 570	$ -	$ 771	$ -	$ 174,860
43,833	85	51,323	1,378	196	570	-	145	-	502,385
-	-	20,192	-	5,995	-	500	4,351	-	31,038
-	-	-	-	-	-	-	-	147,660	147,660
43,833	86	102,288	1,379	6,387	1,140	500	5,267	147,660	855,943
68,586	561,324	330,557	78,212	(5)	1,131	(46)	12,375	160,210	5,453,059
10,398	109,905	65,292	15,340	64	323	73	2,655	45,941	1,049,743
(526)	(5,850)	(3,936)	(816)	(5)	(17)	(8)	(152)	(2,114)	(58,289)
78,458	665,379	391,913	92,736	54	1,437	19	14,878	204,037	6,444,513
484	-	-	121	-	-	-	-	-	25,418
-	-	-	-	-	18	-	4	2,613	2,636
122,775	665,465	494,201	94,236	6,441	2,595	519	20,149	354,310	7,328,510
-	272,118	6,043	25,724	8,403	282	684	8,503	-	1,949,048
12,364	133	5,720	303	-	-	-	16	-	110,434
290	27	-	-	-	-	-	-	-	25,418
-	151	62	23	-	-	-	51	-	1,087
-	-	-	-	-	-	-	-	73,485	73,485
12,654	272,429	11,825	26,050	8,403	282	684	8,570	73,485	2,159,472
110,121	393,036	482,376	68,186	(1,962)	2,313	(165)	11,579	280,825	5,169,038
523,921	4,315,835	2,444,356	595,693	6,700	10,641	4,515	109,443	1,462,935	41,671,977
$ 634,042	$ 4,708,871	$ 2,926,732	$ 663,879	$ 4,738	$ 12,954	$ 4,350	$ 121,022	$ 1,743,760	$ 46,841,015

Note 12 - Commitments and Contingencies

A. Construction and Other Commitments

Outstanding commitments related to state facility construction, improvement, and/or renovation totaled $2.3 billion at June 30, 2004.

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 Service Program Administration Litigation

During the reporting period, there have been additional challenges or developments in pending cases involving the administration of state social service programs. These include:

Pierce County, et al. v. DSHS, et al. This case is a challenge to the state's mental health system, which contemplates a joint state-local responsibility for providing a continuum of services. The county asserts that the state agency and the Legislature have failed in their duty to provide care for the mentally ill and developmentally disabled. If relief is granted to the plaintiff, it is difficult to estimate the cost to the agency to comply with the court order but program costs of $5 million annually are possible, with additional damages of $1 to $5 million or higher.

Arc of Washington v. Quasim; Boyle v. Braddock. Both of these cases involve challenges to DSHS's administration of programs for developmentally disabled clients. A proposed settlement in the *Arc* case was rejected by the federal court and the case was dismissed. An appeal was taken by plaintiffs to the Ninth Circuit Court of Appeals. The *Boyle* case is a related class action, also dismissed by the federal district court and with an appeal also pending. Biennial costs of providing the expanded program services sought by the so far unsuccessful plaintiffs range from approximately $165 to $222 million.

Braam v. State. This case involves several years of litigation over the state's foster care system. A post-appeal mediation has resulted in a plan to implement changes in the system. DSHS estimates a cost of approximately $50 million to comply with the settlement.

Townsend v. Braddock. This is a class action on behalf of elderly and disabled adults under the Americans with Disabilities Act (ADA). At issue is whether there will be an expansion of eligibility for a home and community based care program (COPES-like program). Potential costs to the state are unknown but could be in the $5 million per year range. The case is currently stayed.

Higher Education Litigation

School Districts' Alliance for Adequate Funding of Special Education v. State. Plaintiffs, a group of school districts, challenge the Legislature's funding formula for special education. The case has a potential fiscal impact of $200 million a biennium. There is also a threatened challenge to the state's funding of all basic education, which would be an even more significant financial exposure for the state. That lawsuit is expected within the next six to twelve months, if not sooner.

Brown and WEA v. State. Plaintiffs challenge the Legislature's funding of two learning improvement days instead of three, alleging a violation of Initiative 732. The potential fiscal impact is in the range of $15 to $60 million.

Personnel Administration

WPEA v. State. In this class action, employees in "common classes" in general government agencies and higher education institutions seek back pay representing salary differentials between higher and lower paid in each set of common classes. The potential fiscal impact is $10 million per year, beginning in 1996.

Tax and Medical Assistance Litigation

There is a recurring volume of lawsuits seeking refunds of taxes paid to the state. All are not reported here. However, *Estate of Hemphill v. Department of Revenue* is a significant estate tax case pending in the State Supreme Court. Should the Department of Revenue not prevail, the refund amounts at issue are approximately $36 million for 2002, $65 million for 2003, $96 million for 2004, and $113 million in 2005.

There also have in the past been a number of cases involving Medicaid reimbursement claims of significant magnitude or claims related to DSHS medical reimbursement programs. Two cases are currently of significance:

Capital Medical Center v. State. This case involves reimbursement to hospitals for emergency care provided to indigent patients. The potential fiscal impact is $20 million.

Group Health v. DSHS. This is a breach of contract claim involving disenrollment of SSI receipts. The potential fiscal impact is estimated at above $14 million.

Natural Resources/State Land Management

U.S. v. Washington - Phase II treaty rights litigation. WSDOT has estimated $200 million in remedial costs associated with existing fish passage barriers which they intend to address over the next 20 years. The Tribes are seeking some "significantly" accelerated remedial schedule and possible a broader definition of "fish passage barrier." Either result would likely have a significant financial impact on WSDOT. This case has been in settlement discussions for the past two years. In a recent development, the case is now heading to trial (trial date to be established). An earlier trial date and accelerated remedial schedule could increase the short-term liability to the state.

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 2004, the state had guaranteed 157 school districts' voter-approved general obligation debt with a total outstanding principal of $3.8 billion. The state estimates that school bond guarantee liability, if any, will be immaterial to its overall financial condition.

Local Option Capital Asset Lending Program (LOCAL)

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

As of June 30, 2004, outstanding certificates of participation notes totaled $43 million for 165 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 is scheduled for occupancy in September 2005.

Note 13 - Subsequent Events

A. Bond Issues

In July 2004, the state issued $45.4 million in General Obligation Taxable Bonds, Series 2005T.

In July 2004, the state issued $350 million in Various Purpose General Obligation Bonds, Series 2005A, $173.7 million in Motor Vehicle Fuel Tax General Obligation Bonds, Series 2005B, and $65 million in Motor Vehicle Fuel Tax General Obligation Bonds, Series, 2005C.

B. Certificates of Participation

In July 2004, the state issued $38.9 million in Certificates of Participation for various state and local government equipment purchases, Series 2004D.

In September 2004, the state issued $9.8 million in Certificates of Participation for various state and local government equipment purchases, Series 2004E.

In November 2004, the state issued $8.5 million in Certificates of Participation for various state and local government equipment purchases, Series 2004F.

In December 2004, the state issued $12 million in Certificates of Participation for various state and local government equipment purchases, Series 2004G.

Required Supplementary Information

Budgetary Information

Budgetary Comparison Schedule

General Fund

For the Fiscal Year Ended June 30, 2004
(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	22,551,147	11,198,373	(11,352,774)
Licenses, permits, and fees	156,491	154,493	75,513	(78,980)
Other contracts and grants	477,517	503,022	253,180	(249,842)
Timber sales	8,600	8,600	5,465	(3,135)
Federal grants-in-aid	10,630,943	11,125,622	5,363,869	(5,761,753)
Charges for services	78,120	86,950	44,504	(42,446)
Interest income	65,240	65,240	22,159	(43,081)
Miscellaneous revenue	86,885	95,825	55,683	(40,142)
Transfers from other funds	297,642	373,117	307,628	(65,489)
Total Resources	34,997,775	35,368,597	17,730,955	(17,637,642)
Charges to appropriations:				
General government	2,297,684	2,411,876	1,220,044	1,191,832
Human services	17,118,189	17,430,757	8,487,760	8,942,997
Natural resources and recreation	456,814	507,332	247,353	259,979
Transportation	54,139	54,429	27,335	27,094
Education	14,176,517	14,255,138	6,973,417	7,281,721
Capital outlays	244,073	255,626	59,200	196,426
Transfers to other funds	99,884	99,874	172,510	(72,636)
Total Charges to appropriations	34,447,300	35,015,032	17,187,619	17,827,413
Excess available for appropriation Over (Under) charges to appropriations	550,475	353,565	543,336	189,771
Reconciling Items:				
Changes in reserves (net)	-	-	(52,917)	(52,917)
Entity adjustments (net)	-	-	9,104	9,104
Total Reconciling Items	-	-	(43,813)	(43,813)
Budgetary Fund Balance, June 30	$ 550,475	$ 353,565	$ 499,523	$ 145,958

Budgetary Information
Budgetary Comparison Schedule
Budget to GAAP Reconciliation
General Fund
For the Fiscal Year Ended June 30, 2004
(expressed in thousands)

	General Fund
Sources/inflows of resources	
Actual amounts (budgetary basis) "Available for Appropriation" from the Budgetary Comparison Schedule	$ 17,730,955
Differences - budget to GAAP:	
The following items are inflows of budgetary resources but are not revenue for financial reporting purposes:	
Transfers from other funds	(307,628)
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 food stamps	484,693
Unanticipated receipts	70,081
Noncash revenues	9,104
Revenues collected for other governments	27,312
Total revenues as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	$ 17,609,936

Uses/outflows of resources	
Actual amounts (budgetary basis) "Total Charges to Appropriations" from the Budgetary Comparison Schedule.	$ 17,187,619
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.	(722,066)
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes.	(172,510)
The following items are not outflows of budgetary resources but are recorded as current expenditures for financial reporting purposes.	
Noncash commodities and food stamps	484,693
Expenditures related to unanticipated receipts	70,081
Capital lease acquisitions	5,004
Distributions to other governments	27,312
Total expenditures as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	$ 16,880,133

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 2003-2005 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.

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, 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; Unreserved fund balance, designated for other specific purposes; and Reserved for encumbrances.

Pension Plan Information

Public Employees' Retirement System - Plan 1

Schedule of Funding Progress

Valuation Years 2003 through 1998 (dollars in millions)

	2003	2002	2001	2000	1999	1998
Actuarial Valuation Date	9/30/2003	9/30/2002	9/30/2001	12/31/2000	12/31/1999	12/31/1998
Actuarial Value of Plan Assets	$ 10,227	$ 10,757	$ 10,990	$ 11,111	$ 10,456	$ 9,219
Actuarial Accrued Liability	12,692	12,560	12,088	11,695	11,636	11,227
Unfunded Actuarial Liability	2,465	1,804	1,098	584	1,180	2,008
Percentage Funded	81%	86%	91%	95%	90%	82%
Covered Payroll	945	1,023	1,085	1,132	1,184	1,233
Unfunded Actuarial Liability as a Percentage of Covered Payroll	261%	176%	101%	52%	100%	163%

Source: Washington State Office of the State Actuary

Teachers' Retirement System - Plan 1

Schedule of Funding Progress

Valuation Years 2003 through 1998 (dollars in millions)

	2003	2002	2001	2000	1999	1998
Actuarial Valuation Date	9/30/2003	9/30/2002	9/30/2001	6/30/2000	6/30/1999	6/30/1998
Actuarial Value of Plan Assets	$ 9,086	$ 9,365	$ 9,342	$ 9,372	$ 8,696	$ 7,819
Actuarial Accrued Liability	10,325	10,235	9,895	9,566	9,529	9,354
Unfunded Actuarial Liability	1,239	869	553	194	833	1,535
Percentage Funded	88%	91%	94%	98%	91%	84%
Covered Payroll	692	741	800	957	984	1,046
Unfunded Actuarial Liability as a Percentage of Covered Payroll	179%	117%	69%	20%	85%	147%

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 2003 through 1998 (dollars in millions)

	2003	2002	2001	2000	1999	1998
Actuarial Valuation Date	9/30/2003	9/30/2002	9/30/2001	12/31/2000	12/31/1999	12/31/1998
Actuarial Value of Plan Assets	$ 4,803	$ 5,095	$ 5,369	$ 5,440	$ 5,150	$ 4,568
Actuarial Accrued Liability	4,275	4,259	4,153	4,002	4,125	3,906
Unfunded (Assets in Excess of)						
Actuarial Liability	(528)	(836)	(1,216)	(1,437)	(1,024)	(662)
Percentage Funded	112%	120%	129%	136%	125%	117%
Covered Payroll	71	80	87	95	106	117
Unfunded Actuarial Liability as a						
Percentage of Covered Payroll	N/A	N/A	N/A	N/A	N/A	N/A

N/A indicates data not available.

Source: Washington State Office of the State Actuary

Judicial Retirement System

Schedule of Funding Progress

Valuation Years 2003 through 1998 (dollars in millions)

	2003	2002	2001	2000	1999	1998
Actuarial Valuation Date	9/30/2003	9/30/2002	9/30/2001	12/31/2000	12/31/1999	12/31/1998
Actuarial Value of Plan Assets	$ 6	$ 8	$ 10	$ 10	$ 9	$ 8
Actuarial Accrued Liability	91	92	91	93	94	97
Unfunded Actuarial Liability	85	84	81	83	85	89
Percentage Funded	7%	9%	11%	11%	10%	8%
Covered Payroll	2.6	3.0	3.0	4.0	4.0	4.0
Unfunded Actuarial Liability as a						
Percentage of Covered Payroll	3269%	2800%	2700%	2075%	2125%	2225%

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 2003 through 1998 (dollars in millions)

	2003	2002	2001	2000	1999	1998
Actuarial Valuation Date	12/31/2003	12/31/2002	12/31/2001	12/31/2000	12/31/1999	12/31/1998
Actuarial Value of Plan Assets	$ 120	$ 124	$ 129	$ 126	$ 118	$ 102
Actuarial Accrued Liability	112	110	99	96	98	94
Unfunded (Assets in Excess of)						
Actuarial Liability	(8)	(14)	(30)	(30)	(20)	(8)
Percentage Funded	107%	113%	130%	131%	120%	109%
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

*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 2003 through 1998 (dollars in millions)

	2003	2002	2001	2000	1999	1998
Actuarial Valuation Date	9/30/2003	9/30/2002	9/30/2001	12/31/2000	12/31/1999	12/31/1998
Actuarial Value of Plan Assets	$ 4.5	$ 5	$ 5	$ 5	$ 4	$ 4
Actuarial Accrued Liability	5.2	6	6	6	6	7
Unfunded Actuarial Liability	0.7	1	1	1	2	3
Percentage Funded	87%	83%	83%	83%	67%	57%
Covered Payroll	0.0	0.1	0.1	0.1	0.1	0.1
Unfunded Actuarial Liability as a						
Percentage of Covered Payroll	N/A	1000%	1000%	1000%	2000%	3000%

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, 2004 through 1999

	2004	2003	2002	2001	2000	1999
Public Employees' Retirement System - Plan 1 (expressed in millions)						
Employers' Annual Required Contribution	$ 295.1	$ 228.9	$ 164.3	$ 118.8	$ 199.2	$ 237.6
Employers' Actual Contribution	22.8	56.6	68.6	181.7	200.2	234.3
Percentage Contributed	8%	25%	42%	153%	101%	99%
Public Employees' Retirement System - Plan 2/3 (expressed in millions)						
Employers' Annual Required Contribution	$ 192.6	$ 141.7	$ 72.0	$ 55.6	$ 103.6	$ 86.6
Employers' Actual Contribution	69.4	38.2	51.0	115.0	101.9	238.4
Percentage Contributed	36%	27%	71%	207%	98%	275%
Teachers' Retirement System - Plan 1 (expressed in millions)						
Employers' Annual Required Contribution	$ 185.7	$ 153.4	$ 119.8	$ 90.6	$ 176.1	$ 209.7
Employers' Actual Contribution	11.4	20.4	59.5	141.3	183.0	222.5
Percentage Contributed	6%	13%	50%	156%	104%	106%
Teachers' Retirement System - Plan 2/3 (expressed in millions)						
Employers' Annual Required Contribution	$ 96.2	$ 79.5	$ 66.7	$ 40.4	$ 56.2	$ 45.9
Employers' Actual Contribution	29.9	18.2	46.4	69.6	75.3	100.2
Percentage Contributed	31%	23%	70%	172%	134%	218%
School Employees' Retirement System - Plan 2/3 (expressed in millions)						
Employers' Annual Required Contribution	$ 52.3	$ 44.2	$ 19.5	$ 6.7	**	**
Employers' Actual Contribution	9.1	6.2	11.3	19.9	**	**
Percentage Contributed	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, 2004 through 1999

	2004	2003	2002	2001	2000	1999
Law Enforcement Officers' and Fire Fighters' Retirement System - Plan 1 (expressed in millions)						
Employers' Annual Required Contribution	$ -	$ -	$ -	$ -	$ 6.3	$ 6.9
Employers' Actual Contribution	-	0.1	0.1	0.1	6.3	7.2
Percentage Contributed	N/A	N/A	N/A	N/A	100%	104%
State Annual Required Contribution	-	-	-	-	-	-
State Actual Contribution	-	-	-	-	-	48.8
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	$ 41.5	$ 34.1	$ 26.2	$ 20.3	$ 26.9	$ 22.3
Employers' Actual Contribution	30.8	25.6	24.0	31.5	26.2	34.3
Percentage Contributed	74%	75%	92%	155%	97%	154%
State Annual Required Contribution	27.7	22.7	17.5	13.5	18.0	14.9
State Actual Contribution	20.2	16.4	15.6	20.9	17.1	22.2
Percentage Contributed	73%	72%	89%	155%	95%	149%
Washington State Patrol Retirement System (expressed in millions)						
Employers' Annual Required Contribution	$ 2.6	$ -	$ -	$ -	$ -	$ -
Employers' Actual Contribution	-	-	-	-	-	5.9
Percentage Contributed	0%	N/A	N/A	N/A	N/A	N/A

N/A indicates data not available.

Source: Washington State Office of the State Actuary

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, 2004 through 1999

	2004	2003	2002	2001	2000	1999
Judicial Retirement System (expressed in millions)						
Employers' Annual Required Contribution	$ 18.5	$ 16.2	$ 14.2	$ 13.3	$ 12.5	$ 12.2
Employers' Actual Contribution	6.2	6.2	6.2	7.3	7.3	8.8
Percentage Contributed	34%	38%	44%	55%	58%	72%
Judges' Retirement Fund (expressed in millions)						
Employers' Annual Required Contribution	$ 0.2	$ 0.1	$ 0.2	$ 0.2	$ 0.3	$ 0.3
Employers' Actual Contribution	0.5	0.3	0.3	0.8	0.8	0.8
Percentage Contributed	250%	300%	150%	400%	267%	267%
Volunteer Fire Fighters' and and Reserve Officers' Relief and Pension Fund (expressed in millions)						
Employers' Annual Required Contribution	$ 0.8	$ 0.8	$ 0.8	$ 0.7	$ 0.7	$ 0.8
Employers' Actual Contribution	0.8	0.8	0.8	0.7	0.7	0.8
Percentage Contributed	100%	100%	100%	100%	100%	100%
State Annual Required Contribution	1.5	0.7	-	-	0.1	0.8
State Actual Contribution	4.4	3.3	3.3	3.3	2.7	2.5
Percentage Contributed	293%	471%	N/A	N/A	2700%	313%

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, 2004

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	9/30/2003	9/30/2003	9/30/2003	9/30/2003	9/30/2003
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)	6/30/2024	n/a	6/30/2024	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 corridor, so it will lie between 70% and 130% of the market value of assets.

LEOFF Plan 1	LEOFF Plan 2	WSPRS	JRS	Judges	VFFRPF
9/30/2003	9/30/2003	9/30/2003	9/30/2003	9/30/2003	12/31/2003
entry age	aggregate***	aggregate***	entry age****	entry age****	entry age
level %	n/a	n/a	n/a	n/a	level $
level $	n/a	n/a	level $	level $	level $
6/30/2024	n/a	n/a	12/31/2008	12/31/2008	12/31/2017
8-year graded smoothed fair value*	8-year graded smoothed fair value*	8-year graded smoothed fair value*	market	market	4-year smoothed fair value
8.00%	8.00%	8.00%	8.00%	8.00%	8.00%
					n/a
11.7%	11.7%	6.0%	0.0%	0.0%	n/a
21 yrs	21 yrs	20 yrs			none
3.50%	3.50%	3.50%	3.50%	3.50%	
CPI increase	CPI increase, maximum 3%	CPI increase, maximum 3%	3.00%	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 achieved. 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 Gainsharing COLA was added.

The Uniform COLA increase is added every July. The next Uniform COLA amount is calculated as the last Uniform 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.

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

**** The entry age method uses pay-as-you-go as the basis for funding JRS and Judges.

Information about Infrastructure Assets Reported Using the Modified Approach

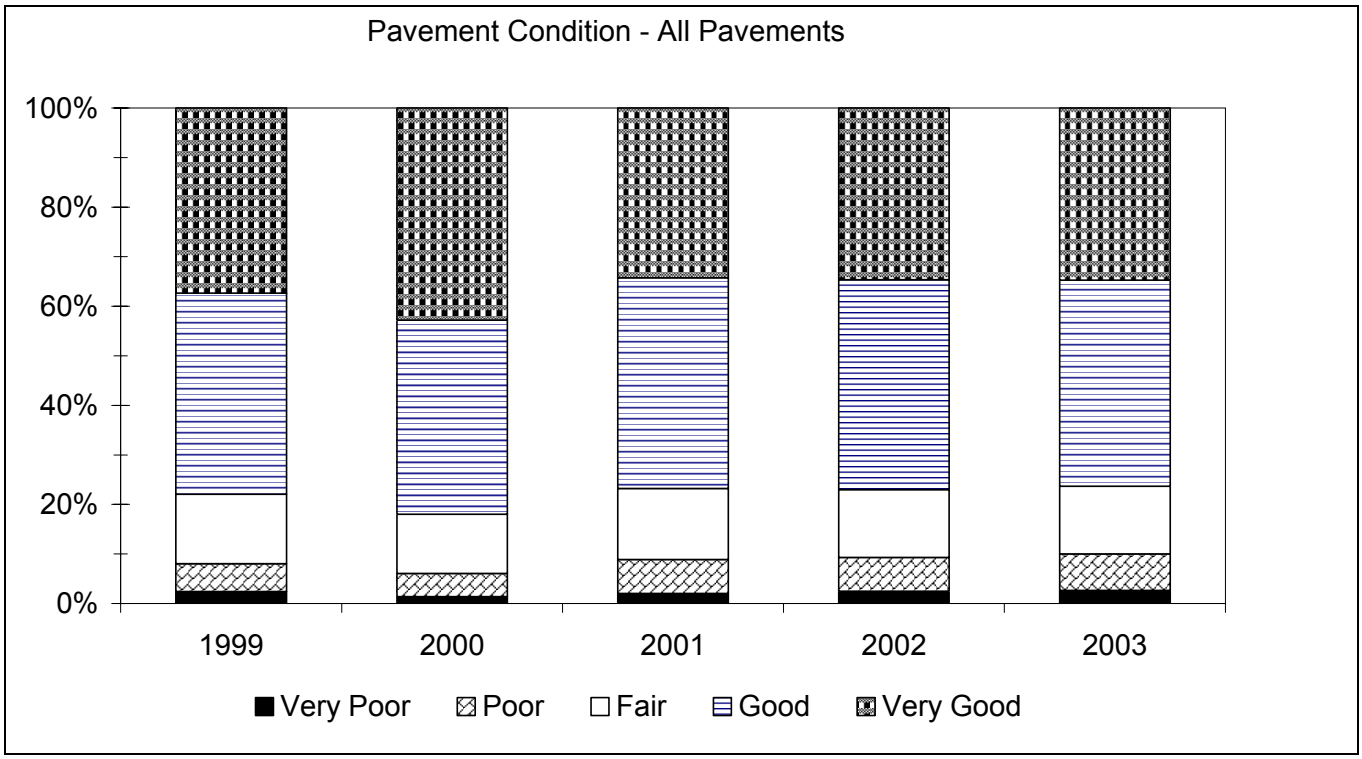
Condition Assessment

Pavement Condition

The Washington State Department of Transportation (WSDOT) owns and maintains 19,970 lane miles of highway, including ramps, collectors and special use lanes. The inclusion of special use lanes and lanes under construction in the total lane miles of highway is new this year. Special use lane miles include slow vehicle, two way turn, chain up, turn/accelerate, transit and HOV lanes. Special use lanes account for 714 of the total lane miles of highway. Lanes under construction account for 26 additional lane miles.

WSDOT has been rating pavement condition since 1969. Pavement rated in *good* condition is smooth and has few defects. Pavement in *poor* condition is characterized by cracking, patching, roughness and rutting. Pavement condition is rated using three factors: Pavement Structural Condition (PSC), International Roughness Index (IRI), and Rutting.

In 1993 the Legislature required WSDOT to rehabilitate pavements at the Lowest Life Cycle Cost (LLCC), which has been determined to occur at a PSC range between 40 and 60, or when triggers for roughness or rutting are met. The trend over the last six years has shown that the percentage of pavements in poor or very poor condition has remained fairly stable at 8 to 10 percent except in 2000 when it was at 6.1 percent. WSDOT uses LLCC analysis to manage its pavement preservation program. The basic principles are rather simple – 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 recognizing the goal for pavements is zero miles in 'poor' condition and 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 lowest life cycle cost 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 policy for the current biennium 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 10 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. Refer to the table above for examples for flexible pavements such as asphalt. 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. Rutting is measured in millimeters. 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	Rut
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

Beginning in 1999, the pavement distress survey procedure changed from a windshield survey to an automated survey. 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 released in June each year. In calendar year 2003, WSDOT rated pavement condition on 17,702 of the 19,970 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	2003*	2002*	2001*	2000*	1999*
Statewide - Chip Seals	86	89	89	92	91
Statewide - Asphalt	91	91	92	95	93
Statewide - Concrete	93	92	92	92	90
Statewide - All Pavements	90	91	91	94	92

Percentage of Pavement in Poor or Very Poor Condition	2003*	2002*	2001*	2000*	1999*
Statewide - Chip Seals	14	11	11	8	9
Statewide - Asphalt	9	9	8	5	7
Statewide - Concrete	7	8	8	8	10
Statewide - All Pavements	10	9	9	6	8

* Calendar year data. Assessments are typically made in the fall of each year, and verified during the winter and spring, with final results released in June. 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.

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 2004 there were 3,076 state-owned vehicular structures over twenty feet in length with a total area of 43,447,898 square feet. In addition to bridges, the 3,076 structures included 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 requirements. Special emphasis is given to the ongoing inspection and maintenance of major bridges representing a significant public investment due to size, complexity or strategic location. Information related to public bridges is maintained in the Washington State Bridge Inventory System (WSBIS). This system is used to develop preservation strategies and comprehensive recommendations for maintenance and construction, and for reporting to the Federal Highway Administration (FHWA).

While the WSDOT has a 20 year goal of no structurally deficient bridges, the policy for the current biennium is to maintain 95 percent of its bridges at a structural condition of at least fair, meaning that all primary structural elements are sound. The most recent assessment found that state-owned bridges were within the prescribed parameters with 97 percent having a condition rating of fair or better and only 3 percent of bridges having a condition rating of poor. Bridges rated as poor may have structural deficiencies that restrict the weight and type of traffic allowed. No bridges that are currently rated as poor are unsafe for public travel. Any bridges determined to be unsafe are closed to traffic. WSDOT had no closed bridges at June 30, 2004.

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. From 1980 to the end of June 2003, WSDOT completed 441 full or partial seismic retrofit projects to meet current national standards. An additional 920 retrofits await programming. There are four scheduled seismic retrofits in the 2003-2005 biennium, none of which were completed by June 30, 2004.

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.

Notes: 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	2004	2003	2002	2001	2000
Reinforced Concrete (1,308 bridges in FY 2004)	98	98	97	96	95
Prestressed Concrete (1,277 bridges in FY2004)	99.5	99.5	99.5	99	99
Steel (346 bridges* in FY 2004)	93	93	92	91	91
Timber (65 bridges in FY 2004)	70	69	70	71	71
Statewide - All Bridges (2,996 out of 3,076 bridges in FY 2004)	97.4	97	96.7	96	95

Percentage of Bridges in Poor Condition

Bridge Type	2004	2003	2002	2001	2000
Reinforced Concrete (24 bridges in FY 2004)	2	2	3	4	5
Prestressed Concrete (4 bridges in FY 2004)	0.5	0.5	0.5	1	1
Steel (24 bridges* in FY 2004)	6.5	7	8	9	9
Timber (28 bridges in FY 2004)	30	31	30	29	29
Statewide - All Bridges (80 out of 3,076 bridges in FY 2004)	2.6	3	3.3	4	5

*The steel bridge ratings for FY2004 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 145 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 one closed bridge at June 30, 2004.

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, and five are 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

	2004	2003	2002	2001	2000
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

Notes: 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, 2004
(expressed in thousands)

	FY 2002			FY 2003			FY 2004		
Pavements									
	Budget	Actual	Variance	Budget	Actual	Variance	Budget	Actual	Variance
Preservation	$ 134,810	$ 127,946	$ 6,864	$ 119,160	$ 123,883	$ (4,723)	$ 116,902	$ 107,229	$ 9,673
Maintenance	23,746	19,485	4,261	22,796	24,123	(1,327)	21,254	18,064	3,190
Total	$ 158,556	$ 147,431	$ 11,125	$ 141,956	$ 148,006	$ (6,050)	$ 138,156	$ 125,293	$ 12,863
Bridges									
Preservation	$ 24,270	$ 16,307	$ 7,963	$ 22,460	$ 23,988	$ (1,528)	$ 30,637	$ 24,780	$ 5,857
Maintenance	11,430	11,012	418	11,222	12,853	(1,631)	11,292	11,267	25
Total	$ 35,700	$ 27,319	$ 8,381	$ 33,682	$ 36,841	$ (3,159)	$ 41,929	$ 36,047	$ 5,882
Emergency Air Fields									
Preservation & Maint.	$ 70	$ 64	$ 6	$ 70	$ 58	$ 12	$ 70	$ 71	$ (1)

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 potholes, installing signs, vegetation control, etc.

In 1996 WSDOT embarked on an initiative to use outcome based performance measures for evaluating the effectiveness of the Maintenance Program. The Maintenance Accountability Process (MAP) is a comprehensive planning, measuring and managing process that provides a means for communicating the impacts of policy and budget decisions on program service delivery. WSDOT uses it to identify investment choices and affects of those choices in communicating with the legislature and other stakeholders. The MAP measures and communicates the outcomes of 34 distinct highway maintenance activities. Maintenance results are measured via field condition surveys and reported as Level of Service (LOS) ratings, which range from A to F. LOS targets are defined in terms of the condition of various highway features (i.e. percent of guardrail on the highway system that is damaged) and are set commensurate with the level of funding provided for the WSDOT highway maintenance program. More information about MAP may be obtained at: http://www.wsdot.wa.gov/maintenance/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 June 2004 *Monthly Financial Report* for sub-programs P1 (Roadway Preservation), P2 (Structures Preservation), and M2 (Roadway, Bridge & Tunnel maintenance). For FY 2004, the annual budget amount was calculated as half the biennial amount. The Preservation budgeted and actual amounts were adjusted for capitalized infrastructure and equipment in FY 2004.

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

The state implemented the requirements of Statement No. 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.

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 for the accuracy or completeness thereof, or for the absence of material changes in such information subsequent to the date hereof. Beneficial Owners should confirm the following with DTC or the Participants (as hereinafter defined).

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity of the Bonds in the principal amount of such maturity and will be deposited with DTC.

DTC, the world's largest depository, 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 and provides asset servicing for over two million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at *www.dtcc.com*.

Purchases of Bonds under the DTC system, in Authorized Denominations, must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("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. Beneficial Owners are, however, 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 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

When notices are given, they shall be sent by the Bond Registrar to DTC only. 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 DTC. If less than all of the Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's procedures. 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 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distribution and dividend payments on the Bonds will be made to Cede & Co. or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the state or the Bond Registrar, on payable date in accordance with their respective holdings shown on DTC's records. 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 (nor its nominee), the Bond Registrar or the state, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions and dividend payments to Cede & Co. (or any other nominee as may be requested by an authorized representative of DTC) is the responsibility of the state or the Bond Registrar, 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 depository with respect to the Bonds at any time by giving reasonable notice to the Bond Registrar or the state. Under such circumstances, in the event that a successor securities depository is not obtained, new 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, Bond certificates will be printed and delivered.

APPENDIX F

FINANCIAL GUARANTY INSURANCE POLICY SPECIMEN

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Ambac

Financial Guaranty Insurance Policy

Ambac Assurance Corporation
One State Street Plaza, 15th Floor
New York, New York 10004
Telephone: (212) 668-0340

Obligor:

Policy Number:

Obligations:

Premium:

Ambac Assurance Corporation (Ambac), a Wisconsin stock insurance corporation, in consideration of the payment of the premium and subject to the terms of this Policy, hereby agrees to pay to The Bank of New York, as trustee, or its successor (the "Insurance Trustee"), for the benefit of the Holders, that portion of the principal of and interest on the above-described obligations (the "Obligations") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor.

Ambac will make such payments to the Insurance Trustee within one (1) business day following written notification to Ambac of Nonpayment. Upon a Holder's presentation and surrender to the Insurance Trustee of such unpaid Obligations or related coupons, uncanceled and in bearer form and free of any adverse claim, the Insurance Trustee will disburse to the Holder the amount of principal and interest which is then Due for Payment but is unpaid. Upon such disbursement, Ambac shall become the owner of the surrendered Obligations and/or coupons and shall be fully subrogated to all of the Holder's rights to payment thereon.

In cases where the Obligations are issued in registered form, the Insurance Trustee shall disburse principal to a Holder only upon presentation and surrender to the Insurance Trustee of the unpaid Obligation, uncanceled and free of any adverse claim, together with an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee duly executed by the Holder or such Holder's duly authorized representative, so as to permit ownership of such Obligation to be registered in the name of Ambac or its nominee. The Insurance Trustee shall disburse interest to a Holder of a registered Obligation only upon presentation to the Insurance Trustee of proof that the claimant is the person entitled to the payment of interest on the Obligation and delivery to the Insurance Trustee of an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee, duly executed by the Holder or such Holder's duly authorized representative, transferring to Ambac all rights under such Obligation to receive the interest in respect of which the insurance disbursement was made. Ambac shall be subrogated to all of the Holders' rights to payment on registered Obligations to the extent of any insurance disbursements so made.

In the event that a trustee or paying agent for the Obligations has notice that any payment of principal of or interest on an Obligation which has become Due for Payment and which is made to a Holder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from the Holder pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such Holder will be entitled to payment from Ambac to the extent of such recovery if sufficient funds are not otherwise available.

As used herein, the term "Holder" means any person other than (i) the Obligor or (ii) any person whose obligations constitute the underlying security or source of payment for the Obligations who, at the time of Nonpayment, is the owner of an Obligation or of a coupon relating to an Obligation. As used herein, "Due for Payment", when referring to the principal of Obligations, is when the scheduled maturity date or 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; and, when referring to interest on the Obligations, is when the scheduled date for payment of interest has been reached. As used herein, "Nonpayment" means the failure of the Obligor to have provided sufficient funds to the trustee or paying agent for payment in full of all principal of and interest on the Obligations which are Due for Payment.

This Policy is noncancelable. The premium on this Policy is not refundable for any reason, including payment of the Obligations prior to maturity. 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 Obligation, other than at the sole option of Ambac, nor against any risk other than Nonpayment.

In witness whereof, Ambac has caused this Policy to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.

President

AMBAC ASSURANCE CORPORATION
CORPORATE
SEAL
WISCONSIN

Secretary

Effective Date:

Authorized Representative

THE BANK OF NEW YORK acknowledges that it has agreed to perform the duties of Insurance Trustee under this Policy.

Authorized Officer of Insurance Trustee

Form No.: 2B-0012 (1/01)

SPECIMEN

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