'06

State of Utah

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2006

State Of Utah
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For The Fiscal Year Ended June 30, 2006

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Gary R. Herbert ..... Lt. Governor
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Richard K. Ellis ..... Executive Director, Dept. of Administrative Services
John C. Reidhead, CPA ..... Director, Division of Finance
John E. Nixon, CPA ..... Director, Office of Planning and Budget
John E. Massey ..... Legislative Fiscal Analyst
John M. Schaff, CIA ..... Legislative Auditor General
Michael E. Christensen ..... Director, Legislative Research and General Counsel

ACKNOWLEDGMENTS

Report prepared by:
Division of Finance, Accounting Standards and Financial Reporting Section
Marcie L. Handy, CPA
Eugene F. Baird
Lynn G. Bodrero, CPA
Julia D'Alesandro, CPA, CIA
Lisa Donnelson
Stephanie Fletcher
Darin C. Janzen
Lynda B. McLane, CPA
Deborah S. Memmott
Robert D. Miles
Gary E. Morris, CPA
Jason K. Nielsen, CPA
David H. Pierce, CPA

Special appreciation is given to all of the budget and accounting officers throughout the State whose extra time and effort made this report possible.

State of Utah
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Table of Contents

INTRODUCTORY SECTION

	Page
Title page – Acknowledgments	1
Table of Contents	2
Letter of Transmittal	4
Certificate of Achievement for Excellence in Financial Reporting	9
State of Utah Organization Chart	10

FINANCIAL SECTION

Independent State Auditor's Report	12
Management's Discussion and Analysis	14
Basic Financial Statements	
Government-wide Financial Statements	
Statement of Net Assets	27
Statement of Activities	28
Governmental Fund Financial Statements	
Balance Sheet	32
Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Assets	34
Statement of Revenues, Expenditures, and Changes in Fund Balances	36
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds to the Statement of Activities	38
Proprietary Fund Financial Statements	
Statement of Net Assets	40
Statement of Revenues, Expenses, and Changes in Fund Net Assets	42
Statement of Cash Flows	44
Fiduciary Fund Financial Statements	
Statement of Fiduciary Net Assets	50
Statement of Changes in Fiduciary Net Assets	51
Component Unit Financial Statements	
Combining Statement of Net Assets	54
Combining Statement of Activities	56
Notes to the Financial Statements	58
Required Supplementary Information	
Budgetary Comparison Schedule – General Fund	108
Budgetary Comparison Schedule – Uniform School Fund	109
Budgetary Comparison Schedule – Transportation Fund	110
Budgetary Comparison Schedule – Transportation Investment Fund	111
Budgetary Comparison Schedule – Budget to GAAP Reconciliation	112
Notes to Required Supplementary Information – Budgetary Reporting	113
Information about Infrastructure Assets Reported Using the Modified Approach	114
Supplementary Information – Combining Statements and Individual Fund Statements and Schedules	
Governmental Funds	
Nonmajor Governmental Funds	
Combining Balance Sheet	120
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	124
Budgetary Compliance	
Detail Schedule of Expenditures – Budget and Actual Comparison – General Fund	128
Detail Schedule of Expenditures – Budget and Actual Comparison – Uniform School Fund, Transportation Fund, Transportation Investment Fund, and Debt Service Funds	140

Supplementary Information – Combining Statements and Individual Fund Statements and Schedules (continued)

Proprietary Funds
Nonmajor Enterprise Funds
Combining Statement of Net Assets 144
Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets 146
Combining Statement of Cash Flows 148

Internal Service Funds
Combining Statement of Net Assets 154
Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets 156
Combining Statement of Cash Flows 158

Fiduciary Funds
Defined Benefit Pension Plans and Other Pension Trust Funds
Combining Statement of Fiduciary Net Assets 164
Combining Statement of Changes in Fiduciary Net Assets 166
Private Purpose Trust Funds
Combining Statement of Fiduciary Net Assets 168
Combining Statement of Changes in Fiduciary Net Assets 170
Agency Funds
Combining Statement of Fiduciary Assets and Liabilities 172
Combining Statement of Changes in Assets and Liabilities 173

Component Units
Nonmajor Component Units
Combining Statement of Net Assets 176
Combining Statement of Activities 178

STATISTICAL SECTION

Index to the Statistical Section 183
Schedule A–1 Net Assets by Component 184
Schedule A–2 Changes in Net Assets 186
Schedule A–3 Fund Balances — Governmental Funds 190
Schedule A–4 Changes in Fund Balances — Governmental Funds 192
Schedule B–1 Revenue Base 194
Schedule B–2 Revenue Payers by Industry — Taxable Sales, Services, and Use Tax Purchases 196
Schedule B–3 Revenue Payers — Personal Income Tax 197
Schedule B–4 Personal Income Tax Rates 198
Schedule C–1 Ratios of Outstanding Debt by Type 200
Schedule C–2 Other Long-Term Liabilities 202
Schedule C–3 Legal Debt Margin 204
Schedule C–4 Statutory Debt Limit 204
Schedule C–5 Pledged Revenue Bond Coverage 206
Schedule D–1 Demographic and Economic Indicators 207
Schedule D–2 Principal Employers 208
Schedule D–3 Composition of Labor Force 210
Schedule D–4 Public Education Student Enrollment (K–12) 212
Schedule D–5 Public Higher Education Enrollment 212
Schedule E–1 Full-Time Equivalent State Employees by Function 214
Schedule E–2 Operating Indicators by Function 216
Schedule E–3 Capital Asset Statistics by Function 218
Schedule F–1 Expenditures — Historical and Constant Dollars 220
Schedule F–2 Per Capita Expenditures — Historical and Constant Dollars 221

REQUIRED SUPPLEMENTARY INFORMATION

Budgetary Comparison Schedule
General Fund

For the Fiscal Year Ended June 30, 2006 (Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues				
General Revenues				
Sales Tax	$ 1,614,055	$ 1,744,000	$ 1,806,265	$ 62,265
Licenses, Permits, and Fees:				
Insurance Fees	5,763	5,628	5,468	(160)
Court Fees	5,312	5,565	4,167	(1,398)
Other Licenses, Permits, and Fees	7,463	8,030	9,158	1,128
Investment Income	11,000	25,000	40,006	15,006
Miscellaneous Taxes and Other:				
Beer Tax	9,800	8,242	8,720	478
Cigarette and Tobacco Tax	49,200	49,257	52,112	2,855
Inheritance Tax	—	4,000	7,448	3,448
Insurance Premium Tax	70,000	73,000	71,418	(1,582)
Oil, Gas, and Mining Severance Tax	49,500	78,000	88,557	10,557
Taxpayer Rebates	(5,600)	(6,000)	(5,611)	389
Court Collections	5,488	5,775	5,613	(162)
Other Taxes	18,514	25,589	26,881	1,292
Miscellaneous Other	9,319	10,414	11,053	639
Total General Revenues	1,849,814	2,036,500	2,131,255	94,755
Department Specific Revenues				
Restricted Sales Tax	2,638	2,625	2,625	—
Federal Contracts and Grants	1,910,048	1,850,706	1,850,706	—
Departmental Collections	254,606	266,104	278,380	12,276
Higher Education Collections	322,093	331,587	331,587	—
Federal Mineral Lease	70,625	114,904	156,851	41,947
Investment Income	5,097	7,310	8,188	878
Miscellaneous	428,599	433,725	435,616	1,891
Total Department Specific Revenues	2,993,706	3,006,961	3,063,953	56,992
Total Revenues	4,843,520	5,043,461	5,195,208	151,747
Expenditures				
General Government	232,185	250,629	213,069	37,560
Human Services and Youth Corrections	609,356	611,740	601,938	9,802
Corrections, Adult	209,807	210,379	203,959	6,420
Public Safety	175,174	206,395	179,076	27,319
Courts	113,821	114,591	111,746	2,845
Health and Environmental Quality	1,886,373	1,880,552	1,863,578	16,974
Higher Education – State Administration	46,426	43,797	43,505	292
Higher Education – Colleges and Universities	988,995	1,004,840	1,004,840	—
Employment and Family Services	297,604	420,584	417,588	2,996
Natural Resources	149,989	164,490	144,601	19,889
Community and Culture	127,914	85,201	82,710	2,491
Business, Labor, and Agriculture	111,822	95,538	81,921	13,617
Total Expenditures	4,949,466	5,088,736	4,948,531	140,205
Excess Revenues Over (Under) Expenditures	(105,946)	(45,275)	246,677	291,952
Other Financing Sources (Uses)				
Transfers In	322,553	345,292	345,292	—
Transfers Out	(55,908)	(388,197)	(388,197)	—
Total Other Financing Sources (Uses)	266,645	(42,905)	(42,905)	0
Net Change in Fund Balance	160,699	(88,180)	203,772	291,952
Budgetary Fund Balance – Beginning	459,569	459,569	459,569	—
Budgetary Fund Balance – Ending	$ 620,268	$ 371,389	$ 663,341	$ 291,952

The Notes to Required Supplementary Information – Budgetary Reporting are an integral part of this schedule.

Budgetary Comparison Schedule
Uniform School Fund

For the Fiscal Year Ended June 30, 2006 (Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues				
General Revenues				
Individual Income Tax	$ 1,939,950	$ 2,119,000	$ 2,288,483	$ 169,483
Corporate Tax	211,500	262,000	368,869	106,869
Investment Income	13,000	13,000	18,132	5,132
Miscellaneous Other	11,000	10,000	19,414	9,414
Total General Revenues	2,175,450	2,404,000	2,694,898	290,898
Department Specific Revenues				
Federal Contracts and Grants	315,621	371,888	371,888	—
Departmental Collections	2,640	6,563	6,563	—
Miscellaneous:				
School Lunch Tax	16,815	20,586	20,586	—
Driver Education Fee	4,320	4,735	4,735	—
Other	6,539	6,906	7,222	316
Total Department Specific Revenues	345,935	410,678	410,994	316
Total Revenues	2,521,385	2,814,678	3,105,892	291,214
Expenditures				
Public Education	2,304,745	2,371,270	2,331,806	39,464
Total Expenditures	2,304,745	2,371,270	2,331,806	39,464
Excess Revenues Over (Under) Expenditures	216,640	443,408	774,086	330,678
Other Financing Sources (Uses)				
Transfers In	5,420	6,215	6,215	—
Transfers Out	(267,709)	(290,073)	(290,073)	—
Total Other Financing Sources (Uses)	(262,289)	(283,858)	(283,858)	0
Net Change in Fund Balance	(45,649)	159,550	490,228	330,678
Budgetary Fund Balance – Beginning	227,476	227,476	227,476	—
Budgetary Fund Balance – Ending	$ 181,827	$ 387,026	$ 717,704	$ 330,678

The Notes to Required Supplementary Information – Budgetary Reporting are an integral part of this schedule.

Budgetary Comparison Schedule
Transportation Fund

For the Fiscal Year Ended June 30, 2006 (Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues				
General Revenues				
Motor Fuel Tax	$ 239,000	$ 241,300	$ 240,432	$ (868)
Special Fuel Tax	93,500	98,900	101,098	2,198
Licenses, Permits, and Fees:				
Motor Vehicle Registration Fees	31,525	31,444	32,579	1,135
Proportional Registration Fees	12,609	12,585	13,040	455
Temporary Permits	400	345	357	12
Special Transportation Permits	6,254	7,095	7,351	256
Highway Use Permits	8,807	8,289	8,588	299
Motor Vehicle Control Fees	5,004	4,886	5,062	176
Miscellaneous	2,001	1,861	1,928	67
Investment Income	2,400	5,546	5,746	200
Miscellaneous Other	1,000	1,949	2,019	70
Total General Revenues	402,500	414,200	418,200	4,000
Department Specific Revenues				
Restricted Sales and Aviation Fuel Taxes	31,921	32,483	35,551	3,068
Federal Contracts and Grants	130,317	264,262	264,262	—
Departmental Collections	37,451	49,121	50,190	1,069
Federal Aeronautics	33,000	33,000	37,521	4,521
Investment Income	904	904	1,548	644
Miscellaneous	4,350	30,674	32,107	1,433
Total Department Specific Revenues	237,943	410,444	421,179	10,735
Total Revenues	640,443	824,644	839,379	14,735
Expenditures				
Transportation	558,188	814,808	800,726	14,082
Total Expenditures	558,188	814,808	800,726	14,082
Excess Revenues Over (Under) Expenditures	82,255	9,836	38,653	28,817
Other Financing Sources (Uses)				
Transfers In	88	83,449	83,449	—
Transfers Out	(36,038)	(120,824)	(120,824)	—
Total Other Financing Sources (Uses)	(35,950)	(37,375)	(37,375)	0
Net Change in Fund Balance	46,305	(27,539)	1,278	28,817
Budgetary Fund Balance – Beginning	160,489	160,489	160,489	—
Budgetary Fund Balance – Ending	$ 206,794	$ 132,950	$ 161,767	$ 28,817

The Notes to Required Supplementary Information – Budgetary Reporting are an integral part of this schedule.

Budgetary Comparison Schedule
Transportation Investment Fund

For the Fiscal Year Ended June 30, 2006 (Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues				
General Revenues				
Sales Tax	$ 65,000	$ 66,000	$ 65,851	$ (149)
Motor Vehicle Registration Fees	21,600	21,200	21,486	286
Investment Income	900	2,800	2,783	(17)
Total General Revenues	87,500	90,000	90,120	120
Department Specific Revenues				
Federal Contracts and Grants	34,000	5,416	5,416	—
Total Department Specific Revenues	34,000	5,416	5,416	0
Total Revenues	121,500	95,416	95,536	120
Expenditures				
Transportation	159,287	176,350	176,300	50
Total Expenditures	159,287	176,350	176,300	50
Excess Revenues Over (Under) Expenditures	(37,787)	(80,934)	(80,764)	170
Other Financing Sources (Uses)				
Transfers In	—	196,832	196,832	—
Transfers Out	—	(156,393)	(156,393)	—
Total Other Financing Sources (Uses)	0	40,439	40,439	0
Net Change in Fund Balance	(37,787)	(40,495)	(40,325)	170
Budgetary Fund Balance – Beginning	183,815	183,815	183,815	—
Budgetary Fund Balance – Ending	$ 146,028	$ 143,320	$ 143,490	$ 170

The Notes to Required Supplementary Information – Budgetary Reporting are an integral part of this schedule.

Budgetary Comparison Schedule
Budget To GAAP Reconciliation

For the Fiscal Year Ended June 30, 2006 (Expressed in Thousands)

	General Fund	Uniform School Fund	Transportation Fund	Transportation Investment Fund
Revenues				
Actual total revenues (budgetary basis)	$ 5,195,208	$ 3,105,892	$ 839,379	$ 95,536
Differences – Budget to GAAP:				
Intrafund revenues are budgetary revenues but are not revenues for financial reporting	(285,329)	(4,582)	(2,689)	—
Higher education and Utah Schools for the Deaf and the Blind collections are budgetary revenues but are not revenues for financial reporting	(338,985)	(4,814)	—	—
Change in revenue accrual for nonbudgetary Medicaid claims	13,645	—	—	—
Change in tax accruals designated by law for postemployment and other liabilities are revenues for financial reporting but not for budgetary reporting	10,732	46,058	3,653	37
Total revenues as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	$ 4,595,271	$ 3,142,554	$ 840,343	$ 95,573
Expenditures				
Actual total expenditures (budgetary basis)	$ 4,948,531	$ 2,331,806	$ 800,726	$ 176,300
Differences – Budget to GAAP:				
Intrafund expenditures for reimbursements are budgetary expenditures but are not expenditures for financial reporting	(285,329)	(4,582)	(2,689)	—
Expenditures related to higher education and Utah Schools for the Deaf and the Blind collections are budgetary expenditures but are not expenditures for financial reporting	(338,985)	(4,814)	—	—
Certain budgetary transfers and other charges are reported as a reduction of expenditures for financial reporting	(16,486)	—	—	—
Leave/postemployment charges budgeted as expenditures when earned rather than when taken or due	6,029	391	1,095	—
Change in accrual for Medicaid incurred but not reported claims excluded from the budget by statute	19,707	—	—	—
Total expenditures as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	$ 4,333,467	$ 2,322,801	$ 799,132	$ 176,300

The Notes to Required Supplementary Information – Budgetary Reporting are an integral part of this schedule.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING

Budgetary Presentation

A Budgetary Comparison Schedule is presented for each of the State's major governmental funds for which the Legislature enacts an annual budget. An annual budget is also adopted for the Debt Service Fund, a nonmajor fund. The budgets are enacted through passage of *Appropriations Acts.* Budgets for specific general revenues are not adopted through an *Appropriations Act* but are based on supporting estimates approved by the Executive Appropriations Committee of the Legislature. General revenues are those revenues available for appropriation for any program or purpose as allowed by law. Department-specific revenues are revenues dedicated by an *Appropriations Act* or restricted by other law or external grantor to a specific program or purpose.

Original budgets and related revenue estimates represent the spending authority enacted through *Appropriations Acts* as of June 30, 2006, and include nonlapsing carryforward balances from the prior fiscal year. Final budgets represent the original budget as amended by supplemental appropriations and related changes in revenue estimates, executive order reductions when applicable, and changes authorized or required by law when department-specific revenues either exceed or fall short of budgeted amounts.

Unexpended balances at yearend may: (***1***) lapse to unrestricted balances and be available for future appropriation; (***2***) lapse to restricted balances and be available for future appropriation restricted for specific purposes as defined by statute; or (***3***) be nonlapsing, which means balances are reported as reservations of fund balance. The nonlapsing balances are considered automatically reappropriated as authorized by statute, by an *Appropriations Act*, or by limited encumbrances.

Budgetary Control

In September of each year, all agencies of the government submit requests for appropriations to the Governor's Office of Planning and Budget so that a budget may be prepared. The budget is prepared by fund, function, and activity and includes information on the past year, current year estimates, and requested appropriations for the next fiscal year.

In January, the proposed budget is presented to the Legislature. The Legislature reviews the budget, makes changes, and prepares the annual *Appropriations Act*. The Legislature passes the *Appropriations Act* by a simple majority vote. The *Appropriations Act* becomes the State's authorized operating budget upon the Governor's signature. The *Constitution of Utah* requires that budgeted expenditures not exceed estimated revenues and other sources of funding, including beginning balances.

Budgetary control is maintained at the functional or organizational level, as identified by numbered line items in the *Appropriations Act.* Budgets may be modified if federal funding or revenue specifically dedicated for a line item exceeds original estimates in the *Appropriations Act*. If funding sources are not sufficient to cover the appropriation, the Governor is required to reduce the budget by the amount of the deficiency. Any other changes to the budget must be approved by the Legislature in a supplemental *Appropriations Act*.

Any department that spends more than the authorized amount must submit a report explaining the overspending to the State Board of Examiners. The Board will recommend corrective action, which may include a request to the Legislature for a supplemental appropriation to cover the deficit. If a supplemental appropriation is not approved, the department must cover the overspending with the subsequent year's budget. In the General Fund, the State Courts Administrator's budget for juror and witness fees was overexpended by $82 thousand. This deficit is allowed by statute and will be funded with future appropriations. All other appropriated budgets of the State were within their authorized spending levels.

Spending Limitation

The State also has an appropriation limitation statute that limits the growth in state appropriations. The total of the amount appropriated from unrestricted General Fund sources plus the income tax revenues appropriated for higher education is limited to the growth in population and inflation. The appropriations limitation can be exceeded only if a fiscal emergency is declared and approved by more than two-thirds of both houses of the Legislature, or if approved by a vote of the people. However, the appropriations limitation statute may be amended by a majority of both houses of the Legislature. Appropriations for debt service, emergency expenditures, amounts from other than unrestricted revenue sources, transfers to the Budgetary Reserve Account (Rainy Day Fund), Education Budget Reserve Account and the Transportation Investment Fund; or capital developments meeting certain criteria are exempt from the appropriations limitation. For the fiscal year ended June 30, 2006, the State was $50.401 million below the appropriations limitation. The State is currently below the fiscal year 2007 appropriations limitation by $18.77 million.

INFORMATION ABOUT INFRASTRUCTURE ASSETS REPORTED USING THE MODIFIED APPROACH

As allowed by GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, the State has adopted an alternative to reporting depreciation on roads and bridges (infrastructure assets) maintained by the Utah Department of Transportation (UDOT). This includes infrastructure acquired prior to fiscal year 1981. Under this alternative method, referred to as the "modified approach," infrastructure assets are not depreciated, and maintenance and preservation costs are expensed.

In order to utilize the modified approach, the State is required to:

- Maintain an asset management system that includes an up-to-date inventory of eligible infrastructure assets.
- Perform and document replicable condition assessments of the eligible infrastructure assets and summarize the results using a measurement scale.
- Estimate each year the annual amount to maintain and preserve the eligible infrastructure assets at the condition level established and disclosed by the State.
- Document that the infrastructure assets are being preserved approximately at, or above the condition level established by the State.

Roads

UDOT uses the Pavement Management System to determine the condition of 5,680 centerline miles of state roads. The assessment is based on the Ride Index, which is a measure of ride quality on a 1 to 5 scale, with 5 representing new or nearly new pavements that provide a very smooth ride. The Ride Index is calculated from the International Roughness Index (IRI), with pavement type (asphalt or concrete) taken into account. The IRI is a mathematical statistic based on the longitudinal profile of the road.

Category	Range	Description
Very Good	4.35 – 5.00	New or nearly new pavements that provide a very smooth ride, and are mainly free of distress.
Good	3.55 – 4.34	Pavements that provide an adequate ride, and exhibit few, if any, visible signs of distress.
Fair	2.75 – 3.54	Surface defects in this category such as cracking, rutting, and raveling are affecting the ride.
Poor	1.85 – 2.74	These roadways have deteriorated to such an extent that they are in need of resurfacing and the ride is noticeably rough.
Very Poor	1.00 – 1.84	Pavements in this category are severely deteriorated, and the ride quality must be improved.

Condition Level

The State's established condition level is to maintain 50 percent of its roads with a rating of "fair" or better and no more than 15 percent of roads with a rating of "very poor."

The State performs complete assessments on a calendar year basis. The following table reports the result of pavements with ratings of "fair" or better (ratings of 2.75 through 5.0) or "very poor" (ratings of 1.0 through 1.84) for the last three years:

Rating	2005	2004	2003
Fair or Better	69.5%	74.7%	74.8%
Very Poor	6.3%	6.2%	6.4%

The following table presents the State's estimated amounts needed to maintain and preserve roads at or above the established condition levels addressed above, and the amounts actually spent for each of the past five reporting periods (in thousands):

FISCAL YEAR	ESTIMATED SPENDING	ACTUAL SPENDING
2006	$ 240,854	$ 366,600
2005	$ 226,345	$ 307,858
2004	$ 231,214	$ 262,741
2003	$ 230,860	$ 224,645
2002	$ 242,287	$ 281,260

Bridges

UDOT uses the Structures Inventory System to monitor the condition of the 1,814 state-owned bridges. A number, ranging from 1 to 100, is calculated based on condition, geometry, functional use, safety, and other factors. Three categories of condition are established in relation to the number range as follows:

Category	Range	Description
Good	80 – 100	Preventive maintenance requirements include repair leaking deck joints, apply deck overlays and seals, place concrete sealers to splash zones, paint steel surfaces, and minor beam repairs.
Fair	50 – 79	Corrective repairs include deck, beam, and substructure repairs, fixing settled approaches, and repairing collision damage.
Poor	1 – 49	Major rehabilitation and replacement includes deck, beam, or substructure replacements or replacement of the entire bridge.

Condition Level

The State performs complete assessments on an annual basis ending April 1 of each year. The established condition level is to maintain 50 percent of the bridges with a rating of "good" and no more than 15 percent with a rating of "poor." The following table reports the results of the bridges assessed for the past three years:

Rating	2006	2005	2004
Good	71.0%	71.0%	70.0%
Poor	2.0%	3.0%	3.0%

The following table presents the State's estimated amounts needed to maintain and preserve bridges at or above the established condition levels addressed above, and the amounts actually spent for each of the past five reporting periods (in thousands):

FISCAL YEAR	ESTIMATED SPENDING	ACTUAL SPENDING
2006	$ 42,504	$ 64,694
2005	$ 39,943	$ 54,328
2004	$ 40,803	$ 46,366
2003	$ 40,739	$ 39,644
2002	$ 42,757	$ 49,634

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