PRELIMINARY OFFICIAL STATEMENT DATED FEBRUARY 14, 2014

SALE DATE: FEBRUARY 25, 2014
NEW ISSUE, BOOK-ENTRY ONLY

Moody's Rating: Aa2
(See "RATING")

$21,410,000*
STATE OF WASHINGTON
CERTIFICATES OF PARTICIPATION, SERIES 2014A
(STATE AND LOCAL AGENCY PERSONAL PROPERTY)

Evidencing and Representing Undivided Proportionate Interests of the Owners Thereof in State Payments to be Made by the State of Washington Pursuant to the Master Financing Contract

Dated: Date of Initial Delivery **Due: July 1, as shown on page i hereof**

The State of Washington Certificates of Participation, Series 2014A (State and Local Agency Personal Property) (the "Certificates"), will be executed and delivered in fully registered form under a book-entry only system, initially registered in the name of Cede & Co. (the "Owner"), as owner and nominee for The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository for the Certificates. Individual purchases of the Certificates will be made in book-entry form only, in denominations of $5,000 and any integral multiple thereof. Purchasers of the Certificates will not receive certificates representing their beneficial ownership interests in the Certificates purchased, except as described herein.

The interest evidenced and represented by the Certificates is payable semiannually on each January 1 and July 1, beginning on January 1, 2015. Principal and interest evidenced and represented by the Certificates are payable directly to DTC by The Bank of New York Mellon as Fiscal Agent for the Certificates (the "Fiscal Agent"). Upon receipt of payments of principal and interest represented by the Certificates, DTC in turn is obligated to remit such payments to the DTC participants for subsequent disbursement to the purchasers of beneficial ownership interests in the Certificates. See "THE CERTIFICATES—Book-Entry System" and Appendix E—"DTC AND ITS BOOK-ENTRY SYSTEM."

The Certificates are subject to optional prepayment prior to their respective Principal Payment Dates. In addition, the Certificates will be subject to mandatory sinking fund prepayment prior to their respective Principal Payment Dates if Term Certificates are specified. See "THE CERTIFICATES—Prepayment."

The Certificates are issued to finance and/or refinance the costs of acquiring certain items of personal property for the benefit of certain State Agencies and Local Agencies (together, the "Agencies") and to pay costs of issuing the Certificates. The Certificates are being delivered by the Fiscal Agent pursuant to a Trust Agreement among the Fiscal Agent, the Treasurer and the Washington Finance Officers Association (the "Corporation"), a Washington nonprofit corporation. The Certificates represent undivided proportionate interests in Installment Payments to be made by the state of Washington (the "state") under a Master Financing Contract between the Corporation and the state (the "State Payments").

Except as otherwise described herein, State Payments are payable from payments to be made pursuant to the Agency Financing Contracts, each between the state and the applicable Agency ("Agency Installment Payments"). Each State Agency enters into a State Agency Financing Addendum to the Master Financing Contract and each Local Agency enters into a Local Agency Financing Contract. Each State Agency Financing Addendum and Local Agency Financing Contract is an Agency Financing Contract. In the event that any Local Agency fails to make any payment due under its Agency Financing Contract, the Treasurer is obligated to withhold an amount sufficient to make such payment from the Local Agency's share, if any, of state revenues or other amounts authorized or required by law to be distributed by the state to such Local Agency, if otherwise legally permissible. Upon the failure of any Local Agency to make any Agency Installment Payment, the Treasurer is obligated further, to the extent of legally available appropriated funds and subject to any Executive Order reduction, to make the payment on behalf of the Local Agency. Agency Installment Payments by any State Agency due under its Agency Financing Contract are subject to appropriation and to any Executive Order reduction by the Governor. See "SECURITY FOR THE CERTIFICATES."

THE MASTER FINANCING CONTRACT AND THE STATE AGENCY FINANCING ADDENDA CONSTITUTE SPECIAL, LIMITED OBLIGATIONS OF THE STATE PAYABLE SOLELY FROM THE SOURCES AND SUBJECT TO THE LIMITATIONS SET FORTH THEREIN. NONE OF THE STATE PAYMENTS, THE AGENCY INSTALLMENT PAYMENTS OR THE CERTIFICATES CONSTITUTE OR REPRESENT DEBT OR GENERAL OBLIGATIONS OF THE STATE OR ANY STATE AGENCY, AND NEITHER THE FULL FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE NOR ANY STATE AGENCY IS PLEDGED TO THE PAYMENT OF ANY SUCH PAYMENTS OR THE PRINCIPAL OR INTEREST EVIDENCED AND REPRESENTED BY THE CERTIFICATES. THE STATE WILL NOT BE OBLIGATED TO PAY THE SAME EXCEPT FROM AGENCY INSTALLMENT PAYMENTS AND OTHER AMOUNTS AS PROVIDED IN THE MASTER FINANCING CONTRACT. ANY PAYMENTS BY THE TREASURER ON BEHALF OF A LOCAL AGENCY AND PAYMENTS BY A STATE AGENCY ARE SUBJECT TO APPROPRIATION BY THE LEGISLATURE AND TO EXECUTIVE ORDER REDUCTION BY THE GOVERNOR. A DETERMINATION BY THE LEGISLATURE NOT TO APPROPRIATE, OR ANY EXECUTIVE ORDER REDUCTION BY THE GOVERNOR, WOULD NOT CONSTITUTE AN EVENT OF DEFAULT UNDER THE TRUST AGREEMENT, THE MASTER FINANCING CONTRACT OR ANY STATE AGENCY FINANCING ADDENDUM.

In the opinion of Certificate Counsel, 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 Certificates, interest evidenced and represented by the Certificates 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. While interest evidenced and represented by the Certificates also is not an item of tax preference for purposes of the alternative minimum tax applicable to corporations, interest evidenced and represented by the Certificates 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 evidenced and represented by the Certificates received by certain S corporations may be subject to tax, and interest evidenced and represented by the Certificates received by foreign corporations with United States branches may be subject to a foreign branch profits tax. Receipt of interest evidenced and represented by the Certificates may have other federal tax consequences for certain taxpayers. See "TAX MATTERS."

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 investment decision. The Certificates are offered when, as and if executed and delivered, subject to the receipt of the approving opinion of Foster Pepper PLLC, Seattle, Washington, Certificate Counsel to the state, and certain other conditions. Certain legal matters in connection with the preparation of this Official Statement will be passed upon for the state by Foster Pepper PLLC, Seattle, Washington, as Disclosure Counsel to the state.

It is anticipated that the Certificates will be available for delivery through the facilities of DTC in New York, New York, or to the Fiscal Agent on behalf of DTC by Fast Automated Securities Transfer on or about March 19, 2014.

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* Preliminary, subject to adjustment by the state as provided in the Official Notice of Sale.

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 Certificates 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 Certificates by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

The information set forth herein has been obtained from sources that are believed to be current and reliable. The state, however, makes no representation regarding the accuracy or completeness of the information in Appendix E–"DTC AND ITS BOOK-ENTRY SYSTEM," which has been obtained from DTC's website, or other information provided by third parties. Estimates and opinions should not be interpreted as statements of fact. Summaries of documents do not purport to be complete statements of their provisions and such summaries are qualified by references to the entire contents of the summarized documents. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made by use of this Official Statement shall, under any circumstances, create any implication that there has been no change in the affairs of the state since the date hereof.

In connection with the offering of the Certificates, the Underwriter may overallot or effect transactions that stabilize or maintain the market price of the Certificates at levels above those which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued or recommenced at any time.

The presentation of certain information, including tables of receipts from taxes and other revenues, is intended to show recent historic information and is not intended to indicate future or continuing trends in the financial position or other affairs of the state. No representation is made that past experience, as it might be shown by such financial and other information, will necessarily continue to be repeated in the future.

This Official Statement contains forecasts, projections and estimates that are based upon expectations and assumptions that existed at the time such forecasts, projections and estimates were prepared. In light of the important factors that may materially affect economic conditions in the state, the inclusion in this Official Statement of such forecasts, projections and estimates should not be regarded as a representation by the state that such forecasts, projections and estimates will occur. Such forecasts, projections and estimates are not intended as representations of fact or as guarantees of results.

If and when included in this Official Statement, the words "plan," "expect," "forecast," "estimate," "budget," "project," "intends," "anticipates" and similar words are intended to identify forward-looking statements, and any such statements inherently are subject to a variety of risks and uncertainties that could cause actual results to differ materially from those projected. Such risks and uncertainties include, among others, general economic and business conditions, changes in political, social and economic conditions, regulatory initiatives and compliance with governmental regulations, litigation and various other events, conditions and circumstances, many of which are beyond the control of the state. These forward-looking statements speak only as of the date they were prepared.

The Certificates will not be registered under the Securities Act of 1933, as amended, in reliance upon an exception contained in such act.

This Preliminary Official Statement has been "deemed final" as of its date by the state pursuant to Rule 15c2-12 (the "Rule") of the Securities and Exchange Commission promulgated under the Securities Exchange Act of 1934, as amended, except for the omission of material permitted to be omitted by such Rule.

CERTIFICATE PAYMENT SCHEDULE

$21,410,000 [1]
STATE OF WASHINGTON
CERTIFICATES OF PARTICIPATION, SERIES 2014A
(STATE AND LOCAL AGENCY PERSONAL PROPERTY)

Evidencing and Representing Undivided Proportionate Interests of the Owners Thereof in State Payments to be Made by the State of Washington Pursuant to the Master Financing Contract

Principal Payment Date (July 1)	Principal Component[2]	Interest Rate	Yield	Price	CUSIP Number[3]
2015	$ 3,665,000	%	%	%	
2016	3,845,000				
2017	4,025,000				
2018	3,955,000				
2019	3,075,000				
2020	1,475,000				
2021	540,000				
2022	210,000				
2023	195,000				
2024	190,000				
2025	115,000				
2026	120,000				
Total	$21,410,000				

(1) Preliminary, subject to adjustment by the state as provided in the Official Notice of Sale.
(2) Preliminary, subject to adjustment by the state as provided in the Official Notice of Sale. These amounts will constitute principal components of Certificates unless Term Certificates are specified by the successful bidder, in which case these amounts will constitute mandatory sinking fund prepayments of Term Certificates; provided, however, that no principal component with a principal payment date on or before July 1, 2024, may be combined with a principal component with a principal payment date on or after July 1, 2025, in a single Term Certificate.
(3) The CUSIP data herein is provided by the CUSIP Global Services, managed on behalf of the American Bankers Association by Standard and Poor's. The CUSIP numbers are not intended to create a database and do not serve in any way as a substitute for CUSIP service. CUSIP numbers have been assigned by an independent company not affiliated with the state and are provided solely for convenience and reference. The CUSIP numbers for a specific maturity are subject to change after the issuance of the Certificates. Neither the state nor the Underwriter takes responsibility for the accuracy of the CUSIP numbers.

PARTICIPATING AGENCIES

The proceeds received from the sale of the Certificates will be applied to finance and/or refinance the costs of acquisition of the following items of personal property for the following participating State Agencies and Local Agencies:

Term (years)	Agency Name	Property	Amount[1]
3	Consolidated Technology Services	Mobile forensics system	$ 10,084
3	Department of Enterprise Services	IT Equipment	13,992
3	Department of Enterprise Services	IT Equipment	28,875
3	City of West Richland[2]	Police Vehicles with Equipment	172,556
3	Centralia School District No. 401[2]	School Busses	237,681
3	City of Kennewick[2]	Computers	380,000
4	Department of Enterprise Services	Automobiles	76,655
4	Department of Enterprise Services	IT Equipment	122,645
4	Department of Enterprise Services	IT Equipment	209,735
4	Department of Enterprise Services	IT Equipment	226,514
4	Department of Enterprise Services	IT Equipment	487,079
4	Consolidated Technology Services	IT Equipment	570,169
4	Department of Enterprise Services	IT Equipment	942,942
4	Department of Enterprise Services	IT Equipment	1,592,094
5	Department of Enterprise Services	HP Servers	39,888
5	Klickitat Fire Protection District No. 1[2]	Ambulance	40,000
5	Washington State University	Media composer	58,780
5	South Whidbey Parks and Rec District[2]	Toro Groundsmaster 4500-D	62,082
5	Department of Agriculture	Scale- 2500 KG Balance with 3 accessories	103,359
5	Department of Enterprise Services	Servers	148,542
5	Oak Harbor School District No 201[2]	School Buses	242,800
5	Department of Enterprise Services	Automobiles	248,130
5	Department of Fish and Wildlife	Law Enforcement Vehicles	664,237
5	Consolidated Technology Services	IT Equipment	2,108,250
5	Department of Enterprise Services	Automobiles	2,335,495
5	Consolidated Technology Services	Mainframe computer	2,357,896
6	Department of Enterprise Services	Automobiles	1,683,471
6	Department of Enterprise Services	Automobiles	1,693,431
6	Department of Enterprise Services	Automobiles	2,282,114
7	Consolidated Technology Services	Phone Equipment	77,753
7	Department of Enterprise Services	Automobiles	174,060
7	Department of Enterprise Services	Automobiles	239,004
7	Department of Enterprise Services	Automobiles	1,780,263
8	Department of Enterprise Services	Automobiles	49,380
8	Department of Enterprise Services	Automobiles	128,354
9	Easton School District No. 28[2]	School Bus	83,070
10	Department of Enterprise Services	Automobiles	143,643
10	Shoreline Community College	Energy Efficiency Upgrades	609,491
12	Department of Enterprise Services	Energy Efficiency Upgrades	1,225,273

(1) Preliminary, subject to adjustment.
(2) Local Agencies, remainder are State Agencies.

STATE FINANCE COMMITTEE
OF THE
STATE OF WASHINGTON

JAMES L. McINTIRE .... Treasurer and Chairman

JAY INSLEE .... Governor and Member

BRAD OWEN .... Lieutenant Governor and Member

Ellen L. Evans .... Deputy State Treasurer—Debt Management

CERTIFICATE COUNSEL AND DISCLOSURE COUNSEL TO THE STATE

Foster Pepper PLLC
Seattle, Washington

FINANCIAL ADVISOR TO THE STATE

Public Financial Management, Inc.
Seattle, Washington

This Official Statement will be available upon request to the Office of the State Treasurer. This Official Statement is available via the Internet at the Office of the State Treasurer's Home Page:

http://www.tre.wa.gov/investors/investorinformation.shtml

The availability of this Official Statement 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 website of the state or any state department or agency is not part of this Official Statement, and investors should not rely on information presented in the state's website, or on any other website referenced herein, in determining whether to purchase the Certificates. Information appearing on any such website is not incorporated by reference in this Official Statement.

CONTACT INFORMATION

State of Washington	Office of the State Treasurer Legislative Building Second Floor, Room 230 416 Sid Snyder Avenue SW Olympia, Washington 98501 Phone: (360) 902-9000
Fiscal Agent	The Bank of New York Mellon Global Corporate Trust-Public Finance 200 Bryan Street. 11th Floor Dallas, Texas 75201 Phone: (800) 438-5473
Certificate Counsel and Disclosure Counsel	Foster Pepper PLLC 1111 Third Avenue, Suite 3400 Seattle, Washington 98101 Phone: (206) 447-4400
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OFFICIAL NOTICE OF SALE

$21,410,000*

STATE OF WASHINGTON
CERTIFICATES OF PARTICIPATION, SERIES 2014A
(STATE AND LOCAL AGENCY PERSONAL PROPERTY)

Evidencing and Representing Undivided Proportionate Interests of the Owners Thereof in State Payments to be Made by the State of Washington Pursuant to the Master Financing Contract

Electronic bids will be received on behalf of the State of Washington (the "state") at the Office of the Treasurer, Legislative Building, Second Floor, Room 230, 416 Sid Snyder Avenue SW, Olympia, Washington, for the purchase of the above-referenced certificates of participation (the "Certificates") at

8:30 A.M., PACIFIC TIME, ON FEBRUARY 25, 2014.

The Certificates will be sold on an all-or-none basis. Bids must be submitted electronically via the Qualified Electronic Bid Provider (defined below). See "Bidding Detail."

All bids received on behalf of the state by the bid time set forth above on such date will be reviewed and verified beginning at that time, by staff acting for the Treasurer's Representative. Bids received after the bid time will not be considered. Bids will be considered and the winning bidder announced subsequently.

Bidders are referred to the Preliminary Official Statement for additional information regarding the state, the Certificates, the security therefor, and other matters.

Modification; Cancellation; Postponement. Bidders are advised that the Treasurer's Representative may modify the terms of sale of the Certificates prior to the bidding. If such modification occurs, supplemental information with respect to the sale of the Certificates will be provided to the Qualified Electronic Bid Provider and i-Deal Prospectus prior to the sale. In addition, the Treasurer's Representative may cancel or postpone the date and time for the receipt of bids at any time prior to the opening of the bids. Notice of such cancellation or postponement will be communicated by the Treasurer's Representative through the Qualified Electronic Bid Provider and i-Deal Prospectus as soon as practicable following such cancellation or postponement. If a postponement occurs, bids will be received at the hour and place set forth above on any weekday as the Treasurer's Representative determines. As an accommodation to bidders, telephonic or facsimile notice of the postponement of the sale date and of the new sale date will be given to any bidder requesting such notice from Public Financial Management, Inc., financial advisor to the state, at telephone: (206) 858-5363. Failure of any bidder to receive such notice by telephone, facsimile, the Qualified Electronic Bid Provider or i-Deal Prospectus will not affect the legality of the sale.

Each bidder (and not the Treasurer's Representative or the state) is responsible for the timely electronic delivery of its bid. The official time will be determined by the Treasurer's Representative and not by any bidder or Qualified Electronic Bid Provider.

Description of the Certificates

The Certificates. The Certificates, evidencing and representing principal in the aggregate amount of $21,410,000,* will be dated as of their date of initial delivery, which is expected to be March 19, 2014, and will be executed and delivered in fully registered form in denominations of $5,000 and any integral multiple thereof. The Certificates will evidence and represent interest at such rate or rates as are fixed at the time of sale, payable semiannually on each January 1 and July 1, beginning on January 1, 2015.

* Preliminary, subject to adjustment by the state as provided in this Official Notice of Sale.

The portions of the State Payments designated as principal and evidenced and represented by the Certificates will be payable on July 1 of each year as follows:

Principal Payment Date (July 1)*	Principal Component*
2015	$ 3,665,000
2016	3,845,000
2017	4,025,000
2018	3,955,000
2019	3,075,000
2020	1,475,000
2021	540,000
2022	210,000
2023	195,000
2024	190,000
2025	115,000
2026	120,000
Total	$21,410,000

Adjustment of Principal. The Treasurer's Representative has reserved the right to adjust the foregoing principal components upward or downward. The principal component due on any Principal Payment Date may not be adjusted by more than 10 percent, and the aggregate of such upward and downward adjustments will not exceed 10 percent; however, adjustments in excess of 10 percent can be made with the approval of the apparent winning bidder. Notice of any adjustment will be provided by the Treasurer's Representative to the successful bidder no later than 11:00 a.m., Pacific Time, on the date bids are to be received. The state is not responsible in the event and to the extent that any such adjustment affects the net compensation to be realized by the successful bidder.

Term Certificates. Bidders have the option to designate the total Principal Component payable on any two or more consecutive Principal Payment Dates for the Certificates as mandatory prepayments with respect to the Term Certificates; provided, however, that no Principal Component with a Principal Payment date on or before July 1, 2024, may be combined with a Principal Component with a Principal Payment Date on or after July 1, 2025, in a single Term Certificate. If no Term Certificates are designated, the Principal Components represented by Certificates payable on each Principal Payment Date will be as set forth above in this Official Notice of Sale, subject to adjustment as provided in this Official Notice of Sale.

Optional Prepayment. The Certificates with Principal Payment Dates on and after July 1, 2025, are subject to prepayment prior to their respective stated Principal Payment Dates, as a whole, or in part in Authorized Denominations, on any date on or after July 1, 2024, upon the exercise by the state at the direction of any Agency of its option to prepay the Principal Components evidenced and represented by those Certificates, at the Prepayment Price (expressed as a percentage of the Principal Components prepaid) of 100 percent, plus accrued interest, if any, evidenced and represented thereby to the Prepayment Date.

Mandatory Prepayment. If any of the Certificates are designated as Term Certificates by the successful bidder, those Certificates are subject to mandatory prepayment prior to their respective Principal Payment Dates in the amount of the Principal Component evidenced and represented thereby being prepaid, plus accrued interest evidenced and represented thereby to the Prepayment Date, and without premium. See "Term Certificates."

Book-Entry Only. The Certificates 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 Certificates. Individual purchases will be made in book-entry form only, and purchasers will not receive physical certificates

* Preliminary, subject to adjustment by the state as provided in this Official Notice of Sale. These amounts will constitute principal components of Certificates unless Term Certificates are specified by the successful bidder, in which case these amounts will constitute mandatory sinking fund prepayments of Term Certificates. See "Description of the Certificates-*Term Certificates*."

representing their interests in the Certificates purchased. See Appendix E–"DTC AND ITS BOOK-ENTRY SYSTEM" in the Preliminary Official Statement.

Purpose

The Certificates are being executed and delivered to finance and/or refinance the costs of acquiring certain items of personal property for the benefit of certain Agencies, as shown on the table entitled "Participating Agencies" on page ii, and to pay issuance costs with respect to the Certificates. See "SOURCES AND USES OF CERTIFICATE PROCEEDS" in the Preliminary Official Statement.

Security

For a description of the security for the Certificates, see "SECURITY FOR THE CERTIFICATES" in the Preliminary Official Statement.

Bidding Detail

Electronic Bids. Electronic bids for the Certificates must be submitted via a Qualified Electronic Bid Provider only. The state has designated Parity® as the Qualified Electronic Bid Provider for purposes of receiving electronic bids for the Certificates. By designating a bidding service as a Qualified Electronic Bid Provider, the state does not endorse the use of such bidding service.

A bidder submitting an electronic bid for the Certificates thereby agrees to the following terms and conditions:

(1) If any provision in this Official Notice of Sale with respect to the Certificates conflicts with information or terms provided or required by the Qualified Electronic Bid Provider, this Official Notice of Sale, including any amendments issued through the Qualified Electronic Bid Provider and i-Deal Prospectus, shall control.

(2) Each bidder will be solely responsible for making necessary arrangements to access the Qualified Electronic Bid Provider for purposes of submitting its bid in a timely manner and in compliance with the requirements of this Official Notice of Sale.

(3) The state shall not have any duty or obligation to provide or assure access to the Qualified Electronic Bid Provider to any bidder, and the state shall not be responsible for proper operation of, or have any liability for, any delays, interruptions or damages caused by use of the Qualified Electronic Bid Provider or any incomplete, inaccurate or untimely bid submitted by any bidder through the Qualified Electronic Bid Provider.

(4) The state is permitting use of the Qualified Electronic Bid Provider as a communication mechanism, and not as the state's agent, to conduct the electronic bidding for the Certificates. The Qualified Electronic Bid Provider is acting as an independent contractor, and is not acting for or on behalf of the state.

(5) The state is not responsible for ensuring or verifying bidder compliance with any Qualified Electronic Bid Provider procedures.

(6) If the bidder's bid is accepted by the state, this Official Notice of Sale and the information that is transmitted electronically through the Qualified Electronic Bid Provider shall form a contract, and the bidder shall be bound by the terms of such contract.

(7) Information provided by the Qualified Electronic Bid Provider to bidders shall form no part of any bid or of any contract between the successful bidder and the state unless that information is included in this Official Notice of Sale.

Further information about the Qualified Electronic Bid Provider, including any fees charged, may be obtained by calling Bidcomp/Parity® at (212) 849-5021.

Form of Bids. Bids for the Certificates must be unconditional, and for not less than all of the Certificates. By submitting a bid, each bidder agrees to all of the terms and conditions of this Official Notice of Sale, as they may be modified in accordance herewith. Bids for the Certificates must be submitted electronically via the Qualified Electronic Bid Provider. Bids may not be withdrawn or revised after the time that bids are due.

Interest Rates Bid. Bidders for the Certificates may specify any number of interest rates in multiples of one-eighth or one-twentieth of one percent (1/8 or 1/20 of 1 percent), or both. The state does not require the use of ascending coupons. Bidders may not specify more than one interest rate with respect to Certificates with a common Principal Payment Date. Each Certificate must evidence and represent interest from its date to its respective Principal Payment Date. Each Principal Component must be reoffered at a yield that will produce a price of not less than 97 percent.

Premium and Discount. No bid will be considered that offers to pay an amount less than 98 percent ($20,981,800) nor more than 115 percent ($24,621,500) of the aggregate Principal Components evidenced and represented by the Certificates.

Selection of Winning Bid

The Certificates will be sold to the bidder submitting a bid in conformance with this Official Notice of Sale that produces the lowest true interest cost ("TIC") to the state, based on the bid price, the interest rates specified in the electronic bid and the Principal Components identified in this Official Notice of Sale. The TIC will be the rate necessary, when using 360-day year and semiannual compounding, to discount the Principal and Interest Components with respect to the Certificates from the respective Principal Payment Dates to the initial delivery date of the Certificates (currently anticipated to be March 19, 2014) and to the price bid.

The successful bidder will be bound to purchase the Certificates with the Principal Components specified in this Official Notice of Sale, with adjustments, if any, as permitted herein, at such price, and with such interest rates, as are specified in its bid. If there are adjustments to the Principal Components payable on individual Principal Payment Dates, the premium or discount bid by the successful bidder will be adjusted to take into account original issue premiums or discounts for those Principal Payment Dates.

Right of Rejection

The Treasurer Representative reserves the right to reject any or all bids and to waive any irregularity in any bid. In the event that two or more bidders submit bids at the same lowest TIC, the Treasurer's Representative will determine which bidder is awarded the Certificates in her sole discretion.

Good Faith Deposit

The successful bidder shall deliver a good faith deposit in the amount of $225,000 to the Treasurer. The good faith deposit may be paid in one of the following ways:

(1) By federal funds wire transfer delivered no later than 90 minutes following the successful bidder's receipt of the verbal award. Wiring instructions will be provided to the successful bidder at the time of the verbal award; or

(2) By certified or bank cashier's check made payable to the order of the State Treasurer and delivered to the Treasurer prior to the time of receipt of the bids.

Any good faith deposit submitted by a bidder whose bid is not accepted shall be returned promptly by the state, but the state shall not be liable for interest for any delay in such return.

If the bid is accepted, the good faith deposit will be deposited by the Treasurer and be applied to the purchase price of the Certificates when the same are delivered and paid for under the terms of the bid, or shall be retained as and for liquidated damages in case the successful bidder fails to accept the Certificates when ready for delivery or fails to complete payment therefor in accordance with the terms of the bid. Pending delivery of the Certificates, the good faith deposit may be invested for the sole benefit of the state.

Rating; Insurance

Rating. The Certificates have been rated Aa2 by Moody's Investors Service, Inc., and the state will pay the fees for this rating. Any other ratings are the responsibility of the successful bidder.

Insurance. The purchase of any insurance policy for the Certificates or the issuance of any commitment therefor will be at the sole option and expense of the successful bidder for the Certificates. Bids for the Certificates may not be conditioned upon obtaining municipal bond insurance or any other credit enhancement, and any increased costs of issuance of the Certificates resulting by reason of such insurance shall be paid by the successful bidder and shall not, in any event, be paid by the state. Payment of any insurance premium and satisfaction of any conditions to the issuance of a municipal bond insurance policy is the sole responsibility of the successful bidder. In particular, the state will neither amend nor supplement the financing documents in any way nor will it enter into any additional agreements with respect to the provision of any such policy.

Failure of any insurance provider to issue or deliver its policy will not constitute cause for failure or refusal by the successful bidder to accept delivery of or tender payment for the Certificates.

The successful bidder must provide the state with the municipal bond insurance commitment and information with respect to the municipal bond insurance policy and the insurance provider for inclusion in the final Official Statement within two business days following the award of the bid by the state. The state will require delivery, on or prior to the date of initial delivery of the Certificates, of:

(1) a certificate from the insurance provider regarding the accuracy and completeness of the information provided for inclusion in the Official Statement,

(2) an opinion of counsel to the insurance provider regarding the enforceability of the municipal bond insurance policy, and

(3) a certificate with respect to certain tax matters,

each in form reasonably satisfactory to the state and Certificate Counsel.

Delivery of Certificates

General. The Certificates will be delivered to DTC in New York, New York, or to the Fiscal Agent on behalf of DTC through Fast Automated Securities Transfer, against payment of the purchase price to the state, in immediately available federal funds less the amount of the good faith deposit. On or before the date of delivery of and payment for the Certificates, the successful bidder shall provide to the state such information as Certificate Counsel to the state deems necessary to determine the yield on the Certificates for purposes of Section 148 of the Internal Revenue Code of 1986, as amended.

Upon award of the Certificates, the successful bidder shall advise the state and Certificate Counsel of the initial reoffering prices at which each Principal Component of the Certificates is reasonably expected on the sale date to be sold to the public (the "Initial Reoffering Prices") for the state's inclusion in the final Official Statement for the Certificates. Simultaneously with or before delivery of the Certificates, the successful bidder shall furnish to the state and Certificate Counsel a certificate in form and substance acceptable to Certificate Counsel:

(1) confirming the Initial Reoffering Prices;

(2) certifying that a *bona fide* offering of such Certificates has been made to the public (excluding bond houses, brokers and other intermediaries);

(3) stating the first price at which a substantial amount (at least 10 percent of each maturity) of such Certificates was sold to the public (excluding bond houses, brokers and other intermediaries);

(4) if the first price at which a substantial amount of any maturity of such Certificates does not conform to the Initial Reoffering Price of that maturity, providing an explanation of the facts and circumstances that resulted in that non-conformity; and

(5) stating which maturities, if any, are amortization installments of Term Certificates maturing in the years specified by the bidder.

The successful bidder for the Certificates must actually reoffer all of the Certificates to the general public (excluding bond houses, brokers or similar persons or organizations acting in the capacity of underwriters or wholesalers).

A draft form of such certificate will be available prior to the sale date from the state's financial advisor, Public Financial Management, Inc.

The Certificates will be delivered in "book-entry only" form in accordance with the Letter of Representations from the state to DTC. As of the date of award of the Certificates, the successful bidder must either participate in DTC or must clear through or maintain a custodial relationship with an entity that participates in DTC.

The state will furnish to the successful bidder one transcript of proceedings; additional transcripts will be furnished at the successful bidder's cost.

If, prior to the delivery of any of the Certificates, the interest component evidenced and represented thereby becomes includable in the gross income of the recipients thereof for federal income tax purposes, or if legislation which would have the same effect if adopted into law is passed by either house of Congress or proposed by a joint conference committee, the successful bidder, at its option, may be relieved of the obligation to purchase the Certificates, and the state, at its option, may be relieved of the obligation to deliver the Certificates.

Cancellation of Sale. The successful bidder has the right, at its option, to cancel its obligation to purchase the Certificates for which it submitted the winning bid if the state fails to cause the execution and delivery of such Certificates within 45 days from the award to the successful bidder, and in such event the successful bidder will be entitled only to the return of the principal amount of the good faith deposit.

CUSIP Numbers

It is anticipated that CUSIP identification numbers will be printed on the Certificates; however, neither the failure to print CUSIP numbers on any Certificate nor any error with respect thereto will constitute cause for failure or refusal by the successful bidder therefor to accept delivery of and pay for the Certificates.

The state is responsible for obtaining CUSIP numbers, and all expenses for printing CUSIP numbers on the Certificates will be paid for by the state, but the CUSIP Global Services charge for assignment of those numbers is the responsibility of and shall be paid for by the successful bidder.

Legal Opinion

The state will furnish to the successful bidder and have delivered with the Certificates the legal opinion of Foster Pepper PLLC, Seattle, Washington, Certificate Counsel, in substantially the form attached to the Preliminary Official Statement as Appendix C.

Continuing Disclosure

The state will enter into an undertaking for the benefit of the beneficial owners of the Certificates to provide or to cause to be provided, either directly or through a designated agent, to the Municipal Securities Rulemaking Board (the "MSRB") certain historical financial information and operating data of the state and notice of certain events pursuant to the requirements of paragraph (b)(5)(1) of Securities and Exchange Commission ("SEC") Rule 15c2-12 (the "Rule"). See "CONTINUING DISCLOSURE UNDERTAKING" in the Preliminary Official Statement. The state has never failed to comply in any material respect with any previous undertaking entered into pursuant to the Rule.

Closing Documents

As a condition to the obligations of the successful bidder to accept delivery of and pay for the Certificates, the successful bidder will be furnished with the following, dated as of the date of the closing:

(1) a certificate of the state, signed on behalf of the state by the Treasurer's Representative, certifying that to her knowledge and belief, and after reasonable investigation, the Preliminary Official Statement relating to the Certificates did not as of its date, and the Official Statement relating to the Certificates did not as of its date or as of the date of closing, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading in any material respect, and no event affecting the Certificates has occurred since the date of the Official Statement which should be disclosed in the Official Statement for the purpose for which it is to be used or which it is necessary to disclose therein in order to make the statements and information therein not misleading in any material respect (except that in no event is any representation being made with respect to information therein regarding DTC and its book-entry only system and regarding any municipal bond insurer and its municipal bond insurance policy, and information provided by the successful bidders regarding reoffering prices and yields); and

(2) a certificate of an Assistant Attorney General of the state, based on such inquiry and investigation deemed sufficient by such Assistant Attorney General, to the effect that, except as otherwise disclosed in the Preliminary Official Statement or the Official Statement, there is no action, suit or proceedings or any inquiry or investigation by or before any court, governmental agency, public board or body in which the state has been served or, to the best of his/her knowledge, is threatened that seeks to restrain or enjoin the sale, execution or delivery of the Certificates or in any other manner affects the validity of the Certificates or the proceedings or authority pursuant to which they are to be sold, executed and delivered, or the validity or enforceability of the Trust Agreement, the Master Financing Contract, the Agency Financing Contracts or the Master Assignment.

Official Statement

The Preliminary Official Statement is in a form deemed final by the state for the purpose of the Rule, but is subject to revision, amendment and completion in a final Official Statement, which the state will deliver to the successful bidder not later than seven business days after the state's acceptance of such bidder's proposal, in sufficient quantities to permit the successful bidder to comply with the Rule, at the state's expense.

The successful bidder shall file, or cause to be filed, the final Official Statement with the MSRB within one business day following the receipt of the Official Statement from the state.

The successful bidder also agrees:

(1) to provide to the Treasurer, in writing, within 24 hours of the acceptance of the bid, pricing and other related information, including the initial reoffering prices of the Certificates, necessary for completion of the final Official Statement as set forth under "Delivery of Certificates−General";

(2) to disseminate to all members of the underwriting syndicate, if any, copies of the final Official Statement, including any supplements or amendments prepared by the state; and

(3) to take any and all actions necessary to comply with applicable SEC and MSRB rules governing the offering, sale and delivery of the Certificates to ultimate purchasers, including without limitation, the delivery of a final Official Statement to each investor who purchases the Certificates.

Additional Information

Additional information may be obtained from the undersigned at the Office of the State Treasurer, Legislative Building, Second Floor, Room 230, 416 Sid Snyder Avenue SW, Olympia, Washington 98501 (telephone: (360) 902-9007). The Preliminary Official Statement may be obtained from i-Deal Prospectus, a service of i-Deal LLC, at *www.i-dealprospectus.com*; telephone (212) 849-5024.

STATE FINANCE COMMITTEE
STATE OF WASHINGTON

By: /s/ Ellen Evans
Deputy State Treasurer—Debt Management

OFFICIAL STATEMENT

$21,410,000*
STATE OF WASHINGTON
CERTIFICATES OF PARTICIPATION, SERIES 2014A
(STATE AND LOCAL AGENCY PERSONAL PROPERTY)

Evidencing and Representing Undivided Proportionate Interests of the Owners Thereof in State Payments to be Made by the State of Washington Pursuant to the Master Financing Contract

INTRODUCTION

The purpose of this Official Statement, including the cover page, the inside cover page and the appendices hereto, is to provide information relating to the State of Washington (the "state" or "Washington") and the $21,410,000* aggregate principal amount of State of Washington Certificates of Participation, Series 2014A (State and Local Agency Personal Property) (the "Certificates"), proposed to be issued by the state.

This Official Statement is not to be construed as a contract or agreement between the state and the purchasers of the Certificates.

General Description

The proceeds of the Certificates are to be used to finance and/or refinance the cost of acquiring certain items of personal property for the benefit of certain State Agencies and Local Agencies (together, the "Agencies"), as shown on the table entitled "Participating Agencies" on page ii, and to pay issuance costs with respect to the Certificates.

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

Capitalized terms used herein, if not specifically defined, are used as defined in Appendix I to the Trust Agreement. See Appendix B—"DEFINITIONS AND SUMMARY OF CERTAIN LEGAL DOCUMENTS."

Property

Various Agencies have purchased personal property to be financed or refinanced with the proceeds of the Certificates (collectively, the "Property") on behalf of and as the agent of the Corporation. Pursuant to the Master Financing Contract, the state is purchasing the Property from the Corporation. The state in turn is selling the Property to the applicable Agencies pursuant to a separate Local Agency Financing Contract between the state and each Local Agency or a separate State Agency Financing Addendum to the Master Financing Contract between the state and each State Agency, each dated as of the Dated Date. Each State Agency Financing Addendum and Local Agency Financing Contract is an Agency Financing Contract.

Each Agency is required to make Agency Installment Payments to the state pursuant to its Agency Financing Contract for the purchase of its respective items of Personal Property. The Agency Installment Payments payable by the participating Agencies pursuant to the Agency Financing Contracts in the aggregate are at least equal to the corresponding State Payments payable by the state pursuant to the Master Financing Contract. Pursuant to a Master Assignment (the "Master Assignment (Equipment)"), dated as of the Dated Date, the Corporation is assigning and transferring to the Fiscal Agent, without recourse, all of its rights to receive the State Payments from the state pursuant to the Master Financing Contract, its right to take all actions, exercise all remedies and give all consents under and pursuant to the Master Financing Contract, and all of its remaining right, title and interest in, to and under

* Preliminary, subject to adjustment by the state as provided in the Official Notice of Sale.

the Master Financing Contract and the Agency Financing Contracts, and in and to the Property. See "SECURITY FOR THE CERTIFICATES" and Appendix B—"DEFINITIONS AND SUMMARY OF CERTAIN LEGAL DOCUMENTS."

State Payments and Agency Installment Payments

Except as otherwise described herein, Installment Payments due from the state under the Master Financing Contract ("State Payments") are payable from Agency Installment Payments to be made pursuant to the Agency Financing Contracts. The obligation of each State Agency to make its Agency Installment Payments is subject to appropriation by the Legislature and to Executive Order reduction by the Governor. The state is not obligated to pay the State Payments other than from appropriated funds of the respective State Agencies and from Agency Installment Payments received from Local Agencies. Payment of the Agency Installment Payments of each Local Agency is secured by the full faith and credit of such Local Agency. In the event that any Local Agency fails to make any payment due under its Agency Financing Contract, the Treasurer is obligated to withhold an amount sufficient to make such payment from the Local Agency's share, if any, of state revenues or other amounts authorized or required by law to be distributed by the state to such Local Agency, if otherwise legally permissible. Upon the failure of any Local Agency to make any Agency Installment Payment as required pursuant to its Agency Financing Contract, the Treasurer is further obligated, to the extent of legally available appropriated funds and subject to any Executive Order reduction, to make such payment on behalf of such Local Agency. See "SECURITY FOR THE CERTIFICATES."

Document Summaries

For summaries of the Trust Agreement, the Master Financing Contract, the Agency Financing Contracts and the Master Assignment, see Appendix B—"DEFINITIONS AND SUMMARY OF CERTAIN LEGAL DOCUMENTS." Such summaries and descriptions herein of the Certificates, the Master Financing Contract, the Agency Financing Contracts and the Master Assignment, and the Committee's authorizing resolutions and the references to and summaries of certain provisions of the Washington State Constitution (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. General and economic information about the state is included in Appendix A—"GENERAL AND ECONOMIC INFORMATION," and audited financial statements for the state's fiscal year ended June 30, 2013, are included as Appendix D—"THE STATE'S 2013 AUDITED FINANCIAL STATEMENTS."

State Finance Committee

The Legislature, by statute, has delegated to the State Finance Committee (the "Committee") authority to supervise and control the issuance of all state bonds and other state obligations, including certificates of participation and other financing contracts, authorized by the Legislature. The Committee is composed of the Governor, Lieutenant Governor and Treasurer. The Treasurer is designated as Chairman of the Committee, and 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. A Deputy State Treasurer acts as recording officer for the Committee and is responsible for the administration of its official duties in accordance with prescribed policies of the Committee.

THE CERTIFICATES

Authorization

The state is authorized by Chapter 39.94 RCW, as amended (the "Act"), to enter into financing contracts, for the state and its agencies or on behalf of certain local agencies specified in the Act, to acquire real and personal property to be used by the state or its agencies or such local agencies, and to issue certificates of participation in those contracts. The term "local agency" is defined in the Act to include a library or regional library, an educational service district, the superintendent of public instruction, the school directors' association, a health district, or any county, city, town, school district, or other municipal corporation or quasi-municipal corporation. Financing contracts may include, but are not limited to, conditional sales contracts, financing leases, lease purchase contracts, and refinancing contracts that provide for payment by the state over a term of more than one year.

All financing contracts of the state must be approved by the Committee, and financing contracts for the acquisition of real property by the state must receive the prior approval of the Legislature. The Washington Supreme Court in *State Department of Ecology v. State Finance Committee*, 116 Wn.2d 246, 804 P.2d 1241 (1991), held that a financing contract for the state's Department of Ecology did not create debt within the meaning of Article VIII, Section 1, of the Constitution.

By Resolution No. 987, adopted on October 7, 2003, the Committee authorized and approved the execution and delivery of certificates of participation (including the Certificates) in series from time to time in payments to be made by the state pursuant to master financing contracts and/or master financing leases. The Committee also approved the forms of the Trust Agreement, the Master Financing Contract, the Agency Financing Contracts and the Master Assignment and authorized and approved the execution and delivery thereof in connection with each series of certificates of participation. Under the Committee's most recent Finance Plan, the aggregate principal amount of financing contracts (including certificates of participation therein) of the state to be outstanding was set at $1,650,230,000, plus financing expenses and required reserves, including certificates expected to be issued to finance acquisition and construction of real estate and equipment for state agencies and local governments.

Agency Financing Contracts for the acquisition of personal property are being entered into by the State Agencies under the provisions of the Act and by Local Agencies under approving ordinances or resolutions adopted pursuant to applicable state law. See "SOURCES AND USES OF CERTIFICATE PROCEEDS–Purpose."

Book-Entry System

When issued, the Certificates will be registered in the name of Cede & Co. (or such other name as may be requested by an authorized representative of DTC), as nominee of DTC. DTC will act as Securities Depository for the Certificates. Individual purchases are to be made only in book-entry form through DTC, and purchasers will not receive physical certificates representing their interest in the Certificates purchased. For information about DTC and its book-entry system, see Appendix E—"DTC AND ITS BOOK-ENTRY SYSTEM."

Payment of Principal and Interest

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

The interest components of State Payments (the "Interest Components") evidenced and represented by the Certificates will be payable semiannually on January 1 and July 1 of each year (each an "Interest Payment Date" and together with Principal Payment Dates, the "Certificate Payment Dates"), beginning on January 1, 2015, at the rates shown on page i of this Official Statement. Such interest is to be computed using a 360-day year comprised of 12 30-day months.

When the Certificates are in book-entry form and held by DTC, payments of Principal Components and Interest Components on the Certificates will be made as provided in the operational arrangements of DTC as referenced in the Letter of Representations.

Pursuant to authority granted in chapter 43.80 RCW, the Committee appoints one or more fiscal agents 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 referred to herein as the "Fiscal Agent." The Committee currently has a contract with The Bank of New York Mellon to act as the Fiscal Agent for a term that began February 1, 2007, and continues to January 31, 2015. Under the terms of the current fiscal agency contract, The Bank of New York Mellon is to authenticate the Certificates for delivery to The

Depository Trust Company ("DTC") and remit to DTC payments received from the state as principal and interest represented by the Certificates.

If at any time the Certificates are not in book-entry form, payment of the Interest Component evidenced and represented by each Certificate is to be made on each Interest Payment Date to and including the Principal Payment Date or Prepayment Date to the person whose name appears on the Certificate Register as the Owner thereof as of the close of business on the 15th day of the month immediately preceding each Interest Payment Date and Principal Payment Date (the "Record Date"), such interest to be paid by check or draft mailed by first class mail on such Interest Payment Date to such Owner at the address as it appears on such Certificate Register. Payment of the Principal Component or Prepayment Price evidenced and represented by each Certificate is to be made upon presentation and surrender thereof by the Owner at the Principal Office of the Fiscal Agent.

Prepayment

Optional Prepayment. The Certificates with Principal Payment Dates on and after July 1, 2025, are subject to optional prepayment prior to their respective Principal Payment Dates, as a whole or in part in Authorized Denominations on any date on or after July 1, 2024, upon the exercise by the state at the direction of any Agency of its option to prepay the Principal Components evidenced and represented by such Certificates, at the Prepayment Price (expressed as a percentage of the Principal Components prepaid) of 100 percent plus accrued interest, if any, evidenced and represented thereby to the Prepayment Date.

Mandatory Prepayment. The Certificates with a Principal Payment Date of July 1, 20__, and the Certificates with a Principal Payment Date of July 1, 20__ (collectively, the "Term Certificates"), are subject to mandatory prepayment prior to their stated Principal Payment Dates, in part in Authorized Denominations, from State Payments in the amount of the Principal Component evidenced and represented thereby being prepaid, plus accrued interest evidenced and represented thereby to the Prepayment Date, without premium, as follows:

20__ Term Certificates		**20__ Term Certificates**	
Mandatory Prepayment Date	**Principal Component**	**Mandatory Prepayment Date**	**Principal Component**

____
* Principal Payment Date.

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

Notice of Prepayment. Notice of prepayment is required to be given by the Fiscal Agent not less than 30 nor more than 60 days prior to the Prepayment Date, to the Treasurer, the Owner of each Certificate affected at the address shown on the Certificate Register on the date such notice is mailed, the Securities Depository and the Municipal Securities Rulemaking Board (the "MSRB"). Each notice of prepayment must state the date of such notice, the date of execution and delivery of the Certificates, the Prepayment Date, the Prepayment Prices, the place or places of prepayment (including the name and appropriate address or addresses of the Fiscal Agent), the CUSIP number of the Certificates being prepaid, the source of the funds to be used for such prepayment, the Principal Component due and evidenced and represented by the Certificates, the distinctive certificate numbers of the Certificates or portions thereof to be prepaid, the rate or rates of interest evidenced and represented by the Certificates to be prepaid, and the Principal Payment Dates of the Certificates to be prepaid. The notice also must state that the interest evidenced and represented by the Certificates designated for prepayment will cease to accrue from and after such Prepayment Date, and that on said date there will become due and payable with respect to each of the prepaid Certificates the

Prepayment Price of the Certificate to be prepaid, and interest, if any, accrued thereon to the Prepayment Date. Such notice must require that such Certificates be then surrendered at the address or addresses of the Fiscal Agent specified in the prepayment notice.

With respect to any notice of optional prepayment of Certificates, unless such Certificates are to be deemed to have been paid as set forth in the defeasance provisions of the Trust Agreement or unless the Fiscal Agent has cash or Government Obligations sufficient to pay the Prepayment Price, such notice may state that such prepayment shall be conditional upon the receipt by the Fiscal Agent on or prior to the date fixed for such prepayment of money sufficient to pay the Prepayment Price due and evidenced and represented by such Certificates and interest payable with respect thereto, and that if such money is not so received the notice would be of no force and effect and the Fiscal Agent would not be required to prepay such Certificates. In the event that such notice of prepayment contains such a condition and such money is not so received, the prepayment would not be required to be made and the Fiscal Agent would be required within a reasonable time thereafter to give notice, in the manner in which the notice of prepayment was given, that such money was not so received.

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

Termination of Book-Entry System

If DTC resigns as the securities depository and no substitute can be obtained, or if the state determines that it is in the best interest of the beneficial owners of the Certificates that they be able to obtain certificates, the ownership of the Certificates will be transferred to any person as described in the Trust Agreement and the Certificates will no longer be held in fully immobilized form. New certificates then will be issued in Authorized Denominations and registered in the names of the beneficial owners. See Appendix E—"DTC AND ITS BOOK-ENTRY SYSTEM."

State and Fiscal Agent Responsibilities

Neither the state nor the Fiscal Agent will have any responsibility or any liability to beneficial owners for any error, omission, action, or failure to act on the part of DTC or any Direct Participant or Indirect Participant of DTC with respect to the following: (1) proper recording of beneficial ownership interests of the Certificates or confirmation of their ownership interest; (2) proper transfers of such beneficial ownership interests; (3) the payment, when due, to the beneficial owners of principal or Prepayment Price or interest evidenced and represented by the Certificates; (4) any notices to beneficial owners; (5) any consent given; or (6) any other DTC or Participant error, omission, action or failure to act pertaining to the Certificates.

Defeasance

The Trust Agreement provides that if money and/or "Government Obligations" maturing at such times and bearing interest to be earned thereon in amounts sufficient to prepay the principal and interest evidenced and represented by any or all of the Certificates in accordance with their terms and the terms of the Trust Agreement and the Master Financing Contract are set aside irrevocably in a special trust account to effect such prepayment and are pledged for such purpose, then no further payments are required to be made to pay or secure the payment of such principal and interest evidenced and represented by such Certificates, and such Certificates are to be deemed thereafter not to be outstanding. See Appendix B–"DEFINITIONS AND SUMMARY OF CERTAIN LEGAL DOCUMENTS."

SOURCES AND USES OF CERTIFICATE PROCEEDS

Purpose

Proceeds of the Certificates will be used to (1) pay all or a portion of the cost of acquiring certain items of personal property for various State and Local Agencies and (2) pay costs of issuance of the Certificates.

A complete listing of the participating Agencies and their respective personal property being financed or refinanced is shown on page ii under the heading "Participating Agencies."

Sources and Uses

The following table shows the sources and uses of Certificate proceeds:

SOURCES AND USES

Sources	
Principal Component of Certificates	
[Net] Original Issue [Premium/Discount]	
Total Sources	
Uses	
Deposit to Acquisition Fund (Personal Property)	
Costs of Issuance(1)	
Underwriting Spread	
Total Uses	

(1) Includes fees for services of the rating agency, financial advisor, certificate counsel and disclosure counsel, and other costs.

SECURITY FOR THE CERTIFICATES

Introduction

As further described in this section, the obligation of each State Agency to make its Agency Installment Payments is subject to appropriation by the Legislature and to Executive Order reduction by the Governor. The state is not obligated to pay the State Payments other than from appropriated funds of the respective State Agencies and from Agency Installment Payments received from Local Agencies. Payment of the Agency Installment Payments of each Local Agency is secured by the full faith and credit of such Local Agency. In the event that any Local Agency fails to make any payment due under its Agency Financing Contract, the Treasurer is obligated to withhold an amount sufficient to make such payment from the Local Agency's share, if any, of state revenues or other amounts authorized or required by law to be distributed by the state to such Local Agency, if otherwise legally permissible. Upon the failure of any Local Agency to make any Agency Installment Payment as required pursuant to its Agency Financing Contract, the Treasurer is further obligated, to the extent of legally available appropriated funds and subject to any Executive Order reduction, to make such payment on behalf of such Local Agency.

The Certificates are not secured by payments received for or property securing any other series of certificates of participation.

State Payments

The Certificates represent undivided proportionate interests in State Payments. Pursuant to the Master Financing Contract, the Corporation will lease or sell the Property to the state. In consideration thereof, the state is required to make State Payments to the Fiscal Agent, as assignee of the Corporation, during the terms of the Master Financing Contract. State Payments are composed of Principal Components and/or Interest Components. State Payments are due on each Certificate Payment Date.

Except as otherwise described below, State Payments due from the state under the Master Financing Contract are payable solely from Agency Installment Payments to be made by the respective Agencies pursuant to the related Agency Financing Contract. The total of the Agency Installment Payments payable by the participating Agencies on each Agency Installment Payment Date pursuant to the Agency Financing Contracts is at least equal to the State Payment payable by the state pursuant to the Master Financing Contract on the next succeeding State Payment Date. Agency Installment Payments are due one month prior to the corresponding State Payment Date.

Pursuant to the Master Assignment, the Corporation is assigning and transferring to the Fiscal Agent, without recourse, all of its rights to receive the State Payments; its right to take all actions, exercise all remedies and give all consents under and pursuant to the Master Financing Contract; and all of its remaining right, title and interest in, to and under the Master Financing Contract and the Agency Financing Contracts, and in and to the Property.

State Intercept

If any Local Agency fails to make any Agency Installment Payment due under its Agency Financing Contract, the Treasurer is obligated pursuant to the Master Financing Contract to withhold an amount sufficient to make that payment from the Local Agency's share, if any, of state revenues or other amounts that are authorized or required by law to be distributed by the state to that Local Agency, including but not limited to leasehold excise taxes, sales and use taxes, excise taxes and property taxes; *provided*, that the use of any such revenues or amounts to make the payments is otherwise authorized or permitted by state law. This withholding will continue until all payments due under the related Agency Financing Contract have been made. Amounts withheld by the Treasurer are to be applied to make any payment due under the related Agency Financing Contract on behalf of the Local Agency, or to reimburse the Treasurer for any payment made by the Treasurer.

THERE CAN BE NO ASSURANCE AS TO THE AVAILABILITY OF FUNDS FOR INTERCEPT BY THE TREASURER WITH RESPECT TO ANY LOCAL AGENCY UPON THE LOCAL AGENCY'S FAILURE TO MAKE ANY AGENCY INSTALLMENT PAYMENT PURSUANT TO ITS AGENCY FINANCING CONTRACT.

Payment History

The principal and interest represented by certificates of participation in lease or other payment obligations that are payable by the state have always been paid when due. The state never has failed to appropriate funds to meet its lease, installment sale or other payment obligations with respect to outstanding certificates of participation. No local agency has failed to make its lease, installment sale or other payment obligations with respect to agency financing contracts or agency financing leases with the state in respect of outstanding certificates of participation.

Conditional State Payment Obligations

If any Local Agency fails to make any Agency Installment Payment due under its Agency Financing Contract, the Treasurer is obligated, to the extent of legally available appropriated funds and subject to any Executive Order reduction, to make such payment on behalf of such Local Agency within 10 Business Days after the Agency Installment Payment was due.

The Treasurer currently has appropriation authority sufficient to make any such payments that may come due within the current biennium. The Treasurer has covenanted in the Master Financing Contract to include in its biennial budget all scheduled Agency Installment Payments due during such biennium pursuant to any Agency Financing Contract with a Local Agency, and to use its best efforts to obtain appropriations by the Legislature in amounts sufficient to make any such payments.

Limited Obligation of State

THE MASTER FINANCING CONTRACT AND THE STATE AGENCY FINANCING ADDENDA CONSTITUTE SPECIAL, LIMITED OBLIGATIONS OF THE STATE PAYABLE SOLELY FROM THE SOURCES AND SUBJECT TO THE LIMITATIONS SET FORTH THEREIN. NONE OF THE STATE PAYMENTS, THE AGENCY INSTALLMENT PAYMENTS OR THE CERTIFICATES CONSTITUTE OR REPRESENT DEBT OR GENERAL OBLIGATIONS OF THE STATE OR ANY STATE AGENCY, AND NEITHER THE FULL FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OR OF ANY STATE AGENCY IS PLEDGED TO THE PAYMENT OF ANY STATE PAYMENTS OR AGENCY INSTALLMENT PAYMENTS OR THE PRINCIPAL OR INTEREST EVIDENCED AND REPRESENTED BY THE CERTIFICATES. THE STATE WILL NOT BE OBLIGATED TO PAY THE SAME EXCEPT FROM AGENCY INSTALLMENT PAYMENTS AND OTHER AMOUNTS AS PROVIDED IN THE MASTER FINANCING CONTRACT.

Non-appropriation and Executive Order Reduction

ANY PAYMENTS BY THE TREASURER ON BEHALF OF A LOCAL AGENCY AND ANY PAYMENTS BY A STATE AGENCY ARE SUBJECT TO APPROPRIATION BY THE LEGISLATURE AND EXECUTIVE ORDER REDUCTION BY THE GOVERNOR. A DETERMINATION BY THE LEGISLATURE NOT TO

APPROPRIATE, OR ANY EXECUTIVE ORDER REDUCTION BY THE GOVERNOR, WOULD NOT CONSTITUTE AN EVENT OF DEFAULT UNDER THE TRUST AGREEMENT, THE MASTER FINANCING CONTRACT OR ANY STATE AGENCY FINANCING ADDENDUM.

An appropriation from the state General Fund to a State Agency for its operating budget (including Agency Installment Payments under any Agency Financing Contract) is made by the Legislature in an aggregate dollar amount and not specifically for each item in the State Agency's budget. In reducing budgeted expenditures to reflect reduced allotments of appropriations from the state General Fund in response to an Executive Order, a State Agency may choose to reduce its expenditures for certain purposes but not for others. Each State Agency in its Agency Financing Contract covenants to use its best efforts to obtain allotments by the Office of Financial Management of appropriated funds sufficient to make all required Agency Installment Payments thereunder, and, to the extent permitted by law, the State Agency agrees that, to the extent that any amounts are included in its budget for purposes or facilities served, or functions or operations supported or provided by Property acquired under an Agency Financing Contract, the State Agency will allocate a sufficient portion of such amounts to the payment of the Agency Installment Payments due under its Agency Financing Contract for the acquisition of that Property. See Appendix B—"DEFINITIONS AND SUMMARY OF CERTAIN LEGAL DOCUMENTS under the heading "AGENCY FINANCING CONTRACTS—Covenants and Agreements of the Agency."

Permitted Termination Events

Under each State Agency Financing Addendum, each of the following constitutes a "Permitted Termination Event":

(1) the Legislature determines not to appropriate sufficient funds within any biennial budget for the purpose of paying the Agency Installment Payments due during the next occurring biennium, or

(2) the Governor issues an Executive Order mandating an emergency reduction in state funding; provided, that the State Agency delivers written notice thereof to the Treasurer as required by the State Agency Financing Addendum.

Upon a Permitted Termination Event, subject to the provisions of the Master Financing Contract and the State Agency Financing Addenda, the state may terminate a State Agency Financing Addendum and the related obligation of the Treasurer under the Master Financing Contract.

The occurrence of a Permitted Termination Event does not constitute an Agency Event of Default, a Master Financing Contract Event of Default or an Event of Default, and the return of the Personal Property is the sole remedy available to the Treasurer and the Corporation upon such occurrence. See Appendix B—"DEFINITIONS AND SUMMARY OF CERTAIN LEGAL DOCUMENTS" under the headings "Master Financing Contract—Permitted Termination Events," and "Financing Contracts—Permitted Termination Events."

There are no Permitted Termination Events under the Local Agency Financing Contracts.

Agency Installment Payments

Pursuant to each Agency Financing Contract, the Agency is required to make its Agency Installment Payments to the state with respect to its Property. Agency Installment Payments are composed of principal and interest components and are payable, during the term of the applicable Agency Financing Contract, on the first day of each month immediately preceding the related Certificate Payment Date. The Agency Installment Payments in the aggregate are at least equal to the corresponding State Payment.

Each State Agency has covenanted in its Agency Financing Contract to take such action as may be necessary to include all of its Agency Installment Payments due thereunder in its biennial budget and to use its best efforts to obtain appropriations by the Legislature in amounts sufficient to make all such Agency Installment Payments.

Each Local Agency has covenanted in its Agency Financing Contract to take such action as may be necessary to include all of its Agency Installment Payments due thereunder in its annual budget and to make the necessary annual appropriations for all such Agency Installment Payments. The obligation of each Local Agency to make its Agency Installment Payments is a direct and general obligation of the Local Agency to which the full faith and credit of such

Local Agency is pledged. Each Local Agency executing an Agency Financing Contract has covenanted and agreed that it will levy taxes, to the extent permitted by law, in such amounts and at such times necessary, within and as a part of the tax levy permitted to the Local Agency without a vote of its electors, to provide funds, together with other money legally available for that purpose, to make its Agency Installment Payments.

Substitution of Property

Under the Master Financing Contract and the corresponding provisions of the Agency Financing Contracts, the Treasurer may substitute and consent to the substitution for an item of Property acquired for and on behalf of an Agency of other personal property by filing with the Fiscal Agent, as assignee of the Corporation:

(1) a certificate of such Agency stating that such substitute Property:

 (a) has a remaining useful life equal to or greater than the Property for which it is being substituted;

 (b) has a fair market value equal to or greater than the fair market value of the item of Property for which it is being substituted;

 (c) is free and clear of all liens and encumbrances except a first priority security interest in favor of the Fiscal Agent, as assignee of the Corporation, under the Master Financing Contract;

 (d) is of equal usefulness and value as the Property for which it is being substituted;

 (e) is essential to the Agency's ability to carry out its governmental functions and responsibilities; and

 (f) is expected to be used by such Agency immediately and for the term of its Agency Financing Contract; and

(2) an Opinion of Counsel to the effect that the substitution will not cause the interest evidenced and represented by the Certificates to be includable in gross income for federal income tax purposes under the Code.

State Payments and Agency Installment Payments Not Subject to Abatement

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

Acceleration

The Certificates may be subject to acceleration upon the occurrence of an Event of Default under the Master Financing Contract. However, the Certificates are not subject to acceleration upon the occurrence of an Agency Event of Default under any related Agency Financing Contract. See Appendix B—"DEFINITIONS AND SUMMARY OF CERTAIN LEGAL DOCUMENTS."

Limitations on Exercise of Remedies

Upon the occurrence of an Event of Default under the Master Financing Contract, the Fiscal Agent, as assignee of the Corporation, may pursue any available legal or equitable remedy against the state, which may include suing for State Payments then due and thereafter becoming due, or enforcing the observance or performance of any covenant, agreement or obligation of the state under the Master Financing Contract. Also, by written notice to the state, the Fiscal Agent may request the state to promptly return the item or items of Property with respect to which such default occurred to the Fiscal Agent in good condition at the state's own expense. The state has covenanted in the Master Financing Contract to comply with such request.

Upon the occurrence of an Agency Event of Default under an Agency Financing Contract, the Fiscal Agent may pursue any available legal or equitable remedy against the related Agency, which may include suing for Agency Installment Payments then due and thereafter becoming due, or enforcing the observance or performance of any covenant, agreement or obligation of the Agency under the Master Financing Contract. Also, by written notice to the Agency, the Fiscal Agent may request the Agency to promptly return the item or items of Property with respect to which such default occurred to the Treasurer in good condition at the Agency's own expense. In addition, the Fiscal Agent may declare an amount equal to all unpaid Agency Installment Payments to become due and payable under the Agency Financing Contract, including but not limited to the Agency Interest Components accrued and unpaid, to be immediately due and payable without further demand. However, the Fiscal Agent's remedies against the state upon the occurrence of an Agency Event of Default are limited to requiring the state to assemble the Property and make it available to the Fiscal Agent.

The remedies provided in the Master Financing Contact, the Agency Financing Contracts and/or the Trust Agreement may be unenforceable under certain circumstances due to the application of principles of equity, to state or federal laws relating to bankruptcy, moratorium, reorganization, and creditors' rights generally and to limitations on remedies against the state and the Agencies under the laws of the state of Washington. Moreover, due to the essential governmental nature of the Property, it is not certain whether a court would permit the exercise of the remedies of repossession and re-sale of the Property. In addition, the enforcement of remedies provided in the Master Financing Contract, the Agency Financing Contracts and the Trust Agreement could prove both expensive and time consuming. In any event, although the Fiscal Agent has the right, upon the occurrence of an Event of Default or an Agency Event of Default, to repossess and re-sell the applicable Property, it is unknown whether such actions would result in the collection of amounts sufficient to make the related Agency Installment Payments. Moreover, the Fiscal Agent would not be obligated to re-sell the Property in a manner so as to preserve the tax-exempt nature of interest represented by the Certificates.

Potential Effect of Local Agency Bankruptcy

Under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"), a municipality must be specifically authorized by applicable state law to seek relief from creditors under Chapter 9. In Washington, Chapter 39.64 RCW, entitled the "Taxing District Relief Act," authorizes any "taxing district," such as any county, city, town, school or other district, for example, that may participate as a Local Agency in the state's certificate of participation financing program, to voluntarily petition for relief under Chapter 9. However, Chapter 9 does not authorize creditors to petition to place a Local Agency into bankruptcy involuntarily.

For a Local Agency to be eligible for relief under Chapter 9, it would be required to meet several pre-petition requirements, including establishing that the Local Agency is insolvent, that it desires to effect a plan of adjustment for its debts, that prior to filing a bankruptcy petition it negotiated in good faith with its creditors to obtain agreement on a debt adjustment plan, and that its bankruptcy petition was filed in good faith. Showing compliance with these requirements may entail substantial delay, litigation and expense.

Under Chapter 9, a federal bankruptcy court may not appoint a receiver for a Local Agency or order the dissolution or liquidation of a Local Agency. The voluntary filing of a bankruptcy petition by a Local Agency would result in an automatic stay of any collection action against the Local Agency unless it is permitted by order of the bankruptcy court or a debt adjustment plan is confirmed by the bankruptcy court.

The principal practical effect of the filing of a bankruptcy petition by a Local Agency would be potentially to delay action otherwise permitted to be taken by the Treasurer against the Local Agency to remedy any default by the Local Agency under its Financing Contract with the Treasurer, including withholding of state revenues or other amounts authorized or required by law to be distributed by the state to the Local Agency as described under "SECURITY FOR THE CERTIFICATES—State Intercept." However, the filing of a bankruptcy petition by a Local Agency would not affect the obligation of the Treasurer under the Master Financing Contract, to the extent of legally available appropriated funds and subject to Executive Order reduction, to make a payment on behalf of such a Local Agency that the Local Agency has failed to make under its Financing Contract as described under "SECURITY FOR THE CERTIFICATES—Conditional State Payment Obligations."

Additional Certificates

The state may issue additional certificates of participation to finance other real and personal property by state and local agencies subject to the maximum authorized as described under "THE CERTIFICATES–Authorization."

WASHINGTON FINANCE OFFICERS ASSOCIATION

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

FINANCIAL STATEMENTS

Audited financial statements for the state for the Fiscal Year ended June 30, 2013, are included as Appendix D. These statements have been audited by the Auditor, an independent elected state official. As described under "CONTINUING DISCLOSURE UNDERTAKING," the state is obligated to provide its audited financial statements to the Municipal Securities Rulemaking Board. In an effort to provide more timely reporting, the state released its audited financial statements for Fiscal Years 2010 through 2013 within 150 days of the fiscal year-end.

ECONOMIC AND REVENUE FORECASTS

Revenue, budgetary and economic information concerning the state government and Washington as a whole is contained in Appendix A–"GENERAL AND ECONOMIC INFORMATION." Pursuant to state law, the Office of Economic and Revenue Forecast Council (the "Forecast Council") provides state economic and revenue results and forecasts on a quarterly basis, generally in each March (February in even-numbered years), June, September and November. The Forecast Council's next economic and revenue forecast is scheduled to be released on February 19, 2014. As described in Appendix A, state law requires that state budgets and any necessary budgetary actions of the Governor during a fiscal period be based upon the Forecast Council's official economic and revenue forecasts. The Forecast Council's most recent forecast was released in November 2013, and that forecast is summarized in Appendix A. The Forecast Council also provides monthly updates of certain other information, including estimates of collections. In addition, the state prepares transportation forecasts, including forecasts of motor vehicle fuel excise tax collections, and forecasts about the state's entitlement caseloads.

LITIGATION

Based on an inquiry with the Attorney General's Office, there is no litigation now pending against the state in any way restraining or enjoining the sale, issuance or delivery of the Certificates, or in any manner challenging the validity of the Certificates, the security for the Certificates or the proceedings or authority pursuant to which they are to be sold and issued or the collection or application of any money pledged for the payment of the Certificates.

The state and its agencies are parties to routine legal proceedings that normally occur as a consequence of regular governmental operations. At any given point, there are lawsuits involving state agencies that could, depending on the outcome of the litigation or the terms of a settlement agreement, impact the state's or such agencies' budgets and expenditures to one degree or another. Some of these lawsuits are discussed in Appendix A and Appendix D. The state operates a self-insurance liability program for third-party claims against the state for injuries and property damage and purchases a limited amount of commercial insurance for these claims. The state maintains a risk management fund and is permitted to reserve up to 50 percent of total outstanding and actuarially determined liabilities. See Notes 7.E, 10 and 13.B in Appendix D—"THE STATE'S 2013 AUDITED FINANCIAL

STATEMENTS" and "RISK MANAGEMENT" and "LITIGATION" in Appendix A—"GENERAL AND ECONOMIC INFORMATION."

BALLOT MEASURES

Under the Constitution, the voters of the state have the ability to initiate legislation by initiative, and by referendum, to modify, approve or reject all or a part of recently enacted legislation. Initiatives are new legislation proposed to the Legislature or for voter approval by petition of the voters. Referenda can be required on recently-enacted legislation through a petition of the voters, or a referendum on new legislation may be required by the Legislature itself. The Constitution may not be amended by initiative or referendum.

Any initiative or referendum approved by a majority of the voters may not be amended or repealed by the 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 Legislature. After two years, the relevant statute is subject to amendment or repeal by the Legislature by a simple majority vote.

Initiatives. The Constitution requires an initiative petition to contain a number of signatures at least equal to eight percent of all votes cast for Governor in the most recent gubernatorial election in the state. There are two types of initiatives: (1) initiatives to the people and (2) initiatives to the Legislature. If certified to have sufficient signatures, initiatives to the people are submitted for a vote of the people at the next state general election. If certified to have sufficient signatures, initiatives to the Legislature are submitted to the Legislature at its next regular session. The Legislature is required to either adopt the initiative, reject the initiative, or approve an alternative to the initiative. The latter two options require that the initiative or the initiative and the Legislature's alternative be placed on the ballot.

Referenda. The Constitution requires a petition for referendum to contain a number of signatures at least equal to four percent of all votes cast for Governor in the most recent gubernatorial election in the state. There are two types of referenda: (1) referendum measures and (2) referendum bills. Referendum measures are laws recently passed by the Legislature that are placed on the ballot because of petitions signed by voters. Referendum bills are proposed laws referred to the voters by the Legislature.

LEGAL MATTERS

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

TAX MATTERS

Tax Exemption of the Certificates

Exclusion from Gross Income. In the opinion of Certificate Counsel, under existing federal law and assuming compliance with applicable requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issue date of the Certificates, interest evidenced and represented by the Certificates 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 execution and delivery of the Certificates in order to maintain the exclusion of the interest evidenced and represented by the Certificates from gross income for federal income tax purposes, including, without limitation, requirements concerning the qualified use of Certificate proceeds and the facilities financed or refinanced with

Certificate proceeds, limitations on investing gross proceeds of the Certificates in higher yielding investments in certain circumstances, and the requirement to comply with the arbitrage rebate requirement to the extent applicable to the Certificates. The state will covenant to comply with those requirements, but if the state fails to comply with those requirements, interest evidenced and represented by the Certificates could become taxable retroactive to the date of execution and delivery of the Certificates. Certificate Counsel has not undertaken and does not undertake to monitor the state's compliance with such requirements.

Corporate Alternative Minimum Tax. While interest on the Certificates 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 Certificates, 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 Certificates, 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 Certificates may be subject to the foreign branch profits tax imposed by Section 884 of the Code when the Certificates are owned by, and effectively connected with a trade or business of, a United States branch of a foreign corporation.

Possible Consequences of Tax Compliance Audit. The Internal Revenue Service (the "IRS") has established a general audit program to determine whether issuers of tax-exempt obligations, such as the Certificates, are in compliance with requirements of the Code that must be satisfied in order for interest on those obligations to be, and continue to be, excluded from gross income for federal income tax purposes. Certificate Counsel cannot predict whether the IRS would commence an audit of the Certificates. Depending on all the facts and circumstances and the type of audit involved, it is possible that commencement of an audit of the Certificates could adversely affect the market value and liquidity of the Certificates until the audit is concluded, regardless of its ultimate outcome.

Certain Other Federal Tax Consequences

Certificates <u>Not</u> "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 all subordinate entities, has issued more than $10,000,000 of tax-exempt obligations during the current calendar year and has not designated the Certificates 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 Certificates 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 evidenced and represented by the Certificates 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 evidenced and represented by the Certificates into account in determining gross income.

Other Possible Federal Tax Consequences. Receipt of interest evidenced and represented by the Certificates may have other federal tax consequences as to which prospective purchasers of the Certificates may wish to consult their own tax advisors.

Potential Future Federal Tax Law Changes. Current and future legislative proposals, if enacted into law, may directly or indirectly cause interest on the Certificates to be subject in whole or in part to federal income taxation, prevent the beneficial owners of the Certificates from receiving the full benefits of the current federal tax status of interest on the Certificates, or affect, perhaps significantly, the market value or marketability of the Certificates. Prospective purchasers of the Certificates should consult with their own tax advisors regarding the potential impact of any pending or proposed legislation or regulations.

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 Treasurer has agreed in the Master Financing Contract to enter into a written undertaking in the form of a Disclosure Agreement for the benefit of the beneficial owners of the Certificates (the "Undertaking").

Annual Disclosure Report. The state covenants and agrees in the Undertaking that not later than seven months after the end of each Fiscal Year (the "Submission Date"), beginning with Fiscal Year ended June 30, 2014, the state will provide or cause to be provided either directly or through a designated agent, to the Municipal Securities Rulemaking Board (the "MSRB"), in an electronic format as prescribed by the MSRB, accompanied by identifying information as prescribed by the MSRB, an annual report (the "Annual Disclosure Report") that will consist of the following:

(1) 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;

(2) historical financial and operating data for the state of the type set forth in Appendix A; and

(3) a narrative explanation of any reasons for any amendments to the 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 available to the public on the Internet website of the MSRB or filed with the SEC. The state will identify clearly each document so included by reference. The MSRB has indicated that it intends to make continuing disclosure information submitted to it publicly available on the Internet on its Electronic Municipal Market Access system website.

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 Listed Event defined below.

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

Listed Events. The state agrees to provide or cause to be provided, in a timely manner, not in excess of 10 business days after the occurrence of the event, to the MSRB notice of the occurrence of any of the following events with respect to the Certificates (the "Listed Events"): (1) principal and interest payment delinquencies; (2) nonpayment-related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notice of Proposed Issue (IRS form 5701 – TEB) or other material notices or determinations with respect to the tax status of the Certificates; (7) modifications to rights of owners of the Certificates, if material; (8) Certificate calls (other than scheduled mandatory redemptions of Term Certificates), if material, and tender offers; (9) defeasances; (10) release, substitution or sale of property securing the repayment of the Certificates, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the state, as such "Bankruptcy Events" are defined in the Rule; (13) the consummation of a merger, consolidation, or acquisition involving the state or the sale of all or substantially all of the assets of the state, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) appointment of a successor or additional trustee or the change of name of a trustee, if material.

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

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

(2) notifies the MSRB, in a timely manner, of such opinion and the cancellation of the Undertaking.

The state may amend the Undertaking without the consent of any holder of any Certificate or any other person or entity under the circumstances and in the manner permitted by the Rule. The Treasurer will give notice to the MSRB 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:

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

(2) 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. The right of a registered owner or beneficial owner to enforce the provisions of the Undertaking will be limited to a right to obtain specific enforcement of the state's obligations thereunder, and any failure by the state to comply with the provisions of the Undertaking will not be a default with respect to the Certificates.

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 Listed 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 Listed 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 Listed Event.

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

RATING

Moody's Investors Service, Inc. ("Moody's") has assigned a rating of Aa2 to the Certificates. The state has furnished certain information and materials to Moody's regarding the Certificates and the state. Such rating reflects only the view of such rating agency and is not be a recommendation to buy, sell or hold the Certificates. Generally, rating agencies base their ratings on the information and materials furnished to them and on their own investigations, studies and assumptions. Such rating will reflect only the view of such rating agency and is not a recommendation to buy, sell or hold the certificates. An explanation of the significance of such rating may be obtained from Moody's Investors Service Inc.

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

UNDERWRITING

The Certificates are being purchased by _____________ (the "Underwriter") at a price of $____________, representing the aggregate principal amount of the Certificates, [plus original issuance premium, less original issue discount and] less Underwriter's discount of $________. The Underwriter has represented that the Certificates are to be reoffered at the prices or yields set forth on page i of this Official Statement. The Underwriter may offer and sell the Certificates to certain dealers (including dealers depositing Certificates into investment trusts) and others at prices lower than the initial offering prices set forth on 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.

FINANCIAL ADVISOR

Public Financial Management, Inc. has served as financial advisor to the state in connection with the issuance and sale of the Certificates. The financial advisor has not audited, authenticated or otherwise verified the information set forth in this Official Statement or other information provided relative to the Certificates. Public Financial Management, Inc. makes no guaranty, warranty or other representation on any matter related to the information contained in this Official Statement. The financial advisor is an independent financial advisory firm and is not engaged in the business of underwriting, marketing, trading, or distributing municipal securities. A portion of compensation payable to the financial advisor is contingent upon the successful delivery of the Certificates to, and full payment for the Certificates by, the Underwriter.

MISCELLANEOUS

Any statements made in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact.

The state has duly authorized the execution and delivery of this Official Statement.

STATE OF WASHINGTON

By: ____

Deputy Treasurer–Debt Management

51348937.6

APPENDIX A

GENERAL AND ECONOMIC INFORMATION

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INTRODUCTION

State Overview

The State of Washington (the “state” or “Washington”), the nation’s 42nd state, was created in 1889 by an act of the U.S. Congress. The state is located on the Pacific Coast in the northwestern corner of the continental United States and comprises 71,303 square miles, including the more than 1,000 square miles of salt water known as Puget Sound.

Washington’s population was 6,724,540 according to the 2010 U.S. Census, making the state the 13th most populous in the United States. As of July 1, 2013, the state had an estimated population of 6,971,406. The state’s capital is Olympia at the southern end of Puget Sound, and the state’s largest city, Seattle, also on Puget Sound, is approximately 60 miles north of Olympia.

Washington is a geographically diverse state with two mountain ranges that divide the state’s land area. The Olympic Mountains separate the Olympic Peninsula – generally regarded as the largest rain forest in the Northern Hemisphere – from Puget Sound and the rest of the state. The Cascade Mountains extend from the northern border of the state with British Columbia, Canada, south to the State of Oregon. Mount Rainier, a 14.4 thousand-foot dormant volcano in the middle of the Cascade Range, is the fifth highest and most heavily glaciated peak in the lower 48 states.

Washington includes an international trade, manufacturing, technology, biotechnology and business service corridor that extends along Puget Sound from the City of Everett at the north end, south to Seattle and Tacoma. This corridor includes approximately 75 percent of the state’s population and economic activity. A number of companies have chosen Washington as their headquarters or as a major center of operations, including, among others, Alaska Air Group, Amazon, Amgen, Boeing Commercial Airplanes, Costco, Expeditors International of Washington, Microsoft, Nintendo America, Nordstrom, PACCAR, Starbucks and Weyerhaeuser. Washington is home to some of the leading global health research institutes and non-profits, including the Bill and Melinda Gates Foundation, PATH, Seattle BioMed and the Fred Hutchinson Cancer Research Center. According to the U.S. Bureau of Economic Analysis, Washington ranked 14th in the United States in terms of real gross domestic product (“GDP”) in 2012.

East of the Cascade Mountains is the center of dairy operations and production of crops such as wheat, potatoes, tree fruits and grapes within the state. Washington leads the nation in apple production and, on both sides of the Cascade Mountains, produces wine, flower bulbs and lumber, wood pulp, paper and other wood products. The Olympic Peninsula and the Puget Sound region include one of the country’s primary aquaculture and fish- and shellfish-processing areas.

Washington is one of the most trade-intensive states in the nation, as measured by the dollar value of per capita exports, and is an important gateway for trade with Asia and Canada and for domestic trade with Alaska and Hawaii. The Ports of Seattle and Tacoma, the state’s largest ports, are closer to Asian ports than any other continental port in the United States. Seattle-Tacoma International Airport is Washington’s primary airport, serving the region’s air passengers and cargo. Direct access to midwest and east-coast markets by land is via four major interstate highways and two transcontinental rail service providers.

The state’s ferry system, the largest ferry system in the United States and the third-largest ferry system in the world, is owned and operated by the Washington State Department of Transportation (“WSDOT”) and connects 15 islands and other areas within and along the coast of Puget Sound.

See “DEMOGRAPHIC AND ECONOMIC INFORMATION” for additional economic and demographic information about the state.

State Government

Under the state Constitution (the “Constitution”), the legislative authority of the state is vested in the Legislature, and general elections are held on the first Tuesday in November in each even-numbered year. The state is divided into 49 legislative districts, each of which elects two representatives and one senator. Senators serve four-year terms, with one-half of the seats open in each general election. Representatives serve two-year terms, with every seat open in each general election. The Legislature convenes annual regular sessions of 105 days (beginning the second Monday in January) in odd-numbered years and 60 days (beginning the second Monday in January) in even-numbered years. The Governor may call an unlimited number of special sessions, each of which is limited to 30 days, and the Legislature itself may call special sessions with a two-thirds' vote of the members of each house.

Nine state executive officers are elected at-large to four-year terms at general elections held in the same years as elections for the President of the United States: the Governor, Lieutenant Governor, Secretary of State, Treasurer, Auditor, Attorney General, Superintendent of Public Instruction, Commissioner of Public Lands and Insurance Commissioner.

The nine justices of the state Supreme Court (the "Supreme Court") are elected at-large to six-year terms, with three seats open in each general election.

State Finance Committee

The Legislature, by statute, has delegated to the State Finance Committee (the "Committee") authority to supervise and control the issuance of all state bonds and other state obligations, including financing leases, authorized by the Legislature. The Committee is composed of the Governor, Lieutenant Governor and Treasurer. The Treasurer is designated as Chairman of the Committee, and the Office of the State Treasurer provides administrative support to the Committee. A Deputy State Treasurer acts as recording officer for the Committee and is responsible for the administration of the Committee's official duties in accordance with prescribed policies of the Committee. See "INDEBTEDNESS AND OTHER OBLIGATIONS."

In 2010, the Legislature authorized the Committee to delegate to the State Treasurer the authority, by resolution, to (1) accept offers to purchase bonds, notes, or other evidences of indebtedness of the state and to sell and deliver such bonds, notes, or other evidences of indebtedness to the purchasers thereof; (2) determine the date or dates, price or prices, principal amounts per maturity, delivery dates, interest rate or rates (or mechanisms for determining the interest rate or rates); and (3) set other terms and conditions as the Committee may deem necessary and appropriate; with each such delegation to be limited to bonds, notes, or other evidences of indebtedness which the Committee has authorized to be issued.

BUDGETING AND ACCOUNTING

Budget and Appropriation Process

The state operates on a July 1 to June 30 fiscal year ("Fiscal Year") and is required under state law to budget on a biennial basis. State law requires that the Governor submit a balanced budget to the Legislature no later than December 20 in the year preceding the session during which the biennial budget is to be considered. The operating, capital and transportation budgets are prepared separately. As described below, the Governor is required to include, and the Legislature is required to appropriate, amounts sufficient to pay debt service on all of the state's outstanding general obligation bonds. See "GENERAL FUND–General Fund Expenditures–Payment of General Obligation Bonds" and "TRANSPORTATION-RELATED REVENUES AND EXPENDITURES–Transportation Expenditures–Payment of Bonds Payable from Excise Taxes on Motor Vehicle and Special Fuels."

Formulation of the state's biennial budget begins in May of even-numbered years, when the Office of Financial Management ("OFM") distributes instructions to all state agencies, establishing budget guidelines and information requirements. Formal budget requests from agencies are sent to OFM in late summer, after which they are analyzed and revised by OFM as appropriate to match the Governor's policy choices. Alternative methods of delivering services are examined and evaluated, and recommended budget levels and program and policy choices are prepared for the Governor by the Director of OFM. As described below, state revenues and expenditures are limited by statutes enacted by the Legislature and sometimes also are limited by initiatives or referenda approved by the voters. See "GENERAL FUND–Revenue and Expenditure Limitations" below and "BALLOT MEASURES" in the front portion of this Official Statement.

Under state law, the Governor's budget submitted to the Legislature must include estimates of all anticipated revenues and all proposed operating and capital expenditures, including debt service requirements on state general obligation indebtedness. Revenues are estimated for a fiscal period from the sources, and at the rates, authorized by law at the time of submission of the budget document and are based upon quarterly economic and revenue forecasts as described below. See “GENERAL FUND–Economic and Revenue Forecast” and “–Caseload Forecast.” A “fiscal period” is the Fiscal Year or biennium for which an appropriation is made as specified within the act making the appropriation.

The Governor must submit a balanced budget to the Legislature. Specifically, state law requires that in the Governor’s proposed budget the total of the beginning undesignated fund balance and estimated revenues, less working capital and other reserves, equal or exceed the total of proposed expenditures without reliance upon increases in indebtedness, changes in existing tax rates or other statutory changes. The Governor also may submit a second, alternative budget for the same fiscal period to include expenditures from revenue sources derived from proposed changes in statutes.

Within a biennium, the Governor may submit supplemental budgets to the Legislature during the regular session or during any special session. See “GENERAL FUND–General Fund–State Operating Budget.”

Legislation adopted in 2012 requires that, beginning with the 2013-15 Biennium, the Legislature must pass a budget that leaves a positive ending fund balance in the General Fund and related funds and the projected maintenance level (the continuing cost of existing programs and services) for the budget in the ensuing biennium may not exceed available fiscal resources.

State law also provides that if for any applicable fund or account the estimated receipts for the next fiscal period, plus cash beginning balances, is less than the aggregate of estimated disbursements proposed by the Governor for the next ensuing fiscal period, the Governor must include proposals as to the manner in which the anticipated cash deficit is to be met, whether by an increase in state indebtedness, by the imposition of new taxes, by increases in tax rates or by an extension of existing taxes. The Governor also may propose planned elimination of the fund’s or account’s anticipated cash deficit over one or more fiscal periods. See “–Fiscal Monitoring and Controls.”

The Legislature is obligated under the Constitution to appropriate money for debt service requirements on state general obligation indebtedness. Appropriations providing for the payment of bond principal and interest requirements on each series of bonds normally are included in an omnibus appropriation act. Each operating and transportation budget enacted by the Legislature also includes an appropriation providing that, in addition to the specified dollar amounts appropriated for (among other things) bond retirement and interest, there also is appropriated such further amounts as may be required or available for those purposes under any proper bond covenant made under law.

The Legislature engages in extensive budget deliberations and committee hearings. After revenue and expenditure appropriation bills are passed by the House of Representatives and the Senate, the bills are transmitted to the Governor, who has constitutional authority to veto one or more sections of the bills.

Typically, the Legislature enacts three budgets: an operating budget, a capital budget and a transportation budget. The transportation budget includes both operating and capital transportation-related expenditures. Of the three state budgets, the operating budget is the largest. Sales and other excise taxes deposited to the General Fund are the major state funding source for operating expenditures, and proceeds of state bonds have been the main sources for capital expenditures. The transportation budget is funded primarily from bond proceeds, excise taxes on motor vehicle and special fuels, license fees and other state revenues, federal funds and local and private funds.

Economic and Revenue Forecasting

To assist the state in financial planning and budgeting, the state’s Economic and Revenue Forecast Council (the “Forecast Council”) prepares quarterly economic and revenue forecasts (other than forecasts of transportation revenues, which are prepared by the state’s Transportation Revenue Forecast Council, and other than the state entitlement caseload forecasts, which are prepared by the state’s Caseload Forecast Council, both described below). The Forecast Council is an independent state agency consisting of seven members, two appointed by the Governor, one appointed by each of the two largest political caucuses of the Senate and House of Representatives, and the Treasurer. The Forecast Council approves the official economic and revenue forecasts for the state and reviews revenue collections monthly during each biennium. State law requires that the development of state budgets and any necessary budgetary actions of the Governor during a fiscal period be based upon the official economic and revenue forecasts of the Forecast Council and that the state's transportation budget be based upon the transportation forecast prepared by the Transportation Revenue Forecast Council. See "TRANSPORTATION-RELATED REVENUES AND EXPENDITURES–Transportation Revenue Forecast Council."

In mid-February (March in odd-numbered years), June, September and November, the Chief Economist prepares 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 forecasts are based in part upon forecasts of the United States economy and forecasts of state entitlement caseloads. See "GENERAL FUND–Economic and Revenue Forecast" and "–Caseload Forecast." Each November, the Forecast Council must submit a budget outlook for state revenues and expenditures. The Forecast Council also must submit a budget outlook for the Governor's proposed budget and for the budget enacted by the Legislature. See "GENERAL FUND–Budget Outlook."

Fiscal Monitoring and Controls

When it enacts a biennial budget, the Legislature appropriates funding to state agencies for various purposes. Once the budget bills are signed by the Governor, OFM works with state agency fiscal staff to allot annual and biennial appropriations into monthly amounts. Revenues also are allotted for the biennium based upon forecasts prepared by the Forecast Council and for non-forecasted accounts, based upon information prepared by the administering agencies. Taken together, monthly allotments of expenditure authority and revenue form detailed monthly spending plans within the statutory maximums specified by appropriations in the biennial budget.

State agencies generally are prohibited from incurring cash deficits. State law does allow, however, for temporary negative cash balances in a specific fund or account if the temporary deficiency (1) results from disbursements under a spending plan approved by OFM; (2) was authorized by OFM within a fiscal period; (3) is in a fund or account neither in the state treasury nor in the custody of the Treasurer if the cash deficiency does not continue past the end of the biennium; or (4) is in a construction account and the deficiency is due to seasonal cash deficits pending receipt of proceeds from authorized bond or note sales.

OFM monitors spending plans on a monthly basis and recommends actions the Governor may take to adjust spending and revenue as appropriate. If at any time during the current fiscal period the Governor projects a cash deficit in a specific fund or account, the Governor may order across-the-board reductions in allotments to that fund or account to prevent the cash deficit. The Legislature may direct that a cash deficit in a particular fund or account be eliminated over one or more fiscal periods. Unused appropriation authority resulting from an across-the-board reduction in a fund or account is placed in reserve status. Across-the-board reductions are not made to funding for basic education, pension benefits or general obligation debt service funding and can be made only within a fund with a cash deficit. In addition, the Governor may direct cabinet agencies to limit their discretionary spending. See "GENERAL FUND–State Operating Budget."

Accounting and Auditing

State law requires expenditures and revenues to be based upon generally accepted accounting principles ("GAAP"), and revenues typically are treated on a modified accrual basis so that funds are recognized when they become measureable and available. The state also is required to maintain accounting records in conformance with GAAP. OFM is the primary authority for the state's accounting and reporting requirements. The accounting system generates monthly and other periodic financial statements at the state-wide combined level and at the agency, fund and program levels for use by OFM and state agencies in monitoring expenditures and in preparing budgets and the state's annual financial statements. The state uses fund accounting, which includes governmental funds to account for governmental activities, proprietary funds (including the Workers' Compensation Fund, Unemployment Compensation Fund and Guaranteed Education Tuition Program Fund) and fiduciary funds (including for pensions and other employee benefits).

The Auditor, an independent elected official, audits the state-wide combined financial statements for each Fiscal Year. See Appendix D–"THE STATE'S 2013 AUDITED FINANCIAL STATEMENTS."

GENERAL FUND

The state provides for most of its general operations through the General Fund. Most of the state's unrestricted revenues are deposited to the General Fund, and most of the state's general expenditures and general obligation debt service are paid from the General Fund. Debt service on general obligation bonds to which excise taxes on motor vehicle and special fuels are pledged is payable first from the state's Motor Vehicle Fund and, if those funds are insufficient, from the General Fund. Debt service on general obligation bonds to which toll revenue is pledged is payable from toll revenue and, if those revenues are insufficient, from excises taxes on motor vehicle and special fuels and then from the General Fund. As described below and in Appendix D–"THE STATE'S 2013 AUDITED FINANCIAL STATEMENTS," the state also maintains a number of other funds and several hundred accounts.

General Fund Revenue

Most of the General Fund revenue is derived from state taxes and federal funds, with other charges, interest, license and other fees and miscellaneous income making up the remaining General Fund revenue. See "–General Fund-State Operating Budget" and Table 4.

General Fund tax revenues consist primarily of sales taxes, business and occupation taxes, other excise taxes and property taxes. There is no state income tax. Not all money deposited in the General Fund constitutes general state revenues or is available for the payment of general obligation debt service (e.g., restricted federal funds and local and private revenue). See "General Fund Expenditures–Payment of General Obligation Bonds" and "INDEBTEDNESS AND OTHER OBLIGATIONS–General Obligation Debt."

Excise Taxes. The retail sales tax and its companion use tax represent the largest source of state tax revenue. Retail sales and use taxes are applied to a broad base of tangible personal property, certain digital products 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. Unless waived or deferred by the Legislature, the state and local governments are obligated to pay the same retail sales and use taxes as other taxpayers. The Legislature, and the voters of the state through the initiative process, have changed the base of the state retail sales and use taxes on occasion, and this may occur again in the future. Among the various items not subject to the state retail sales and use taxes are most personal and professional services and motor vehicle and special fuels (all of which are subject to the separate excise taxes described below), food and food ingredients (excluding prepared food), trade-ins, manufacturing machinery and purchases for resale. The state retail sales and use tax rate was last increased in 1983. Certain local taxing jurisdictions also are authorized to impose retail sales and use taxes. In some circumstances the Legislature has granted credits to local jurisdictions against the state sales tax for the local retail sales and use taxes. These credits have the effect of reducing the amount of state sales tax revenues retained by the state. Current state and local retail sales and use tax rates are shown in Table 1.

Table 1
State and Local Retail Sales and Use Tax Rates

	General	New and Used Vehicles
State	6.5%	6.8%
Local	0.5 to 3.0	0.5 to 3.0

Source: Department of Revenue.

The state business and occupation ("B&O") tax is applied to "gross receipts" (the value of products, gross income from sales or certain other income) from business activities conducted within the state. B&O tax rate reductions and tax credits for specific categories of businesses are enacted from time to time. Certain local taxing jurisdictions also are authorized to impose business and occupation taxes. The state's current B&O tax rates vary, depending upon the classification of business activities, and in general range from 0.138 percent to 1.8 percent of gross receipts; most are under 0.5 percent. See "General Fund–State Operating Budget" and Table 4.

The state imposes a real estate excise tax of 1.28 percent on sales of real property. Each county treasurer is required by statute to retain 1.3 percent of the proceeds of this tax to defray costs of collection and on a monthly basis to pay over to the Treasurer the balance of the proceeds. Of the proceeds received by the Treasurer, beginning July 1, 2013, and ending June 30, 2019, the Treasurer is required to deposit an amount equal to 2.0 percent into the Public Works Assistance Account, an amount equal to 4.1 percent to the Education Legacy Trust Fund, and an amount equal to 1.6 percent to the City-County Assistance Account. The balance is deposited to the General Fund. After June 30, 2019, an amount equal to 6.1 percent of the proceeds of this tax must be deposited in the Public Works Assistance Account. Certain local taxing jurisdictions are authorized to impose real estate excise taxes. In most areas in which a local real estate excise tax is imposed, the maximum local rate is 0.5 percent of the sales price.

Property Taxes. Property taxes apply to the assessed value of all taxable property, including all real and personal property located within the state, unless specifically exempted. Real property includes land, structures and certain equipment affixed to the structure. Personal property includes machinery, supplies, certain utility property and items owned by businesses and farmers that are generally movable.

The assessed value of most real property is determined by the county assessors, with the goal being to determine the fair market value of the property according to its highest and best use (unless an exemption applies that would permit a lower use to be considered). Property taxes for local taxing districts are levied against this assessed value. The state property tax is levied against the assessed value determined by the county assessors but then is adjusted to the state equalized value (a rate that would be equal across the state) in accordance with a ratio fixed by the Department of Revenue. For property taxes payable in 2013, assessed value against which property taxes were levied averaged 91.2 percent of fair market value as determined by the county assessors.

The Constitution provides that the aggregate of all regular (nonvoted) tax levies upon taxable real and personal property by the state and local taxing districts may not exceed 1.0 percent of the true and fair value of such property unless for the purpose of preventing the impairment of the obligation of a contract when ordered to do so by a court of last resort. Excess property tax levies are subject to voter approval and are not subject to this limitation.

Increases in assessed values of property are not limited; however, by statute, the state property tax levy is limited to the limit factor (the lesser of 101 percent, or 100 percent plus inflation) multiplied by the amount of property taxes levied by the state in the highest of the three most recent years, plus an additional 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 average state levy rate for property taxes due in calendar year 2013 was $2.52 per $1,000 of true and fair property value.

By statute, all of the proceeds of the state's property tax levy are to be deposited to the General Fund and may be used only for the support of common schools (K-12), including debt service on bonds issued by the state for capital construction projects for common schools.

Other State Tax Revenue. The state imposes a number of other taxes, including estate taxes, liquor taxes, rental car and telephone taxes, taxes on hazardous substances and taxes on cigarettes and other tobacco products.

State Non-Tax Revenue. The largest components of state non-tax revenue include revenues derived from the sale of supplies, materials and services; fines and forfeitures; income from property; and income from liquor sales.

Federal Revenue. Legislative appropriations for federal programs are designated specifically to be funded from federal revenue sources. To the extent that federal funds are not received, the appropriated expenditures may not be incurred. Use of federal funds is subject to audit, and often federal funds are payable only on a reimbursement basis. The state also may be required to appropriate and expend its own funds as a condition to receiving the federal revenue. As shown in Tables 4 and 5, federal funds in Fiscal Years 2009, 2010 and 2011 included funds made available under the American Recovery and Reinvestment Act of 2009 ("ARRA"). Federal revenues may be deposited into the General Fund, but are not "general state revenue." See "General Fund Expenditures–Payment of General Obligation Bonds," "General Fund–State Operating Budget," and "TRANSPORTATION–RELATED REVENUES AND EXPENDITURES."

Private and Local Revenues. Revenues provided to the state by private individuals, local governments (but not the federal government), commercial enterprises and foundations under agreements that restrict the use of such revenues and revenues received as payment for private or local purchases of goods or services or as reimbursement for expenditures by the state are separate from "general state revenues."

Tax and Other Revenue 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 Treasurer receives the revenues from the collecting agencies and is required to deposit and distribute the funds as directed by law. Nearly all state agencies collect some form of revenue. See Table 4.

General Fund Expenditures

The state's largest General Fund expenditures are for education, social and health services and corrections. As described below, most of these expenditures are mandated either by state law (education, corrections and debt service) or by federal law (Medicaid and certain other human services). Federal funds are available to pay some of the federally-mandated costs.

Education. The state's expenditures for public schools are mandated by the constitutional requirement that the state support the common schools, and as shown in Table 5, a significant portion of the General Fund budget is used for supporting public schools. The Supreme Court has interpreted the Constitution to require the state to ensure that each public school district receives the funds needed to provide a basic education.

The Legislature enacted legislation in previous sessions intended to improve the stability and predictability of school funding, including legislation that (1) prescribes course offerings, teacher contract hours and core student/staff ratios; (2) limits local property tax levies and provides for the gradual equalization of levy capacity per student throughout the state; (3) limits local compensation increases to those authorized by the state; (4) provides for state assistance to equalize tax rates for local levies; (5) establishes a state-wide salary allocation schedule with mandated minimum salaries for teachers; and (6) requires school districts to maintain minimum teacher/student ratios. In the past, state voters, through the initiative process, have also affected school expenditures by passing I-732 to provide automatic cost of living adjustments for teachers and I-728 to reduce K-12 class sizes.

The Legislature temporarily suspended these two initiatives as part of an amended 2009-11 Biennium Budget and the 2011-13 Biennium Budget. The 2012 Legislature permanently repealed I-728 pertaining to class size reductions and in 2013 the Legislature then again suspended I-732, which would have given automatic cost of living adjustments to teachers and certain other school employees. See "General Fund–State Operating Budget." In 2012, the Supreme Court found that the state is not making ample provisions for the basic education of Washington's K-12 public school students. The 2013-15 Biennium budget funds approximately $1 billion in reforms for K-12 public education. See "General Fund–State Operating Budget–2013-15 Biennium Budget." See also the discussion of the *McCleary* case in "LITIGATION" for a description of the Supreme Court's 2012 order and a January 2014 Supreme Court order regarding funding K-12 education..

Social and Health Services. The Department of Social and Health Services ("DSHS") provides services that include protective services for children, the aged and mentally disabled people and services for people in institutions and other residential care facilities. While in the past the largest expenditure within DSHS was the Medical Assistance Program, as of July 1, 2011, this program became part of the Health Care Authority. See *"Washington State Health Care Authority"* below.

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

DSHS is also responsible for supporting community mental health programs and for 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, foster care programs and vocational rehabilitation services.

Washington State Health Care Authority. This agency brings together the two largest purchasers of health care in state government – the Public Employees Benefits program and "Apple Health" Medicaid. The Public Employees Benefits program provides health care coverage for more than 350,000 public employees, dependents, retirees and others authorized by the Legislature. The "Apple Health" Medicaid program, financed through state and federal matching dollars, provides health care coverage for more than 1.3 million low-income Washington residents, primarily through contracts with private health plans. Apple Health covers 4.0 percent of children in the state and 50 percent of childbirths. Through Apple Health, 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, funding is received from the federal government for those people and for services covered under Medicaid. The Apple Health program budget has grown significantly in recent years. Growth in the number of eligible recipient groups, rising health care costs and requirements to provide higher payments to hospitals have resulted in increased expenditures.

Over the next three years, enrollment in Apple Health is expected to grow by more than 325,000 as a result of the state's implementation of the Medicaid Expansion under the federal Affordable Care Act. By 2017, the Health Care Authority is projected to be purchasing health coverage for more than two million state residents, nearly a third of the state's population. In addition to its purchasing duties, state law directs the agency, in collaboration with the private sector, to address health care cost containment, evidence based medicine, common performance measures, access to care, new financial incentives for the delivery system and adoption of health information technology and health information exchange.

Health Benefit Exchange. The state successfully established a health benefit exchange to assist residents to find, compare and enroll in health insurance plans. The Washington Health Benefit Exchange is a "public-private partnership" that is separate from the state, but works closely with several state agencies. As of February 6, 2014, 366,986 individuals had enrolled through the exchange and an additional 85,372 applications were in process.

Corrections. As of June 30, 2013, the Department of Corrections ("DOC") had 12 correctional institutions and 16 work release facilities and leased additional rental beds in-state. As of September 30, 2013, the offender population was approximately 18,000 in the prison system; the prison confinement was 102 percent of operational capacity. In 2010, the state closed Ahtanum View Corrections Center in Yakima and the Pine Lodge Corrections Center for Women in Medical Lake. In 2011, the state closed McNeil Island Corrections Center in south Puget Sound.

Employees and Employee Benefits. The state budgeted for 106,608 full-time equivalents ("FTEs") in the 2013-15 Biennium budget, compared with 107,568 FTEs in Fiscal Year 2013 and 112,546 in Fiscal Year 2009. Approximately half of these FTEs are represented by collective bargaining organizations. There are 29 different collective bargaining organizations currently representing state employees. The largest, the Washington Federation of State Employees, represents approximately 36,000 state employees. State law provides that nothing in the state collective bargaining statute permits or grants to any employee the right to strike or refuse to perform his or her official duties.

The state, through the Public Employees Benefits Board program, provides medical, dental, life and long-term disability coverage to eligible state employees as a benefit of employment. Coverage is provided through private health insurance plans and self-insured products. 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. State employees self-pay for coverage beyond the state's contribution. The average benefit was $1,001 in Fiscal Year 2013, with $865 paid by the state and $136 by the employee. State employees accrue vested vacation leave at a variable rate based on years of service, which in general cannot exceed 240 hours per year. It is the state's policy not to set aside funds for future payments for compensated absences. State employees accrue sick leave at the rate of one day per month without limitation. 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. For a discussion of the state retirement plans and post employment benefits, see "RETIREMENT SYSTEMS."

Payment of General Obligation Bonds. Statutes authorizing bonds and other general obligations of the state require the Committee to certify to the Treasurer on or before June 30 of each year the amount needed to provide for payment of debt service and require the Treasurer to deposit "general state revenues" in such amount into the Bond Retirement Accounts. The term "general state revenues" is defined in Article VIII of the Constitution and, as described below, not all money deposited in the General Fund constitutes "general state revenues" available for the payment of debt service (e.g., restricted federal funds or local and private revenue are excluded). See the description of general state revenues under “INDEBTEDNESS AND OTHER OBLIGATIONS–General Obligation Debt–Constitutional General Obligation Debt Limitation” and Table 4.

Some general obligation bond statutes provide that the General Fund will be reimbursed for bond debt service from discrete revenues that are not considered “general state revenues.” For example, tuition fees charged by institutions of higher education must be used to reimburse the General Fund for payment of debt service for a number of higher education construction bond issues. Similar reimbursement requirements apply to hospital patient fees (for University of Washington hospital construction bonds) and to lease-rental proceeds (for Washington State University research center bonds). All of these required reimbursements have been made to date. In addition, a portion of net lottery and retail sales tax proceeds collected in King County reimburse the state for debt service payable on bonds issued to finance construction of a stadium and exhibition center in Seattle. See “INDEBTEDNESS AND OTHER OBLIGATIONS.”

Expenditure Limitations

Since the passage of Initiative 601 in 1993, the state has been prohibited from increasing expenditures from the General Fund during any Fiscal Year by more than the fiscal growth factor. The fiscal growth factor is calculated annually and is defined as the average growth in state personal income for the prior 10 Fiscal Years, adjusted for actual expenditures in the previous year and for certain money transfers and program cost shifts (to take into account federal and local revenue). Under current law, voter approval would be required to exceed the expenditure limit, except in case of an emergency. If revenues collected exceed the amount of revenues that may be expended under the expenditure limitation, the excess revenues are to be deposited to the Budget Stabilization Account as described in the next subsection. See “BALLOT MEASURES” in the front portion of this Official Statement.

According to a recent Supreme Court decision, tax measures need only be passed by a majority of both houses of the Legislature under the Constitution and cannot be further restrained by initiative or other legislative action. The Supreme Court did not address the issue of revenue limitations with respect to fees.

Budget Stabilization Account

In 2008, the Constitution was amended to create a Budget Stabilization Account. By June 30 of each Fiscal Year, the Budget Stabilization Account receives 1.0 percent of the general state revenues that Fiscal Year. The Legislature may appropriate additional amounts to the Budget Stabilization Account. Money may be appropriated from the Budget Stabilization Account by a majority vote of the members of each house of the Legislature if (1) forecasted state employment growth for any Fiscal Year is estimated to be less than 1.0 percent or (2) the Governor declares an emergency resulting from a catastrophic event that necessitates government action to protect life or public safety. Amounts may be withdrawn from the Budget Stabilization Account at any time by the favorable vote of three-fifths of the members of each house of the Legislature. In addition, when the balance in the Budget Stabilization Account equals more than 10 percent of the estimated general state revenues in that Fiscal Year, the amount above 10 percent may be appropriated to the Education Construction Fund by a majority vote of the members of each house of the Legislature. In November 2011, voters approved a measure that requires that “extraordinary growth in state revenues,” which is defined as the amount by which the growth in state revenues exceeds by one-third the average biennial growth in state revenues over the prior five biennia, be transferred to the Budget Stabilization Account at the end of each fiscal biennium.

Economic and Revenue Forecast

State law requires the Forecast Council to prepare an economic and revenue forecast on a quarterly basis. Additionally, the Forecast Council is required to publish monthly updates that include economic data releases and a report of revenue collections for the previous monthly collection period. The most recent economic and revenue forecast was released on November 20, 2013 (the “November 2013 Forecast”). Certain economic data that was released after the November 2013 Forecast is described in this section. The next forecast is expected to be released on February 19, 2014, which will be posted to the Office of State Treasurer’s and the Washington Forecast Council’s websites.

November 2013 Forecast. The November 2013 Forecast was based on the IHS Global Insight Model of the U.S. Economy issued in November 2013, modified according to the Forecast Council’s standard practice to reflect the

Blue Chip GDP forecast published in the Blue Chip Economic Indicators and oil prices based on futures markets. The November 2013 Forecast is very similar to the previous two forecasts. The Washington economy continues to outperform the overall U.S. economy, with above average growth in personal income in the first half of 2013, faster employment growth, and an unemployment rate below the national average. The forecast shows Washington employment growing in most sectors (with aerospace the notable exception), growing residential construction, growth in exports, low inflation and higher personal income. Downside uncertainty attributable to economic and financial strains in Europe, China, housing affordability, and federal fiscal policy remains high and downside risks outweigh upside risks.

General Fund Revenues are expected to grow 7.6 percent in the 2013-15 Biennium from the 2011-13 Biennium. A technical change in revenue definitions removed $22 million from reported General Fund-State revenues in the 2011-13 Biennium and approximately $41 million from General Fund-State revenues in the 2013-15 and future biennia. Because this revenue remains available for budget purposes, the relevant forecast change is an increase of $9 million in available resources for the 2011-13 Biennium and an increase of $16 million in available resources for the 2013-15 Biennium.

Washington nonfarm employment grew 1.6 percent from November 2012 to November 2013. Construction, software, and leisure and hospitality were the fastest growing sectors, with each having approximately 3.5 percent employment growth over the same period. Manufacturing employment growth has slowed, primarily because aerospace employment was reduced by 2,600 jobs since the peak in November 2012 due to improvements in productivity rather than reductions in production. The state's unemployment rate declined from 7.5 percent in January 2013 to 6.8 percent in November 2013. The November unemployment rate in Seattle decreased modestly to 5.6 percent.

Washington personal income growth is expected to slow to an annual rate of 3.1 percent in 2013 from the 4.7 percent pace in 2012 due to the negative impacts of the Federal budget sequestration process and income and dividends that were shifted to 2012 to avoid increased taxes.

Washington exports grew 8.6 percent in the first ten months of 2013 compared to the same period of 2012. Exports of transportation equipment (mostly Boeing planes) increased 20 percent over the year, compared to 36 percent growth for all of 2012.

Housing construction dropped in the second quarter of 2013 after rising rapidly throughout 2012 and early 2013; housing permits fell from a seasonally adjusted annual rate of 36,000 units in the first quarter of 2013 to an average of 30,800 in January through October, 2013. The housing permit forecast is for continued growth. The seasonally adjusted S&P/Case-Shiller Home Price Index for Seattle rose in each of the 19 months ending in September 2013, and, in September 2013, was 13.2 percent higher than in September 2012. Seasonally adjusted September Seattle area home prices in September 2013 were 17 percent below their May 2007 peak.

The following table summarizes some of the historical values and forecasts of the primary economic drivers upon which the November 2013 Forecast was based.

Table 2
Summary of Economic Factors
(% Annual Change)

						Forecast	
	2008	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
Personal Income(1)	4.7	(3.1)	2.1	5.7	4.7	3.1	5.2
Nonfarm Payroll Employment	0.9	(4.6)	(1.3)	1.3	1.7	2.1	1.8
Housing Units(2)	(39.0)	(41.2)	21.6	0.8	34.8	8.2	8.9

(1) In the fall of 2013, the Bureau of Economic Analysis released state personal income estimates with revisions extending back to 1929. The revised data increased 2012 Washington personal income by $2.9 billion.

(2) Reflects single-family and multi-family units authorized by permits.

Source: Washington Economic and Revenue Forecast Council Revenue Review: November 20, 2013.

Alternative November 2013 Economic Forecasts. As required by statute, the Forecast Council also adopts an optimistic and a pessimistic forecast. The level of uncertainty in the baseline forecast remains high and downside risks outweigh upside risks.

In the optimistic forecast scenario, the Chinese economic growth is stronger than expected, Congressional gridlock eases, the housing market and construction are assumed to improve faster, hiring picks up and underlying pent-up demand continues to drive the recovery, the Eurozone sovereign debt crisis does not turn into a banking crisis, and other factors help the economy rebound more quickly. In the optimistic scenario, 2013-15 Biennium revenues would be $2.0 billion higher than the baseline forecast.

In the pessimistic forecast scenario, China slows even further, partisan gridlock continues in Washington, D.C., which erodes household and business confidence, rising mortgage rates and house prices slow the housing recovery, the recession in Europe worsens and a European banking crisis affect the U.S. financial sector, while unrest in the Middle East leads to an oil price spike. In the pessimistic scenario, 2013-15 Biennium revenues would be $2.0 billion below the baseline forecast.

Caseload Forecast

The Caseload Forecast Council is charged with forecasting the entitlement caseloads for the state. The forecast identifies the number of persons expected to qualify for and to require the services of public assistance programs, state correctional institutions, state correctional non-institutional supervision, state institutions for juvenile offenders, the common school system, long-term care, medical assistance (including the Affordable Care Act), foster care and adoption support.

The Caseload Forecast Council meets three times per year in February, June and November and adopts a formal projection of caseloads for the current biennium. The November forecast is used in preparing the Governor's proposed budget and the March caseload forecast is used by the Legislature in the development of the omnibus biennial appropriations act. The Caseload Forecast Council consists of six members: two members appointed by the Governor and one member appointed by the Chair of each of the two largest political caucuses in the Senate and House of Representatives.

State Budget Outlook

Legislation adopted in 2012 requires the Legislature to adopt a four-year balanced budget that leaves a positive ending fund balance in the General Fund and related funds beginning with the 2013-15 Biennium. In addition, the legislation established a work group that includes the Office of Financial Management, fiscal staff, members of the Legislature, the Caseload Forecast Council and the Economic and Revenue Forecast Council to prepare a budget outlook for state revenues and expenditures for the next biennium. With certain exceptions, the projected continuing cost of existing programs and services and implementing new programs and services called for in existing laws in the ensuing biennium may not exceed projected available fiscal recourses. The work group prepared its first budget outlook in November 2012, which was the starting point for developing the Governor's budget for the 2013-15 Biennium. In January 2013, the Forecast Council prepared a six-year outlook based on the Governor's budget for the 2013-15 Biennium and in July and November 2013 prepared a six-year outlook based on the enacted budget for the 2013-15 Biennium. The outlooks are available on the Forecast Council's website (www.erfc.wa.gov). See "General Fund–Operating Budget."

General Fund-State Operating Budget

General. The state's operating budget includes appropriations for the general day-to-day operating expenses of state agencies, colleges and universities and public schools. Employee salaries and benefits, leases, goods and services and public assistance payments are typical operating expenses. More than half of the operating budget is funded by unrestricted revenues from the General Fund, with the balance from federal and other funding sources.

During the economic downturn that began in 2008, the Governor and Legislature modified the state operating budget several times in response to lower actual and projected general state revenues and higher costs associated with growth in mandatory caseloads, school enrollment and medical assistance costs.

2009-11 Biennium Budget. During the 2009-11 Biennium, quarterly forecast updates of revenues declined while expenses increased due to the cost of providing services such as education, medical assistance and public safety. Several times during the Biennium, the Governor proposed and the Legislature adopted supplemental operating budgets to deal with the shortfalls. In addition, in the fall of 2010, the Governor issued an Executive Order directing across-the-board cuts for General Fund agencies. The supplemental budgets and across-the-board cuts reduced state expenditures in areas including health care and human services, natural resources, higher education, early learning, state prisons and K-12 education (other than basic education). During the 2009-11 Biennium, General Fund expenditures were reduced by $1.059 billion. The General Fund benefited from $2.6 billion in ARRA funds as well as approximately $337 million in federal funds from the extension of the federal Medical Assistance percentage enhancement and $208 million in new education funding. In addition to the expenditure reductions, new revenue was raised through a combination of permanent and temporary tax increases and transfers from the Budget Stabilization Account and other accounts.

2011-13 Biennium Budget. The Legislature adopted a General Fund budget for the 2011-13 Biennium in the spring of 2011 that included expenditures of $31.7 billion and total resources (including the beginning fund balance) of $31.9 billion, leaving a proposed ending General Fund-State Fund balance of $163 million (including the Budget Stabilization Account). During an “early action” special legislative session in December 2011, the Legislature approved a supplemental budget that provided $480 million in savings and/or revenues. In April 2012, the Legislature adopted a revised supplemental budget with $30.788 billion of expenditures for the 2011-13 Biennium, including a $265 million balance in the Budget Stabilization Account and $40 million General Fund ending balance. Among the spending reductions during the 2011-13 Biennium were a 3.0 percent reduction in compensation for state employees, increases to state employees’ share for health insurance premiums, increased pension contribution rates, reduced funds targeted to reduce class sizes, reductions in K-12 teacher and administrative staff salaries, elimination of the automatic cost-of-living increases for retired workers in the PERS 1 and TRS 1 pension plans, reduced benefits for workers hired starting in May 2013, reduced state support of higher education through cuts in academic services and reductions in salary, temporary suspension of two voter-approved education initiatives to reduce class sizes and provide an annual cost of living increase for school employees, and cuts for health and human services. The Legislature gave the state’s universities the authority to raise tuition beyond the budgeted tuition increase. The budgets did not include major tax increases; they did, however, eliminate some tax deductions and include some fee increases and other transfers. The budgets did not reduce required spending on basic education, debt service or federally-mandated Medicaid.

2013-15 Biennium Budget. The enacted operating budget for the 2013-15 Biennium is $33.5 billion in state general and related funds, including a total reserve of $632 million ($576 million in the Budget Stabilization Account and $56 million in a projected unrestricted ending fund balance). Related funds include the Education Legacy Trust Fund that enhances K-12 schools with funds from the estate tax and Public Works Assistance Account fund balances and on-going revenues and the Opportunity Pathways Account that pays for certain student financial aid programs with revenue from lottery proceeds. As shown in Table 3, the current projected ending balance and reserves for the 2013-15 Biennium is $341 million of unrestricted ending fund balance and $582 million in the Budget Stabilization Account.

The Legislature addressed an estimated $2.5 billion shortfall in general and related funds for the 2013-15 Biennium with spending reductions of $1.55 billion; increased revenue of $250 million (mainly from changes to the estate tax and telecommunications tax statutes); $519 million in fund transfers and revenue redirections; and by assuming that $140 million in spending authority would be unused by the end of the 2013-15 Biennium. Spending reductions include $351 million from opting into the Medicaid expansion offered in the federal health reform, $320 million from the continued suspension of I-732 that would have given cost of living adjustments to teachers, $272 million from reauthorizing the Hospital Safety Net Assessments, $156 million from lower child care caseloads, $60 million in K-12 program expenditures, and $65 million in other human services. The budget adds $119 million in new funding for higher education and assumes no tuition increases for the 2013-15 Biennium. The budget also makes required contributions to the state’s retirement systems and restores the 3.0 percent temporary pay reduction taken by all state employees for the 2011-13 Biennium.

Proposed Supplemental 2013-15 Budget. In December 2013, Governor Inslee proposed a supplemental budget for the 2013-15 Biennium that proposed modest adjustments to the adopted 2013-15 Biennium budget, primarily to address mandatory spending increases, cover costs or fill holes that were not anticipated when the budget was approved. The supplemental budget includes $150 million in additional General Fund-State expenditures and includes total expenditures of $32.746 billion and total resources of $32.971 billion (including the beginning fund balance), leaving a proposed ending General Fund-State fund balance of $225 million and Budget Stabilization Account balance of $582 million. The Legislature will consider the supplemental budget in its session that began in January 2014.

During a special session held in November 2013, the Legislature authorized expansion of the state's investment in aerospace-related education and workforce development and aerospace tax incentives, which are designed to provide incentives to Boeing to assemble its new 777X jetliner in the state. Boeing recently announced that it will assemble the new 777X jetliner and build its new carbon fiber wing in the state.

Table 3 summarizes the actions taken by the Legislature and other adjustments made to develop a budget for the 2013-15 Biennium.

Table 3
2013-15 General Fund-State Adjustments
February 2012 through November 2013
($ in millions)

	Adjustments
Beginning Balance(1)	168
Revenue	
February 2012 Forecast	32,429
June 2012 Forecast	197
September 2012 Forecast	23
November 2012 Forecast	(88)
March 2013 Forecast	(20)
June 2013 Forecast	121
September 2013 Forecast	345
November 2013 Forecast	16
Transfer to Budget Stabilization Account	(312)
Total Revenue	32,711
Other Resource Changes	
Enacted Revenue Transfers	128
Total Other Resource Changes	128
Total Resources	33,007
Spending	
Enacted Budget	32,796
Governor's Vetoes	(1)
EHB 2088 Aerospace Appropriations	11
Estimated Reversions(2)	(140)
Total Spending	32,666
Ending Balance and Reserves	
Unrestricted Ending Fund Balance	341
Budget Stabilization Account Balance	582
Total Reserves	923

(1) Includes Unrestricted Fund Balance and Budget Stabilization Account Balance.
(2) Estimated spending authority that will not be used by the end of the 2013-15 Biennium.
Totals may not add due to rounding.
Source: Office of Financial Management.

Revenues and Expenditures. The state separates its General Fund revenues and expenditures into three categories: General Fund-State, General Fund-Federal and General Fund-Private/Local to indicate the general source of revenues. Tables 4 and 5 summarize such revenues and expenditures for the Fiscal Years 2009 through 2013 and budgeted expenditures for Fiscal Years 2014 through 2015. Table 4 is derived from the Forecast Council's forecast documents, which include forecasts of revenues through Fiscal Year 2015 (other than federal and local and private revenues and fund transfers, which are not part of the forecast). The information in Table 5 is extracted from the state's budget documents. The state budgets revenues on a cash basis and expenditures on a modified accrual basis. Accordingly, revenues reported in the state's financial statement attached as Appendix D are on the modified accrual basis and will not match revenues shown on budgetary schedules. Additionally, certain governmental activities are excluded from budgetary schedules because they are not appropriated. Examples include federal surplus food commodities, electronic food stamp benefits, capital leases acquisitions and the distribution of resources collected on behalf of local governments. Further, certain debt service expenditures are appropriated as operating transfers. These transfers are reported as expenditures on the budgetary schedules and as transfers in the state's financial statement attached as Appendix D. The General Fund balance sheet shown in the financial statements attached as Appendix D has three revenue sources: state, federal and private/local. General Fund-State in Tables 4 and 5 is the portion supported by state revenues (taxes, fees, other state charges, transfers, and other revenues).

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Table 4
General Fund Revenues and Resources
Fiscal Years ended June 30
(Cash Receipts)
($ in millions)

	2009	2010	2011	2012	2013	Forecast 2014[6]	Forecast 2015[6]
Beginning General Fund Balance	805	279	(561)	(92)	(381)	168	311
General Fund State Revenues							
State Tax Revenues							
Retail Sales Tax	6,870	6,417	6,620	6,745	7,169	7,604	7,976
Business and Occupation Taxes	2,640	2,574	3,010	3,126	3,307	3,236	3,375
Use Taxes (General Fund portion)	460	423	534	480	518	542	559
Property Taxes	1,770	1,822	1,840	1,898	1,936	1,979	2,018
Real Estate Excise Taxes	389	380	373	399	535	577	550
Other Excise Taxes[1]	23	17	18	17	16	16	16
Other Taxes[2]	1,582	1,535	1,804	1,827	1,875	1,865	1,928
Subtotal State Tax Revenues	13,734	13,168	14,199	14,492	15,356	15,819	16,422
State Non-Tax Revenues							
Licenses, permits and other fees	95	84	87	99	105	102	102
Liquor profits and fees	69	71	117	49	141	114	62
Investment income	63	2	(12)	(10)	(10)	(4)	(5)
Lottery transfers	11	13	9	-	-	11	-
Other Non-Tax Revenue	186	233	248	244	191	188	171
Subtotal State Non-Tax Revenues	424	403	449	382	427	411	330
Adjustments and Transfers							
Enacted Transfers/Prior Period Adjustments	1,043	699	550	246	146	71	97
Adjustment to Working Capital	-	-	-	-	238	-	-
Transfers from Budget Stabilization Account	-	45	223	-	-	-	-
Transfers to Budget Stabilization Account[3]	(115)	(119)	(129)	(130)	(139)	(143)	(169)
Subtotal Adjustment and Transfers	928	625	644	116	245	(72)	(72)
Total General Fund-State Resources	15,891	14,475	14,731	14,898	15,647	16,327	16,991
General Fund-State Resources	15,891	14,475	14,731	14,898	15,647	16,327	16,991
General Fund-Federal Revenues[4] [5]	6,498	8,339	7,975	7,114	7,037	8,083	8,757
General Fund-Private/Local Revenues[5]	220	225	250	273	260	280	289
Total General Fund Resources[5]	22,609	23,039	22,956	22,285	22,944	24,690	26,037

(1) Includes liquor, beer and wine, tobacco, boat and timber excise taxes, among others.
(2) Includes estate and inheritance taxes, public utility taxes and insurance premium and other taxes.
(3) The Emergency Reserve Account was abolished, and the Budget Stabilization Account was created, effective July 1, 2009. See "GENERAL FUND—Budget Stabilization Account."
(4) Includes ARRA funding in 2009, 2010 and 2011 of $1.0 billion, $2.1 billion, and $1.9 billion, respectively.
(5) Federal revenues and private/local revenues are not forecast.
(6) Based on November 2013 Revenue Forecast and 2013-15 enacted budget.
Totals may not add due to rounding.

Source: Compiled by the Office of Financial Management from forecast documents and budget documents.

Table 5
General Fund Expenditures and Ending Fund Balance
Fiscal Years ended June 30
(Modified Accrual Basis)
($ in millions)

	2009	2010	2011	2012	2013	Forecast 2014[5]	Forecast 2015[5]
Education							
Public School	6,409	6,512	6,334	6,789	6,735	7,255	7,578
Higher Education	1,593	1,396	1,355	1,185	1,164	1,348	1,354
Other Education	93	82	39	40	42	55	69
Total Education	8,095	7,990	7,728	8,014	7,941	8,658	9,001
Human Services							
Dept. Social and Health Services[1]	4,433	4,303	4,425	2,683	2,648	2,873	2,914
Health Care Authority	285	207	106	2,029	2,071	2,131	2,115
Dept. Corrections	896	708	792	812	788	834	831
Other Human Services[1]	196	163	127	147	143	105	104
Total Human Services	5,810	5,381	5,450	5,671	5,650	5,943	5,964
Natural Resources Recreation	246	198	160	138	161	131	132
Government Operations	293	238	212	204	216	234	227
Transportation	38	40	34	36	41	36	34
Debt Service[2]	714	870	907	941	1,203	769	1,078
Other Expenditures[3]	416	319	332	275	267	245	214
Total General Fund-State Expenditures	15,612	15,036	14,823	15,279	15,479	16,016	16,650
Expenditures from Federal Funds	6,498	8,339	7,975	7,114	7,037	8,083	8,757
Expenditures from Private/Local Funds[4]	220	225	250	273	260	280	289
Total General Fund Expenditures	22,330	23,600	23,048	22,666	22,776	24,379	25,696
Total General Fund Resources	22,609	23,039	22,956	22,285	22,944	24,690	26,037
Total General Fund Expenditures	(22,330)	(23,600)	(23,048)	(22,666)	(22,776)	(24,379)	(25,696)
Unrestricted General Fund Ending Balance/	279	(561)	(92)	(381)	168	311	341
Budget Stabilization Balance	21	95	1	130	270	413	582
Total Reserves	300	(466)	(91)	(251)	438	724	923

(1) The Medical Assistance Program moved from DSHS to the Health Care Authority beginning in Fiscal Year 2012.
(2) Does not include debt service payments reimbursed from sources that are not general state revenues, including motor vehicle and special fuel taxes, tuition fees, patient fees, admission taxes, parking taxes and certain King County sales and use taxes. See Tables 11 and 12.
(3) Includes legislative and judicial agencies and other special appropriations. Fiscal Years 2014 and 2015 also assumes $70 million per year in state General Fund reversions.
(4) Includes spending from grants, contracts and other agreements from private/local sources.
(5) Based on November 2013 Revenue Forecast, 2013-15 enacted budget and the legislation adopted in the November 2013 special session.
Totals may not add due to rounding.

Source: Compiled by the Office of Financial Management from forecast documents and budget documents.

Impact of Federal Sequestration on the State

On March 1, 2013, the sequestration provision of the Federal Budget Control Act of 2011 went into effect. Sequestration has had both direct and indirect effects on the state. Federal funds typically make up 20 to 25 percent of the state budget. The state estimated that approximately 80 percent of these federal funds are exempt from sequestration, including Medicaid and most transportation programs, but that the state could receive approximately $83 million fewer federal funds in March-December 2013 as a result of sequestration. Among the reductions were an 8.7 percent reduction in the federal subsidy for the state's Build America Bonds (for a total of approximately $1.2 million in calendar year 2013), cuts to high-need schools, special education services, social services, employment security, and unemployment benefits. Effective October 1, 2013, the reduction in the subsidy for Build America Bonds is 7.2 percent, or approximately $2.0 million annually.

Sequestration also impacted the state's economy. Regional Economic Models Inc. estimated that job losses in the state in 2013 would be 43,151 as a result of sequestration. A significant portion of the loss was due to the Pentagon's reduced military training and contracting and its furlough program that impacted thousands of civilian employees at defense facilities in Washington. The Forecast Council initially estimated that sequestration would reduce state revenues by approximately $6 million each month it continues.

Capital Budget

The capital budget includes appropriations for construction and repair of state office buildings, college and university buildings, prisons and juvenile rehabilitation facilities; parks; public schools; housing for low-income and disabled persons, farm workers and others; and for other capital facilities and programs. Approximately half of the capital budget typically is financed by state-issued bonds, while the rest is funded primarily from dedicated accounts, trust revenue and federal funding sources. The budget includes money re-appropriated from previous biennia when projects are not completed before the end of that biennium.

Table 6 summarizes the capital budgets for the 2007-09, 2009-11, 2011-13 and 2013-15 Biennia.

Table 6
Capital Budgets
(Modified Accrual Basis)
($ in millions)

	2007-2009 Enacted Budget	2009-2011 Enacted Budget	2011-13 Enacted Budget	2013-15 Enacted Budget
Education				
Public Schools	1,254	1,190	1,080	1,065
Higher Education	1,539	1,305	897	890
Other Education	45	30	27	20
Total Education	2,838	2,525	2,004	1,975
Human Services				
Department of Social and Health Services	85	44	33	32
Other Human Services	518	259	263	230
Total Human Services	603	303	296	262
Natural Resources and Recreation	1,721	1,568	2,000	2,397
General Government	1,952	1,270	1,556	1,794
Transportation[(1)]	17	10	1	2
Total Capital Budget Expenditures	7,131	5,676	5,857	6,430

(1) Transportation reflects the Omnibus Capital budget and not the Transportation Capital budget. See "TRANSPORTATION-RELATED REVENUES AND EXPENDITURES."

Source: Office of Financial Management.

TRANSPORTATION-RELATED REVENUES AND EXPENDITURES

The Washington State Department of Transportation ("WSDOT") is the state department responsible for building, maintaining, and operating the state highway system and the state ferry system and working in partnership with others to maintain and improve local roads, railroads, airports, and multi-modal alternatives to driving. WSDOT operates 18,600 state highway lane miles, over 3,600 bridge structures, including the four longest floating bridges in the United States, 48 safety rest areas, 22 ferry vessels and 20 ferry terminals.

Transportation Revenue

Transportation revenues include taxes and fees, ferry fares and concessions, toll revenue and federal funds. Most transportation revenues are deposited to the Motor Vehicle Fund. Revenues from excise taxes on motor vehicle and special fuels are restricted to highway purposes. Toll revenue from the SR 520 Corridor is deposited into the SR 520 Corridor Account (also known as the Toll Facilities Account). Federal-Aid Highway Program funds (except for debt service reimbursements) are deposited into the Motor Vehicle Fund.

Excise Taxes on Motor Vehicle and Special Fuels. The primary component of transportation revenue is excise taxes on motor vehicle and special fuels. In 1921, the Legislature established a motor vehicle fuel tax at a fixed rate of $0.01 per gallon. The tax rate has been increased several times since then. Table 7 lists the increases in the excise tax on motor vehicle fuel since April 1, 1990. The same rates are charged per gallon for diesel and alternative fuels.

Table 7
Motor Vehicle Fuel Tax Rate History
(Per Gallon)

Effective Date of Change	Increase ($)	Per-Gallon Tax ($)
4/1/1990	0.040	0.220
4/1/1991	0.010	0.230
7/1/2003	0.050	0.280
7/1/2005	0.030	0.310
7/1/2006	0.030	0.340
7/1/2007	0.020	0.360
7/1/2008	0.015	0.375

Source: Washington State Department of Transportation.

Federal Funds. WSDOT receives substantial federal funds, primarily from the Federal-Aid Highway Program, which encompasses most of the federal programs providing highway funds to the states. The Federal-Aid Highway Program is a reimbursement program that is financed from transportation user-related revenues, primarily excise taxes on motor fuel, deposited in the Highway Trust Fund. The program and the imposition of the taxes dedicated to the Highway Trust Fund must be periodically reauthorized by Congress. Most recently in 2012, the Moving Ahead for Progress in the 21st Century Act (MAP-21) extended highway-user taxes through September 30, 2016, with no change to the tax rates. Once a project has been approved, the federal government pays a portion of the costs (typically 86.5 percent for the state) of the project as costs are incurred. States also may apply to be reimbursed for debt service on obligations issued to finance an approved project. The SR 520 Project has been approved for debt service reimbursement. See "Transportation Expenditures."

The sequestration of funds pursuant to the Balanced Budget and Emergency Deficit Control Act (BBEDCA) resulted in a loss of less than $1 million in National Highway Performance Program Funds received by the state. The Build America Bonds (BABs) subsidy received by the state in federal fiscal year 2013 for certain motor vehicle fuel tax bonds was also reduced by approximately $1.2 million. In addition, an across-the-board rescission reduced the state's obligation limitation available to the Federal-Aid Highway Program by approximately $1 million.

Tolls. Currently the state is collecting tolls on three facilities: the Tacoma Narrows Bridge, State Route ("SR") 167 High Occupancy Toll ("HOT") Lanes Pilot Project and the SR 520 Corridor. Toll rates on the Tacoma Narrows Bridge are fixed throughout the day, and tolls are collected only in the eastbound direction. Tolling on SR 167 is “dynamic”; cars with two or more people use the HOT lane for free and single occupant drivers have the option to pay the posted toll and use the carpool lane. The Legislature has extended the SR 167 HOT Lanes Pilot Project through June 2015. Toll rates on the SR 520 Corridor vary depending on the time of day and number of axles and tolls are collected electronically. The Legislature designated the Alaskan Way Viaduct (the “Viaduct”) and the northern portion of the I-405 Corridor as “eligible toll facilities,” but no tolls are currently being collected. See “Transportation Expenditures-The Alaskan Way Viaduct.”

Transportation Revenue Forecast Council. The Transportation Revenue Forecast Council (the “Transportation Forecast Council”), comprised of technical staff of the Department of Licensing, WSDOT, OFM and the Economic and Revenue Forecast Council, prepares quarterly forecasts of transportation revenues (including revenues from excise taxes on motor vehicle and special fuels). The transportation 16-year revenue forecasts are based in part upon the economic and demographic forecasts and assumptions made by the Economic and Revenue Forecast Council. Current fuel tax rates are assumed.

In its most recent forecast, released in November 2013, the Transportation Forecast Council projects that gross transportation revenues for the 2013-15 Biennium will total $4.61 billion, an increase of 6.5 percent from the previous biennium’s total revenue of $4.33 billion. The revenue forecast for the 2015-17 Biennium is $4.715 billion.

Transportation Expenditures

Transportation Excise Tax Revenue Distributions. The Constitution requires that all proceeds of the excise taxes on motor vehicle and special fuels be placed in the Motor Vehicle Fund, a special fund within the state treasury, and used exclusively for highway purposes, including the capital and operating costs of public highways, county roads, bridges and city streets and the operation of ferries that are part of any public highway, county road or city street and including the payment of state debt obligations for which excise taxes on motor vehicle and special fuels have been legally pledged.

State statutes require that excise taxes on motor vehicle and special fuels be distributed to local governments and to certain state accounts, all to be used for highway purposes. The statutes provide, however, that nothing therein be construed to violate any terms or conditions contained in any highway construction bond issues then or thereafter authorized and to which such taxes are pledged. Excise taxes collected on motor vehicle and special fuels are distributed monthly. See Tables 8 and 9.

Transportation Operating Budget. Highway and ferry operations and maintenance are the two largest components of the state’s transportation operating budget. Ferry operations and maintenance are funded in part by ferry fares. Aviation, public transportation and rail operations are funded with other non-fuel tax revenues.

Payment of Bonds Payable from Excise Taxes on Motor Vehicle and Special Fuels. Each legislative act that authorizes 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. 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 thereafter be authorized that also pledge, on an equal basis, excise taxes on motor vehicle and special fuels for their payment. By state law, the Legislature also covenants to continue to levy those excise taxes in amounts sufficient to pay, when due, the principal of and interest on all of the bonds issued under those 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. See “INDEBTEDNESS AND OTHER OBLIGATIONS–General Obligation Debt–Motor Vehicle Fuel Tax General Obligation Bonds.” Statutes authorizing the issuance of refunding bonds require that if the bonds to be refunded are secured by motor vehicle fuel taxes, in addition to the pledge of the state’s full faith, credit and taxing power, the refunding bonds must also be secured by the same taxes.

Under motor vehicle fuel tax bond statutes enacted before 1993, 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 such 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 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. Money in the Ferry Bond Retirement Fund is to be used for payment when due of the principal of and interest on state ferry bonds. If in any month it appears that the estimated percentage of money to be transferred is insufficient to meet the requirements for interest and bond retirement, the 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. Motor vehicle fuel tax bond statutes enacted in 1993 and thereafter require that such transfers from the Motor Vehicle Fund to the Highway Bond Retirement Fund be made in accordance with the bond proceedings, which generally provide that the transfers be made on the date a debt service payment is due, although in practice amounts are set aside monthly in the Motor Vehicle Fund for debt service. See Table 9.

Payment of Bonds Payable from Toll Revenue and Other Funds. The state is financing the SR 520 Floating Bridge and the Eastside plus West Approach Bridge Project as part of the SR 520 Corridor Program described below with a combination of (1) general obligation bonds of the state first payable from toll revenue and excise taxes on motor vehicle and special fuels ("Triple Pledge Bonds"), (2) toll revenue bonds that do not pledge state excise taxes on motor vehicle and special fuels or the full faith and credit of the state, and (3) grant anticipation revenue vehicle ("GARVEE") bonds payable from Federal-Aid Highway Program funds and not secured by a pledge of toll revenue. The state issued the first series of bonds for the SR 520 Corridor Program in October 2011, as Triple Pledge Bonds. Under the authorizing legislation, "toll revenue" means only such toll revenue that is pledged to the payment of the bonds. The resolution authorizing the issuance of the Triple Pledge Bonds pledged to those bonds the toll revenue from the SR 520 Corridor and any other "Eligible Toll Facilities" that may become part of a system of Eligible Toll Facilities. If toll revenue is not sufficient to pay the Triple Pledge Bonds, the Triple Pledge Bonds are then payable first from excise taxes on motor vehicle and special fuels and then from a general obligation pledge of other money of the state legally available therefor.

The state issued the second and fourth series of bonds for the SR 520 Corridor Program in June 2012 and September 2013, respectively, as GARVEE bonds, payable solely from Federal-Aid Highway Program funds, including federal reimbursements of debt service on the GARVEE bonds and federal reimbursements to the state for projects or portions of projects not financed with bond proceeds.

The state issued the third series of bonds for the SR 520 Corridor Program in October 2012 as the Transportation Infrastructure Finance and Innovation Act Bond ("TIFIA Bond"), which represents a draw-down loan from the Federal Highway Administration. The state does not expect to draw on the loan until the summer of 2014. The TIFIA Bond is payable solely from toll revenues. See "The SR 520 Corridor Program."

Transportation Capital Program. Since 2002, WSDOT has completed a series of large projects, including the Tacoma Narrows Bridge for approximately $735 million and the Hood Canal Floating Bridge for approximately $500 million. To date, WSDOT has completed 348 of 421 projects funded by the 2003-2005 gas tax, 88 percent of which projects were completed early or on time and 92 percent of which were on or under budget.

The state's transportation capital plan includes several mega-projects, including the SR 520 Corridor Program and the replacement of the Viaduct. Other major highway projects include the I-405 and SR 520 interchange in Bellevue, the U.S. 395 North Spokane corridor, and the I-5 and SR 16 interchange in Tacoma. Construction of approximately 200 smaller highway projects, including construction of new interchanges, lanes and bridges, is underway. Three 64-auto ferry boats have been constructed and delivered since 2010 and two 144-auto ferries are being constructed and are expected to be delivered in 2014 and be in service in 2014 and 2015. The second ferry is expected to be in service in early 2015 at a total cost of $126 million. Federal funds made available under the American Recovery and Reinvestment Act of 2009 ("ARRA") Inter-City High-Speed Passenger Rail Program will finance the capital improvements necessary to expand the Amtrak Cascades Service, including projects needed to provide two additional daily round trips between Seattle and Portland, reduce travel time between Seattle and Portland and improve on-time performance. As described under "LITIGATION–Other," in March 2013, a U.S. district court issued a permanent injunction that requires WSDOT to repair or replace approximately 847 fish barrier culverts by 2030, which WSDOT has estimated could cost $2.4 billion over the next 17 years. The injunction includes the potential for the state to defer culvert corrections comprising up to 10 percent of habitat gain. All fish blocking culverts, however, are required to be corrected at the end of their useful life.

The SR 520 Corridor Program. The SR 520 floating bridge provides a major east-west link across Lake Washington. It is 12.8 miles from I-5 in Seattle to the west and crossing Lake Washington to SR 202 in Redmond.

Built in the 1960s, the bridge currently is vulnerable to failure in severe windstorms and earthquakes. The SR 520 Floating Bridge and the Eastside plus West Approach Bridge Project (a portion of the SR 520 Corridor Program) is underway and includes construction of a pontoon facility and pontoons for the new floating bridge, completion and reconfiguration of the HOV lane system on SR 520 to the east of Lake Washington, and construction of a new floating bridge to replace the Evergreen Point floating bridge that includes the construction of the permanent north half of the west approach bridge.

The Legislature has authorized funding for the SR 520 Floating Bridge and Eastside plus West Approach Bridge Project and preliminary design and selected right-of-way acquisition for the Westside Project. The state issued $518.8 million in Triple Pledge Bonds in October 2011, $500.4 million in GARVEE bonds in June 2012, a $300 million TIFIA Bond in October 2012 and $285.915 million in GARVEE bonds in September 2013, and expects to fund the remaining costs with additional bond proceeds, federal funds, toll revenue and excise taxes on motor vehicle and special fuels. It is expected that the total net proceeds of the various bond issues for the project will be approximately $1.8 billion. Tolling on the SR 520 Corridor began in December 2011. WSDOT is using the design-build delivery method for three major components of the project, which have been awarded. The second cycle of pontoons has been floated out from Tacoma, and all the anchors for the Floating Bridge have been put in place. The design and construction of the north half of the west approach bridge will use the design-bid-build delivery method. The contract is expected to be awarded in summer 2014.

Issues with spalling and end-wall cracking found in the first cycle of pontoons have resulted in a number of change orders that are the responsibility of WSDOT. On January 8, 2014, WSDOT announced that change orders resulting from a WSDOT design error have consumed much of the project's risk reserve and contingency. As of December 31, 2013, executed changes resulting from this total nearly $131 million. With the execution of a pending change order to address time-related impacts of WSDOT-caused delay from late delivery of pontoons, the total cost of the error is expected to be approximately $208 million. Due to this issue, the execution of other project changes, and the need for a risk reserve, WSDOT has determined that approximately $170 million in additional project funding is required. It is likely that interim project milestones will be delayed several months, including a delay in opening the floating bridge to traffic from mid-2015 to April 2016.

If funded by the Legislature, the Westside Project will construct a new six-lane corridor from I-5 to the new SR 520 floating bridge, a new Portage Bay bridge, a reversible transit/HOV ramp to I-5, and other improvements. If the Westside Project is not funded, the new SR 520 floating bridge will be connected to the existing corridor between the bridge and I-5.

In 2013, the state completed a second annual update to the initial investment-grade traffic and revenue study for the SR 520 Corridor Program that was completed in 2011. The studies forecasted toll traffic and gross revenue through Fiscal Year 2056. The original study projected that toll traffic would initially be approximately 48 percent lower than pre-toll traffic levels. Since tolling began in December 2011, toll traffic has performed better than initial projections and continues to exceed the updated projections from the 2012 and 2013 studies.

The Alaskan Way Viaduct. The Viaduct was built in the 1950s and includes an elevated 2.2-mile portion of SR 99 along the edge of Puget Sound in downtown Seattle. The Viaduct is a main north-south route through Seattle and carries 20 to 25 percent of the traffic through downtown. The elevated structure was damaged during the region's 2001 Nisqually earthquake. Studies indicate that the Viaduct may collapse if another major earthquake occurs. The total cost of the Viaduct replacement program is estimated to be $3.145 billion, which is expected to be funded by state, federal, and local investments and toll revenue. The Viaduct replacement program has been approved for $822 million in federal funds. In January 2014, the program opened a new overpass that allows traffic to bypass a busy railroad track that crosses South Atlantic Street near the tunnel's future south portal. The Viaduct's downtown waterfront section will be replaced with a bored tunnel beneath downtown Seattle using the world's largest diameter tunneling machine. Tunneling started in the summer of 2013. The SR 99 tunnel is scheduled to open in January 2016. On December 6, 2013, Seattle Tunnel Partners ("STP"), WSDOT's design-build contractor for the project, stopped tunneling after encountering increasing resistance near the front of the tunneling machine. WSDOT and STP identified two contributing factors: a clogged cutterhead and high-temperature readings indicating there were other factors to explore. In the course of investigating the temperature readings, STP discovered damage to the seal system that protects the tunneling machine's main bearing. STP is conferring with its experts to determine how to repair or replace the broken seals and resume tunneling as quickly and safely as possible. It is not known at this time if this issue will affect the project's schedule and budget.

Columbia River Crossing. Columbia River Crossing was a proposed five-mile project on I-5 between SR 500 in Vancouver, Washington, and Columbia Boulevard in Portland, Oregon. The project would have replaced the current I-5 bridges, extended light rail to Vancouver, and improved closely spaced interchanges and access to the ports of Portland and Vancouver. The Oregon Legislature authorized funding for Oregon's portion of the project, but the Washington Legislature did not enact legislation providing the state's contribution to the project and, therefore, Washington pulled out of the project while Oregon is considering options to continue with the project on its own.

Transportation Revenues and Expenditures

Table 8 summarizes transportation-related revenues and other funding for Fiscal Years 2009 through 2013 and forecasted transportation-related revenues and other funding for Fiscal Years 2014 and 2015. The forecasted revenues displayed in the following table are revenues used by WSDOT and do not include forecasted revenues for other transportation agencies such as the Department of Licensing, the Washington State Patrol or local grant agencies. It includes forecast revenues and projected bond proceeds, based upon the current budget, and assumed federal and local funds. The federal funds shown in Table 8 include funds received from all federal transportation agencies that are appropriated by the Legislature. A portion of the funds received in the state's federal program is passed through to local entities and is not appropriated by the Legislature. Table 8 is presented on a state Fiscal Year, which produces different results than when presented on a federal fiscal year basis.

Table 9 summarizes transportation-related expenditures for Fiscal Years 2009 through 2013 and budgeted and projected expenditures for Fiscal Years 2014 and 2015. Expenditures reflected are for WSDOT programs only. During the 2014 legislative session, the Legislature is expected to consider a transportation revenue and capital plan, including potential new transportation revenues.

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Table 8
Transportation Revenues and Resources
Fiscal Years ended June 30
(Modified Accrual Basis)
($ in millions)

						November 2013 Forecast	
	2009	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
Beginning Balance	588	284	1,476	591	1,263	950	717
Gross Fuel Tax Collections include Non-Highway	1,247	1,234	1,255	1,242	1,246	1,257	1,266
Refunds for Non-Highway Use	(79)	(57)	(62)	(81)	(66)	(71)	(70)
Adjusted Gross Fuel Tax Collections	1,168	1,177	1,193	1,161	1,180	1,185	1,196
WSDOT Portion of Licenses, Permits and Fees	295	288	294	302	344	360	367
Ferry Fares	145	147	147	155	161	166	170
Tacoma Narrows Bridge Tolls[1]	46	47	45	47	64	68	73
State Route 167 Hot Lane Tolls[1]	-	1	1	1	1	1	1
SR 520 Corridor Tolls[1]	-	-	-	33	68	73	79
Other Revenues and Adjustments[2]	130	123	123	83	84	99	99
Total State Sources[3]	1,785	1,782	1,804	1,782	1,903	1,952	1,985
Other Funding[4]							
Bond Proceeds (Bonds sold in Fiscal Year)[5]	507	2,082	48	1,134	633	833	936
Bond Proceeds (GARVEE)[6]	-	-	-	602	-	323	-
Federal Aid Highway Funds[6]	-	-	-	-	18	31	39
TIFIA Loan[7]	-	-	-	-	-	-	195
Federal Stimulus Funds (ARRA)[8]	-	195	129	37	36	10	-
Federal High Speed Rail Funds[8]	-	-	2	3	27	159	148
Federal Highway Funds[8]	453	362	385	555	625	605	605
Local Funds[8]	45	48	54	25	40	86	86
Total Other Funding	1,005	2,687	618	2,355	1,379	2,047	2,009
Total Sources	3,378	4,753	3,898	4,727	4,544	4,950	4,711

(1) Includes gross toll revenue, transponder sales, civil penalties, and fees.
(2) Includes other non-forecasted sources (e.g., interest income, transfers from other state accounts, and other miscellaneous sources).
(3) Gross fuel taxes are deposited into the Motor Vehicle Account and distributed to local governments and other state agencies by statute. These distributions and transfers are shown in Table 9. The Total State Sources include WSDOT accounts only and does not include other accounts that support expenditures for agencies such as Department of Licensing, the Washington State Patrol and local grant agencies.
(4) Other funding is based on the appropriated levels of bond proceeds and federal expenditures for 2013-15 in the 2013-15 Enacted Transportation Budget.
(5) The remaining bond authority for the SR 520 Corridor Program has been fully appropriated for 2013-15 in the 2013 Enacted Transportation Budget to allow for flexibility.
(6) The GARVEE bonds for 2013-15 were sold on September 17, 2013. Federal Aid Highway Program funds were used for GARVEE Bond debt service.
(7) TIFIA Loan was appropriated in the 2013 Supplemental Budget, however, the funds were placed in unallotted status. The same amount was appropriated again in 2013-15 when the expenditures are expected to occur.
(8) Federal and local funds in 2013-15 have been annualized from a biennial total. Federal Funds include both formula and allocated funds for all state appropriated accounts managed by WSDOT, including operating and capital programs. Funds are appropriated based on WSDOT's Fiscal Year, July 1 through June 30.

Totals may not add due to rounding.

Source: Washington State Department of Transportation.

Table 9
Transportation Expenditures and Ending Fund Balance[1]
Fiscal Years ended June 30
(Modified Accrual Basis)
($ in millions)

						2013-15 Enacted Budget[2]	
	2009	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
Distributions and Transfers							
Debt Service Transfers – Motor Fuel Tax[3]	310	332	409	416	481	525	564
Debt Service Transfers – Toll Revenue[3]	-	-	-	17	26	26	26
Debt Service Transfers – GO[3]	4	8	9	11	11	13	13
Debt Service Transfers – Federal Aid Highway Funds[4]	-	-	-	-	18	31	39
Fuel Tax Distribution to Cities and Counties	233	235	238	231	235	237	238
Fuel Tax Distributions to Support Local Grant Programs[5]	127	128	130	126	128	129	130
Expenditures by Other Agencies[6]	47	45	47	57	57	65	65
Total Distributions and Transfers	722	747	833	858	957	1,026	1,074
WSDOT Operations							
Toll Maintenance and Operations	13	14	11	21	23	31	31
Highway Maintenance and Operations	232	198	214	211	219	230	230
Ferries Maintenance and Operations	215	209	225	231	227	243	243
Aviation, Public Transportation and Rail	74	73	82	65	74	76	76
Local Programs and Economic Partnerships	7	6	6	5	6	6	6
Operational Activities[7]	156	149	149	131	143	153	153
Operating Appropriations Placed in Unallotted Status	-	-	-	-	-	-	(7)
Total Operations	696	648	687	664	692	739	731
WSDOT Capital							
Highway Construction[8]	1,485	1,636	1,553	1,809	1,703	2,088	2,088
Traffic Operations and Facilities	10	6	8	9	8	16	16
Ferry Capital Construction	91	131	158	83	151	146	146
Rail Program	59	59	35	22	55	188	188
Highways and Local Programs	30	50	33	18	29	29	29
Capital Appropriations Placed in Unallotted Status	-	-	-	-	-	-	(350)
Total Capital	1,675	1,881	1,787	1,942	1,945	2,468	2,117
Total WSDOT Transportation Uses	3,094	3,277	3,307	3,464	3,594	4,232	3,923
Ending Fund Balance	284	1,476	591	1,263	950	717	788

(1) Table shows actuals through Fiscal Year 2013. Revenue distributions are based on the November 2013 Transportation Revenue Forecast.
(2) Expenditure for Fiscal Year 2014 and Fiscal Year 2015 are based on the 2013-15 Enacted Transportation Budget. Expenditures have been annualized. Revenue distributions are based on the November 2013 Transportation Revenue Forecast.
(3) Funds are transferred to debt retirements accounts on a monthly basis and include debt service for fuel tax bonds, general obligation bonds and toll revenue bonds. These transfers do not match fiscal year debt service. Debt service in this table is net of the Build America Bonds' subsidy (and reflects reductions in Fiscal Years 2014 and 2015 for federal sequestration). This represents WSDOT debt service only and does not include debt service for the Transportation Improvement Board or other state or local entities.
(4) Represents debt service on GARVEE Bonds, which is reimbursed by Federal Aid Highway Program funds as shown on Table 8.
(5) Grant programs are administered to local users through the County Road Administration Board and the Transportation Improvement Board.
(6) Expenditures by Other Agencies include certain legislative committees and commissions, as well as certain executive agencies.
(7) Operational Activities include administrative services, facilities operations and maintenance, transportation planning, information technology, and insurance fees.
(8) The 2013-15 Enacted Transportation Budget provides appropriation authority for the SR 520 Corridor Program that aligns with the program's remaining bond authorization. Additionally, the corridor improvements are being delivered as a program of projects. This allows appropriations to be distributed between projects that make up the program and to advance federal pay-go funding as needed for project delivery.

Totals may not add due to rounding.

Source: Washington State Department of Transportation.

INDEBTEDNESS AND OTHER OBLIGATIONS

All state general obligation debt and other evidences of indebtedness must be authorized by the Legislature and issued under the authority granted by the Legislature to the Committee. In addition to long-term bonds, the state may enter into financing contracts, including leases and installment purchase contracts, and notes. The state also may incur contingent obligations such as guarantees and may enter into payment agreements such as interest rate swaps (although to date it has not done so).

Debt Issuance Policy

The Committee maintains a Debt Issuance Policy that addresses, among other things, the roles and responsibilities of the Committee and the Treasurer, debt structuring guidelines and standards of conduct and appointment of professional service providers. The Debt Issuance Policy addresses debt service structure, mode of interest, refunding savings thresholds and the average life of debt (shorter than or equal to the estimated useful life of the facility financed). The requirements may not apply in all cases.

Debt Affordability Study

In January 2014, the Treasurer released the fourth annual Debt Affordability Study to the Legislature. The study presents information about the state's debt obligations to help guide policymakers as they make choices about the amounts, types and uses of debt financing undertaken in the state. The study describes issuance trends, borrowing costs and effective constraints on debt issuance and provides an assessment of the state's overall "debt affordability" by using demographic and financial indicators as well as peer analysis to measure the affordability of the state's existing and projected debt.

Recent Legislation and Ballot Measures

Through 2011 legislation, the Legislature created the Commission on State Debt to examine trends in the use of debt and other long term liabilities, compare debt service to other operating budget expenditures for similar policy objectives, and compare the state's debt limits and policies to other states. This commission recommended certain constitutional and statutory changes regarding the calculation of state debt limits and the creation of a debt policy council to advise the Governor and Legislature regarding the appropriate level of state debt. The 2011 legislation further directed the State Finance Committee to recommend a working debt limit for purposes of budget development for various purpose capital bond appropriations, which is lower than the state constitutional debt limit in order to reserve capacity under the constitutional limit for emergencies and economic uncertainties. In November 2012, voters approved a constitutional amendment that changes the constitutional general obligation debt limitation. See "General Obligation Debt–Constitutional General Obligation Debt Limitation" below.

General Obligation Debt

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

General obligation bonds may be authorized:

(1) by the affirmative vote of three-fifths of the members of each house of the Legislature, without voter approval, in which case the amount of such debt is generally (but not always) subject to the constitutional debt limitation described below;

(2) when authorized by law for a distinct work or object and approved by a majority of the voters voting thereon at a general election, or a special election called for that purpose, in which case the amount of the debt so approved is not subject to the constitutional debt limitations described below;

(3) by a body designated by statute (currently the Committee) without limitation as to amount, and without approval of the Legislature or approval of the voters:

   (a) to refund outstanding state obligations; or

(b) to meet temporary deficiencies of the state treasury, to preserve the best interests of the state in the conduct of the various state institutions and agencies during each Fiscal Year if such debt is discharged (other than by refunding) within 12 months of the date of incurrence and is incurred only to provide for appropriations already made by the Legislature.

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

Motor Vehicle Fuel Tax General Obligation Bonds. General obligation bonds that are payable from excise taxes on motor vehicle and special fuels may be issued for specified highway purposes and, as described below, such bonds are not subject to the constitutional general obligation debt limitation. Historically, no funds other than excise taxes on motor vehicle and special fuels have been used to pay such bonds. See "TRANSPORTATION-RELATED REVENUES AND EXPENDITURES– Transportation Expenditures–Payment of Bonds Payable from Excise Taxes on Motor Vehicle and Special Fuels."

Bonds for SR 520 Corridor Program. The Legislature has authorized the issuance of $1.95 billion of bonds to provide the funds necessary for the location, design, right-of-way, and construction of the Floating Bridge and the Eastside plus West Approach Bridge Project portion of the SR 520 Corridor Program. In October 2011, the state issued $518.775 million of Triple Pledge Bonds first payable from toll revenue, then excise taxes on motor vehicle and special fuels, and finally by the full faith and credit of the state. In June 2012, the state issued $500.4 million of GARVEE bonds payable from Federal-Aid Highway Program funds to finance the SR 520 Corridor Program. In October 2012, the state issued a $300 million TIFIA Bond payable solely from toll revenues. The TIFIA Bond is a draw down loan, which is expected to be drawn in 2014 through 2016. In September 2013, the state issued $285.915 million of GARVEE bonds payable from Federal-Aid Highway Program funds. The state expects to issue additional toll-backed bonds for the project in 2014 or 2015. It is expected that the total net proceeds of the various bond issues for the project will be approximately $1.8 billion. See "TRANSPORTATION-RELATED REVENUES AND EXPENDITURES."

Constitutional General Obligation Debt Limitation. With certain exceptions noted below, the amount of state general obligation debt that may be incurred is limited by the Constitution. The constitutional debt limitation prohibits the issuance of new debt if the aggregate debt contracted by the state would exceed the amount for which payments of principal and interest in any Fiscal Year would require the state to expend more than 9.0 percent of the arithmetic mean of general state revenues for the three immediately preceding Fiscal Years. This limitation restricts the incurrence of new debt and not the amount of debt service that may be paid by the state in future years.

Under the Constitution, "general state revenues" includes all state money received in the state treasury, with certain exceptions, including (1) fees and revenues derived from the operation of any undertaking, facility, or project; (2) moneys received as gifts, grants, donations, aid, or assistance when the terms require the application of such moneys otherwise then for general purposes of the state; (3) retirement system moneys and performance bonds and deposits; (4) trust fund money, including money received from taxes levied for specific purposes; and (5) proceeds from sale of bonds or other indebtedness.

Legislation adopted in 2011 directs that the Committee set a more restrictive working debt limit for budget development purposes. The working limit phases down to 7.75 percent by Fiscal Year 2022, starting in Fiscal Year 2016. The Committee may adjust that working debt limit due to extraordinary economic conditions.

In November 2012, voters approved an amendment to the constitutional limit specifying that (1) beginning July 1, 2014, general state revenues will be averaged over the six immediately preceding fiscal years; (2) for the purpose of the calculation, the definition of general state revenue will be expanded to include property taxes received by the state; and (3) the 9.0 percent constitutional limit on debt service will be reduced to 8.0 percent by July 1, 2034 (in downward steps to 8.5 percent starting July 1, 2014, to 8.25 percent starting July 1, 2026, and finally to 8.0 percent starting July 1, 2034). The amendment was intended to stabilize and smooth the state's ability to borrow; gradually reduce the state's long-term debt burden; and lower the share of the operating budget used to pay principal and interest on debt. In some years, the new constitutional limits are anticipated to be more restrictive than the previously approved statutory working debt limits.

Principal and interest requirements on the following types of obligations are excluded from the calculation of the constitutional debt limitation: (1) obligations payable from excise taxes levied on motor vehicle fuels, license fees, income received from the investment of the permanent common school fund and revenue received from license fees on motor vehicles; (2) debt that has been refunded or defeased; (3) debt authorized by law for a single work or object and approved by a majority of those voting in a general or special election; (4) certificates of indebtedness issued to meet temporary deficiencies in the state treasury (described above under "General Obligation Debt Authority"); (5) principal requirements of bond anticipation notes; (6) financing contracts, including certificates of participation therein; (7) obligations issued to pay "current expenses of state government"; (8) obligations payable solely from the revenues derived from the ownership or operation of any particular facility or project; (9) obligations payable solely from gifts, grants, donations, aid or assistance that is limited to expenditure on specific purposes; and (10) any state guarantee of voter-approved general obligation debt of school districts in the state.

Debt Service Within Constitutional Debt Limitation. The aggregate debt projected to be contracted by the state as of February 5, 2014, will not exceed that amount for which payments of principal and interest in any Fiscal Year would require the state to expend more than 9.0 percent of the arithmetic mean of its general state revenues for the three immediately preceding Fiscal Years. The arithmetic mean of general state revenues for Fiscal Years 2011, 2012 and 2013 is $13,250,701,528. The debt service limitation, 9.0 percent of this mean, is $1,192,563,138. The state's maximum annual debt service as of February 5, 2014, on debt service subject to the constitutional debt limitation is $1,125,315,428, or $67,247,709 less than the debt service limitation.

Use of Short-Term General Obligation Debt Authority (Certificates of Indebtedness and Bond Anticipation Notes). Article VIII of the Constitution, Chapter 39.42 RCW and the state's other bond statutes 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 would be general obligations of the state, but principal of those notes would be excluded from the constitutional debt limitation. The state has no bond anticipation notes currently outstanding and currently does not plan to issue bond anticipation notes.

Article VIII of the Constitution and Chapter 39.42 RCW also 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 12 months after the date of issue. Principal and interest on certificates of indebtedness are excluded from the constitutional debt limitation. The state has no certificates of indebtedness currently outstanding and does not anticipate any short-term borrowing during Fiscal Year 2014.

Table 10 includes the total debt service requirements by pledge of revenues for the state general obligation bonds, and Table 11 includes a summary of the state's outstanding general obligation bonds.

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Table 10
Total Bond Debt Service Requirements by Pledge of Revenues
(in dollars)

Fiscal Year Ending June 30	Outstanding 2/5/2014[1]								2014D and 2014T-2 [2]		2014E [2]		Total Debt Service Requirements [2][3][4][5]
	General Obligation						Limited Obligation		General Obligation				
	General State Revenues[3]		Motor Vehicle Fuel Tax Revenues		Triple Pledge		GARVEEs		General State Revenues		Motor Vehicle Fuel Tax Revenues		
	Principal	Interest	Principal	Interest[4]	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	
2014[5]	29,890,000	5,024,038	20,612,972	11,166,453	-	13,012,488	-	18,399,141	-	-	-	-	98,105,092
2015	594,396,564	532,517,931	244,137,993	312,797,342	-	26,024,975	-	39,095,675	11,590,000	18,421,294	5,575,000	13,310,840	1,797,867,614
2016	602,847,077	507,716,025	255,874,493	308,176,478	-	26,024,975	62,600,000	37,544,175	11,405,000	18,605,095	5,760,000	13,125,900	1,849,679,217
2017	602,341,191	498,031,783	268,438,239	303,694,760	10,835,000	26,024,975	65,710,000	34,360,925	11,460,000	18,550,351	6,105,000	12,780,300	1,858,332,524
2018	589,289,950	466,944,496	273,644,188	294,748,764	11,375,000	25,483,225	68,975,000	31,026,150	11,560,000	18,449,503	6,410,000	12,475,050	1,810,381,325
2019	579,141,629	439,410,065	283,331,883	286,647,799	11,945,000	24,914,475	72,380,000	27,519,375	11,715,000	18,295,755	6,730,000	12,154,550	1,774,185,530
2020	574,483,868	415,226,040	290,858,119	277,049,644	12,540,000	24,317,225	75,985,000	23,819,250	11,950,000	18,063,798	7,070,000	11,818,050	1,743,180,992
2021	554,708,505	372,017,785	290,941,687	266,418,491	13,165,000	23,690,225	79,780,000	19,937,625	12,235,000	17,775,803	7,420,000	11,464,550	1,669,554,671
2022	551,740,000	321,318,700	298,657,106	258,135,455	13,825,000	23,031,975	83,750,000	15,869,938	12,575,000	17,445,458	7,790,000	11,093,550	1,615,232,181
2023	554,420,000	293,522,088	297,442,167	247,650,688	14,515,000	22,340,725	87,915,000	11,593,625	13,095,000	16,916,500	8,200,000	10,684,575	1,578,295,368
2024	554,985,000	266,145,913	304,124,322	238,250,029	15,240,000	21,614,975	92,305,000	7,092,125	13,745,000	16,261,750	8,630,000	10,254,075	1,548,648,189
2025	534,855,000	238,445,138	313,424,917	226,907,534	16,005,000	20,852,975	96,915,000	2,392,250	14,435,000	15,574,500	9,085,000	9,801,000	1,498,693,313
2026	521,875,000	211,485,263	323,375,654	213,546,358	16,805,000	20,052,725	-	-	15,155,000	14,852,750	9,540,000	9,346,750	1,356,034,499
2027	506,150,000	186,085,425	322,353,610	200,327,617	17,685,000	19,170,463	-	-	15,915,000	14,095,000	10,015,000	8,869,750	1,300,666,865
2028	489,155,000	163,850,250	312,046,468	189,696,055	18,615,000	18,242,000	-	-	16,710,000	13,299,250	10,515,000	8,369,000	1,240,498,023
2029	487,460,000	141,815,100	311,961,913	178,399,632	19,545,000	17,311,250	-	-	17,545,000	12,463,750	11,040,000	7,843,250	1,205,384,895
2030	466,845,000	120,400,038	307,560,835	165,972,665	20,525,000	16,334,000	-	-	18,425,000	11,586,500	11,595,000	7,291,250	1,146,535,288
2031	442,595,000	100,699,350	276,435,000	93,541,325	21,550,000	15,307,750	-	-	19,345,000	10,665,250	12,175,000	6,711,500	999,025,175
2032	427,475,000	80,617,275	256,850,000	81,269,173	22,625,000	14,230,250	-	-	20,310,000	9,698,000	12,780,000	6,102,750	931,957,448
2033	395,435,000	60,413,588	228,120,000	68,980,983	23,760,000	13,099,000	-	-	21,325,000	8,682,500	13,420,000	5,463,750	838,699,821
2034	316,825,000	42,180,775	184,610,000	58,346,455	24,945,000	11,911,000	-	-	22,395,000	7,616,250	14,090,000	4,792,750	687,712,230
2035	242,155,000	27,346,988	161,935,000	49,522,406	26,195,000	10,663,750	-	-	23,515,000	6,496,500	14,795,000	4,088,250	566,712,893
2036	177,250,000	16,352,688	139,825,000	42,099,606	27,505,000	9,354,000	-	-	24,690,000	5,320,750	15,540,000	3,348,500	461,285,543
2037	120,975,000	8,716,025	145,280,000	35,131,797	28,880,000	7,978,750	-	-	25,925,000	4,086,250	16,315,000	2,571,500	395,859,322
2038	72,705,000	3,942,825	150,775,000	28,040,622	30,325,000	6,534,750	-	-	27,220,000	2,790,000	17,130,000	1,755,750	341,218,947
2039	40,195,000	1,004,875	156,665,000	20,528,888	31,840,000	5,018,500	-	-	28,580,000	1,429,000	17,985,000	899,250	304,145,513
2040	-	-	142,965,000	13,183,012	33,430,000	3,426,500	-	-	-	-	-	-	193,004,512
2041	-	-	117,580,000	6,903,737	35,100,000	1,755,000	-	-	-	-	-	-	161,338,737
2042	-	-	55,245,000	2,957,081	-	-	-	-	-	-	-	-	58,202,081
2043	-	-	30,120,000	968,028	-	-	-		-	-	-	-	31,088,028
Total	11,030,193,784	5,521,230,461	6,765,191,568	4,481,058,877	518,775,000	467,722,900	786,315,000	268,650,254	432,820,000	317,441,553	265,710,000	206,416,440	31,061,525,837

(1) Does not include the Series 2014D, 2014E and 2014T-2 Bonds issued on February 5, 2014. Does not include the TIFIA Bond, which has not been drawn upon. See "TRANSPORTATION RELATED REVENUES AND EXPENDITURES–Transportation Expenditures–Payment of Bonds Payable from Toll Revenue and Other Funds."

(2) Series 2014D, 2014E and 2014T-2 issued on February 5, 2014.

(3) The state may be reimbursed for some of these debt service payments from sources that are not general state revenues, including tuition fees, patient fees, admission taxes, parking taxes and certain King County sales and uses taxes. See Tables 11 and 12.

(4) Debt service does not take into account the receipts of the 35 percent federal credit payments applicable to bonds issued as Build America Bonds. See "GENERAL FUND–Impact of Federal Sequestration on the State."

(5) Remaining debt service on outstanding bonds as of February 5, 2014. Upon the issuance of the Bonds, debt service requirements for entire Fiscal Year 2014 are: principal $791,236,540; interest $897,702,362; total debt service $1,688,938,901.

Totals may not add due to rounding.

Source: Office of the State Treasurer.

Table 11
History of Outstanding Bonds and Debt Service
(in dollars)

	6/30/2009	6/30/2010	6/30/2011	6/30/2012	6/30/2013
Outstanding by Source of Payment					
General Obligation Bonds					
General State Revenues and Other Sources [(1)]	9,831,964,833	10,410,327,277	10,763,996,170	10,980,895,035	10,980,397,783
Motor Vehicle Fuel Tax Revenue	4,285,988,810	6,189,623,828	6,004,454,495	6,353,055,881	6,712,006,137
Toll Revenue on the SR 520 Corridor	-	-	-	518,775,000	518,775,000
	14,117,953,643	16,599,951,104	16,768,450,665	17,852,725,916	18,211,178,920
Limited Obligation Bonds					
Pledged Federal Aid (GARVEE)	-	-	-	500,400,000	500,400,000
Total – Outstanding	14,117,953,643	16,599,951,104	16,768,450,665	18,353,125,916	18,711,578,920
Annual Debt Service Requirements by Fiscal Year					
General Obligation Bonds					
General State Revenues and Other Sources Debt Service[(1)]					
Payable from General State Revenues	816,725,594	866,032,566	904,457,910	936,976,816	969,603,360
Reimbursed from Other Sources[(1)]	91,360,751	91,743,874	88,239,461	86,327,135	83,775,821
	908,086,345	957,776,440	992,697,370	1,023,303,951	1,053,379,180
Motor Vehicle Fuel Tax Revenue Debt Service					
Payable from Excise Taxes on Motor Vehicle and Special Fuels	291,775,904	319,143,978	379,425,700	399,676,957	420,422,316
Reimbursed from Tolls on the Tacoma Narrows Bridge	26,915,419	34,925,419	42,200,419	43,266,544	45,329,581
	318,691,323	354,069,397	421,626,119	422,943,501	465,751,897
Toll Revenue Debt Service					
Payable from Toll Revenue on the SR 520 Corridor	-	-	-	15,253,527	26,024,975
Limited Obligation Bonds					
GARVEE Bond Debt Service	-	-	-	-	18,282,056
Total – Annual Debt Service by Fiscal Year	1,226,777,668	1,311,845,837	1,414,323,489	1,481,500,979	1,563,438,108

(1) The state may be reimbursed from sources that are not general state revenues, including tuition fees, patient fees, admission taxes, parking taxes and certain King County sales and use taxes.

Totals may not add due to rounding.

Source: Office of the State Treasurer.

Table 12
Bonds by Source of Payment[(1)]
(Outstanding as of February 5, 2014)
(in dollars)

General Obligation Bonds		
Various Purpose General Obligation Bonds		
Payable from General State Revenues		10,707,209,066
Reimbursed from Other Sources[(2)]		755,804,718
Sub Total		11,463,013,784
Motor Vehicle Fuel Tax General Obligation Bonds		
Payable from Excise Taxes on Motor Vehicle and Special Fuels		6,510,135,000
Payable from Tolls on the SR 520 Corridor		518,775,000
Reimbursed from Tolls on the Tacoma Narrows Bridge		520,766,568
Sub Total		7,549,676,568
	Total General Obligation Bonds	19,012,690,352
Limited Obligation Bonds		
Pledged Federal Aid (GARVEE Bonds)	**Total Limited Obligation Bonds**	786,315,000
	Total	19,799,005,352

(1) Does not include the TIFIA Bond, which has not been drawn upon. See "TRANSPORTATION-RELATED REVENUES AND EXPENDITURES–Transportation Expenditures– Payment of Bonds Payable from Toll Revenue and Other Funds."
(2) The state may be reimbursed from sources that are not general state revenues, including tuition fees, patient fees, admission taxes, parking taxes and certain King County sales and use taxes.

Totals may not add due to rounding.

Source: Office of the State Treasurer.

Certificates of Participation/Financing Contracts for State and Local Agencies

Financing Contracts and Leases for State Agencies. The Legislature has authorized the state to enter into financing contracts, including leases, installment purchase agreements and other interest-bearing contracts, for the acquisition by state agencies of personal and real property. The state's current program provides for the financing of essential equipment and real estate projects with proceeds received from the sale of certificates of participation in master financing contracts. By their terms, the master financing contracts are payable only from current appropriations and/or from funds that do not constitute "general state revenues," and are not "debt" under the Constitution. Unlike bonds, the state's obligations under the master financing contracts and state agencies' obligations under their financing addenda are subject to appropriation by the Legislature and Executive Order reduction by the Governor.

The Committee is charged with oversight of financing contracts entered into by the state and state agencies, and all financing contracts for state real estate projects require prior approval of the Legislature. At the start of each biennium, the Office of the State Treasurer, as staff to the Committee, reports on prior usage of financing contracts and presents a proposed financing plan for the upcoming biennium. In addition, the Committee is required by law to establish from time to time a maximum aggregate principal amount payable from payments to be made under financing contracts entered into by the state.

The state also has entered into two long-term leases with separate nonprofit corporations that issued "63-20" lease revenue bonds on behalf of the state. The first lease, entered into in 2004 with Tumwater Office Properties, is for an office building being used as offices by WSDOT and DOC (now known as the "Edna Lucille Goodrich Building" and formerly the "Tumwater Office Building"). The second lease, entered into in 2009 with FYI Properties, is for a state data center and an office building in Olympia used by the Department of Enterprise Services and Consolidated Technology Services and several smaller agencies (the "1500 Jefferson Building"). The state began making lease payments for the 1500 Jefferson Building in July 2011. The state's payments under the leases have been assigned to separate trustees as security for the "63-20" bonds issued by each of the lessors. Under each lease, the state's obligation to make payments of rent is subject to appropriation by the Legislature and subject to Executive Order reduction by the Governor, and neither lease is a "debt" under the Constitution.

Financing Contracts for Local Agencies. The Legislature has authorized the state to enter into financing contracts on behalf of certain local government agencies for the acquisition of essential real and personal property. Pursuant to that authorization, the Treasurer established the state's Local Capital Asset Lending Program under which certain local government agencies with taxing power enter into financing contracts with the state for the acquisition of real and personal property. The obligations of local agencies under financing contracts with the state are general obligations to which the local agencies pledge their full faith and credit to make required payments. Local agency payments received by the state are used to make payments under financing contracts of the state. The state incurs a contingent obligation to make payments on behalf of a local agency in the event a local agency fails to make its required payment. This contingent payment obligation of the state is subject to appropriation by the Legislature and to Executive Order reduction by the Governor. If any local agency fails to make a payment due, the Treasurer is obligated to withhold an amount sufficient to make such payment from the local agency's share, if any, of state revenues or other amounts authorized or required by law to be distributed by the state to such local agency, if otherwise legally permissible.

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Table 13 summarizes by Fiscal Year payments to be made relating to outstanding certificates of participation, and Table 14 summarizes the "63-20" lease revenue bond payments by Fiscal Year.

Table 13
Payments of Certificates of Participation in State Financing Contracts for State and Local Agencies by Fiscal Year(1)
(Outstanding as of February 5, 2014)(2)
(in dollars)

	State				Local				State and Local Real Estate & Equipment Total Payments
	Real Estate		Equipment		Real Estate		Equipment		
Fiscal Year	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	
2014(3)(4)	6,260,000	621,856	-	-	-	-	-	-	6,881,856
2015	31,473,057	16,400,216	35,042,488	6,005,657	3,434,810	1,545,197	8,880,878	1,692,015	104,474,317
2016	32,974,795	15,147,437	29,337,563	5,057,904	3,505,118	1,421,055	7,317,227	1,413,043	96,174,142
2017	26,165,000	13,814,375	27,178,218	4,185,027	3,496,682	1,290,127	6,549,122	1,164,243	83,842,795
2018	25,440,000	12,779,717	19,896,420	3,423,522	2,832,758	1,161,396	5,714,042	921,695	72,169,551
2019	25,040,000	11,737,120	16,776,747	2,813,678	2,670,027	1,048,384	4,937,406	698,796	65,722,159
2020	24,690,000	10,714,343	13,569,463	2,299,008	2,600,013	937,169	4,098,171	503,211	59,411,378
2021	24,590,000	9,680,732	12,634,893	1,875,082	2,480,000	828,040	2,271,640	360,797	54,721,185
2022	23,835,000	8,653,026	4,991,784	1,538,441	2,275,000	722,333	1,848,216	267,034	44,130,833
2023	23,825,000	7,624,178	5,118,112	1,306,659	2,365,000	617,938	1,536,888	178,841	42,572,615
2024	22,790,000	6,602,073	5,101,062	1,063,827	1,960,000	521,875	1,363,938	108,573	39,511,348
2025	20,635,000	5,623,971	5,115,000	821,500	2,020,000	434,543	505,000	53,425	35,208,438
2026	20,185,000	4,705,750	5,055,000	584,550	2,110,000	341,153	450,000	32,300	33,463,753
2027	20,160,000	3,779,985	3,950,000	341,225	2,030,000	246,856	180,000	13,800	30,701,866
2028	16,840,000	2,897,274	3,940,000	180,900	2,080,000	153,216	105,000	5,950	26,202,340
2029	16,190,000	2,124,386	4,060,000	60,900	985,000	57,494	95,000	1,900	23,574,680
2030	16,595,000	1,360,614	-	-	230,000	22,936	-	-	18,208,550
2031	10,690,000	755,300	-	-	165,000	14,450	-	-	11,624,750
2032	5,820,000	355,069	-	-	155,000	8,144	-	-	6,338,213
2033	5,250,000	118,578	-	-	100,000	1,981	-	-	5,470,559
2034	295,000	6,822	-	-	-	-	-	-	301,822
Total	399,742,852	135,502,821	191,766,750	31,557,881	37,494,409	11,374,286	45,852,529	7,415,623	860,707,150

(1) Excludes payments on state leases supporting "63-20" lease revenue bonds. See Table 14.
(2) Does not include Certificates of Participation, Series 2014A expected to be issued on March 19, 2014.
(3) Total payments for Fiscal Year 2014 are $97,705,860.
(4) Debt service is collected from state and local agencies one month prior to the date the state pays debt service. Table shows debt service as it is paid to Certificate of Participation holders, not when collected from state and local agencies.
Totals may not add due to rounding.
Source: Office of the State Treasurer.

Table 14
Payments Under "63-20" Lease Revenue Bonds by Fiscal Year
(Outstanding as of February 5, 2014)
(in dollars)

Fiscal	E.L. Goodrich Building		1500 Jefferson Building		Total Lease
Year	Principal	Interest	Principal	Interest	Revenue Bonds
2014	-	-	5,725,000	7,954,313	13,679,313
2015	1,540,000	2,534,188	6,015,000	15,622,375	25,711,563
2016	1,740,000	2,450,013	6,310,000	15,321,625	25,821,638
2017	1,955,000	2,353,019	6,630,000	15,006,125	25,944,144
2018	2,180,000	2,244,475	6,965,000	14,674,625	26,064,100
2019	2,420,000	2,123,725	7,310,000	14,326,375	26,180,100
2020	2,685,000	1,989,719	7,675,000	13,960,875	26,310,594
2021	2,960,000	1,841,538	8,060,000	13,577,125	26,438,663
2022	3,260,000	1,678,263	8,460,000	13,174,125	26,572,388
2023	3,570,000	1,498,975	8,885,000	12,751,125	26,705,100
2024	3,905,000	1,302,756	9,350,000	12,284,663	26,842,419
2025	4,265,000	1,093,625	9,845,000	11,793,788	26,997,413
2026	4,640,000	871,000	10,360,000	11,276,925	27,147,925
2027	5,035,000	629,125	10,905,000	10,733,025	27,302,150
2028	5,480,000	366,250	11,450,000	10,187,775	27,484,025
2029	4,585,000	114,625	12,035,000	9,600,963	26,335,588
2030	-	-	12,665,000	8,969,125	21,634,125
2031	-	-	13,360,000	8,272,550	21,632,550
2032	-	-	14,095,000	7,537,750	21,632,750
2033	-	-	14,870,000	6,762,525	21,632,525
2034	-	-	15,690,000	5,944,675	21,634,675
2035	-	-	16,555,000	5,081,725	21,636,725
2036	-	-	17,465,000	4,171,200	21,636,200
2037	-	-	18,425,000	3,210,625	21,635,625
2038	-	-	19,440,000	2,197,250	21,637,250
2039	-	-	20,510,000	1,128,050	21,638,050
Total	50,220,000	23,091,294	299,055,000	255,521,300	627,887,594

Totals may not add due to rounding.
Source: Office of the State Treasurer.

Other Debt

See Appendix D—"THE STATE'S 2013 AUDITED FINANCIAL STATEMENTS–Note 7A." for a description of revenue bonds issued by certain colleges and universities, which are not debt of the state; tobacco securitization debt; and certain other conduit debt issued by state agencies.

School Bond Guarantee Program

In 1999, the Legislature authorized a state school district credit enhancement program. The program's purpose is to provide savings to state taxpayers by pledging the full faith, credit and taxing power of the state to the payment of voter-approved school district general obligation bonds. The proposed law was approved by a vote of the electorate as a constitutional amendment.

Each school district is responsible for paying in full the principal of and interest on its bonds guaranteed by the state under the guarantee program. If sufficient money to make any scheduled debt service payment on guaranteed bonds of a school district has not been transferred to the paying agent in a timely manner, the Treasurer is required to transfer sufficient money to the paying agent for such payment. The Treasurer is entitled to recover from the school district any funds paid by the state on behalf of a school district under the guarantee program in a manner consistent with Chapter 39.98 RCW. The state has not been called upon to pay debt service on any guaranteed school debt.

As of January 1, 2014, the aggregate total principal amount outstanding on 475 voter-approved bond issues guaranteed under the program was $8.35 billion. The bonds were issued by 174 school districts.

Washington Guaranteed Education Tuition Program

The Washington Guaranteed Education Tuition Program ("GET program") is a 529 prepaid college tuition plan that allows Washington residents or individuals opening accounts for Washington residents to prepay for future college tuition. Individual accounts are guaranteed by the state to keep pace with rising college tuition, based on the highest tuition at Washington's public universities. The after-tax contributions to a GET account grow tax-free and can be withdrawn tax-free when used for eligible higher education expenses. GET funds are held in the state treasury and invested by the Washington State Investment Board.

According to the June 30, 2012, actuarial valuation prepared by the Office of the Washington State Actuary (OSA), the market value of program assets, totaled $2.31 billion, or 78.5 percent of the "best estimate" of the actuarially determined present value of obligations for future payments of $2.94 billion. The June 30, 2013, actuarial report prepared by OSA showed program assets of $2.57 billion, or 94.1 percent of the "best estimate" of the actuarially determined present value of obligations for future payments of $2.71 billion.

In 2011, the GET Committee established a one-time 30-year amortization of the unfunded liability measured at June 30, 2011. After two years of experience, the full funding plan remains on track.

INVESTMENTS

The Treasurer manages and invests two distinct sets of funds: state funds and Local Government Investment Pool ("LGIP") funds. State funds include funds in the state treasury that are subject to legislative appropriation and funds in the Treasurer's Trust, which are accounts placed in the custody of the Treasurer and not typically subject to legislative appropriation. Separately, the Treasurer manages the LGIP funds, a voluntary investment option for state and local governments.

Both the state funds and funds in the LGIP are managed by the Office of the State Treasurer pursuant to state laws that govern the permissible investments for each and to investment policies that provide further restrictions. Historically, the Treasury and Treasurer's Trust Funds and the LGIP have had sufficient liquidity to meet all cash flow demands. In keeping with state law, funds within the Treasury and Treasurer's Trust Funds are comingled for investment and cash management purposes.

Separately, the Washington State Investment Board manages and invests state retirement plan funds, state injured-worker insurance funds and various permanent funds. Its 15-member board consists of 10 voting members and five non-voting members. The 10 voting members include the Director of the Department of Labor and Industries and the Director of Retirement Systems, the Treasurer, five representatives of the public employee retirement systems and two legislators (one from each chamber).

For a description of permitted investments, how investments are valued and investments as of June 30, 2013, for the LGIP, Treasurer's Trust Funds, state pension plans and Workers' Compensation Funds, see Note 3 in Appendix D—"THE STATE'S 2013 AUDITED FINANCIAL STATEMENTS."

Treasury and Treasurer's Trust Funds

The Treasury and Treasurer's Trust Funds are separated into sub-portfolios: a Liquidity Portfolio, Intermediate Portfolio and a Core Portfolio, each internally managed within the Office of the State Treasurer. Earnings on all sub-portfolios are calculated and distributed to individual funds on an accrued basis. Objectives are set for each portfolio as described below.

Liquidity Portfolio. The objective of the Liquidity Portfolio is to meet daily cash requirements of all Treasury and Treasurer's Trust Funds (which include state operating and capital accounts). Additionally, the Liquidity Portfolio serves as a short-term investment fund for any cash holdings of the Intermediate and Core Portfolios. Balances in the Liquidity Portfolio fluctuate within a wide range (from near zero to more than $2.0 billion), increasing sharply with the receipt of seasonal tax payments and bond proceeds and declining with the pace of operating and capital expenditures. Investment holdings of this portfolio are generally repurchase agreements, reverse repurchase agreements, U.S. agency discount notes, the LGIP and deposits with qualified depositaries. Performance of this portfolio is measured against benchmarks used for the LGIP described below.

Intermediate Portfolio. The Intermediate Portfolio serves as an enhanced cash portfolio, providing the state an opportunity to achieve a higher return than the Liquidity Portfolio by investing a little further out the yield curve. The maximum maturity of this portfolio is two years, with a target duration of 0.75 years. Investment holdings of this portfolio include obligations of the U.S. Government and U.S. agencies. This portfolio acts as a cushion between the Liquidity and Core Portfolios in that it is the first option for potential cash needs of the Liquidity Portfolio.

Core Portfolio. Cash not anticipated to be needed to meet cash flow requirements for the foreseeable future is invested in the Core Portfolio. The maximum maturity for this portfolio is 10 years with a target duration of about 1.75 years. Investment holdings of this portfolio include obligations of the U.S. Government and U.S. agencies. Performance benchmarks of the Core Portfolio are the total return and accrued yield of the Bank of America/Merrill Lynch 1-3 Treasury/Agency Index.

Table 15
Treasury and Treasurer's Trust Funds
Average Daily Balances by Security Class
($ in thousands)

	December 2013		December 2012-December 2013[1]	
	$	%	$	%
U.S. Agency	2,033,393	42.6	1,648,028	40.4
U.S. Treasury	936,060	19.6	646,372	15.9
Repurchase Agreements	514,032	10.8	788,518	19.3
Bank Deposits	139,395	2.9	114,702	2.8
LGIP Deposit[2]	993,365	20.8	723,661	17.7
Certificates of Deposit	162,088	3.4	156,387	3.8
	4,778,333	100.0	4,077,668	100.0
Weighted Average Maturity:	516 days			

(1) Average balance.
(2) See "Local Government Investment Pool Funds."
Source: Office of the State Treasurer.

Local Government Investment Pool Funds

The LGIP, authorized by the Legislature in 1986 and managed by the Office of the State Treasurer, is a voluntary pool that provides its participants the opportunity to take advantage of the economies of scale inherent in pooling. The LGIP also is intended to offer participants safety of principal and the ability to achieve a higher investment yield than otherwise would be available to them. The more than 450 local governments that participate in the LGIP are allowed 100 percent liquidity on a daily basis. Although not regulated by the U.S. Securities and Exchange Commission (the "SEC"), the LGIP is invested in a manner generally consistent with the SEC guidelines for Rule 2a-7 money market funds; for example, currently it has a maximum weighted average maturity ("WAM") of 60 days and a maximum weighted average life of 120 days. The maximum final maturity is 397 days except for floating- and variable-rate securities and securities that are used for repurchase agreements. The WAM of the LGIP generally ranges from 30 to 60 days. Typical investment holdings of the LGIP are repurchase agreements, U.S. Treasury bills and notes, U.S. agency discount notes, coupons, floating- and variable-rate notes, reverse repurchase agreements and bank deposits. The benchmarks utilized for the LGIP are the Government and Agency money market net and gross yields reported by iMoneyNet. The net yield is utilized for external comparisons while the gross yield is used internally to assess portfolio manager performance. The Treasury and Treasurer's Trust Funds are authorized to invest in the LGIP.

Table 16
Local Government Investment Pool Funds
Average Daily Balances by Security Class
($ in thousands)

	December 2013		December 2012-December 2013[(1)]	
	$	**%**	**$**	**%**
U.S. Agency	6,711,843	69.7	5,245,763	53.7
U.S. Treasury	880,343	9.1	1,672,740	17.1
Repurchase Agreements	1,243,046	12.9	2,140,040	21.9
Bank Deposits	739,452	7.7	659,915	6.8
Certificates of Deposit	61,098	0.6	44,324	0.5
	9,635,782	100.0	9,762,782	100.0
Weighted Average Maturity:	57 days			

(1) Average balance.
Source: Office of the State Treasurer.

RISK MANAGEMENT

Insurance

The state operates a self-insurance liability program (the "SILP") for third-party claims against the state for injuries and property damage up to $10 million for each occurrence. An excess insurance policy is also purchased for these risks, which covers amounts above a self-insured retention (the "SIR") up to an annual limit of $75 million. The current SIR is $10 million for all agencies except DSHS and DOC, each of which has an $16 million SIR. Insurance is procured annually, and the SIR may change. The SILP is administered by OFM with money available in a statutorily-based Liability Account within the Risk Management Fund. The Liability Account is funded by annual premiums assessed to state agencies based on each agency's loss history (paid claims over the most recent five years and open reserves for pending claims). State statutes do not permit the Liability Account to exceed 50 percent of the state's outstanding liabilities as determined bi-annually by an independent actuary. General and auto claims are investigated and settled through the coordinated efforts of OFM, the Office of the Attorney General and WSDOT with consultation and agreement of the affected agency. Approved claims (including judgments, settlements and related defense costs) are paid by OFM from the Liability Account. As of June 30, 2013, the Liability Account held $58.37 million designated for payment of tortious liability and certain federal due process claims. As of June 30, 2013, outstanding and actuarially determined claims against the state and its agencies (except for the University of Washington), including projected defense costs, that were payable from the Liability Account were $542.7 million.

The SILP covers the state, its agencies, governing bodies, boards and commissions, including all state employees, elected and appointed officials, members of boards or commissions, volunteers and reserve officers, all while acting within the scope of their employment or assigned volunteer activities. Students in state four-year universities and in the community and technical colleges are not covered by the SILP unless they otherwise qualify as state employees or volunteers. The University of Washington does not participate in SILP but operates its own self-insurance program and purchases a variety of commercial insurance, including excess and property policies. See Notes 7(E) and 10 in Appendix D–"THE STATE'S 2013 AUDITED FINANCIAL STATEMENTS."

The Ferries Division of WSDOT does not participate in the SILP, so the state purchases a marine policy that covers the vessels and operations of the Washington State Ferry System and several small vessels owned by DOC to transport individuals to the McNeil Island Corrections Center. The policy combines general liability, pollution liability, vessel hull and machinery and property in a master policy. It provides coverage up to $250 million annually for liability, $250 million for pollution, approximately 60 percent of the value of the ferries ($879 million) and all terminals, docks and shore-side facilities ($400 million). There is a single $1.0 million deductible per occurrence. The policy also has a special protection for war risk for selected vessels and routes, which provides the above coverage for losses as a result of foreign or domestic terrorism. This is needed because acts of war are excluded from the general marine policy.

The state also purchases other commercial insurance such as aviation insurance covering aircraft and airport liability coverage for agencies and colleges with aviation exposures, a master property policy covering all risks for selected buildings, contents and electronic data processing equipment (replacement value insurance including earthquakes and floods), a fidelity policy covering fraudulent or dishonest acts of all state officers and employees, and special policies covering specific buildings such as certain buildings at Washington State University, and business interruption and property coverage for toll facilities, including the Tacoma Narrows Bridge and the SR 520 Corridor.

Workers' Compensation Program

The Workers' Compensation Program insures payment of benefits for approximately 70 percent of the work force in the state, excluding self-insured employers and their employees. The Workers' Compensation Program provides time-loss, medical, vocational, disability and pension benefits to qualifying individuals who sustain work-related injuries or illness.

The main benefits plans of the Workers' Compensation Program are funded based on rates that are designed to keep these plans solvent in accordance with recognized actuarial principles and to limit fluctuations in premium rates. The accrual of future payments for workers that were injured as of June 30, 2013, was estimated to be approximately $23.6 billion as of June 30, 2013. As of June 30, 2013, there were $13.5 billion of invested assets, mainly long-term fixed income securities, to help fund these accrued benefits.

The supplemental pension plan supports cost-of-living adjustments ("COLA") granted for time-loss and disability payments for all injured workers, including those of self-insured employers. The supplemental pension component covers both state funded and self-insured employees. The accrual of these future payments for workers that were injured as of June 30, 2013, was estimated to be approximately $11.29 billion. By statute, the state is permitted to collect only enough revenue to fund the current COLA payments. No assets are allowed to accumulate for the future funding of claims' COLA benefits payable. The programs' actuaries estimate these rates so that yearly premium payments will be sufficient to make these current payments.

In 2011, the Legislature adopted two bills designed to improve return-to-work outcomes and reduce the cost of the Workers' Compensation Program. One bill directs the Department of Labor and Industries to create a single, statewide provider network for injured workers and expands access to the state's Centers of Occupation Health Education, which are community-based organizations that use occupational health best practices. The second bill, among other provisions, (1) eliminates the Fiscal Year 2012 cost-of-living adjustment with no future catch-up and delays the first adjustment for future claims by one year, (2) allows certain workers to resolve all but the medical portion of their claims with a claim resolution structured settlement agreement that provides a periodic payment schedule, (3) provides that if a pension is awarded after a permanent partial disability award, all permanent partial disability compensation must be either deducted from the worker's monthly pension benefits or deducted from the pension reserve, and (4) for a limited period, authorizes state fund employers to receive a wage subsidy and certain reimbursements for employing an injured worker at light duty or transitional work.

See Note 7(E) in Appendix D—"THE STATE'S 2013 AUDITED FINANCIAL STATEMENTS."

Washington State Unemployment Insurance Trust Fund

The Washington State Employment Security Department administers the state's unemployment insurance system. It provides weekly unemployment insurance payments for workers who lose their jobs through no fault of their own. The unemployment insurance program is a partnership among federal and state governments. Most employers pay unemployment insurance payroll taxes to both the state and the federal government. Workers in Washington State do not pay unemployment taxes.

The Federal Unemployment Tax Act ("FUTA") directly finances the administrative costs of running the states' unemployment insurance programs, such as state employment security staff salaries, equipment, software, and supplies used in direct support of the Unemployment Insurance, Employment Services, and Labor Market Information programs. FUTA also provides reserve funds for possible extended benefits programs or loan funds to states that deplete their benefit accounts.

The State Unemployment Tax Act ("SUTA") directly sends revenues to the Washington State Unemployment Insurance Trust Fund. The funds can only be used to pay unemployment benefits. The U.S. Treasury holds the state's trust fund in the national unemployment insurance trust fund.

According to state statute, tax rates are intended to maintain fund balances sufficient to cover at least 12 months of unemployment benefits during a severe recession. By statute, the state may add an additional solvency tax of 0.2 percent to an employer's rate if the balance in the trust fund drops below a level needed to pay seven months of benefits. The state has not borrowed from the federal government to pay unemployment benefits since the mid-1980s.

The state unemployment tax has two components: (1) experience-rated tax based on a rolling four-year average of the employer's layoff history and (2) social-cost tax based on benefit costs from the previous year that are not attributed to a specific employer.

The average combined unemployment tax rates as a percentage of taxable wages for Fiscal Years 2007 to 2013 are shown in the following table.

Table 17
Average Combined Unemployment Tax Rates
(Fiscal Year ended June 30)
(in percents)

Year	Average Tax Rate(1)
2009	1.66
2010	1.40
2011	2.25
2012	2.23
2013	1.76

(1) Average Tax Rate on taxable wages as of second quarter of the year.
Source: U.S. Department of Labor-Unemployment Insurance Data Summary.

The trust fund balance as of November 30, 2013, was $3.1 billion, which is estimated to be enough coverage to provide 14.7 months of benefits. The following table shows the unemployment compensation balances for Fiscal Years 2009 through 2013.

Table 18
Unemployment Compensation Fund Balance(1)
(Fiscal Year ended June 30)
($ in millions)

Year	Balance
2009	3,398
2010	2,316
2011	2,545
2012	2,626
2013	2,824

(1) The state trust fund is held in an account for the state in the national unemployment trust fund of the U.S. Treasury.
Source: TreasuryDirect®.

In November 2013, approximately 101,000 unemployed workers received unemployment insurance benefits. Beginning July 1, 2013, new claimants entering the program may receive up to 26 weeks of regular unemployment insurance benefits from the state, with a maximum state liability of $16,224 (which is the maximum weekly benefit amount times 26). The maximum weekly benefit amount is calculated based on 63 percent of Washington's average weekly wage per unemployed worker.

A state can qualify for extended federal benefits if the state's current year unemployment rate is higher than prior periods. Between February 2009 and April 2012, the state qualified for the federal Extended Benefits Program that allowed up to an additional 20 weeks of benefits. Between August 2013 and December 2013, a maximum of 28 additional weeks of Emergency Unemployment Compensation ("EUC") was available in the state, which was paid in two "tiers" based on the number of weeks in the program. EUC ended at the end of December 2013.

Seismic Activity and Other Natural Disasters

The state is in an area of seismic activity, with frequent small earthquakes and occasionally moderate and larger earthquakes. Certain soil types and property in certain areas of the state could become subject to liquefaction (the transformation of soil from a solid state to a liquid state) following a major earthquake, to landslides caused by an earthquake and to ongoing shaking that could follow a major earthquake. The state contains identified geologic faults. In addition to various faults beneath the state, the state is within the Cascadia subduction zone, a fault beneath the Pacific Ocean, which produced a large earthquake several hundred years ago and is thought to be capable of causing extensive damage if another such earthquake occurs. The most recent notable earthquake in the state, which measured 6.8 on the Richter Scale, occurred in 2001. Areas of the state also could experience the effects of a tsunami following a major earthquake on the West Coast or in areas outside the United States. WSDOT has determined that, among other infrastructure, the seawall between downtown Seattle and Puget Sound; the Alaskan Way Viaduct, an elevated highway adjacent to the seawall; and the SR 520 Evergreen Point Bridge, one of only two bridges that cross Lake Washington, are likely to be damaged if another major earthquake occurs. Other natural disasters, including volcanic eruptions and tsunamis, are possible. The loss of life and property damage that could result from a major earthquake or other major natural disasters could have a material and adverse impact on the state and its economy and financial condition. See "TRANSPORTATION-RELATED REVENUES AND EXPENDITURES−Transportation Expenditures−The SR 520 Corridor Program" and "−The Alaskan Way Viaduct." Seattle voters recently authorized funding to replace the seawall.

RETIREMENT SYSTEMS

Retirement Plans

The state administers 13 defined benefit retirement plans, three of which contain hybrid defined benefit/defined contribution options. As of June 30, 2012, the plans covered 506,236 eligible state and local government employees. These plans are administered through the Department of Retirement Systems and the Board for Volunteer Fire Fighters.

A summary of each of the state retirement plans is provided below.

Table 19
Overview of Retirement Plans (1)

Retirement System/Plan	Administered by	Benefit Type	Active and Terminated Vested Members(2)	Members Receiving Benefits(2)	Closed in
Public Employees' Retirement System ("PERS") was established in 1947 and is a cost-sharing multiple-employer retirement system.					
PERS 1	Dept. of Retirement Systems	Defined Benefit	8,229	52,672	1977
PERS 2/3		Defined Benefit/Hybrid(3)	172,876	29,570	Open
Teachers' Retirement System ("TRS") was established in 1938 and is a cost-sharing multiple-employer retirement system comprised principally of non-state employees.					
TRS 1	Dept. of Retirement Systems	Defined Benefit	3,496	36,054	1977
TRS 2/3		Defined Benefit/Hybrid(3)	71,406	6,864	Open
School Employees' Retirement System ("SERS") was established in 1998 and is a cost-sharing multiple-employer retirement system comprised principally of non-state employees.					
SERS 2/3	Dept. of Retirement Systems	Defined Benefit/Hybrid(3)	62,478	7,651	Open
Law Enforcement Officers' and Fire Fighters' Retirement System ("LEOFF") was established in 1970 and is a cost-sharing multiple-employer retirement system comprised primarily of non-state employees, with the Department of Fish and Wildlife enforcement officers as the major exception.					
LEOFF 1	Dept. of Retirement Systems	Defined Benefit	186	7,845	1977
LEOFF 2		Defined Benefit	17,409	2,344	Open
Washington State Patrol Retirement System ("WSPRS") was established in 1947 and is a single employer retirement system.					
WSPRS 1	Dept. of Retirement Systems	Defined Benefit	832	915	2002
WSPRS 2		Defined Benefit	362	0	Open
Public Safety Employees' Retirement System ("PSERS") was established in 2004 and is a cost-sharing multiple-employer retirement system.					
PSERS 2	Dept. of Retirement Systems	Defined Benefit	4,310	27	Open
Judicial Retirement System ("JRS") was established in 1971 and is an agent multiple-employer retirement system. The plan is funded by legislative appropriation.					
JRS	Dept. of Retirement Systems	Defined Benefit	2	119	1988
Judges' Retirement Fund ("Judges") was established in 1937 to provide retirement benefits to judges of the Supreme Court, Court of Appeals, and Superior Courts. It is a cost-sharing multiple-employer retirement system. Judges are now covered under PERS. The plan is funded by legislative appropriation.					
Judges	Dept. of Retirement Systems	Defined Benefit	0	12	1971
Volunteer Fire Fighters' and Reserve Officers' Relief and Pension Act ("VFFRPF") was established in 1945 and is a cost-sharing multiple-employer retirement system. The plan is funded by legislative appropriation.					
VFFRPF	Board for Volunteer Fire Fighters	Defined Benefit	16,606	3,971	Open

(1) In addition, there are Higher Education Retirement Plans that are sponsored by two-year colleges and individual universities, are privately administered, and are defined contribution plans with a supplemental defined benefit component. Eligible higher education state employees may participate in the Higher Education Retirement Plans or state-administered plans. The state contributes to these higher education plans.
(2) Member data as of June 30, 2012.
(3) Hybrid = defined benefit/defined contribution.
Source: Department of Retirement Systems.

Funding Policies

The state's retirement plans are funded by a combination of funding sources: (1) contributions from the state; (2) contributions from employers (including the state as employer and other governmental employers); (3) contributions from employees; and (4) investment returns.

State law requires systematic actuarial funding to finance the retirement plans. Actuarial calculations to determine employer and employee contributions are prepared by the Office of the State Actuary ("OSA"), a nonpartisan legislative agency charged with advising the Legislature and Governor on pension benefits and funding policy. OSA is statutorily required, pursuant to Chapter 41.45 RCW, to provide an actuarial valuation of PERS, TRS, SERS, PSERS, LEOFF, and WSPRS plans every two years. The most recent actuarial report was released in August 2013 for the year ended June 30, 2012.

The state's funding policy goals include fully funding Plans 2 and 3 for the various systems and WSPRS, fully amortizing costs of LEOFF Plan 1 by not later than June 30, 2024, fully amortizing the Unfunded Actuarial Accrued Liability ("UAAL") in PERS Plan 1 and TRS Plan 1 over a rolling 10-year period with minimum contribution rates, and establishing relatively predictable long-term employer contribution rates. To the extent feasible, benefits are funded over the working lifetimes of plan members.

Actuarial Assumptions for Funding Calculations. To calculate employer and employee contribution rates necessary to pre-fund the plans' benefits, OSA uses actuarial cost and asset valuation methods selected by the Legislature as well as economic and demographic assumptions. As noted above, actuarial valuations are provided annually, but only valuations for odd-numbered years are used to determine contribution rates.

The Legislature adopted the following economic assumptions for contribution rates beginning July 1, 2013: (1) rate of investment return: 7.9 percent per annum (7.5 percent for LEOFF Plan 2); (2) general salary increases: 3.75 percent per annum; (3) rate of Consumer Price Index increase: 3.0 percent; and (4) growth in membership: 0.95 percent (0.80 percent for TRS, 1.25 percent for LEOFF). The long-term investment return assumption is used as the discount rate for determining the liabilities for a plan. The investment rate of return assumption will decrease to 7.8 percent as of July 1, 2015, and to 7.7 percent as of July 1, 2017. The demographic assumptions were last updated in the 2007 Actuarial Valuation Report. The next review of the demographic assumptions is expected to be completed in 2014.

Actuarial Cost Methods Used for Funding Calculations. Some actuarial cost methods distinguish between (1) normal cost, or the value of future benefits allocated to the current plan year, and (2) UAAL representing the amount of past service liability that exceeds the value of the plan's assets.

For PERS Plan 1 and TRS Plan 1, OSA uses a variation of the Entry Age Normal Cost Method to determine the actuarial accrued liability. In this method, the UAAL is equal to the unfunded actuarial present value of projected benefits less the actuarial present value of future normal costs for all active members and is reset at each valuation date. The present value of future normal costs is based on the employer paying the Aggregate Normal Cost rate for Plans 2 and 3 plus the fixed 6.0 percent member contribution rate. The resulting UAAL is amortized over a rolling 10-year period, as a level percentage of projected system payroll. The projected payroll includes pay from Plans 2 and 3 as well as projected payroll from future new entrants. As a result of this hybrid method, employers are charged the same contribution rate, regardless of the plan in which employees hold membership.

LEOFF Plan 1 has a surplus and no contributions have been required since 2001.

For all Plans 2 and 3 and WSPRS, OSA uses the Aggregate Cost Method to determine the normal cost and the actuarial accrued liability. Under this method, the unfunded actuarial present value of fully projected benefits is amortized over the future payroll of the active group. Plan 2 members pay 50 percent of the normal cost. The entire contribution is considered normal cost and no UAAL exists.

For TRS Plan 2, the maximum employee contribution rate is 6.59 percent plus 50 percent of the contribution rate increases from benefit improvements effective on or after July 1, 1996. The employer pays any employee cost sharing that exceeds the employee rate maximum.

For WSPRS, the maximum employee contribution rate is 7.0 percent plus 50 percent of the contribution rate increases from benefit improvements effective on or after July 1, 2007. The employer pays any employee cost sharing that exceeds the employee rate maximum.

Rate Setting Process. Contribution rates for the upcoming biennium are adopted during even-numbered years according to a statutory rate-setting process. OSA prepares actuarial valuations based on the funding policies in statute. The resulting contribution rates are presented to the Select Committee on Pension Policy ("SCPP"), a 20-member committee of legislators, state agency representatives, and stakeholders and the Pension Funding Council ("PFC"), a six-member group consisting of the Director of the Department of Retirement Systems, the Director of OFM, the chair and ranking minority member of the House of Representatives Ways and Means Committee, and the chair and ranking minority member of the Senate Ways and Means Committee. The SCPP makes contribution rate recommendations to the PFC. The Law Enforcement Officers' and Fire Fighters' Retirement System 2 ("LEOFF 2") is the single exception to this process; OSA presents its valuation and the resulting contribution rates directly to the LEOFF 2 Board. The PFC and LEOFF 2 Board are required to adopt contribution rates no later than the end of July in even-numbered years. The rates adopted by each are subject to revision by the Legislature. All employers and employees are required to contribute at the level established by the Legislature.

Contribution Rates

The following table lists the contribution rates for the state and employees for the retirement plans for September 1, 2012, through June 30, 2013, and the rates adopted by the PFC and LEOFF 2 Board for the 2013-15 Biennium. The rates are expressed as a percentage of current year covered payroll (members' reportable salary, which generally is gross pay).

OSA has projected that employers' and employees' contribution rates in most plans will increase in the 2015-17 Biennium under optimistic, expected and pessimistic scenarios. See the State's Actuary's website (http://osa.leg.wa.gov/Actuarial_Services/Funding/contribution_rates.htm).

Table 20
Contribution Rates
(in percentage)

	Rates Effective September 1, 2013[(1)]	
	Employer Rate[(2)]	**Employee Rate[(2)]**
PERS Plan 1	9.21	6.00
PERS Plan 1 elected state officials[(3)]	13.73	7.50
PERS Plan 2/3[(4)(5)]	9.21	4.92
TRS Plan 1	10.39	6.00
TRS Plan 1 elected state officials[(3)]	10.39	7.50
TRS Plan 2/3[(4)(5)]	10.39	4.96
SERS Plan 2/3[(5)]	9.82	4.64
PSERS Plan 2	10.54	6.36
LEOFF Plan 1	0.18	0.00
LEOFF Plan 2	8.59[(6)]	8.41
WSPRS Plan 1	8.09	6.59
WSPRS Plan 2	8.09	6.59

(1) TRS and SERS rates are effective September 1 through August 31 for each year; all other plans are effective July 1, 2013. Member rates for PERS Plan 1 and TRS Plan 1 are set by statute.
(2) Includes 0.18 percent (as of September 1, 2013) Department of Retirement Systems administrative expense rate.
(3) Rates are calculated based on a statutory formula and are not adopted by the PFC.
(4) Includes elected state officials.
(5) Plan 3 members do not contribute to the defined benefit plan.
(6) Other than ports and universities, local government employees pay 5.23 percent and the state contributes 3.36 percent for local government members effective July 1, 2013.

Source: Department of Retirement Systems.

State Contributions

State Direct Contributions. The state's total direct contributions to the retirement plans from the General Fund and Non-General Fund are summarized in the following table. LEOFF Plan 1 had no UAAL and, therefore, other than administrative fees, no contributions were required in 2011-2013.

Table 21
State's Direct Contributions
($ in millions)

	State Contributions		
	2011	**2012**	**2013**
PERS Plan 1	72.3	124.0	125.6
PERS Plan 2/3	158.0	182.8	182.9
TRS Plan 1(1)	4.4	3.1	3.7
TRS Plan 2/3(1)	0.7	1.1	1.2
PSERS Plan 2	8.0	7.4	7.5
LEOFF Plan 2(2)	52.9	52.8	54.2
VFFRPF	5.7	5.6	6.0
WSPRS Plan 1/2	5.3	6.5	6.5
JRS	10.9	8.1	10.1
Total	318.2	391.4	397.7

(1) Portion for state employees only.
(2) The state contributes to LEOFF Plan 2 for local government employees.
Totals may not add due to rounding.
Source: Washington State Comprehensive Annual Financial Reports ("CAFR") for Fiscal Year Ended June 30, 2013.

In Fiscal Year 2013, General Fund expenditures were $22.776 billion, and the state's direct contributions for pensions as shown above represented 1.7 percent of these expenditures. Less than half of the state's direct contributions for pensions are paid out of the General Fund.

State and Local Government Contributions. In addition to the state's direct contributions shown above, the Legislature allocates money to each K-12 school district for employee salaries and certain associated benefits for basic education programs. This allocation is driven by formula, based on enrollment, state established salary levels, adopted contribution rates and other factors. In Fiscal Year 2013, the state's allocations to school districts for pensions were estimated to be $263 million for TRS, $1.8 million for PERS and $54 million for SERS.

Local government employers also must meet their required contributions. Participating governmental employers include, but are not limited to, school districts, counties, municipalities, and political subdivisions.

Table 22 shows estimates of the allocation of state and local government employer contributions. These estimates include both direct payments made by the state as well as the allocations made by the state to school districts for pensions.

In Fiscal Year 2013, the state's direct payments for pension contributions and allocations made by the state to school districts were approximately 3.1 percent of General Fund expenditures.

Table 22
Estimated State and Local Government
Employer Contribution Ratios by Funding Source[(1)]
(in percents)

System	General Fund-State	Non-General Fund-State	Local Government
PERS	18.8	29.5	51.7
TRS[(2)]	66.3	0.0	33.7
SERS[(2)]	44.6	0.0	55.4
PSERS	67.6	11.0	21.4
LEOFF 2	40.0	0.0	60.0
WSPRS	7.0	93.0	0.0

(1) These splits are used by OSA to model approximate cost allocations for employers by fund or type of employer in actuarial fiscal analysis. The reader should exercise caution when using numbers provided in this table for any other purpose. Estimates are based upon the June 30, 2012, actuarial valuation.

(2) The state has only a few employees in TRS and no employees in SERS.

Source: Office of the State Actuary.

Investments

Retirement funds are invested by the Washington State Investment Board, which has 15 members, including members of the various retirement systems, the Treasurer, a member of the House of Representatives and Senate, and Directors of the Department of Retirement Systems and Labor and Industries. State law requires the Board to prepare quarterly reports summarizing the investment activities. The Treasurer is the custodian of all funds in the retirement accounts. State law requires that the Board adopt investment policies and in its investments use reasonable care, skill, prudence and diligence, diversify, and consider the risk and return objectives reasonably suited to the fund. State law does not include a list of permitted investments for retirement funds.

As of June 30, 2013, there was $68 billion invested in the various retirement plans, including the defined benefit plans, defined contribution plans and certain deferred compensation funds, of which 22.63 percent was in fixed income securities, 37.71 percent in public equity, 23.81 percent in private equity, 13.61 percent in real estate, 1.52 percent in tangible assets and 0.71 percent in other investments.

The following table shows the investment returns on the retirement funds for the past 10 years. The 10-year annualized return was 8.32 percent.

Table 23
Historical Investment Returns on Retirement Funds
(in percents)

Fiscal Year	1 Year Annualized Return
2004	16.72
2005	13.05
2006	16.69
2007	21.33
2008	-1.24
2009	-22.84
2010	13.22
2011	21.14
2012	1.40
2013	12.36

Source: Washington State Investment Board.

Notes 3 and 11 of Appendix D–"THE STATE'S 2013 AUDITED FINANCIAL STATEMENTS" describe the Board's policy regarding permitted investments, how investments are valued, and a break down of investments as of June 30, 2012, and describe the commingled trust fund that is the investment vehicle for 11 separate retirement plans, the securities lending programs the pension trust funds are permitted, and the derivative investments as of June 30, 2012.

Funded Status

Actuarial Methods Used in Financial Reporting of the Funded Status. As described above, the state uses statutorily determined actuarial valuation methods to determine contribution rates. OSA uses the Projected Unit Credit ("PUC") cost method and the Actuarial Value of Assets ("AVA") to report a plan's funded status. PUC is one of several acceptable measures of a plan's funded status under current GASB rules. The PUC cost method projects future benefits under the plan, using salary growth and other assumptions and applies the service that has been earned as of the valuation date to determine accrued liabilities.

GASB requires that funded status and funding progress for PERS, TRS and SRS Plans 2 and 3, LEOFF Plan 2, WSPRS Plans 1 and 2, and PSERs Plan 2 be calculated based on the "Entry Age Actuarial Cost" method. Note 11.E in Appendix D includes the funded ratios based on this methodology as of June 30, 2012. GASB has adopted new pension accounting standards effective in 2014, which differ from current methodologies.

The AVA is calculated using a methodology that smoothes the effect of short-term volatility in the Market Value of Assets ("MVA") by deferring a portion of annual investment gains or losses over a period of up to eight years. This helps to limit fluctuations in contribution rates and funded status that would otherwise arise from short-term changes in the MVA. Each year, OSA determines the amount by which actual investment returns exceed (or fall below) the expected investment return. Additionally, the AVA is capped at 130 percent of the MVA and a floor is set at 70 percent of the MVA.

Table 24 provides a ten-year history of the actuarial value of assets, market value of assets and the percent of actuarial value to market value for the defined benefit plans.

Table 24
Actuarial Value and Market Value of
Defined Benefit Plans
(dollars in millions)

As of June 30	Actuarial Value of Assets	Market Value of Assets	% of Actuarial Value to Market Value
2003	43,858	37,732	116
2004	44,129	41,248	107
2005	45,412	46,673	97
2006	47,771	52,438	91
2007	50,787	60,095	85
2008	54,345	58,040	94
2009	56,991	44,205	129
2010	58,442	48,700	120
2011	60,654	57,350	106
2012	63,122	56,753	111

Source: Office of the State Actuary.

The following table displays the funded status on an actuarial value basis for the PERS, TRS, SERS, PSERS, LEOFF and WSPRS plans by comparing the PUC liabilities to the AVA on the valuation date. The June 30, 2012, actuarial valuation shows that the funded status of all of the state-administered plans combined is 101 percent; although assets from one plan may not be used to fund benefits for another plan. Using this AVA methodology, two funds – PERS Plan 1 and TRS Plan 1 – are underfunded by approximately $5.8 billion as of June 30, 2012. The results in the table reflect legislation that eliminates the annual increase for retirees in PERS Plan 1 and TRS Plan 1 and previous legislation that modified early retirement factors for certain employees. See “Benefits; Recent Legislation” and “LITIGATION.”

Actuarial analysis involves the use of assumptions regarding future events. Actual experience, however, may vary from the assumptions used. In addition, changes to plan provisions or assumptions can occur in the future. As such, actuarial analysis will change with the future experience of the pension plans.

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Table 25
Funded Status on an Actuarial Value Basis[1]

	PERS		TRS		SERS	PSERS	LEOFF		WSPRS	
	Plan 1	**Plan 2/3**	**Plan 1**	**Plan 2/3**	**Plan 2/3**	**Plan 2**	**Plan 1**	**Plan 2**	**Plan 1/2**	**Total[2]**
PUC Liability[3]	12,368	20,347	9,058	6,799	2,820	135	4,121	6,071	859	62,578
Valuation Assets[3]	8,521	22,653	7,145	7,758	3,100	180	5,562	7,222	982	63,122
Unfunded Liability/(Surplus)[3]	3,847	(2,306)	1,914	(959)	(280)	(45)	(1,440)	(1,150)	(123)	(544)
Funded Ratio (%)										
2003	82	142	89	155	138	n/a	112	125	123	107
2004	81	134	88	153	137	n/a	109	117	118	105
2005[4]	74	127	80	134	122	n/a	114	114	113	99
2006[4]	74	121	80	133	125	99	117	116	114	100
2007[4]	71	120	76	130	126	120	123	129	118	99
2008[4]	71	119	77	125	121	127	128	133	121	100
2009	70	116	75	118	116	128	125	128	119	99
2010[5]	74	113	84	116	113	129	127	119	118	102
2011[4]	71	112	81	113	110	132	135	119	115	101
2012[6]	69	111	79	114	110	134	135	119	114	101

(1) Liabilities have been valued using the Projected Unit Credit ("PUC") cost method at an interest rate of 7.9 percent (7.5 percent for LEOFF Plan 2) while assets have been valued using the actuarial value of assets.
(2) Assets from one plan may not be used to fund benefits for another plan.
(3) Dollars in millions. Based on actuarial valuation as of June 30, 2012.
(4) Actuarial assumptions changed.
(5) LEOFF Plan 2 values for 2010 were updated after the 2010 Actuarial Valuation Report was published.
(6) Based on actuarial valuation as of June 30, 2012.
Totals may not add due to rounding.

Source: Office of the State Actuary.

Risk Analysis. OSA uses a dynamic risk assessment model with a stochastic (or probabilistic) component to quantify the likelihood and magnitude of possible future outcomes for pensions taking into account the variability of investment returns and revenue growth. It also differentiates between model outcomes in which (1) all actuarially recommended contributions are made and there are no future improvements in benefits, and (2) drawing on past practice, contributions are made at less than actuarially recommended rates and future benefits are improved. This differs from the traditional reporting methodology, which provides funded status information at a single point in time based on what is expected to occur. OSA expects to use both methodologies in future reports on the financial condition of the pension systems.

Actual Employer Contributions vs. ARC. The following table shows all employers' Annual Required Contributions ("ARC") for 2009-2013, employers' actual annual contributions over the same period and the percentage contributed. ARC is required under generally accepted accounting principles and is based on the most recent valuations. The methods used to derive the ARC for this reporting disclosure differ from the methods used to derive the contributions required by law shown above. 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 ARCs.

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Table 26
Contributions From Employers and
State Direct Payments[1]
(For the Fiscal Years ending June 30, 2009 through 2013)
(dollars in millions)

	2009	2010	2011	2012	2013
PERS PLAN 1					
Employers' annual required contribution (ARC)	620.2	627.8	439.3	508.0	534.2
Employers' actual contribution	325.2	154.0	145.6	257.2	266.3
Percentage of ARC contributed	52%	25%	33%	51%	50%
PERS PLANS 2/3					
Employers' ARC	369.7	383.1	408.6	407.7	408.3
Employers' actual contribution	439.7	327.5	328.3	385.3	389.0
Percentage of ARC contributed	119%	85%	80%	95%	95%
TRS PLAN 1					
Employers' ARC	391.0	406.1	205.9	254.0	275.4
Employers' actual contribution	178.9	112.7	96.8	111.9	118.6
Percentage of ARC contributed	46%	28%	47%	44%	43%
TRS PLANS 2/3					
Employers' ARC	186.9	221.1	232.3	232.2	231.6
Employers' actual contribution	160.8	165.0	168.3	213.9	229.0
Percentage of ARC contributed	86%	75%	72%	92%	99%
SERS PLANS 2/3					
Employers' ARC	71.5	82.3	88.6	85.2	86.6
Employers' actual contribution	63.5	62.1	62.3	74.6	78.4
Percentage of ARC contributed	89%	75%	70%	88%	91%
LEOFF Plan 2[2]					
Employers' ARC	63.2	67.3	50.4	59.1	56.8
Employers' actual contribution	77.8	77.0	79.7	80.5	82.4
Percentage of ARC contributed	123%	114%	158%	136%	145%
State ARC	42.1	44.4	33.6	38.2	37.9
State actual contribution	51.1	51.4	52.0	52.8	54.2
Percentage contributed	121%	116%	155%	138%	143%
WSPRS					
Employers' ARC	5.0	6.6	2.3	2.9	2.5
Employers' actual contribution	6.4	5.3	5.3	6.5	6.5
Percentage of ARC contributed	128%	80%	230%	224%	260%
PSERS PLAN 2					
Employers' ARC	14.3	14.8	14.7	14.7	15.1
Employers' actual contribution	14.5	15.2	15.6	15.3	15.6
Percentage of ARC contributed	101%	103%	106%	104%	103%
JRS					
Employers' ARC	21.2	20.4	18.6	22.6	21.7
Employers' actual contribution	10.2	11.6	10.9	8.1	10.1
Percentage of ARC contributed	48%	57%	59%	36%	47%
VFFRPF[2]					
Employers' ARC	1.1	1.0	1.1	1.0	0.9
Employers' actual contribution	1.0	1.0	1.1	1.0	1.9
Percentage of ARC contributed	91%	100%	100%	100%	100%
State ARC	1.4	1.8	4.2	3.7	3.7
State actual contribution	5.2	5.7	5.8	5.6	6.0
Percentage of ARC contributed	371%	317%	138%	151%	162%

(1) No contributions were made for LEOFF Plan 1 and almost no payments for the Judges' Pension Plan. 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 experience gains and losses. The methods used to derive the ARC for this reporting disclosure are different from the methods 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 ARCs. Starting in 2009, the ARC for PERS and TRS Plans 1 was calculated using the Entry Age Normal cost method with a rolling 10-year amortization (excluding the temporary rate ceilings). Starting in 2011, the calculation of the ARC reflects the underlying actuarial cost method (excluding minimum contribution rates).

(2) The ARC for the LEOFF Plan 2 presented is OSA's recommended figure. For VFFRPF and LEOFF Plan 2, the state is not an employer but makes payments directly to the retirement plans.

Source: Washington State Comprehensive Annual Financial Reports ("CAFR") for Fiscal Year Ended June 30, 2013.

Additional Information. Additional information on the state's defined benefit plans, including the benefits to retirees, information on the state's smoothing method used in the rate setting process, and the UAAL as a percentage of covered payroll of each plan, is presented in Note 11 and in the Required Supplemental Information–Pension Plan Information in Appendix D–"THE STATE'S 2013 AUDITED FINANCIAL STATEMENTS." Note 3 in Appendix D–"THE STATE'S 2013 AUDITED FINANCIAL STATEMENTS" describes eligible investments for the state's pension plans.

Benefits; Recent Legislation

Benefits under the retirement plans are established by the Legislature. See Notes 11.B and 11.J in Appendix D for a description of retirement benefits and eligibility. The state Constitution does not directly mention pensions, but the Supreme Court has held that an employee "who accepts a job to which a pension plan is applicable contracts for a substantial pension and is entitled to receive the same when he has fulfilled the prescribed conditions. His rights may be modified prior to retirement, but only for the purpose of keeping the pension system flexibility and maintaining its integrity."

Legislation adopted in 2011 ended the automatic, annual, service-based adjustments, which had been paid annually to eligible PERS and TRS Plans 1 retirees since 1995. This elimination of the annual increase reduced the UAAL in PERS and TRS Plans 1 from $6.884 billion in 2009 to $4.439 billion in 2010.

In 2012, the Legislature passed legislation that modifies early retirement factors for new employees in PERS, TRS and SERS first hired after May 1, 2013; those employees will have their benefits reduced by 5.0 percent per year for each year the employee retires before age 65.

Litigation. Litigation was filed challenging the legislation described in the previous subsection. There have been recent superior court rulings regarding the legislation. One ruling held that the Legislature improperly repealed the annual increase for most retirees in PERS and TRS Plans 1. For a description of the litigation and the recent decisions, see "LITIGATION–Employment and Pensions." If both the cost of service-based adjustments and the modification of early retirement factors are reinstated in full by the Supreme Court, OSA has estimated that the funded status of PERS Plan 1 would drop from 69 percent to 57 percent and the funded status of TRS Plan 1 would drop from 79 percent to 63 percent. The Supreme Court could affirm the legislative changes or reinstate the benefits in whole or in part.

Bankruptcy of Participating Local Government

State law permits any "taxing district" to petition for relief under the U.S. Bankruptcy Code. If a local government that participates in the state pension system filed for bankruptcy, state law would require the state to continue to provide benefits to retirees of the local government. State law does not address the priority of payments for contributions to the pension system in the event a local government does not have sufficient funds to meet all of its obligations. If a local government filed for bankruptcy, the bankruptcy court would have some discretion with respect to the plan for adjustment of debt under Chapter 9 of the Bankruptcy Code.

Federal Benefits

State law extends to state employees the basic protection accorded to others by the old age and survivors insurance system embodied in the social security act. Members in the WSPRS have opted out of the federal social security program. Other state employees have opted into the federal program. The state pays the U.S. Treasury the amount prescribed under the social security act for contributions with respect to wages. The state withholds the employee contribution from state employee's wages.

Other Post-Employment Benefits

PEBB Plan Overview. The state offers other post-employment benefits ("OPEB") including medical (which includes medical, prescription drug, and vision), dental, life, disability and long-term care insurance to retired employees. See "GENERAL FUND–General Fund Expenditures–Employees and Employee Benefits" for a description of benefits for current state employees.

The Public Employee Benefits Board ("PEBB"), created within the Washington State Health Care Authority ("HCA"), offers retirees access to all of these OPEB benefits ("PEBB Plan"). Employers participating in the PEBB plan include the state (general government agencies and higher education institutions) and K-12 school districts, numerous political subdivisions of the state and tribal governments. Employers subsidize a portion of the cost of some PEBB Plan benefits.

The relationship between the PEBB Plan and its member employers and their employees and retirees is not formalized in a contract or plan document; rather, the benefits are provided in accordance with a substantive plan, which the Governmental Accounting Standards Board (GASB) defines as the plan as understood by employers or employees. For additional information on the state's PEBB Plan, see Note 12 in Appendix D–"THE STATE'S 2013 AUDITED FINANCIAL STATEMENTS."

PEBB Membership. The PEBB Plan is available to employees who elect to continue coverage and pay the administratively established premiums at the time they retire under the provisions of the retirement system to which they belong. PEBB Plan members are covered in the following retirement systems: PERS, TRS, SERS, PSERS, LEOFF Plan 2, WSPRS, and Higher Education retirement systems. See "RETIREMENT SYSTEMS–Retirement Plans." The following table shows PEBB Plan membership.

Table 27
Membership in PEBB Plan
(As of June 30, 2013)

	Active Employees	**Retirees[1]**	**Total**
State	107,003	28,633	135,636
K-12 Schools and ESDs[2]	1,838	30,354	32,192
Political Subdivision	11,840	1,392	13,232
Total	120,681	60,379	181,060

(1) Retirees include retired employees, surviving spouses, and terminated members entitled to a benefit.
(2) In Fiscal Year 2013, there were 101,189 full-time equivalent active employees in the 243 K-12 schools and educational service districts (ESDs) that elected to limit participation in PEBB only to their retirees.

Source: Washington State Comprehensive Annual Financial Reports ("CAFR") for Fiscal Year Ended June 30, 2013.

OPEB Subsidies. PEBB Plan employers provide monetary assistance or subsidies to retirees only for medical and life insurance. Retirees pay the full cost of other benefits.

Participating employers provide two different types of medical insurance subsidies to retirees:

(1) Explicit Subsidy. Retirees enrolled in Medicare Parts A and B receive an explicit subsidy which lowers the monthly premium. The amount of the subsidy is determined annually by PEBB. For 2013 this amount was $150 monthly for each participant.

(2) Implicit Subsidy. Non-Medicare eligible retired members pay a premium based in part on a pool that includes claims experience for active employees that, on average, are younger and healthier. There is an implicit subsidy as the premiums are lower than they would be if the retirees were insured separately. The value of the implicit subsidy reflects the difference between the age-based claims cost and the premium paid by retirees.

Funding of OPEB Subsidies–PEBB Plan. The explicit subsidy (retiree benefit) is set each biennium by the Legislature as part of the budget process. The implicit subsidy (retiree benefit) is indirectly set annually by HCA when it determines the premium of each of the non-Medicare health plans. These subsidies (contributions) are funded on a pay-go basis.

GASB 45. GASB 45 requires each employer to calculate OPEB's actuarial accrued liability ("AAL") on the medical and life insurance explicit and implicit subsidies. It also requires a calculation of the annual required contribution ("ARC"), representing the annual contribution that will fund the current active and retired members' subsidies by the end of their working lifetimes. The net OPEB obligation ("NOO") is the cumulative difference between the annual OPEB cost and the actual contributions. The annual OPEB cost is the ARC, plus the interest on the NOO and the amortization of the NOO.

The most recent valuation for the PEBB Plan prepared by the Office of the State Actuary and published in October 2013, determined the plan's liabilities as of January 1, 2013 ("2013 OPEB Report"). Small changes in the assumptions or methods or changes in the plan provisions could result in relatively large changes in OPEB liabilities and the state's ARC, NOO and annual OPEB cost.

Valuation Assumptions and Methods. Valuations in the 2013 OPEB Report are based on methods selected by the Office of Financial Management and on assumptions detailed in the 2013 OPEB Report and summarized below. The actuarial method chosen to allocate costs and the AAL for the 2013 OPEB Report is the Projected Unit Credit ("PUC"), one of six methods permitted by GASB. The PUC cost method is a standard actuarial funding method. The annual cost of benefits under the PUC is comprised of two components: normal cost (the estimated present value of projected benefits current plan members will earn in the year following the valuation date; represents today's value of one year of earned benefits) and amortization of the unfunded actuarial liability.

The assumed return on investment earnings and the discount rate used in calculating the AAL (4.0 percent, which was reduced from 4.5 percent) were selected in consultation with the Office of the State Treasurer to represent a long-term average of short-term investment rates, and annual inflation is assumed to be 3.0 percent (reduced from 3.5 percent). Annual growth in membership is assumed to be at a rate of 0.95 percent (0.80 percent for K-12 Teachers), and annual salary increases were assumed to be at a rate of 3.75 percent. Assumptions underlying the medical inflation trend rates (ranging from 6.3–9.7 percent in 2013 to 5.0 percent through 2093) were provided by health care actuaries at Milliman, Incorporated. The unfunded AAL is amortized over a closed 30-year period as a level percent of payroll. Participation level is assumed to be 65 percent (50 percent for K-12 School and Education Service Districts) of eligible employees and 45 percent of spouses of eligible employees. It is assumed that all employees will get Medicare coverage after becoming eligible.

Table 28 shows annual OPEB costs and net OPEB obligations for the Fiscal Years ended June 30, 2011, June 30, 2012, and June 30, 2013. OSA performs a full valuation every two years. In 2012 and other years when a full valuation was not prepared, consistent with GASB requirements and at the direction of OFM, OSA prepared estimated results using a roll-forward method. As of January 1, 2013, the AAL and UAAL of the PEBB Plan that is attributed to the state was $3.706 billion. UAAL was 64.06 percent of covered state payroll. Because the plan is pay-as-you-go, it has no assets.

Table 28
Annual OPEB Cost and Net OPEB Obligation
($ in thousands)

	2011	2012	2013
a. Beginning Net OPEB Obligation (NOO)[1]	777,872	1,027,767	1,279,381
b. Annual Required Contribution (ARC)[2]	320,991	320,991	342,283
c. Interest on the NOO	35,004	46,250	53,434
d. Amortization of the NOO	(27,427)	(36,954)	(48,684)
e. Annual OPEB Cost (b+c+d)	328,568	330,286	347,033
f. 2012 Adjustment	-	-	56,476
g. Contributions for Fiscal Year[3]	(78,673)	(78,673)	(69,114)
h. Ending NOO [1] (a+e+f+g)	1,027,767	1,279,381	1,613,775

(1) NOO is the GASB disclosure requirement on the balance sheet.
(2) ARC is the annual contribution that will fund the current active and inactive members' subsidies by the end of their working lifetimes.
(3) Contributions for Fiscal Year include the estimated explicit subsidies and implicit subsidies.
Source: Washington State Comprehensive Annual Financial Reports ("CAFR") for Fiscal Years Ended June 30, 2011, June 30, 2012, and June 30, 2013.

LITIGATION

The state and its agencies are parties to numerous routine legal proceedings that occur as a consequence of regular government operations. At any given point, there are numerous lawsuits involving state agencies which could, depending on the outcome of the litigation or the terms of a settlement agreement, impact revenue or expenditures of the state. There are risk management funds reserved by the state for these claims, and insurance is available to pay all or a portion of most damages for most types of claims. See "RISK MANAGEMENT–Insurance." 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.

In addition to the regular damages claims, there are currently a number of lawsuits challenging the management and administration of state programs, some arising as a result of recent state budget cuts. The potential impact of this type of litigation is the most difficult to predict. Conceivably, a court could order the restructuring or expansion of certain entitlement programs that would result in a major restructuring of state budgeting and expenditures. No such ruling has yet to occur nor is such a court ruling currently anticipated. Most of these cases involve programs administered by the Department of Social and Health Services ("DSHS"). Only a few of these cases are called out specifically because it is not possible to quantify with exactitude what the fiscal impact of such claims could ultimately be, and it is not possible to know ahead of time what state or federal legislative responses could be taken to mitigate such impacts.

Those cases, which may raise potentially significant, but specifically incalculable, fiscal impacts, are described below.

In *McCleary v. State of Washington*, judgment for petitioners was entered on February 24, 2010, by the King County Superior Court. The court found that the state is not meeting its constitutional mandate to make ample provision for the education of all K-12 public school children. The court ordered the Legislature to conduct a study of what state funding was needed to "amply provide" all Washington public school students with the "education" required by Article IX of the Constitution. The court also ordered the Legislature to indicate how the state will fund that cost with "stable and dependable" state funding sources. Prior to the trial, in the 2009 legislative session, the Legislature enacted a sweeping reform of the substance of and funding for K-12 education. That program of reform is scheduled to be fully implemented no later than 2018. The state appealed the superior court decision to the Supreme Court and the Supreme Court issued its opinion on January 5, 2012. The Supreme Court affirmed the trial judgment that the state is not making ample provisions for the basic education of Washington's K-12 public school students. However, it agreed with the state that the Legislature has already identified areas that need more funding and embarked on a reform program to be implemented no later than 2018. The Supreme Court reversed the trial court remedy ordering a cost study, but retained jurisdiction to facilitate the full implementation of the reforms and funding as dictated by legislation passed in 2009. This result preserves the Legislature's prerogative to reform, define and provide full funding for K-12 education. It does not require changes, financially or otherwise, that the Legislature has not already committed to make. On July 18, 2012, the Supreme Court issued an additional ruling in the case, essentially adopting the state's position regarding the process for the court's monitoring of the implementation of the 2009 reform legislation. The court rejected the plaintiffs' request for a different procedure and rejected plaintiffs' request for attorneys' fees and costs to be borne by the state. This ruling calls for annual reporting by the Legislature to the court with the opportunity for plaintiffs to submit their position in response to the report. This process will continue through the expected full implementation of reforms in 2018. Pursuant to a December 2012 court order, the report the state submits at the conclusion of the 2013 state legislative session must include a phase-in plan for achieving the state's basic education mandate. The 2013 legislative session concluded on June 30, 2013, with enhanced education funding enacted that adds $1 billion dollars in state funding to K-12 schools. See "GENERAL FUND–General Fund State Operating Budget–2013-15 Biennium Budget." The Legislature filed its 2013 report with the court and plaintiffs filed a response.

On January 9, 2014, the Supreme Court issued an order that, although meaningful steps were taken in the 2013 legislative session, the state is not on target to meet the funding requirements outlined in the *McCleary* decision by the 2017-2018 school year. The Supreme Court ordered the state to submit by April 30, 2014, a complete plan for implementing its school funding program for each year between now and the 2017-2018 school year. The plan must address each of the areas of K-12 education identified in ESHB 2261, as well as the implementation plan called for by SHB 2776, and must include a phase-in schedule for fully funding each of the components of basic education. The Court may also require more periodic reports detailing the state's strategy for fully meeting the constitutional mandate.

Perez, Secretary of Labor, USDOL v. Washington Department of Social and Health Services is a U.S. Department of Labor ("USDOL") lawsuit filed in U.S. district court seeking back overtime wages and liquidated damages on behalf of approximately 2,000 social workers with the Children's Administration of DSHS. The initial district court's order granting summary judgment in favor of the state was reversed by the Ninth Circuit's Court of Appeals, which court also denied the state's petition for rehearing, and remanded the case to the district court for trial. Presently, the district court proceedings are stayed pending the resolution of the USDOL's petition for writ of mandamus to the Ninth Circuit Court of Appeals in which the USDOL is asking the court to reverse the district court's ruling compelling USDOL to answer interrogatories that the USDOL argues violate the government informant's privilege. Oral argument on this motion is scheduled for March 4, 2014. If plaintiff prevails on all issues, the estimated potential liability for the state is $60 million, with liquidated damages doubling that amount.

Programs and Services

In the matter of *Rekhter v. DSHS* and two other consolidated cases (*Pfaff* and *SEIU 775NW*), plaintiffs argue that pursuant to DSHS's methodology ("shared living rule") for computing the number of hours of paid care available to the recipient class, those with live-in providers received approximately 15 percent less than those recipients who use live-out providers. This rule was invalidated by the Supreme Court ruling (*Jenkins v. DSHS*) issued on May 3, 2007, and was subsequently repealed by DSHS. Plaintiffs seek reimbursement by way of "money damages" for the recipient and provider classes for the approximately 15 percent fewer authorized hours, and injunctive relief barring application of the rule in the future. The trial court ruled the recipient class is entitled to "retroactive compensatory relief" back to April 2003. The jury found that DSHS had not breached the express terms of the contracts, but did find violation of the "duty of good faith and fair dealing" when entering into the contracts. The jury awarded the provider class plaintiffs $57 million. Subsequently, the trial court granted plaintiffs' motion for pre- and post-judgment interest. On December 2, 2011, the trial court entered the final judgment for the Client Class claims and two final judgments, one for the Client Class and one for the Provider Class. The court did not award the Client Class any monetary or other remedies. For the Provider Class, the court entered a judgment in the amount of $96 million, which includes the jury verdict of $57 million and prejudgment interest of $39 million. The court also awarded post-judgment interest at $18,780.43 per day beginning on December 3, 2011. The judgment reserved ruling on the claims administration and residual funds process pending the outcome of any appeal. Both parties filed cross-appeals with the State Supreme Court, which accepted direct review of the case. Oral argument occurred on May 14, 2013, and an opinion is pending.

Taxes

The Department of Revenue ("DOR") routinely has claims for refunds in various stages of administrative and legal review. In addition, the state is defending cases challenging the constitutionality of certain taxes that fund discrete state programs.

In the matter of *Wall v. State of Washington*, plaintiffs allege the Legislature transferred funds from the Education Legacy Trust Account in 2008 and 2010 into the General Fund in violation of Article VII, Section 5 of the Washington State Constitution. Plaintiff contends the amounts transferred exceed $100 million and asks that the money be restored to the Education Legacy Trust Account and the defendants enjoined from any further unconstitutional diversions. The court denied the state's motion for summary judgment; however, it held the Legislature's 2008 change to the statute is constitutional. This ruling limits the case to the factual determination of whether any funds transferred in June 2009 were collected before the 2008 statutory amendment. Plaintiffs moved for reconsideration of the court's ruling that the 2008 change to the statute is constitutional. In response, the state again requested summary judgment. The court held a hearing on the motions on September 9, 2013, and on October 2, 2013, the court filed a letter ruling holding the transfer of funds from the Education Legacy Trust Account to the General Fund did not violate Article VII, Section 5 or Article II, Section 19 of the Constitution and granted summary judgment to the state defendants. Plaintiffs have filed a direct appeal to the Supreme Court of the trial court's order. The state has filed an answer with the Supreme Court opposing direct review.

Employment and Pensions

In *WEA, et al. v. Department of Retirement Services and State of Washington*, a King County Superior Court was asked to overturn the Legislature's repeal of "gain sharing" benefits for various retirement system plans based on alleged constitutional impairment of contracts, due process, and estoppel theories. Four separate lawsuits were filed, which were consolidated under one case; one of those lawsuits was voluntarily dismissed in June 2009 leaving only three cases in the consolidated case. Summary judgment arguments were heard in Phase 1 of the litigation in July 2010. The plaintiff's motion for summary judgment was granted on the contract and estoppel claims, and the state's cross-motion was denied. Summary judgment arguments were heard in Phase 2 of the litigation in December 2011, regarding whether the benefits enacted to replace gain sharing could be repealed as a matter of law once gain sharing was restored by court order. The trial court issued an order holding that the replacement benefits could be repealed as a matter of law. Both parties appealed the decisions to the State Supreme Court, which by order dated May 1, 2013, were accepted by the Court for Direct Review. The state is appealing the trial court's Phase I decision and plaintiffs are appealing the Phase 2 decision to the extent it impacts PERS, TRS and SERS Plan 2 members. If plaintiffs ultimately prevail on all issues before the court, there could be a significant fiscal impact potentially requiring the Legislature to pursue additional funding of the plans or other remedies. The Supreme Court heard oral argument on October 24, 2013, and a decision is pending. See "RETIREMENT SYSTEMS."

Washington Federation of State Employees v. State of WA/Dept of Retirement Systems, Washington Education Association v. State of WA/Dept of Retirement Systems and *Retired Public Employees' Council v. State of WA/Dept of Retirement Systems* were filed in Thurston County Superior Court in October 2011 and January 2012. The three plaintiff groups challenge the 2011 Legislature's repeal of what is termed the Uniform Cost of Living Adjustment ("COLA") as described under "RETIREMENT SYSTEMS–Benefits; Recent Legislation." This COLA (which is not a COLA per se, but, instead, was a guaranteed annual increase) was provided to retirees of PERS Plan 1 and TRS Plan 1 on an annual basis by increasing the retirees' monthly retirement benefit in July of every year. Plaintiffs ask for declaratory and injunctive relief seeking, inter alia, the restoration of the COLA. The court granted class action status for the plaintiffs. In November 2012, the court issued a memorandum opinion that was followed with a final order on February 19, 2013, holding: (1) the repeal of the COLA constituted an unconditional impairment of contract and (2) certain groups of members should be dismissed. The State Supreme Court granted the state's Motions for Direct Review, Discretionary Review, and Companion Case Status (companion case to *WEA, et al. v. Department of Retirement Services and State of Washington* (gain sharing case)) and heard oral argument on October 24, 2013, and a decision is pending.

The matter of *Moore v. Washington Health Care Authority* involves two related class action lawsuits alleging that the state has wrongfully denied medical benefits to current and former non-permanent employees by inconsistently applying eligibility standards, misclassifying employees to deny them benefits in alleged violation of the applicable statutes and regulations. A comprehensive ruling for plaintiffs on all issues in dispute could have a potentially significant impact. The trial court ruled against the state on most liability issues and in December 2011 certified a damages class on the breach of statute claim. Following the court's denial of plaintiffs' class certification on the breach of contract claim, plaintiffs dismissed the claim without prejudice. The Court of Appeals, Division One granted defendant's motion for discretionary review of the trial court's decision on the measure of damages issue, which favored plaintiffs. The trial court has stayed the trial pending a decision in the appellate matter, which is expected sometime in mid-2014. In addition, plaintiffs re-filed their breach of contract claim as a separate action. This matter is in the very early stages.

Other

In *US v. WA* (culverts/phase II), plaintiff Tribes and the United States allege that state-owned culverts that block fish passage violate Tribes' treaty rights. On March 29, 2013, the US District Court (Washington Western District) issued a permanent injunction requiring three state agencies to remediate fish passage meeting the standards of the injunction at specified barrier culverts by October 31, 2016, and requiring the Washington State Department of Transportation to provide remediation within 17 years of the date of the injunction. The state appealed the decision to the United States Court of Appeals for the Ninth Circuit and the Tribes filed a cross-appeal. Briefing to the court is expected to be completed by February 2014.

See Note 13 in Appendix D–"THE STATE'S 2013 AUDITED FINANCIAL STATEMENTS" for a description of certain litigation and estimates of the potential magnitude of certain litigation.

DEMOGRAPHIC AND ECONOMIC INFORMATION

Business in Washington

A number of corporations have chosen Washington as their headquarters or as a major center of operations, including, among others, Alaska Air Group, Amazon, Amgen, Boeing Commercial Airplanes, Costco, Expeditors International of Washington, Microsoft, Nintendo America, Nordstrom, PACCAR, Starbucks and Weyerhaeuser. Key sectors in the state's economy include:

Table 29
Gross Business Income by Industry Sector (NAICS[1])
(Calendar Year 2012)
(in dollars)

	Gross Business Income	Percent of Total
Wholesale Trade	133,362,593,486	20.6
Business, Personal and Other Services	127,019,580,703	19.7
Retail Trade	114,442,466,533	17.7
Manufacturing–General	104,211,615,932	16.1
Manufacturing–Aerospace	51,433,415,016	8.0
Construction	35,874,256,453	5.6
Finance, Insurance, Real Estate	33,935,400,286	5.3
Information	17,544,023,679	2.7
Utilities	12,242,115,704	1.9
Transportation	11,088,160,714	1.7
Agriculture, Forestry, Fishing	3,628,588,601	0.6
Warehousing & Storage	795,031,142	0.1
Mining	557,482,317	0.1

(1) North American Industry Classification System.

Source: Washington State Department of Revenue, "Quarterly Business Review Calendar Year 2012" Table 1.

Table 30
Twenty-Five Largest Employers in Washington(1)
(as of July 2013)

		Full Time Washington Employees(2)			Full Time Washington Employees(2)
1	The Boeing Co.	85,000	14	Franciscan Health System	9,869
2	Joint Base Lewis-McChord	56,000	15	Nordstrom Inc.	9,281
3	Navy Region Northwest	43,000	16	Costco Wholesale Corp.	8,912
4	Microsoft Corp.	41,664	17	PeaceHealth	8,800
5	University of Washington	29,800	18	Swedish	8,586
6	Providence Health & Services	20,240	19	Group Health Cooperative	7,833
7	Wal-Mart Stores Inc	18,000	20	Alaska Air Group Inc.	6,667
8	Fred Meyer Stores	14,590	21	Fairchild Air Force Base	6,020
9	King County Government	12,993	22	Target	5,773
10	United States Postal Service	11,914	23	Seattle Public Schools	5,696(3)
11	Starbucks Corp.	10,837	24	Virginia Mason Medical Center	5,611
12	City of Seattle	10,479	25	United Parcel Service	5,554
13	MultiCare Health System	10,257			

(1) Amazon.com Inc. did not participate in the survey, but if it had participated, the Puget Sound Business Journal believes Amazon.com Inc would have been ranked in this list of 25 Largest Employers. The Book of Lists does not include total employment figure for state employees or federal employees.
(2) Employment totals are as of December 31, 2012.
(3) Does not include substitutes.

Source: Puget Sound Business Journal, 2014 Book of Lists, December 26, 2013.

Trade

Washington is one of the most trade-intensive states in the nation and is an important gateway for trade with Asia and Canada and for domestic trade with Alaska and Hawaii. In 2012, Washington had $84.2 million in exports, and based on U.S. Department of Commerce Census Bureau statistics through September 2013, Washington was the 6th largest exporter in the United States.

Ports. Washington has seven deep-draft ports on the Puget Sound, one on the Pacific Coast and three on the Columbia River. The ports of Seattle and Tacoma, on Puget Sound, are the state's largest ports and are closer to Asian ports than is any other continental United States port. According to the U.S. Department of Commerce Bureau of Census, the port of Tacoma nationally ranked 11th and the port of Seattle nationally ranked 13th in 2012 when measured by total dollar value of foreign imports and exports.

Airport. Seattle-Tacoma International Airport is Washington's primary airport and, measured by total passengers, was the 15th busiest airport in the country in 2012 according to the Federal Aviation Administration Air Carrier Activity Information System database. The airport also ranks as the 19th busiest cargo airport in the United States based on all-cargo landed weight.

Aerospace

There are approximately 1,250 aerospace-related companies in the state employing over 130,000, with Boeing being the largest aerospace employer in the state with approximately 85,000 full-time employees. Washington aerospace companies produce more than 1,200 aircraft annually. In 2012, aerospace and related industry employment was 4.6 percent of state non-farm employment and wages were 7.1 percent of state non-farm wages. Boeing is currently manufacturing five models of jets in the state. Boeing has opened a second 787 production line in South Carolina. Boeing recently announced that it will assemble the new 777X jetliner and build its new carbon fiber wing in the state.

Forest Products

Natural forests cover nearly 50 percent of the state's land area. Forest products, including lumber, paper products and other wood and pulp products, are a traditional manufacturing sector in the state, although overall production has declined in recent years. Weyerhaeuser is the state's largest forest products employer.

Agriculture and Food Processing

The state's food and agriculture industry supports an estimated 130,000 jobs. Nearly 300 agricultural commodities are produced commercially in Washington, and in 2012 the state's top 10 agricultural commodities (in commodities value) were apples, wheat, milk, potatoes, hay, cattle, cherries, nursery, grapes and pears. Washington ranked first in United States production of apples and hops. The agricultural and food processing sector is export-oriented.

Information and Communications Technology

The state has approximately 3,000 software companies involved in software publishing, ecommerce, gaming and microcomputers. Microsoft and Amazon are headquartered in the state. Google, Facebook, Twitter, Cray, Attachmate and Nintendo, among others, have established engineering and operations bases in the state.

Global Health and Biotechnology

The state is a global center for the advancement of medicine and life sciences. More than 26,000 workers are directly employed in the nearly 500 life sciences and global health organizations in the state. The life sciences sector in Washington includes the development and manufacture of medical devices, cancer research, therapeutics and the prevention and treatment of infectious diseases. Washington is also home to some of the leading global health research institutes and non-profit organizations, including the Bill and Melinda Gates Foundation, PATH, Seattle BioMed and the Fred Hutchinson Cancer Research Center. The University of Washington Medical Center is the largest public university recipient of federal research dollars, receiving approximately $1.2 billion in federal grants and contacts each year.

Services/Tourism

Tourism is important to Washington's economy. Tourists are drawn to the state's mountains, water, proximity to Canada and Alaska, and metropolitan areas. As the business, legal and financial center of the state, Seattle has the largest selection of hospitality and entertainment venues in the state. The Washington State Convention Center has the capacity for events involving as many as 11,000 people. There are more than 10,000 hotel rooms in downtown Seattle and nearby venues, and entertainment options include professional football, soccer and baseball teams, theatres and music halls, the historic Pike Place Market, the Space Needle and the Seattle Center landmark from the 1962 World's Fair, and the architecturally unique Seattle Public Library, among others. Seattle is an embarkation port for several cruise ship lines, primarily sailing to Canada and Alaska.

Military

Washington has a number of major military bases and installations, including the Fort Lewis Army Base, Madigan Army Medical Center and McChord Air Force Base in Pierce County (known as Joint Base Lewis-McChord); Puget Sound Naval Shipyard, Naval Station Bremerton and Bangor Naval Submarine Base in Kitsap County; Fairchild Air Force Base in Spokane County; Everett Naval Station in Snohomish County; and Whidbey Island Naval Air Station in Island County.

Construction

Table 31 provides information on housing permits for the state and the United States.

Table 31
Housing Units Authorized by Building Permits
in Washington and United States

	Washington			
Year	**Single Family**	**Multi-Family**	**Total**	**United States**
2004	36,489	13,600	50,089	2,070,077
2005	41,407	11,581	52,988	2,155,316
2006	35,611	14,422	50,033	1,838,903
2007	30,390	17,007	47,397	1,398,415
2008	17,440	11,479	28,919	905,359
2009	12,991	4,020	17,011	582,963
2010	14,702	5,989	20,691	604,610
2011	13,159	7,705	20,864	624,061
2012	16,508	11,610	28,188	829,658

Source: U.S. Bureau of the Census.

Other Employment Information

Table 32
Resident Civilian Labor Force and Employment in Washington State
(Employment Numbers in Thousands)(1)

	2009	**2010**	**2011**	**2012**	**2013**
Resident Civilian Labor Force	3,523.7	3,516.0	3,482.2	3,481.5	3,481.5
Unemployment	329.5	349.1	320.4	284.2	246.1
WA Unemployment Rate (Percent)(2)	9.4	9.9	9.2	8.2	7.1
U.S. Unemployment Rate (Percent)(2)	9.3	9.6	8.9	8.1	7.6
Nonagricultural Wage and Salary Workers Employed in Washington					
Nonfarm Employment	2,822.4	2,786.4	2,821.3	2,871.3	2,922.5
Durable Manufacturing	190.6	184.3	193.5	204.5	208.9
Aerospace	82.9	80.8	86.6	94.2	95.9
Computer and Electronic Products	20.1	19.1	19.7	20.2	20.1
Nondurable Manufacturing	74.9	73.9	75.4	75.7	77.7
Mining and Logging	6.0	5.9	6.0	5.9	6.0
Construction	159.5	140.7	137.5	138.5	142.7
Trade, Transportation, Communication, Utilities	522.4	517.0	526.0	536.1	550.8
Information	103.9	103.0	103.7	104.7	105.2
Software Publishers	51.5	50.9	51.7	52.4	53.2
Financial	142.9	137.9	137.8	142.9	142.9
Professional and Business Services	324.4	326.4	338.2	348.5	354.3
Education and Health Services	372.4	375.4	381.7	385.7	393.1
Leisure and Hospitality	269.6	266.5	271.8	276.7	286.0
Other Services	106.3	105.5	107.5	110.8	113.2
Government	549.5	550.0	542.2	541.1	541.9

(1) Averages of monthly data (not seasonally adjusted); 2013 averages through October 2013.
(2) Seasonally adjusted. As reported by Washington Department of Employment Security in November 2013, the October 2013 unemployment rate (seasonally adjusted) was 7.0 percent in Washington and 7.3 percent in the U.S. as a whole.

Source: Department of Employment Security and U.S. Bureau of Labor Statistics as of November 20, 2013.

Table 33
Composition of Employment by Industry Sector(1)
(percents)

	State of Washington		United States	
	2002	**2012**	**2002**	**2012**
Manufacturing				
Nondurable Manufacturing				
Food Manufacturing	1.3	1.2	1.2	1.1
Pulp and Paper	0.5	0.3	0.4	0.3
Other	1.4	1.1	2.8	2.0
Subtotal	3.2	2.6	4.4	3.3
Durable Manufacturing				
Lumber and Wood	0.7	0.4	0.4	0.3
Primary and Fabricated Metals	0.9	0.8	1.6	1.4
Machinery	0.6	0.6	1.3	1.1
Computers	1.0	0.7	1.2	0.8
Transportation Equipment	3.3	3.6	1.4	1.1
Other	1.1	0.9	1.4	1.0
Subtotal	7.5	7.1	7.3	5.6
Total Manufacturing	10.8	9.8	11.7	8.9
Nonmanufacturing				
Natural Resources and Mining	0.4	0.2	0.4	0.6
Construction	5.8	4.8	5.2	4.2
Trade, Transportation and Utilities	19.2	18.7	19.6	19.1
Information	3.5	3.7	2.6	2.0
Financial	5.5	5.0	6.0	5.8
Professional and Business Services	10.9	12.1	12.3	13.4
Education and Health Services	11.6	13.4	12.4	15.2
Leisure and Hospitality	9.2	9.6	9.2	10.3
Other Services	3.7	3.9	4.1	4.1
Government	19.5	18.8	16.5	16.4
Total Nonmanufacturing	89.2	90.2	88.2	91.1
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 Economic and Revenue Forecast Council.

The state's population has increased approximately 11.6 percent since 2004. Based upon the 2010 Census, the state is the thirteenth most populous in the nation. The following table summarizes the state's population for 2004-2013.

Table 34
State of Washington Population

April 1	Population
2004	6,167,800
2005	6,256,400
2006	6,375,600
2007	6,488,000
2008	6,587,600
2009	6,668,200
2010	6,724,540
2011	6,767,900
2012	6,817,770
2013	6,882,400

Source: Office of Financial Management; 2010 from U.S. Census.

Income Characteristics

The state's per capita income consistently has exceeded the national level and has increased approximately 25.4 percent since 2004. Table 35, derived from U.S. Bureau of Economic Analysis ("BEA") statistics, provides a comparison of personal income and per capita income for the state and the nation. BEA also calculates that per capita disposable personal income (personal income less personal taxes) in Washington ($41,259 in 2012) has consistently been higher than the average per capita disposable personal income in the United States as a whole ($38,000 in 2012).

Table 35
Personal Income Comparisons
Washington and United States

	Total Income ($ in billions)				Per Capita Income (in dollars)	
	Washington		United States			
Year	Amount	Percent Change	Amount	Percent Change	Washington	United States
2004	226.8	-	10,043.3	-	36,715	34,300
2005	235.6	3.9	10,605.6	5.6	37,651	35,888
2006	255.7	8.5	11,376.5	7.3	40,139	38,127
2007	276.8	8.3	11,990.2	5.4	42,845	39,804
2008	289.8	4.7	12,429.3	3.7	44,162	40,873
2009	280.8	-3.1	12,073.7	-2.9	42,112	39,357
2010	286.7	2.1	12,423.3	2.9	42,521	40,163
2011	303.1	5.7	13,179.6	6.1	44,420	42,298
2012	317.6	4.8	13,729.1	4.2	46,045	43,735
2013(1)	323.9	2.0	13,939.3	1.5	N/A	N/A

(1) Average, through second quarter only.

Source: U.S. Department of Commerce, Bureau of Economic Analysis, 2004 through first quarter 2013 statistics were revised as of September 30, 2013; second quarter 2013 statistics released on September 30, 2013.

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APPENDIX B

DEFINITIONS AND SUMMARY OF CERTAIN LEGAL DOCUMENTS

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DEFINITIONS AND SUMMARY OF CERTAIN LEGAL DOCUMENTS

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

CERTAIN DEFINITIONS

The following are definitions of certain terms used in this Appendix B and elsewhere in the Official Statement.

Acquisition Costs means all costs incurred by or on behalf of the Corporation, or by the State or any Agency, as agent of the Corporation, on, prior to or after the effective date of the Master Financing Contract in connection with the acquisition of the Property thereunder, and shall include, but not be limited to, (1) the cost of such Property (including, but not limited to, charges for installation, delivery, preparation, testing and similar charges); (2) the expenses of the Corporation, the Treasurer and any Agency in connection with the acquisition of the Property, including but not limited to the Costs of Issuance; (3) any taxes, assessments and other charges, if any, payable in connection with the acquisition of the Property; and (4) any amounts required to reimburse the Corporation, the Treasurer or any Agency for advances or payments made prior to the effective date of the Master Financing Contract for any of the above costs.

Acquisition Fund means the "State of Washington Certificates of Participation, Series 2014A Acquisition Fund" established by the Treasurer pursuant to the Trust Agreement and the Master Financing Contract.

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

Additional Costs means all costs, expenses, insurance premiums, Impositions and other payments, including Administrative Fees and Expenses, that are the obligations of the Treasurer or the Agency pursuant to the terms of the Master Financing Contract or the Agency Financing Contract, as the case may be.

Administrative Fees and Expenses means all application, commitment, financing or similar fees charged, or administrative or other expenses incurred, with respect to the administration and maintenance of the Certificates and the Series 2014A Agreements.

Agency means a State Agency or Local Agency.

Agency Event of Default has the meaning given such term in the related Agency Financing Contract.

Agency Financing Contract means the Local Agency Financing Contract or the State Agency Financing Addendum.

Agency Installment Payment Dates means each December 1 and June 1, as specified in the Agency Financing Contracts, on which an Agency Installment Payment is due.

Agency Installment Payment Fund means the fund of that name maintained by the Treasurer pursuant to the Master Financing Contract.

Agency Installment Payments means the installment payments to be made by each Agency as set forth in the related Agency Financing Contract.

Agency Interest Component means that portion of each Agency Installment Payment denominated as and comprising interest as set forth in each Agency Financing Contract.

Agency Principal Component means that portion of each Agency Installment Payment denominated as and comprising principal as set forth in each Agency Financing Contract.

Authorized Agency Representative means the natural person (a) designated on the certificate of the Agency in the form set forth in the related Agency Financing Contract and shall include any other officer appointed by the chief elected official or administrative official of the Agency and (b) whose signature is on file with the Fiscal Agent and the Treasurer Representative.

Authorized Corporation Representative means the President from time to time of the Corporation, unless such President shall have designated another officer of the Corporation, in which case "Authorized Corporation Representative" shall mean such other officer.

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

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

Biennium means the fiscal period of the State.

Business Day means any day other than (1) a Saturday, (2) a Sunday, (3) a day on which banking institutions located in the state of Washington are authorized or required by law to remain closed, or (4) a day on which the Principal Office of the Fiscal Agent or the New York Stock Exchange is closed.

Certificate Counsel means a firm of attorneys appointed by the Treasurer of recognized national standing in the field of law relating to the issuance of certificates of participation, bonds and other obligations by states and their political subdivisions, and the exclusion of interest thereon from gross income for federal income tax purposes.

Certificate Fund means the "State of Washington Certificates of Participation, Series 2014A Certificate Fund" established pursuant to the Trust Agreement.

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

Certificate Payment Date means each Principal Payment Date and each corresponding Interest Payment Date on which a Principal Component and the corresponding Interest Component are due as set forth in the Master Financing Contract.

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

Certificates means the certificates of participation in the State Payments executed and delivered by the Fiscal Agent pursuant to the Trust Agreement in the Initial Principal Amount and designated as the "State of Washington Certificates of Participation, Series 2014A (State and Local Agency Personal Property)."

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

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

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

Costs of Issuance means administrative expenses, legal, accounting, financial and printing expenses, and all other expenses incurred in connection with the preparation, execution and delivery of the Series 2014A Agreements and the Certificates.

Dated Date means March 19, 2014, the date of initial delivery of the Certificates.

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

DTC means The Depository Company, New York, New York, a limited purpose trust company organized under the laws of the State of New York, as depository for the Certificates, or any successor or substitute depository for the Certificates.

Event of Default means an Event of Default as set forth in Section 7.1 of the Master Financing Contract.

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

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

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

Government Obligations means obligations described in paragraph (1) of the definition of Qualified Investments below.

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

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

Installment Payment Date means each January 1 and July 1, as specified in the Trust Agreement, on which an Installment Payment evidenced and represented by the Certificates is due.

Installment Payments means the installment payments to be made by the State as set forth in Exhibit A to the Master Financing Contract.

Interest Account means the account by that name established pursuant to the Trust Agreement.

Interest Component means that portion of each State Payment denominated as and comprising interest as set forth in the Master Financing Contract.

Interest Payment Date means each January 1 and July 1 on which an Interest Component is due as set forth in the Master Financing Contract.

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

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

Local Agency means any "other agency" as that term is now or hereafter defined in the Act.

Local Agency Financing Contract means each Local Agency Financing Contract, dated as of the Dated Date, by and between the State, acting by and through the Treasurer, and the Local Agency which is a Party thereto.

Master Assignment means the Master Assignment (Equipment) dated as of the Dated Date, executed and delivered in connection with the Certificates.

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

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

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

Notice of Intent means the Notice of Intent in the form attached to each Agency Financing Contract.

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

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

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

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

(2) Certificates for which the payment or prepayment of the State Payments evidenced and represented thereby has been made or duly provided for pursuant to Section 4.1(b) of the Master Financing Contract and Article X of the Trust Agreement; and

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

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

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

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

Permitted Termination Date means with respect to a Permitted Termination Event occurring as a result of an election by the State Legislature not to appropriate, the end of the last Biennium for which funding has been provided; or, with respect to a Permitted Termination Event occurring as a result of an Executive Order reduction in funding, the end of the last month for which funding is available to pay Agency Installment Payments due from State Agencies.

Permitted Termination Event means, with respect to a State Agency: (1)(a) sufficient funds have not been appropriated within any biennial budget for the purpose of paying Agency Installment Payments in the next occurring Biennium or (b) the Governor of the State has issued an Executive Order mandating an emergency reduction in State funding; and (2) the Treasurer Representative has delivered written notice to the Fiscal Agent, within five Business Days following the enactment of such budget or within 30 days following such an emergency reduction in State funding, as the case may be, describing the election not to appropriate the necessary funds or the insufficiency of funds as a result of an emergency reduction in funding and stating the Permitted Termination Date.

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

Personal Property Certificate means the Personal Property Certificate (in the form attached to the Local Agency Financing Contract and State Agency Financing Addendum) delivered by the Agency to the Treasurer with respect to items of Property.

Prepayment Account means the account by that name established pursuant to the Trust Agreement.

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

Prepayment Price means the price payable pursuant to the Master Financing Contract upon any optional or mandatory prepayment of Principal Components evidenced and represented by the Certificates.

Principal Account means the account by that name established pursuant to the Trust Agreement.

Principal Component means that portion of each Installment Payment denominated as and comprising principal as set forth in the Master Financing Contract.

Principal Office means, with respect to the Treasurer, the office in Olympia, Washington, designated in writing by the Treasurer to the Fiscal Agent, and, with respect to the Fiscal Agent, the corporate trust office of the Fiscal Agent designated in writing by the Fiscal Agent to the Treasurer, or solely for purposes of the presentation of Certificates for payment, transfer or exchange, the designated corporate trust agency office of the Fiscal Agent.

Principal Payment Date means each July 1 on which a Principal Component is due as set forth in the Master Financing Contract.

Property means, collectively, all personal property the Acquisition Costs of which are being financed or refinanced pursuant to the Master Financing Contract, as set forth in Exhibit B to the Master Financing Contract, together with all replacements parts, repairs, additions, attachments and accessories thereof, therefor and thereto, licenses, permits and capitalized maintenance agreements with respect thereto, and any replacements of or substitutes therefor as permitted by the Agency Financing Contracts.

Purchase Price means the aggregate amount of the Principal Components of the Installment Payments with respect to the Property, as set forth in the Master Financing Contract.

Qualified Investments shall include the following:

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

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

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

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

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

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

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

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

(9) Any repurchase agreement with any bank or trust company organized under the laws of any state of the United States or any national banking association (including the Fiscal Agent) or government bond dealer reporting to, trading with, and recognized as a primary dealer by the Federal Reserve Bank of New York, which agreement is secured by any one or more of the securities described in clauses (1) or (2) above;

(10) The LGIP; and

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

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

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

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

Rebate Fund means the "State of Washington Certificates of Participation, Series 2014A Rebate Fund" which may be established pursuant to the Master Financing Contract.

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

Record Date means the 15th day of the month immediately preceding each Interest Payment Date and Principal Payment Date.

Resolution means Resolution No. 987 adopted by the State Finance Committee on October 7, 2003.

Rule means Rule 15c2-12 promulgated by the SEC under the Securities Exchange Act of 1934, as the same may be amended from time to time.

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

SEC means the Securities and Exchange Commission.

Securities Depositories means: The Depository Trust Company, 711 Stewart Avenue, Garden City, New York 11530, Fax-(516) 227-4039 or 4190, or, in accordance with then-current guidelines of the SEC, such other addresses and/or such other securities depositories as the Treasurer may designate in a Certificate of the Treasurer delivered to the Fiscal Agent.

Series 2014A Agreement means, as the context requires, the Trust Agreement, the Master Financing Contract, the Agency Financing Contracts, the Master Assignment or the Disclosure Agreement, and collectively means all such agreements in connection with the Certificates.

State means the state of Washington.

State Agency means any state agency permitted to enter into financing contracts under the Act.

State Agency Financing Addendum means each State Agency Financing Addendum to the Master Financing Contract, dated as of the Dated Date, executed by the Treasurer Representative and the State Agency.

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

State Legislature means the Legislature of the state of Washington.

State Payment means each Installment Payment.

State Reimbursement Rate means the average rate of return on the LGIP over the period the reimbursement payment by the Local Agency to the Treasurer is delinquent, as determined by the Treasurer, which determination shall be binding and conclusive against the Local Agency absent manifest error.

Supplemental Agreement means any agreement duly authorized and entered into following the Closing Date between or among the Treasurer, the Corporation, and the Fiscal Agent (in the case of the Trust Agreement, the Master Financing Contract, or the Master Assignment), or the Agency (in the case of the Agency Financing Contracts) supplementing, modifying or amending the Trust Agreement, the Master Financing Contract, the Master Assignment or an Agency Financing Contract.

Tax Certificate means the Tax Certificate executed and delivered by the Treasurer Representative and/or Authorized Agency Representatives regarding compliance with applicable provisions of the Code in connection with the Master Financing Contract, the Agency Financing Contracts and the Certificates.

Term Certificates means the Certificates identified as such in the Trust Agreement.

Toxic or Hazardous Substances shall be interpreted broadly to include, but not be limited to, any material or substance that is defined or classified under federal, State or local laws as: (1) a “hazardous substance” pursuant to Section 101 of the Comprehensive Environmental Response, Compensation and Liability Act, 42 U.S.C. § 9601(14) or Section 311 of the Federal Water Pollution Control Act, 33 U.S.C. § 1321, each as now or hereafter amended; (2) a “hazardous waste” pursuant to Section 1004 or Section 3001 of the Resource Conservation and Recovery Act, 42 U.S.C. § 6903, 42 U.S.C. § 6921, as now or hereafter amended; (3) a toxic pollutant under Section 307(1)(a) of the Federal Water Pollution Control Act, 33 U.S.C. § 1317(1)(a); (4) a “hazardous air pollutant” under Section 112 of the Clean Air Act, 42 U.S.C. § 7412, as now or hereafter amended; (5) a “hazardous material” under the Hazardous Material Transportation Act, 49 U.S.C. § 1802(2), as now or hereafter amended; (6) toxic or hazardous pursuant to regulations promulgated now or hereafter under the aforementioned laws; or (7) presenting a risk to human health or the environment under other applicable federal, State or local laws, ordinances, or regulations, as now or as may be posed or promulgated in the future. “Toxic or Hazardous Substances” shall also mean any substance that after release into the environment and upon exposure, ingestion, inhalation or assimilation, either directly from the environment or indirectly by ingestion through food chains, will or may reasonably be anticipated to cause death, disease, behavior abnormalities, cancer or genetic abnormalities. “Toxic or Hazardous Substances” specifically includes, but is not limited to, asbestos, polychlorinated biphenyls (PCBs), petroleum and petroleum-based derivatives, flammable explosives, radioactive materials and urea formaldehyde.

Treasurer means the State Treasurer of the state of Washington.

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

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

Underwriter means the original purchaser of the Certificates.

MASTER FINANCING CONTRACT

Sale and Purchase of Property

The Corporation agrees to sell, assign and convey, and does sell, assign and convey, to the State, and the State agrees to purchase, acquire and assume, and does purchase, acquire and assume, from the Corporation, upon the terms and conditions set forth in the Master Financing Contract, all of the Corporation's right, title and interest in and to the Property sold thereunder and all proceeds and profits thereof and therefrom, subject to the security interest created pursuant to the Master Financing Contract, and the State agrees to pay in consideration thereof the Purchase Price therefor and interest thereon and the Additional Costs in accordance with the Master Financing Contract, and all other amounts required to be paid by the State under the Master Financing Contract.

Appointment of Agents; Acquisition of Property; Revision and Substitution

Appointment of Agents. The Corporation appoints, and ratifies, approves and confirms its appointment of, the Treasurer and the respective Agencies pursuant to the Notices of Intent as its agents in connection with the disbursement of the proceeds of the Certificates and the acquisition of the respective items of Property, respectively, and the Treasurer accepts and agrees to such designation and appointment.

Acquisition of Property. The Treasurer agrees that (1) it has caused or will cause the Property to be acquired by the respective Agencies, as agents for the Corporation, with all reasonable dispatch; and (2) it will pay or cause to be paid the Costs of Acquisition of the Property solely from funds available to it pursuant to the Master Financing Contract, the Trust Agreement and the Agency Financing Contracts. The appointment of the Treasurer and the respective Agencies to act as agents of the Corporation in connection with the disbursement of the proceeds of the Certificates and the acquisition of the Property, respectively, and all authority conferred is made and conferred irrevocably by the Corporation, and shall not be terminated by any act of the Treasurer, any Agency or the Corporation or otherwise.

Revision and Substitution of Property. The Treasurer may revise or consent to the revision of any item of Property to be acquired with proceeds of the Certificates, or the description thereof; provided, that (1) such item of Property as so revised shall satisfy the requirements under the Master Financing Contract with respect to the substitution of Property previously acquired; (2) the Costs of Acquisition of such item of Property shall not be materially reduced thereby; and (3) any such revision shall not relieve the State or any Agency of its obligation to acquire the Property in accordance therewith and with the Agency Financing Contract with respect thereto.

After acquisition of an item of Property, the Treasurer may substitute or consent to the substitution for an item of Property acquired for and on behalf of an Agency other personal property by filing with the Fiscal Agent, as assignee of the Corporation:

(1) a certificate of such Agency stating that such substitute Property:

- (a) has a remaining useful life equal to or greater than the Property for which it is being substituted;
- (b) has a fair market value equal to or greater than the fair market value of the item of Property for which it is being substituted;
- (c) is free and clear of all liens and encumbrances except a first priority security interest in favor of the Fiscal Agent, as assignee of the Corporation, under the Master Financing Contract;
- (d) is of equal usefulness and value as the Property for which it is being substituted;
- (e) is essential to the Agency's ability to carry out its governmental functions and responsibilities; and

(f) is expected to be used by such Agency immediately and for the term of its Agency Financing Contract; and

(2) an Opinion of Counsel to the effect that such substitution will not cause interest evidenced and represented by the Certificates to be includable in gross income for federal income tax purposes under the Code.

Title to the Property

All right, title and interest in and to the Property shall transfer to and vest in the State from the Corporation without any further action by the State or the Corporation immediately upon the acquisition thereof or reimbursement to the State or the Agency for the Acquisition Costs thereof; *provided,* that the Treasurer and the Corporation shall take such action and execute such documents (including without limitation bills of sale and other title documents) as may be deemed necessary or desirable by the Treasurer or the Corporation to evidence and confirm such transfer of title pursuant to the Master Financing Contract.

Title to any and all additions, modifications, improvements, repairs or replacements to any Property shall be vested in the State, subject to the security interest of the Corporation until payment of all amounts due and owing with respect to such Property under the Master Financing Contract.

Any Property constituting a motor vehicle subject to registration with the State Department of Licensing shall be registered with the Agency as the registered and legal owner thereof.

Security Interest

In order to secure the payment and performance by the State of its obligations under the Master Financing Contract, the State pledges, grants, assigns and conveys to the Corporation a lien on and security interest in all right, title and interest of the State, whether now owned or acquired, in and to the Property and the Agency Financing Contracts, including without limitation the Agency Installment Payments and all proceeds thereof. Accordingly, the Master Financing Contract constitutes a security agreement. The State acknowledges and agrees that each provision of the Master Financing Contract is also a provision of the security agreement and that an Agency Event of Default under the Master Financing Contract is also a default under the security agreement.

The State further agrees that the Corporation may: (1) commingle Property which comes into its possession; (2) re-pledge such Property upon terms which impair the State's right to redeem such Property; and (3) require the State to assemble the Property and make it available to the Corporation in a manner which is reasonably convenient to both Parties. To the extent the Corporation is required for any reason to provide commercially reasonable notice to the State, the State agrees that notice mailed by first class mail five days before the event of which notice is given is commercially reasonable notice. The standard by which the Corporation's rights and duties with respect to such security agreement shall be measured is gross negligence or willful misconduct.

If required by the Corporation or the Fiscal Agent, as assignee of the Corporation, at any time during the term of the Master Financing Contract, the State will execute and deliver to the Corporation or the Fiscal Agent, as the case may be, in form satisfactory to the Corporation or the Fiscal Agent, such security agreements, financing statements and/or other instruments covering the Property and all accessions thereto.

Disclaimer of Warranties

The State acknowledges and agrees that the Property is of a nature, size, design and capacity selected by the respective Agencies pursuant to their own specifications, and not by the Corporation, and that the Corporation is not a manufacturer, supplier or a vendor of such personal property. THE CORPORATION MAKES NO WARRANTY OR REPRESENTATION, EITHER EXPRESS OR IMPLIED, AND ASSUMES NO RESPONSIBILITY, LIABILITY OR OBLIGATION, AS TO THE VALUE, DESIGN, CONDITION, MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR FITNESS FOR USE OF THE PROPERTY, OR AS TO THE TITLE THERETO, OR FOR THE ENFORCEMENT OF THE MANUFACTURERS', SUPPLIERS' OR VENDORS' REPRESENTATIONS, WARRANTIES OR GUARANTIES, OR ANY OTHER REPRESENTATION OR WARRANTY WITH RESPECT TO THE PERSONAL PROPERTY.

Installment Payments

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

(1) On each Installment Payment Date, the Installment Payment, consisting of a Principal Component and/or an Interest Component; and

(2) All Additional Costs incurred by the Corporation in connection with the sale of the Property to the State, the execution and delivery of the Certificates, and the observance and performance of the Series 2014A Agreements, within 30 days following receipt of an invoice from the Corporation with respect thereto which includes (a) a brief description of each such Additional Cost, (b) the party to whom payment is due, (c) the amount thereof, and (d) such additional information as the Treasurer may reasonably request.

Each Installment Payment shall consist of a Principal Component and/or an Interest Component as set forth in the Master Financing Contract. Interest shall accrue and be calculated as provided in the Trust Agreement. Each Installment Payment shall consist of the aggregate of the Agency Installment Payments payable by each Agency pursuant to its Agency Financing Contract. Each Installment Payment payable under the Master Financing Contract shall be paid by electronic funds transfer in lawful money of the United States of America. Payments of Additional Costs shall be made to or upon the order of the Corporation. Each Installment Payment shall be applied first to the Interest Component due under the Master Financing Contract, and then to the Principal Component due under the Master Financing Contract.

The Corporation directs the Treasurer, and the Treasurer agrees, to make all Installment Payments directly to the Fiscal Agent, as assignee of the Corporation, from the sources set forth in the Master Financing Contract and subject to the terms and conditions of the Master Financing Contract.

Sources of Payment of Installment Payments

State Agency Financing Addenda. The State is acquiring the State Agency Property for and on behalf of the respective State Agencies set forth in Exhibit B to the Master Financing Contract. Concurrently with the execution of the Master Financing Contract, each such State Agency shall execute and deliver a State Agency Financing Addendum pursuant to which such State Agency shall agree to acquire its respective Property and to make Agency Installment Payments therefor, at such times and in such amounts as provided in the Master Financing Contract, which will be sufficient in the aggregate to pay the Purchase Price of the Property to be acquired by the State for and on behalf of such State Agency and interest thereon. Each State Agency Financing Addendum is incorporated in the Master Financing Contract and made a part of the Master Financing Contract by reference therein.

That portion of the Installment Payments that is allocable to the Purchase Price of State Agency Property and interest thereon shall be payable by the State solely from Agency Installment Payments to be made by the respective State Agencies. The obligation of each State Agency to make its Agency Installment Payments shall be subject to appropriation by the State Legislature and Executive Order reduction by the Governor. The State shall not be obligated to pay that portion of the Installment Payments that is allocable to the Purchase Price of State Agency Property and interest thereon other than from appropriated funds of the respective State Agencies.

Local Agency Financing Contracts. The State is acquiring the Local Agency Property for and on behalf of the respective Local Agencies set forth in Exhibit B to the Master Financing Contract. Concurrently with the execution of the Master Financing Contract, each such Local Agency shall execute and deliver a Local Agency Financing Contract pursuant to which such Local Agency shall agree to acquire its respective Property and to make Agency Installment Payments, at such times and in such amounts as provided in the Master Financing Contract. Such Agency Installment Payments shall be sufficient in the aggregate to pay, on each Installment Payment Date, the Purchase Price of the Property to be acquired by the State for and on behalf of such Local Agency, and interest thereon.

That portion of the Installment Payments that is allocable to the Purchase Price of Local Agency Property and interest thereon shall be payable by the State solely from Agency Installment Payments to be made by the respective Local Agencies, except as otherwise provided in the two succeeding paragraphs immediately below. The obligation of each Local Agency to make its Agency Installment Payments shall be a direct and general obligation of the Local Agency to which the full faith and credit of such Local Agency is pledged. The State shall not be obligated to pay that portion of the Installment Payments that is allocable to the Purchase Price of Local Agency Property and interest thereon other than from Agency Installment Payments paid by the respective Local Agencies, except as otherwise provided in the Master Financing Contract.

Intercept of Local Agency Share of State Revenues. In the event that any Local Agency fails to make any payment due under its Local Agency Financing Contract, the Treasurer shall withhold an amount sufficient to make such payment from the Local Agency's share of State revenues or other amounts authorized or required by law to be distributed by the State to such Local Agency, including but not limited to leasehold excise taxes, sales and use taxes, excise taxes and property taxes; provided, that the use of any such revenues or amounts to make such payments is otherwise authorized or permitted by State law. Such withholding shall continue until all such payments due under the Master Financing Contract have been made. Amounts withheld by the Treasurer shall be applied to make any such payment due under the Local Agency Financing Contract on behalf of the Local Agency, or to reimburse the Treasurer for any such payment made pursuant to the Master Financing Contract.

Conditional Payment of Local Agency Installment Payments. Upon the failure of any Local Agency to make any Agency Installment Payment at such time and in such amount as required pursuant to its Local Agency Financing Contract, the Treasurer shall, to the extent of legally available appropriated funds and subject to any Executive Order reduction, make such payment into the Agency Installment Payment Fund on behalf of such Local Agency within 10 Business Days after such Agency Installment Payment was due. The Treasurer shall be entitled to reimbursement for any such payments made on behalf of the Local Agency as provided in the Local Agency Financing Contract.

Agency Installment Payments; Deposit and Investment

Agency Installment Payments shall be payable on each Agency Installment Payment Date and shall be deposited in a special fund or funds maintained by the Treasurer (the "Agency Installment Payment Fund"). Payments of Agency Installment Payments from State Agencies shall be accounted for separately from payments from Local Agencies. The Agency Installment Payments due on each Agency Installment Payment Date shall be at least sufficient, in the aggregate, to make the Installment Payment next coming due under the Master Financing Contract. Amounts in the Agency Installment Payment Fund, including investment earnings thereon, shall be used and applied, first, to make the Installment Payment next coming due, and thereafter, but prior to the next Agency Installment Payment Date, to the extent that amounts remain in such Fund after such Installment Payment is made, to pay Additional Costs or for any other lawful purpose of the Treasurer. Amounts in the Agency Installment Payment Fund shall be invested in the Qualified Investments, and shall be separately accounted for, but may be commingled with other moneys on deposit with the Treasurer solely for investment purposes.

No Set Off

The obligation of the State to make Installment Payments from the sources set forth in the Master Financing Contract and to perform its other obligations under the Master Financing Contract shall be absolute and unconditional, subject, however, to the right of any Agency to cease making Agency Installment Payments upon the occurrence of a Permitted Termination Event. The State shall make Installment Payments as and when the same shall become due without diminution, reduction, postponement, abatement, counterclaim, defense or set-off as a result of any dispute, claim or right of action by, against or diminution, among the State, the Corporation, the Fiscal Agent, any Agency, and/or any other Person, or for any other reason; provided, that nothing in the Master Financing Contract shall be construed to release or excuse the Corporation from the observance or performance of its obligations under the Master Financing Contract. If the Corporation shall fail to observe or perform any such obligation, the State may institute such legal action and pursue such other remedies against the Corporation as the State deems necessary or desirable, including, but not limited to actions for specific performance, injunction and/or the recovery of damages.

Limited Obligation

THE MASTER FINANCING CONTRACT SHALL CONSTITUTE A SPECIAL, LIMITED OBLIGATION OF THE STATE PAYABLE SOLELY FROM THE SOURCES AND SUBJECT TO THE LIMITATIONS SET

FORTH THEREIN. THE MASTER FINANCING CONTRACT SHALL NOT CONSTITUTE A DEBT OR A GENERAL OBLIGATION OF THE STATE OR OF ANY STATE AGENCY, THE CONTRACTING OF AN INDEBTEDNESS BY THE STATE OR BY ANY STATE AGENCY, OR A PLEDGE OF THE FAITH AND CREDIT OR TAXING POWER OF THE STATE OR OF ANY STATE AGENCY, FOR PURPOSES OF ANY CONSTITUTIONAL OR STATUTORY LIMITATION UPON DEBT OR THE CONTRACTING OF INDEBTEDNESS. THE OBLIGATION OF THE STATE TO MAKE AGENCY INSTALLMENT PAYMENTS, BOTH FOR STATE AGENCY PROPERTY AND ON BEHALF OF LOCAL AGENCIES FOR LOCAL AGENCY PROPERTY, IS SUBJECT TO APPROPRIATION AND TO EMERGENCY REDUCTION IN FUNDING UNDER CERTAIN CIRCUMSTANCES, ALL AS SET FORTH IN THE MASTER FINANCING CONTRACT. NOTHING IN THE MASTER FINANCING CONTRACT SHOULD BE CONSIDERED AS OR CONSTRUED TO IMPLY A MORAL OBLIGATION ON THE PART OF THE STATE OR ANY AGENCY TO MAKE THE INSTALLMENT PAYMENTS DUE THEREUNDER.

Assignment

Concurrently with the execution and delivery of the Master Financing Contract, the Corporation will grant, sell, assign, transfer and convey (1) all of its rights to receive the Installment Payments, and (2) all of its remaining right, title and interest in, to and under the Master Financing Contract and the Agency Financing Contracts, and in and to the Property to the Fiscal Agent pursuant to the Master Assignment (Equipment) in consideration for the payment by the Fiscal Agent to the Treasurer, as agent of the Corporation, of the proceeds of the sale of the Certificates. The Treasurer, the State Agencies and the Corporation acknowledge and agree that such grant, sale, assignment, transfer and conveyance by the Corporation is intended to be a true sale of the Corporation's right, title and interest, and that upon such grant, sale, assignment, transfer and conveyance, the Corporation shall cease to have any rights, duties or obligations under the Master Financing Contract or with respect to the Property, and the Fiscal Agent shall thereafter have all the rights, duties and obligations of the Corporation under the Master Financing Contract as if the Fiscal Agent had been the original party thereto, and every reference in the Master Financing Contract to the Corporation shall be deemed and construed to refer to the Fiscal Agent, except where the context otherwise requires. Anything in the Master Financing Contract to the contrary notwithstanding, such grant, sale, assignment, transfer and conveyance shall not confer any rights or impose any duties or obligations on the Fiscal Agent other than as expressly set forth in the Trust Agreement and in the Master Assignment (Equipment).

Optional Prepayment

The State may at its option, and shall upon the optional prepayment of Agency Installment Payments by any Agency pursuant to its Financing Contract, prepay all or any portion of the Principal Components then unpaid, in whole or in part on any date on or after July 1, 2024, in Authorized Denominations from any source of available funds, at the times and at the Prepayment Price of 100 percent of the Principal Components prepaid, plus accrued interest, if any, evidenced and represented thereby to the Prepayment Date.

The State may at its option, and shall upon the optional prepayment of Agency Installment Payments by any Agency pursuant to its Financing Contract, provide for the payment of all or any portion of the Installment Payments then unpaid, in whole or in part on any date, by causing to be deposited with the Fiscal Agent, as assignee of the Corporation, (1) moneys and/or Government Obligations in accordance with the Trust Agreement; and (2) an Opinion of Counsel to the effect such actions are permitted under the Master Financing Contract and will not cause interest evidenced and represented by the Certificates to be includable in gross income for federal income tax purposes under the Code.

Notice to Fiscal Agent

The Treasurer is required to provide the Fiscal Agent, as assignee of the Corporation, with not less than 45 days' prior written notice of its intention (1) to prepay any Principal Components, which notice is required to specify the reason for such prepayment, the Prepayment Date, and the amount and the Principal Payment Dates of the Principal Components to be prepaid, and (2) to provide for the payment of any Installment Payments pursuant to the Master Financing Contract.

Revision of Installment Payments upon Prepayment

The Principal Components and Interest Components due on each Installment Payment Date on and after a Prepayment Date pursuant to the Master Financing Contract may be reduced by the Fiscal Agent, as assignee of the Corporation, to reflect such prepayment, in Authorized Denominations, in such amounts and on such Installment Payment Dates as the Treasurer elects in a written notice to the Fiscal Agent, as assignee of the Corporation; *provided*, that the aggregate reduction in such Principal Components is equal to the aggregate Principal Components prepaid by the Treasurer; and *provided further*, that the reduction in Principal Components and Interest Components due on each Installment Payment Date is equal to the corresponding reduction in the Agency Installment Payments due on each Agency Installment Payment Date.

Discharge of Master Financing Contract

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

(1) all Installment Payments and all Additional Costs and other amounts due under the Master Financing Contract have been paid in accordance therewith; or

(2) (a) the Treasurer shall have delivered a written notice to the Fiscal Agency, as assignee of the Corporation, of its intention to prepay all of the Installment Payments remaining unpaid; (b) the Treasurer shall cause to be deposited with the Fiscal Agent, as assignee of the Corporation, (i) moneys and/or Government Obligations in accordance with the Trust Agreement; and (ii) an Opinion of Counsel to the effect that such actions are permitted under the Master Financing Contract and will not cause interest evidenced and represented by the Certificates to be includable in gross income for federal income tax purposes under the Code; and (c) for so long as any Installment Payments remain unpaid, provision shall have been made satisfactory to the Corporation and the Fiscal Agent for payment of all Additional Costs, including but not limited to the fees and expenses of the Fiscal Agent.

Permitted Termination Event

Upon the occurrence of a Permitted Termination Event with respect to any State Agency Financing Addendum, the Treasurer shall immediately deliver written notice thereof to the Corporation, which notice shall state the election not to appropriate the necessary funds or the Executive Order reduction in State funding as set forth in said State Agency Financing Addendum as the reason for cancellation thereof. The Treasurer shall, if practicable, request a supplemental appropriation in the event that an appropriation has not been made to the State Agency. In the event of an Executive Order reduction, the Treasurer shall determine whether or not the Property and the obligations of the State Agency under the State Agency Financing Addendum may be transferred to the office of the Treasurer or to another agency or department of the State authorized under the Act to enter into Agency Financing Contract. No Permitted Termination Event following an Executive Order reduction in funding shall be effective unless or until the Treasurer has determined that neither the Treasurer nor any other agency or department of the State authorized under the Act to enter into Agency Financing Contract is willing and able to assume the rights and obligations of the State Agency under the Master Financing Contract. The Treasurer shall, at the beginning of the period for which funds have not been appropriated or for which funding has been reduced, return said Property to the Corporation for the account of the State and thereupon be released of its obligations to make payments in an amount equal to the then unpaid balance of Agency Installment Payments with respect to such Property; provided, that the State delivers such Property in good repair, working order and condition (ordinary wear and tear excepted) and its unencumbered title to the Corporation at a location in the United States designated by the Corporation as of the end of the last month for which funding has been provided or the end of the last month for which funding is available in the event of an Executive Order reduction in funding. Upon the occurrence and effectiveness of a Permitted Termination Event, the Corporation shall be entitled to retain for the benefit of the Owners of the Certificates all sums theretofore transmitted to the Fiscal Agent, as assignee of the Corporation, by the Treasurer. The occurrence of a Permitted Termination Event with respect to one State Agency Financing Addendum shall not affect any rights, duties or obligations with respect to any other State Agency Financing Addendum with respect to which no Permitted Termination Event has occurred.

Covenants and Agreements of the State

Budget. The Treasurer shall (1) include in its biennial budget all scheduled Local Agency Installment Payments due during such Biennium; (2) submit such budget to OFM at such times and in such manner as required by law; (3) use its best efforts to obtain appropriations by the State Legislature in amounts sufficient to make any such payments; (4) include all such payments in its statements of proposed expenditures for each fiscal period required by law to be submitted to OFM; and (5) use its best efforts to obtain allotments by OFM of appropriated funds sufficient to make all such payments.

Agency Financing Contracts. Concurrently with the execution and delivery of the Master Financing Contract, the Treasurer shall enter into a Local Agency Financing Contract with each Local Agency set forth in Exhibit B to the Master Financing Contract with respect to the acquisition of the item or items of Property set forth in the Master Financing Contract substantially in the form set forth in Exhibit C to the Master Financing Contract. Concurrently with the execution and delivery of the Master Financing Contract, the Treasurer shall also enter into a State Agency Financing Addendum with each State Agency set forth in Exhibit B to the Master Financing Contract with respect to the acquisition of the item or items of Property set forth in the Master Financing Contract substantially in the form set forth in Exhibit D to the Master Financing Contract. Each State Agency Financing Addendum shall constitute a part of the Master Financing Contract.

Tax-Exemption. The State shall not make any use of the proceeds of the Master Financing Contract or the Certificates or of any other amounts, regardless of the source, or of any Property, and shall not take or refrain from taking any action, that would cause the Master Financing Contract or the Certificates to be "arbitrage bonds" within the meaning of Section 148 of the Code. The State shall not use or permit the use of the Property or any part thereof by any Person other than a "governmental unit" as that term is defined in Section 141 of the Code, in such manner or to such extent as would result in the loss of the exclusion from gross income for federal income tax purposes of the Interest Component of the Installment Payments under Section 103 of the Code. The State shall not make any use of the proceeds of this Master Agency Financing Contract or the Certificates or of any other amounts, and shall not take or refrain from taking any action, that would cause the Master Financing Contract or the Certificates to be "federally guaranteed" within the meaning of Section 149(b) of the Code, or "private activity bonds" within the meaning of Section 141 of the Code, or "hedge bonds" within the meaning of Section 149 of the Code. To that end, for so long as any Installment Payments remain unpaid, the State, with respect to such proceeds and other amounts, will comply with all requirements under such Sections and all applicable regulations of the United States Department of the Treasury promulgated under the Master Financing Contract. The State will at all times do and perform all acts and things permitted by law which are necessary or desirable in order to assure that the Interest Components of the Installment Payments will not be included in gross income of the Owners of the Certificates for federal income tax purposes under the Code, and will take no action that would result in such interest being so included. The State shall comply with the provisions of the Tax Certificate and Agreement.

The Treasurer shall establish and maintain a separate account designated as the "State of Washington Certificates of Participation, Series 2014A Rebate Fund" (the "Rebate Fund"). The State shall deposit in the Rebate Fund the Rebate Requirement as provided in the Tax Certificate. Subject to the other provisions of the covenant regarding tax exemption of the Certificates summarized above, moneys held in the Rebate Fund are pledged to secure the rebate payments to the United States, and the State, the Agencies, the Corporation, the Fiscal Agent and the Owners shall have no rights in or claim to such moneys.

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

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

Duties Imposed by Law. To the extent permitted by law, the covenants, agreements and other obligations on the part of the State contained in the Master Financing Contract shall be deemed and construed to be ministerial and non-discretionary duties imposed by law, and it shall be the duty of the State and each and every public official to take such actions and to do such things as are required by law in the performance of the official duties of such officials to enable the State to observe and perform the covenants, agreements, terms, conditions and other obligations contained in the Master Financing Contract and in the other Series 2014A Agreements to which the State is a party to be observed and performed by the State.

Liens. The State shall not create, incur, assume or suffer to exist any mortgage, pledge, lien, charge, encumbrance or claim on or with respect to the Property, except the rights of the Corporation and the respective Agencies as provided in the Master Financing Contract and in the Agency Financing Contracts. The State shall promptly, at its own expense, take such action as may be necessary to duly discharge any such mortgage, pledge, lien, charge, encumbrance or claim if the same shall arise at any time. The State shall not (and shall not permit any Agency) to grant, sell, transfer, assign, pledge, convey or otherwise dispose of any of the Property other than to the respective Agencies pursuant to the Agency Financing Contracts or as otherwise provided in the Master Financing Contract, and any such attempted grant, sale, transfer, assignment, pledge, conveyance or disposal shall be void.

Performance. The State shall punctually pay the Installment Payments in strict conformity with the terms and provisions of the Master Financing Contract, and will faithfully observe and perform all the covenants, agreements, terms, conditions and other obligations contained in the Master Financing Contract required to be observed and performed by the State. Except for Permitted Termination Events, the State will not suffer or permit any default to occur under the Master Financing Contract, or do or permit anything to be done, or omit or refrain from doing anything, in any case where any such act done or permitted, or any such omission or refraining from doing anything, would or might be grounds for acceleration or termination of the Master Financing Contract. Except for Permitted Termination Events, the State will not terminate the Master Financing Contract for any cause, including but not limited to any acts or circumstances that may constitute failure of consideration, destruction of or damage to the Property, commercial frustration of purpose, any change in the tax or other laws of the United States of America or of the State or any political subdivision of the State, or any failure by the Corporation to observe or perform any covenant, agreement, term, condition or other obligation contained in the Master Financing Contract required to be observed and performed by it, whether express or implied, or the bankruptcy, insolvency, liquidation or reorganization of the Corporation. The State assumes the entire risk of loss, from any and every cause whatsoever, to the Property.

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

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

Disclosure Agreement. Concurrently with the execution and delivery of the Master Financing Contract, the Treasurer will execute and deliver the Disclosure Agreement in order to assist the Underwriter in complying with the requirements under the Rule. The Treasurer shall comply with the requirements of the Disclosure Agreement; provided, that failure to so comply shall not constitute a default under the Master Financing Contract.

Events of Default

Each of the following shall constitute an "Event of Default" under the Master Financing Contract:

(1) Failure by the State (other than as a result of a Permitted Termination Event) to pay or cause to be paid any Installment Payment required to be paid under the Master Financing Contract at the time set forth in the Master Financing Contract;

(2) Failure by the State (other than as a result of a Permitted Termination Event) to observe or perform any covenant, agreement, term or condition on its part to be observed or performed under the Master Financing Contract, other than as set forth in paragraph (1), above, for a period of 30 days after written notice from the Corporation, or from the Owners of not less than 25 percent in aggregate Principal Component evidenced and represented by the Certificates then Outstanding, to the Treasurer specifying such failure and requesting that it be remedied; provided, however, that such period shall be extended for not more than 60 days if such failure cannot be corrected within such period, and corrective action is commenced by the State within such period and diligently pursued until the failure is corrected; and

(3) The occurrence of an Agency Event of Default.

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

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

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

Remedies

Whenever an Event of Default under the Master Financing Contract shall have occurred and be continuing, the Corporation has the right, without any further demand or notice, to:

(1) take whatever action at law or in equity may appear necessary or desirable to collect the Installment Payments then due and thereafter becoming due, or to enforce the observance or performance of any covenant, agreement or obligation of the State under the Master Financing Contract;

(2) by written notice to the State, request the State to (and the State agrees that it shall), at the State's expense, promptly return the item or items of Property with respect to which such default occurred in good condition (ordinary wear and tear excepted) to any location in the United States specified by the Corporation;

(3) exercise all rights of a secured party under the State Uniform Commercial Code with respect to the item or items of Property with respect to which such default occurred; and

(4) exercise any other rights or remedies it may have under the Master Financing Contract or under applicable law.

ANYTHING IN THE MASTER FINANCING CONTRACT TO THE CONTRARY NOTWITHSTANDING, IF THE EVENT OF DEFAULT CONSISTS OF AN AGENCY EVENT OF DEFAULT, THE REMEDIES OF THE CORPORATION SHALL BE LIMITED TO THOSE SET FORTH IN THE MASTER FINANCING CONTRACT AND THE RELATED AGENCY FINANCING CONTRACT, RESPECTIVELY.

No Remedy Exclusive; Non-Waiver

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

Term

The Master Financing Contract shall terminate on the date on which all amounts due under the Master Financing Contract shall have been paid or the payment thereof duly provided for pursuant to the Master Financing Contract.

TRUST AGREEMENT

Acquisition Fund

The Treasurer shall establish and maintain the Acquisition Fund as agent for the Corporation. The moneys in the Acquisition Fund shall be held by the Treasurer in trust for the benefit of the Owners and applied to the payment of the Acquisition Costs (including reimbursement to the Corporation, or to the Treasurer or any Agency, in its capacity as agent of the Corporation, for any such costs theretofore paid by such Party), including but not limited to the Costs of Issuance. Moneys in the Acquisition Fund shall be invested by the Treasurer in Qualified Investments. Disbursements by the Treasurer from the Acquisition Fund to pay or reimburse the Acquisition Costs of Property to be acquired by each Agency shall not exceed the amount in the Acquisition Fund allocable to such Agency, as determined by the Treasurer. When the Property has been acquired or refinanced and all of the Acquisition Costs and Costs of Issuance have been paid, the Treasurer shall transfer any remaining balance in the Acquisition Fund to the Agency Installment Payment Fund.

State Payments; Funds and Accounts; Investments

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

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

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

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

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

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

Application of Insurance Proceeds. The proceeds of any casualty insurance with respect to any of the Property, if received by the State or any Agency, shall immediately be paid to the Fiscal Agent. Within 90 days of payment of such proceeds to the Fiscal Agent, the respective Agency shall notify the Fiscal Agent in writing as to whether it elects to repair or replace such Property. In the event that the Agency elects to repair or replace such Property, such amounts shall be disbursed by the Fiscal Agent to pay the costs of such repair or replacement. In the event that the Agency elects not to repair or replace the property damaged, destroyed or taken, the Fiscal Agent shall transfer all such amounts to the Prepayment Account and apply such amounts to the prepayment of Outstanding Certificates pursuant to the Trust Agreement at the earliest possible Prepayment Date. To the extent that such amounts are not sufficient, in whole or in part, to prepay Principal Components evidenced and represented by the Certificates in Authorized Denominations, such amounts shall be applied to provide for the payment thereof pursuant to the Trust Agreement.

Investment of Moneys. All moneys in any of the funds or accounts established and maintained by the Fiscal Agent pursuant to the Trust Agreement shall be invested by the Fiscal Agent, at the written direction of the Treasurer, solely in Qualified Investments. The written investment instruction to the Fiscal Agent shall contain a statement that such investments are Qualified Investments as required by the Trust Agreement. The Fiscal Agent may rely on the investment instructions of the Treasurer as to the suitability and legality of the instructed investments, and the Fiscal Agent shall not be responsible for losses incurred in making investments in accordance with the Treasurer's investment instructions.

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

Moneys in all funds and accounts maintained by the Fiscal Agent shall be invested in Qualified Investments maturing not later than the date on which such moneys will be required for the purposes specified in the Trust Agreement. Notwithstanding any provisions in the Trust Agreement to the contrary, any moneys held for the payment of Certificates pursuant to the Trust Agreement shall be invested only at the written direction of the Treasurer and only in Government Obligations (or in shares of a taxable government money market fund restricted to Government Obligations rated in the highest rating category applicable to such funds by at least one Rating Agency) which mature not later than the date on which it is estimated that such moneys will be required to pay such Certificates (but in any event maturing in not more than 30 days).

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

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

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

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

Covenants of the Corporation, the State and the Fiscal Agent

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

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

The State will not alter, amend or modify the Master Financing Contract without the prior written consent of the Fiscal Agent. Such consent of the Fiscal Agent shall be given only (1) if the Fiscal Agent receives an Opinion of Counsel to the effect that such alterations, amendments or modifications will not have a material adverse effect on the interests of the Owners of the Certificates, or (2) if the Fiscal Agent first obtains the written consent of the Owners of a majority in aggregate Principal Component evidenced and represented by the Certificates then Outstanding to such alterations, amendments or modifications; provided, that no such alteration, amendment or modification shall reduce the amount or extend the time for payment of any State Payment without the prior written consent of the Owners of the Certificates evidencing and representing any portion thereof.

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

Prosecution and Defense of Suits. The State will defend against every action, suit or other proceeding at any time brought against the Corporation, the Fiscal Agent or any Owner upon any claim arising out of the receipt, deposit or disbursement of any of the State Payments or involving the rights or obligations of the Corporation, the Fiscal Agent or any Owner under the Trust Agreement; *provided, however*, that the Corporation or any Owner, at its election and at its sole cost and expense, and the Fiscal Agent (at the reasonable cost and expense of the Corporation or the State, but only if (1) the employment of such counsel has been authorized by the Corporation or the State, or (2) the Corporation and the State shall have failed promptly after receiving notice of such action from the Fiscal Agent to assume the defense of such action and employ counsel reasonably satisfactory to the Fiscal Agent, or (3) the State, the Corporation and the Fiscal Agent shall have agreed, or a court of competent jurisdiction shall have determined, that there is a conflict of interest between the Fiscal Agent and the Corporation or the State on any legal issue pertaining to such action, or (4) the Fiscal Agent has received the written legal opinion of outside counsel to the Fiscal Agent that there is a conflict of interest between the Fiscal Agent and the Corporation or the State on any legal issue pertaining to such action, and such action does not involve an action, suit or proceeding between the Fiscal Agent and the Corporation or the State), may appear in and defend any such action, suit or other proceeding.

Accounting Records and Statements. The Fiscal Agent will keep proper accounting records in accordance with corporate trust accounting standards in which complete and correct entries shall be made of all transactions relating to the receipt, investment, deposit, application and disbursement of the State Payments, and such accounting records shall be available for inspection by the Treasurer or any Owner or agent duly authorized in writing at reasonable hours and under reasonable conditions. Not later than December 1 in each year, commencing on December 1, 2014, and continuing for so long as any Certificates are Outstanding, the Fiscal Agent will furnish, or cause to be furnished to the Treasurer and any Owner who may so request (at the expense of such Owner) a complete statement covering the receipts, investment, deposits, application and disbursements of the State Payments for the twelve-month period ending on the preceding July 1.

Such records shall specify the fund or account to which each investment (or portion thereof) held pursuant to the Trust Agreement is to be allocated and shall set forth, in the case of each Qualified Investment, (1) its purchase price, (2) identifying information, including par amount, coupon rate, and payment dates, (3) the amount received at maturity or its sale price, as the case may be, (4) the amounts and dates of any payments made with respect thereto, and (5) such other documentation as is required by the Treasurer in writing.

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

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

Events of Default; Remedies

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

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

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

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

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

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

Nothing in the Trust Agreement shall be deemed to authorize the Fiscal Agent to authorize or consent to or accept or adopt on behalf of any Owner any plan of reorganization, arrangement, adjustment, or composition affecting the Certificates or the rights of any Owner thereof, or to authorize the Fiscal Agent to vote in respect of the claim of any Owner in any such proceeding without the approval of the Owners so affected.

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

Non-Waiver. A waiver of any default or breach of duty or contract by the Fiscal Agent shall not affect any subsequent default or breach of duty or contract or impair any rights or remedies on any such subsequent default or breach of duty or contract. No delay or omission by the Fiscal Agent to exercise any right or remedy accruing upon any default or breach of duty or contract shall impair any such right or remedy or shall be construed to be a waiver of any such default or breach of duty or contract or an acquiescence therein, and every right or remedy conferred upon the Fiscal Agent by law or by such article may be enforced and exercised from time to time and as often as shall be deemed expedient by the Fiscal Agent.

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

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

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

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

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

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

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

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

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

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

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

No Liability by the Fiscal Agent to the Owners. Except as expressly provided in the Trust Agreement, the Fiscal Agent shall not have any obligation or liability to the Owners with respect to the payment when due of the State Payments by the State, with respect to the observance or performance by the State of the other agreements and covenants required to be observed and performed by it contained in the Master Financing Contract or in the Trust Agreement or with respect to the observance or performance by the Corporation of the agreements and covenants required to be observed and performed by it contained in the Trust Agreement.

Amendment or Supplement of Trust Agreement

Amendment or Supplement; Consents. The Trust Agreement and the rights and obligations of the State, the Owners, the Fiscal Agent or any Paying Agent under the Trust Agreement may be amended or supplemented at any time as provided in the Appendix of the Trust Agreement. No such amendment or supplement shall:

(1) extend the stated Principal Payment Date of any Certificate, or reduce the rate of interest evidenced and represented thereby, or extend the time of payment of such interest, or reduce the amount of the Principal Component evidenced and represented thereby, or reduce any Prepayment Price evidenced and represented thereby, without the prior written consent of the Owner of the Certificate so affected; or

(2) reduce the percentage of Owners whose consent is required for the execution of any amendment of the Trust Agreement or supplement thereto; or

(3) modify any of the rights or obligations of the Fiscal Agent or any Paying Agent without its prior written consent thereto.

Disqualified Certificates. Certificates owned or held by or for the account of the State (but excluding Certificates held in any pension or retirement fund of the State) or any Agency shall not be deemed Outstanding for the purpose of any consent or other action or any calculation of Outstanding Certificates provided in the Trust Agreement, and shall not be entitled to consent to or take any other action provided in the Trust Agreement, except that in determining whether the Fiscal Agent shall be protected in relying upon any consent or other actions of an Owner, or in calculating Outstanding Certificates under the Trust agreement, only Certificates which the Fiscal Agent actually knows to be owned or held by or for the account of the State or any Agency shall be disregarded unless all Certificates are so owned or held by or for the account of the State or any Agency, in which case such Certificates shall be considered Outstanding for the purpose of such determination. The Fiscal Agent may adopt appropriate regulations to require each Owner, before consent provided for in the Trust Agreement shall be deemed effective, to reveal if the Certificates as to which such consent is given are disqualified as provided in the Trust Agreement.

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

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

Defeasance of Certificates; Discharge of Trust Agreement

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

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

Notice of Defeasance. If moneys or Qualified Investments are deposited with and held by the Fiscal Agent as described above, the Fiscal Agent shall within 30 days after such moneys or Qualified Investments shall have been deposited with it, mail a notice, first class postage prepaid, to the Owners of the Certificates that have been defeased at the addresses listed on the registration books kept by the Fiscal Agent pursuant to the Trust Agreement, setting forth (1) the date or dates fixed for payment or prepayment of the Certificates, (2) a description of the moneys or Qualified Investments so held by it, and (3) that such Certificates have been defeased and are no longer deemed to be Outstanding under the Trust Agreement, and/or that the Trust Agreement has been released and discharged in accordance with the provisions of the Trust Agreement.

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

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

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

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

Unclaimed Moneys. Any moneys held by the Fiscal Agent in trust for the payment and discharge of the principal, Prepayment Price or interest evidenced and represented by any of the Certificates which remain unclaimed for two years after the date when the principal, Prepayment Price or interest evidenced and represented by such Certificates have become payable, shall at the Written Request of the State Treasurer be repaid by the Fiscal Agent (without liability for interest) to the Treasurer as its property free from trust, and the Fiscal Agent shall thereupon be released and discharged with respect thereto and the Owners shall look only to the Treasurer for the payment of the principal, Prepayment Price or interest evidenced and represented by such Certificates.

Miscellaneous

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

Notices to Rating Agencies. The Fiscal Agent shall provide to each Rating Agency then rating the Certificates prompt written notice of (1) the appointment of any successor Fiscal Agent or Paying Agent; (2) any amendment to the Trust Agreement or the Master Financing Contract; (3) any prepayment of the Certificates; and (4) any defeasance or discharge of the Certificates or the Trust Agreement.

MASTER ASSIGNMENT (EQUIPMENT)

Assignment

The Corporation unconditionally grants, sells, assigns, transfers and conveys to the Fiscal Agent without recourse (1) all of its rights to receive the Installment Payments under and pursuant to the Master Financing Contract, and (2) all of its remaining right, title and interest in, to and under the Master Financing Contract, the Agency Financing Contracts, and in and to the Property (including any security interest therein), including but not limited to its right to take all actions and exercise all remedies under and pursuant to the Master Financing Contract.

Acceptance

The Fiscal Agent accepts the grant, sale, assignment, transfer and conveyance for the benefit of the Owners of the Certificates, subject to the conditions and terms of the Trust Agreement, and all such Installment Payments shall be applied and all of such right, title and interest shall be exercised by the Fiscal Agent as provided in the Trust Agreement. The Fiscal Agent agrees to keep, perform and observe all of the terms, conditions, covenants and agreements under the Master Financing Contract from and after the Dated Date.

Acknowledgement

The Fiscal Agent and the Corporation acknowledge and agree that: (1) such grant, sale, assignment, transfer and conveyance by the Corporation is intended to be a true sale of the Corporation's right, title and interest in, to and under the Master Financing Contract and in and to the Property; (2) the Corporation shall cease to have any rights, duties or obligations under the Master Financing Contract or with respect to the Property; (3) the Fiscal Agent shall have all the rights, duties and obligations of the Corporation thereunder as if the Fiscal Agent had been the original party thereto; and (4) every reference in the Master Financing Contract to the Corporation shall be deemed and construed to refer to the Fiscal Agent, except where the context otherwise requires.

FINANCING CONTRACTS

Appointment of Agents; Acquisition of Property, Substitution of Property

Appointment of Agents. Under each Agency Financing Contract, the Agency ratifies, approves and confirms, and accepts and agrees to, its designation and appointment as agent of the Corporation in connection with the acquisition of the Property.

Acquisition of Property. The Agency agrees that:

(1) it has caused or will cause the Property to be acquired, as agent for the Corporation, with all reasonable dispatch;

(2) it will make, execute, acknowledge and deliver any contracts, agreements, orders, receipts, documents, writings or instructions with or to any Person and do all other things that may be necessary or desirable to acquire the Property; and

(3) it will pay or cause to be paid the Costs of Acquisition of the Property from funds available to it pursuant to the Agency Financing Contract and the Master Financing Contract.

The appointment of the Agency to act as agent of the Corporation in connection with the acquisition of the Property is made and conferred irrevocably by the Corporation, and shall not be terminated by any act of the Agency, the Treasurer or otherwise.

The Agency shall negotiate or call for bids for the purchase of the Property in accordance with the requirements and limitations, if any, imposed by State or local law with respect to the purchase of such Property by such Agency. Neither the Corporation nor the State shall have any responsibility, liability or obligation with respect to the selection or procurement of any of the Property.

Substitution of Property. The Agency, with the prior written consent of the Treasurer, may revise any item of Property to be financed or refinanced and acquired pursuant to the Agency Financing Contract, or the description thereof; *provided*, that:

(1) such item of Property as so revised shall satisfy the requirements under the Agency Financing Contract and the Master Financing Contract with respect to the substitution of Property previously acquired;

(2) the Costs of Acquisition of such item of Property shall not be materially reduced thereby; and

(3) any such revision shall not relieve the Agency of its obligation to acquire the Property in accordance therewith and with the Master Financing Contract.

After acquisition of an item of Property, the Agency, with the prior written consent of the Treasurer, may substitute for an item of Property acquired pursuant to the Agency Financing Contract other personal property by filing with the Treasurer:

(1) a certificate of the Agency stating that such substitute Property: (a) has a remaining useful life equal to or greater than the Property for which it is being substituted; (b) has a fair market value equal to or greater than the fair market value of the item of Property for which it is being substituted; (c) is free and clear of all liens and encumbrances except a first priority security interest in favor of the Fiscal Agent, as assignee of the Corporation, under the Master Financing Contract; (d) is of equal usefulness and value as the Property for which it is being substituted; (e) is essential to the Agency's ability to carry out its governmental functions and responsibilities; and (f) is expected to be used by such Agency immediately and for the term of the Agency Financing Contract; and

(2) an Opinion of Counsel to the effect that such substitution will not cause interest evidenced and represented by the Certificates to be includable in gross income for federal income tax purposes under the Code.

Title to the Property

All right, title and interest in and to the Property shall transfer to and be vested in the Agency from the Corporation or the State, as applicable, without any further action by the Agency, the Corporation or the State immediately upon the acquisition thereof or reimbursement to the Agency for the Acquisition Costs thereof; *provided*, that the Treasurer and the Agency shall take such action and execute such documents (including without limitation bills of sale and other title documents) as may be deemed necessary or desirable by the Treasurer or the Agency to evidence and confirm such transfer of title pursuant to the Agency Financing Contract.

Title to any and all additions, modifications, improvements, repairs or replacements to the Property shall be vested in the Agency, subject to the security interest of the Corporation until payment of all amounts due and owing with respect to such Property under the Agency Financing Contract.

Any Property constituting a motor vehicle subject to registration with the State Department of Licensing shall be registered with the Agency as the registered and legal owner thereof.

Security Interest

State Security Interest. In order to secure the payment and performance by the State of its obligations under the Master Financing Contract, the State has pledged, granted, assigned and conveyed to the Corporation a lien on and security interest in all right, title and interest of the State, whether now owned or acquired, in and to the Property and the Agency Financing Contract, including without limitation the Agency Installment Payments and all proceeds thereof. The Agency acknowledges and agrees to such pledge, grant, assignment and conveyance, and acknowledges that its right, title and interest in and to the Property is subject to such first priority lien and security interest.

Agency Security Interest. In order to secure the payment and performance by the Agency of its obligations under the Agency Financing Contract, the Agency pledges, grants, assigns and conveys to the Corporation a lien on and security interest in all right, title and interest of the Agency, whether now owned or acquired, in and to the Property. Accordingly, the Agency Financing Contract constitutes a security agreement. The Agency acknowledges and agrees that each provision of the Agency Financing Contract is also a provision of the security agreement.

The Agency further agrees that the Corporation may: (1) commingle Property which comes into its possession; (2) re-pledge such Property upon terms which impair the Agency's right to redeem such Property; and (3) require the Agency to assemble the Property and make it available to the Corporation in a manner which is reasonably convenient to both Parties. To the extent the Corporation is required for any reason to provide commercially reasonable notice to the Agency, the State agrees that notice mailed by first class mail five days before the event of which notice is given is commercially reasonable notice. The standard by which the Corporation's rights and duties with respect to such security agreement shall be measured is gross negligence or willful misconduct.

If required by the Corporation or the Fiscal Agent, as assignee of the Corporation, at any time during the term of the Agency Financing Contract, the Agency will execute and deliver to the Corporation or the Fiscal Agent, as the case may be, in form satisfactory to the Corporation or the Fiscal Agent, such security agreements, financing statements and/or other instruments covering the Property and all accessions thereto.

Disclaimer of Warranties

The Local Agency acknowledges and agrees that the Property is of a nature, size, design and capacity selected by the Local Agency pursuant to its own specifications, and not by the State or the Corporation, and that neither the State nor the Corporation is a manufacturer, supplier or a vendor of such Property. THE STATE AND THE CORPORATION MAKE NO WARRANTY OR REPRESENTATION, EITHER EXPRESS OR IMPLIED, AND ASSUME NO RESPONSIBILITY, LIABILITY OR OBLIGATION, AS TO THE VALUE, DESIGN, CONDITION, MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR FITNESS FOR USE OF THE PROPERTY, OR AS TO THE TITLE THERETO, OR FOR THE ENFORCEMENT OF THE MANUFACTURERS', SUPPLIERS' OR VENDORS' REPRESENTATIONS, WARRANTIES OR GUARANTIES, OR ANY OTHER REPRESENTATION OR WARRANTY WITH RESPECT TO THE PROPERTY. IN NO EVENT SHALL THE STATE OR THE CORPORATION BE LIABLE OR RESPONSIBLE FOR ANY INCIDENTAL, INDIRECT, SPECIAL OR CONSEQUENTIAL DAMAGES IN CONNECTION WITH OR ARISING OUT OF THE LOCAL AGENCY FINANCING CONTRACT OR THE EXISTENCE, FURNISHING, FUNCTIONING OR USE BY THE LOCAL AGENCY OF THE PROPERTY.

The State Agency acknowledges and agrees that the Property is of a nature, size, design and capacity selected by the State Agency pursuant to its own specifications, and not by the Treasurer or the Corporation, and that neither the Treasurer nor the Corporation is a manufacturer, supplier or a vendor of such Property. THE TREASURER AND THE CORPORATION MAKE NO WARRANTY OR REPRESENTATION, EITHER EXPRESS OR IMPLIED, AND ASSUME NO RESPONSIBILITY, LIABILITY OR OBLIGATION, AS TO THE VALUE, DESIGN, CONDITION, MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR FITNESS FOR USE OF THE PROPERTY, OR AS TO THE TITLE THERETO, OR FOR THE ENFORCEMENT OF THE MANUFACTURERS', SUPPLIERS' OR VENDORS' REPRESENTATIONS, WARRANTIES OR GUARANTIES, OR ANY OTHER REPRESENTATION OR WARRANTY WITH RESPECT TO THE PROPERTY. IN NO EVENT SHALL THE TREASURER OR THE CORPORATION BE LIABLE OR RESPONSIBLE FOR ANY INCIDENTAL, INDIRECT, SPECIAL OR CONSEQUENTIAL DAMAGES IN CONNECTION WITH OR ARISING OUT OF THE STATE AGENCY FINANCING ADDENDUM OR THE EXISTENCE, FURNISHING, FUNCTIONING OR USE BY THE STATE AGENCY OF THE PROPERTY.

Agency Installment Payments

Each Agency Installment Payment shall consist of a Principal Component and/or an Interest Component as set forth in an exhibit to the Agency Financing Contract. Interest shall accrue and be calculated as determined by the

Treasurer, which determination shall be binding and conclusive against the Agency absent manifest error. Each Agency Installment Payment payable under the Agency Financing Contract shall be paid to or upon the order of the Treasurer at such place as the Treasurer shall direct in writing not less than 10 Business Days prior to the Agency Installment Payment Date by electronic funds transfer in lawful money of the United States of America. Payments of Additional Costs shall be made to or upon the order of the Treasurer. Each Agency Installment Payment shall be applied first to the Interest Component due under the Agency Financing Contract, and then to the Principal Component due under the Agency Financing Contract.

Sources of Payment of Agency Installment Payments

Local Agency Financing Contract. The Local Agency acknowledges and agrees that the State is acquiring the Property from the Corporation for and on behalf of the Local Agency. Concurrently with the execution of the Local Agency Financing Contract, the State shall execute and deliver the Master Financing Contract pursuant to which the State shall agree to make Installment Payments for the acquisition of the Property for and on behalf of the respective Agencies, at such times and in such amounts as provided in the Local Agency Financing Contract, which will be sufficient in the aggregate to pay the Purchase Price of the Property to be acquired by the State for and on behalf of the Local Agency, together with all other personal property to be acquired for and on behalf of the other Local Agencies and the State Agencies, and interest thereon.

That portion of the Installment Payments that is allocable to the Purchase Price of the Local Agency Property and interest thereon shall be payable by the State solely from Agency Installment Payments to be made by the respective Local Agencies, including the Local Agency, except as otherwise provided in the Master Financing Contract. The obligation of the Local Agency to make its Agency Installment Payments shall be a direct and general obligation of the Local Agency to which the full faith and credit of such Local Agency is pledged. The State shall not be obligated to pay that portion of the Installment Payments that is allocable to the Purchase Price of the Local Agency Property and interest thereon other than from Agency Installment Payments paid by the respective Local Agencies, except as otherwise provided in the Master Financing Contract.

Intercept of Local Agency Share of State Revenues. In the event that the Local Agency fails to make any payment due under the Local Agency Financing Contract, the Treasurer shall withhold an amount sufficient to make such payment from the Local Agency's share of State revenues or other amounts authorized or required by law to be distributed by the State to the Local Agency, including but not limited to leasehold excise taxes, sales and use taxes, excise taxes, property taxes, and liquor control board receipts; *provided*, that the use of any such revenues or amounts to make such payments is otherwise authorized or permitted by State law. Such withholding shall continue until all such delinquent payments have been made. Amounts withheld by the Treasurer shall be applied to make any such payment due under the Local Agency Financing Contract on behalf of the Local Agency, or to reimburse the Treasurer for any such payment made pursuant to the Local Agency Financing Contract. The Local Agency authorizes, approves and consents to any such withholding.

Conditional Payment of Local Agency Installment Payments. Upon the failure of the Local Agency to make any Agency Installment Payment at such time and in such amount as required pursuant to the Local Agency Financing Contract, the Treasurer shall, to the extent of legally available appropriated funds and subject to any Executive Order reduction, make such payment into the Agency Installment Payment Fund, described below, on behalf of such Local Agency within 10 Business Days after such Agency Installment Payment Date. The Local Agency shall reimburse the State for such payments made on its behalf immediately thereafter and in any case not later than 10 Business Days after such Agency Installment Payment Date, together with interest thereon at a rate equal to the State Reimbursement Rate. Anything in the Local Agency Financing Contract to the contrary notwithstanding, failure of the Local Agency to reimburse the State for any such payment shall not constitute an Agency Event of Default under the Local Agency Financing Contract, but the State may institute such legal action and pursue such other remedies against the Local Agency as the State deems necessary or desirable, including, but not limited to, actions for specific performance, injunction and/or the recovery of damages.

Payments by Local Agency Treasurer. The treasurer of the Local Agency is authorized and directed to establish and/or maintain a special fund in the "bonds payable" category of accounts of the Local Agency for the purposes of paying the Local Agency's Agency Installment Payments and Additional Costs. The treasurer of the Local Agency is further authorized and directed to remit each payment of Agency Installment Payments to the Treasurer or its assignee on each Agency Installment Payment Date and any Additional Costs when due under the Local Agency Financing Contract. Such payment shall be made from any legally available funds of the Local Agency.

State Agency Financing Contract. The State Agency acknowledges and agrees that the State is acquiring the Property from the Corporation for and on behalf of the State Agency. Concurrently with the execution of the Agency Financing Contract, the State shall execute and deliver the Master Financing Contract pursuant to which the State shall agree to make Installment Payments for the acquisition of the Property for and on behalf of the respective Agencies, at such times and in such amounts as provided therein, which will be sufficient in the aggregate to pay the Purchase Price of the Property to be acquired by the State for and on behalf of the State Agency together with all other personal property to be acquired for and on behalf of the other State Agencies, and interest thereon.

Obligation of State Agency Subject to Appropriation. That portion of the Installment Payments that is allocable to the Purchase Price of the State Agency Property shall be payable by the State solely from Agency Installment Payments to be made by the respective State Agencies, including the State Agency. The obligation of the State Agency to make its Agency Installment Payments shall be subject to appropriation by the State Legislature and to Executive Order reduction. The State shall not be obligated to pay that portion of the Installment Payments that is allocable to the Purchase Price of the State Agency Property and interest thereon other than from appropriated funds of the respective State Agencies.

Deposit and Investment of Agency Installment Payments

The Agency acknowledges and agrees that the Agency Installment Payments shall be deposited in a special fund or funds maintained by the Treasurer (the “Agency Installment Payment Fund”). Payments of Agency Installment Payments from State Agencies shall be separately accounted for from payments from Local Agencies. The Agency Installment Payments due on each Agency Installment Payment Date shall be at least sufficient, in the aggregate, to make the Installment Payment next coming due under the Master Financing Contract. Amounts in the Agency Installment Payment Fund, including investment earnings thereon, shall be used and applied, *first*, to make the Installment Payment next coming due, *and thereafter*, but prior to the next Agency Installment Payment Date, to the extent that amounts remain in such Fund after such Installment Payment is made, to pay Additional Costs or for any other lawful purpose of the Treasurer. Amounts in the Agency Installment Payment Fund shall be invested in Qualified Investments, and shall be separately accounted for, but may be commingled with other moneys on deposit with the Treasurer solely for investment purposes. The Agency shall have no right, title or interest in or to the amounts on deposit from time to time in the Agency Installment Payment Fund.

No Set Off

The obligation of the Local Agency to make Agency Installment Payments from the sources set forth in the Local Agency Financing Contract and to perform its other obligations under the Local Agency Financing Contract shall be absolute and unconditional. The Local Agency shall make Agency Installment Payments as and when the same shall become due without diminution, reduction, postponement, abatement, counterclaim, defense or set-off as a result of any dispute, claim or right of action by, against or among the State, the Corporation, the Fiscal Agent, any Agency, and/or any other Person, or for any other reason; provided, that nothing in the Local Agency Financing Contract shall be construed to release or excuse the State from the observance or performance of its obligations under the Local Agency Financing Contract. If the State shall fail to observe or perform any such obligation, the Local Agency may institute such legal action and pursue such other remedies against the State as the Local Agency deems necessary or desirable, including, but not limited to, actions for specific performance, injunction and/or the recovery of damages.

The obligation of the State Agency to make Agency Installment Payments from the sources set forth in the State Agency Financing Addendum and to perform its other obligations under the State Agency Financing Addendum shall be absolute and unconditional. The State Agency shall make Agency Installment Payments as and when the same shall become due without diminution, reduction, postponement, abatement, counterclaim, defense or set-off as a result of any dispute, claim or right of action by, against or among the State, the Corporation, the Fiscal Agent, any Agency, and/or any other Person, or for any other reason; *provided*, that nothing in the State Agency Financing Addendum shall be construed to release or excuse the Treasurer or the Corporation from the observance or performance of its obligations under the State Agency Financing Addendum or under the Master Financing Contract. If the Treasurer or the Corporation shall fail to observe or perform any such obligation, the State Agency may institute such legal action and pursue such other remedies against the Treasurer or the Corporation as the State Agency deems necessary or desirable, including, but not limited to, actions for specific performance, injunction and/or the recovery of damages.

Assignments by the Corporation

The Local Agency acknowledges and agrees that, concurrently with the execution and delivery of the Local Agency Financing Contract, the Corporation will unconditionally grant, sell, assign, transfer and convey to the Fiscal Agent without recourse:

(1) all of its rights to receive the Installment Payments under and pursuant to the Master Financing Contract; and

(2) all of its remaining right, title and interest in, to and under the Master Financing Contract and the Local Agency Financing Contract, and in and to the Property (including any security interest tin the Local Agency Financing Contract), including but not limited to its right to take all actions and exercise all remedies under and pursuant to the Master Financing Contract, pursuant to the Master Assignment in consideration for the payment by the Fiscal Agent to the Treasurer, as agent of the Corporation, of the proceeds of the sale of the Certificates.

The State and the Corporation have acknowledged and agreed that such grant, sale, assignment, transfer and conveyance by the Corporation is intended to be a true sale of the Corporation's right, title and interest, and that upon such grant, sale, assignment, transfer and conveyance, the Corporation shall cease to have any rights, duties or obligations under the Master Financing Contract or with respect to the Property, and the Fiscal Agent shall thereafter have all the rights, duties and obligations of the Corporation under the Local Agency Financing Contract as if the Fiscal Agent had been the original party thereto, and, except where the context otherwise requires, every reference in the Local Agency Financing Contract to the Corporation shall be deemed and construed to refer to the Fiscal Agent. Anything in the Agency Financing Contract to the contrary notwithstanding, such grant, sale, assignment, transfer and conveyance shall not confer any rights or impose any duties or obligations on the Fiscal Agent other than as expressly set forth in the Trust Agreement and the Master Assignment.

The State Agency acknowledges and agrees that, concurrently with the execution and delivery hereof, the Corporation will unconditionally grant, sell, assign, transfer and convey to the Fiscal Agent without recourse:

(1) all of its rights to receive the Installment Payments under and pursuant to the Master Financing Contract; and

(2) all of its remaining right, title and interest in, to and under the Master Financing Contract and the Agency Financing Contracts, and in and to the Property (including any security interest therein), including but not limited to its right to take all actions and exercise all remedies under and pursuant to the Master Financing Contract, pursuant to the Master Assignment in consideration for the payment by the Fiscal Agent to the Treasurer, as agent of the Corporation, of the proceeds of the sale of the Certificates.

The State and the Corporation have acknowledged and agreed that such grant, sale, assignment, transfer and conveyance by the Corporation is intended to be a true sale of the Corporation's right, title and interest, and that upon such grant, sale, assignment, transfer and conveyance, the Corporation shall cease to have any rights, duties or obligations under the Master Financing Contract or the State Agency Financing Addendum or with respect to the Property, and the Fiscal Agent shall thereafter have all the rights, duties and obligations of the Corporation thereunder and under the State Agency Financing Addendum as if the Fiscal Agent had been the original party thereto and hereto, and every reference therein and in the State Agency Financing Addendum to the Corporation shall be deemed and construed to refer to the Fiscal Agent, except where the context otherwise requires. Anything in the State Agency Financing Addendum or therein to the contrary notwithstanding, such grant, sale, assignment, transfer and conveyance shall not confer any rights or impose any duties or obligations on the Fiscal Agent other than as expressly set forth in the Trust Agreement and the Master Assignment.

Optional Prepayment

The Agency may, at its option, prepay all or any portion of its Agency Installment Payments then unpaid, in whole or in part on any date, by causing to be deposited with the Treasurer money and/or Government Obligations in an amount sufficient for the Treasurer to prepay or defease the portion of its Installment Payments corresponding thereto in accordance with the Master Financing Contract, and to pay any Additional Costs in connection therewith.

The Agency shall provide the Treasurer with not less than 60 days' prior written notice of its intention to prepay any of its Agency Installment Payments, which notice shall specify the date of such prepayment, and the amount and the Agency Installment Payment Dates of the Agency Installment Payments to be prepaid. The Treasurer shall notify the Agency within 15 Business Days after receipt of such notice from the Agency as to the amount required to be paid in connection with such prepayment or defeasance of the corresponding Installment Payments, including any Additional Costs in connection therewith. The determination by the Treasurer of the amount to be paid by the Agency shall be binding and conclusive against such Agency, absent manifest error.

Revision of Agency Installment Payments upon Optional Prepayment

The Principal Components and Interest Components of the Agency Installment Payments due on each Agency Installment Payment Date on and after the date of any prepayment pursuant to the Agency Financing Contract, as set forth in Exhibit D to the Agency Financing Contract, shall be reduced by the Treasurer to reflect such prepayment, in such amounts and on such Agency Installment Payment Dates as the Agency shall elect in its written notice to the Treasurer, pursuant to the Agency Financing Contract.

Discharge of Agency Financing Contract

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

(1) all Agency Installment Payments and all Additional Costs and other amounts due under the Agency Financing Contract have been paid in accordance therewith; or

(2) (a) the Agency shall have delivered a written notice to the Treasurer of its intention to prepay all of the Agency Installment Payments remaining unpaid;

(b) the Agency shall have caused to be deposited with the Treasurer (i) moneys and/or Government Obligations in accordance with the Agency Financing Contract; and (ii) an Opinion of Counsel to the effect that such actions are permitted under the Agency Financing Contract, under the Master Financing Contract and under the Trust Agreement and will not cause interest evidenced and represented by the Certificates to be includable in gross income for federal income tax purposes under the Code; and

(c) for so long as any Agency Installment Payments remain unpaid, provision shall have been made satisfactory to the Corporation and the Fiscal Agent for payment of all Additional Costs.

Permitted Termination Events for State Agency Financing Addendum

The following shall constitute a "Permitted Termination Event" under the State Agency Financing Addendum:

(1) The State Legislature elects not to appropriate sufficient funds within any biennial budget for the purpose of paying the Agent Installment Payments due under the State Agency Financing Addendum during the next occurring biennium; or

(2) The Governor of the State issues an Executive Order mandating an emergency reduction in State funding;

provided, that the State Agency delivers written notice thereof to the Treasurer as provided in the following paragraph.

Written Notice Describing a Permitted Termination Event. If, as of five Business Days following (1) the enactment of each biennial budget by the State Legislature or (2) an Executive Order reduction in funding, the State Agency determines as a result of such legislation or Executive Order that sufficient funds will not be available to make its scheduled Agency Installment Payments for the Property in the next occurring Biennium or upon a reduction in funding in the manner as set forth above, the State Agency shall deliver written notice to the Treasurer not less than 45 days prior to the Permitted Termination Date, which notice shall describe the Permitted Termination Event, and state that the State Agency has determined that such Permitted Termination Event will result in the cancellation of the applicable Financing Contract and the related obligation of the Treasurer under the Master Financing Contract.

Remedies of the Corporation Upon a Permitted Termination Event. Upon the occurrence of a Permitted Termination Event and upon the Written Request of the State Treasurer, the director or other chief administrator of the State Agency shall, at the beginning of the period for which funds have not been appropriated or for which funding has been reduced, return the Property to the Corporation and thereupon be released of its obligations to make all further Agency Installment Payments under its Agency Financing Contract and under the Master Financing Contract with respect to the Property; *provided*, that the State Agency delivers the Property in good repair, working order and condition, ordinary wear and tear excepted, and its unencumbered title to the Corporation at a location in the United States designated by the Corporation as of the end of the last month for which funding has been provided, or the end of the last month for which funding is available in the event of an Executive Order reduction in funding, and written notice is provided by the State Agency directly to the Treasurer as set forth in its Financing Contract. If the State Agency returns the Property pursuant to the terms of this paragraph, the Treasurer and the Corporation shall be entitled to retain all sums theretofore transmitted to the Treasurer or the Corporation (or to the Fiscal Agent as assignee of the Corporation) by or on behalf of the State Agency for the benefit of the Owners of the Certificates.

The occurrence of a Permitted Termination Event shall not constitute an Agency Event of Default, a Master Contract Event of Default or an Event of Default, and the remedies relating to the return of the Property are the sole remedies available to the Treasurer and the Corporation upon such occurrence. If the State Legislature provides a supplemental appropriation or the Executive Order is withdrawn prior to the expiration of the specified notice period and the Treasurer or the Corporation has not yet sold, relet or otherwise disposed of the Property, the State Agency may, by written notice to the Treasurer and the Corporation, revoke the notice of termination and continue its obligations under the Financing Contract.

Covenants and Agreements of the Agency

The Agency covenants and agrees as follows:

Budget. The Local Agency shall take such action as may be necessary to include all the Agency Installment Payments and Additional Costs due under the Local Agency Financing Contract in its annual budget and to make the necessary annual appropriations for all such Agency Installment Payments and Additional Costs.

The State Agency shall (1) include in its biennial budget all payments required to be made by the State Agency under the State Agency Financing Addendum; (2) submit such budget to OFM at such times and in such manner as required by law; (3) use its best efforts to obtain appropriations by the State Legislature in amounts sufficient to make any such payments; (4) include all such payments in its statements of proposed expenditures for each fiscal period required by law to be submitted to OFM; and (5) use its best efforts to obtain allotments by OFM of appropriated funds sufficient to make all such payments.

Application of Appropriations. To the extent permitted by law, each State Agency agrees that, to the extent that any amounts are included in its budget for purposes or facilities served, or functions or operations supported or provided, by the Property, the State Agency will allocate a sufficient portion of such amounts to the payment of the Agency Installment payments and Additional Costs due under its State Agency Financing Addendum.

Tax-Exemption. The Agency shall not make any use of the proceeds of the Agency Financing Contract or the Certificates or of any other amounts, regardless of the source, or of any property, and shall not take or refrain from taking any action, that would cause the Master Financing Contract or the Certificates to be "arbitrage bonds" within the meaning of Section 148 of the Code. The Agency shall not use or permit the use of the Property or any part thereof by any Person other than a “governmental unit” as that term is defined in Section 141 of the Code, in such manner or to such extent as would result in the loss of the exclusion from gross income for federal income tax purposes of the Interest Component of the Installment Payments under Section 103 of the Code. The Agency shall not make any use of the proceeds of the Agency Financing Contract or the Certificates or of any other amounts, and shall not take or refrain from taking any action, that would cause the Master Financing Contract or the Certificates to be “federally guaranteed” within the meaning of Section 149(b) of the Code, or “private activity bonds” within the meaning of Section 141 of the Code, or “hedge bonds” within the meaning of Section 149 of the Code. To that end, for so long as any Agency Installment Payments remain unpaid, the Agency, with respect to such proceeds and other amounts, will comply with all requirements under such Sections and all applicable regulations of the United States Department of the Treasury promulgated under the Agency Financing Contract. The Agency will at all times do and perform all acts and things permitted by law which are necessary or desirable in order to assure that the Interest Components of the Installment Payments will not be included in gross income of the Owners of the Certificates for federal income tax purposes under the Code, and will take no action that would result in such interest being so included. The Agency shall comply with the applicable provisions of the Tax Certificate and Agreement.

Liens; Sale or Disposal. The Agency shall not create, incur, assume or suffer to exist any mortgage, pledge, lien, charge, encumbrance or claim on or with respect to the Property, except the rights of the Corporation as provided in the Agency Financing Contract and in the Master Financing Contract. The Agency shall promptly, at its own expense, take such action as may be necessary to duly discharge any such mortgage, pledge, lien, charge, encumbrance or claim if the same shall arise at any time. The Agency shall not grant, sell, transfer, assign, pledge, convey or otherwise dispose of any of the Property or any interest tin the Agency Financing Contract during the term of the Agency Financing Contract, and any such attempted grant, sale, transfer, assignment, pledge, conveyance or disposal shall be void.

Pledge of Funds and Credit of Local Agency. The obligations of the Local Agency under the Local Agency Financing Contract constitute a debt and a general obligation of the Local Agency, and a contracting of an indebtedness by the Local Agency, to which the full faith and credit of the Local Agency are pledged. If and to the extent authorized by law, the Local Agency covenants and agrees that it will levy taxes in such amounts and at such times as shall be necessary, within and as a part of the tax levy, if any, permitted to the Local Agency without a vote of its electors, to provide funds, together with other legally available moneys, sufficient to make the Agency Installment Payments and the other payments required under the Local Agency Financing Contract.

Use of Property. During the term of the Agency Financing Contract, the Agency will use the Property for the purposes of performing one or more of its essential governmental functions or responsibilities. The Agency will not permit the Property to be used or operated other than by authorized employees, agents and contractors of the Agency.

Use; Repairs. For so long as the Agency is in possession of the Property, the Agency shall be solely responsible for the maintenance and repair, both ordinary and extraordinary, thereof. The Agency will: (1) keep and maintain the Property in good repair, working order and condition, and protect the same from deterioration other than normal wear and tear; (2) cause the Property to be used within its normal capacity, in the manner contemplated by the manufacturer’s specification, and in compliance with the requirements of applicable laws, ordinances and regulations, the requirements of any warranties applicable thereto, and the requirements of any insurance or self-insurance program required under the Agency Financing Contract; (3) cause the Property to be used and operated by or under the direction of competent persons only, and obtain all registrations, permits and licenses, if any, required by law for the operation of the Property; and (4) will pay all costs, claims, damages, fees and charges arising out of its possession, use or maintenance of the Property. The Agency, at its expense, will furnish all parts, mechanisms and devices required to operate and maintain the Property.

Insurance. The Agency shall maintain, or cause to be maintained, in full force and effect, comprehensive general liability insurance with respect to the Property in such amounts as may be reasonably determined by the Agency from time to time but in any event not less than $1,000,000 per occurrence, or such greater amount as the Treasurer may reasonably require from time to time. Such insurance may be carried under a blanket policy with umbrella coverage. Such insurance shall cover any and all liability of the Agency and its officials, officers, employees and volunteers. Such insurance shall include (1) coverage for any accident resulting in personal injury to or death of any person and consequential damages arising therefrom; and (2) comprehensive property damage insurance.

The Agency shall maintain or cause to be maintained in full force and effect fire and extended coverage insurance covering the Property in such amounts and covering such risks as the Agency may reasonably determine from time to time but in any event not less than the aggregate amount of Agency Installment Payments due under the Agency Financing Contract which remain unpaid. Such insurance may be carried under a policy or policies covering other property of the Agency. In the alternative, the Agency may assume financial responsibility for any physical damage to and/or loss of the Property; *provided, however*, that if the Agency elects this option, the Agency covenants and agrees that it will promptly repair or replace the Property promptly upon any loss or damage thereto.

The insurance required under the Agency Financing Contracts summarized above:

(1) shall be provided by a financially responsible insurance company authorized to do business in the State;

(2) shall name the State, the Corporation and the Fiscal Agent, as assignee of the Corporation, as additional insureds under the Agency Financing Contract;

(3) shall provide that the same may not be canceled or given notice of non-renewal, nor shall the terms of conditions thereof be altered, amended or modified, without at least 45 days' prior written notice being given by the insurer to the Treasurer, the Corporation and the Fiscal Agent as assignee of the Corporation; and

(4) may be provided in whole or in part through a funded program of self-insurance reviewed at least annually by an insurance actuary.

A certificate of insurance with respect to the required coverages shall be provided by the Agency to the Treasurer on or prior to the date of delivery of the Personal Property Certificate to the Treasurer.

The Agency will pay or cause to be paid when due the premiums for all insurance policies required by the Agency Financing Contract.

Agency Event of Default

Each of the following shall constitute an "Agency Event of Default" under the Agency Financing Contract:

(1) Failure by the Agency to pay or cause to be paid any Agency Installment Payment required to be paid under the Agency Financing Contract within 10 Business Days of the respective Agency Installment Payment Date, other than (in the case of a State Agency) as a result of a Permitted Termination Event;

(2) Failure by the Agency to observe or perform any covenant, agreement, term or condition on its part to be observed or performed under the Agency Financing Contract, other than as set forth in paragraph (1) above, for a period of 30 days after written notice from the Treasurer or the Fiscal Agent to the Agency specifying such failure and requesting that it be remedied, other than (in the case of a State Agency) as a result of a Permitted Termination Event; *provided, however*, that such period shall be extended for not more than 60 days if such failure cannot be corrected within such period, and the corrective action is commenced by the Agency within such period and diligently pursued until the failure is corrected;

(3) If any statement, representation, or warranty made by the Agency in the Agency Financing Contract or in any writing delivered by the Agency pursuant hereto or in connection therewith is false, misleading, or erroneous in any material respect; and

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

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

The Treasurer, with the prior written consent of the Fiscal Agent, may, at its election, waive any default or Agency Event of Default and its consequences under the Agency Financing Contract and annul any notice thereof by written notice to the Agency to such effect, and thereupon the respective rights of the Parties under the Agency Financing Contract shall be as they would have been if such default or Agency Event of Default had not occurred.

Rights of Treasurer Following Agency Event of Default

Whenever an Agency Event of Default shall have occurred and be continuing, the Treasurer shall have the following rights and remedies:

(1) By written notice to the Agency, require that the Agency promptly return possession and use of the Property to the Treasurer at any location specified in the United States (at the cost and expense of the Agency) in good repair, working order and condition, ordinary wear and tear excepted;

(2) By written notice to the Agency and the Fiscal Agent, declare an amount equal to all Agency Installment Payments to become due and payable under the Agency Financing Contract, including but not limited to the Agency Interest Components thereof accrued and unpaid, to be immediately due and payable, without further demand;

(3) Take whatever action at law or in equity may appear necessary or desirable to collect the Agency Installment Payments then due and thereafter becoming due, or to enforce the observance or performance of any covenant, agreement or obligation of the Agency under the Agency Financing Contract; and

(4) Exercise any other rights or remedies it may have under the Agency Financing Contract or under applicable law.

No Remedy Exclusive; Non-Waiver

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

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APPENDIX C

PROPOSED FORM OF CERTIFICATE COUNSEL OPINION

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[FORM OF APPROVING LEGAL OPINION]

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

Re: State of Washington Certificates of Participation, Series 2014A
(State and Local Agency Personal Property)

We have acted as special counsel to the state of Washington (the "State") in connection with the execution and delivery by The Bank of New York Mellon in the capacity of fiscal agent of the State (the "Fiscal Agent") of Certificates of Participation, Series 2014A (State and Local Agency Personal Property), in the Initial Principal Amount of $____________ (the "Certificates") pursuant to a Trust Agreement, Series 2014A (the "Trust Agreement"), dated as of March 19, 2014 (the "Dated Date"), by and among the State, acting by and through the State Treasurer of the State (the "State Treasurer"), the Fiscal Agent and the Washington Finance Officers Association (the "Corporation"), a Washington nonprofit corporation. Capitalized terms used in this opinion that are not otherwise defined have the meanings given such terms in Appendix I to the Trust Agreement.

The Certificates evidence and represent undivided proportionate ownership interests in the Principal Components and Interest Components of Installment Payments to be made by the State ("State Payments") pursuant to a Master Financing Contract, Series 2014A (the "Master Financing Contract"), dated as of the Dated Date, entered into by and between the Corporation and the State, acting by and through the State Treasurer, to finance or refinance the acquisition of certain personal property (the "Property") for State Agencies and Local Agencies (the "Agencies").

The Master Financing Contract constitutes a special, limited obligation of the State payable solely from the sources set forth therein, including Agency Installment Payments required to be paid by the State Agencies pursuant to State Agency Financing Addenda, Series 2014A (the "State Agency Financing Addenda"), to the Master Financing Contract, and by Local Agencies pursuant to Local Agency Financing Contracts, Series 2014A (the "Local Agency Financing Contracts," and, together with the State Agency Financing Addenda, the "Agency Financing Contracts"). Pursuant to the Master Financing Contract, the State Treasurer is conditionally obligated, to the extent of legally available appropriated funds, to pay Agency Installment Payments when due under Local Agency Financing Contracts upon the default of any Local Agency.

Pursuant to a Master Assignment, Series 2014A (Equipment) (the "Master Assignment"), dated as of the Dated Date, the Corporation has unconditionally granted, sold, assigned, transferred and conveyed to the Fiscal Agent without recourse (i) all of its rights to receive the State Payments under and pursuant to the Master Financing Contract, and (ii) all of its remaining right, title and interest in, to and under the Master Financing Contract and the Agency Financing Contracts, and in and to the Property (including any security interest therein), including but not limited to its right to take all actions and exercise all remedies under and pursuant to the Master Financing Contract.

As to matters of fact material to this opinion, we have relied upon representations contained in the certified proceedings and other certifications of public officials furnished to us, without undertaking to verify the same by independent investigation.

Under the Internal Revenue Code of 1986, as amended (the "Code"), the State and the Agencies are required to comply with certain requirements after the date of execution and delivery of the Certificates in order to maintain the exclusion of the interest evidenced and represented by the Certificates from gross income for federal income tax purposes, including, without limitation, requirements concerning the qualified use of Certificate proceeds and the Property financed or refinanced with Certificate proceeds, limitations on investing gross proceeds of the Certificates in higher yielding investments in certain circumstances, and the arbitrage rebate requirement to the extent applicable to gross proceeds of the Certificates. The State and the Agencies have covenanted to comply with those requirements, but if the State or the Agencies fail to comply with those requirements, interest evidenced and represented by the Certificates could become taxable retroactive to the date of execution and delivery of the Certificates. We have not undertaken and do not undertake to monitor compliance with such requirements.

Under the statutes, regulations, published rulings and court decisions existing on the date of this opinion and based on our review of such other documents, proceedings and certifications as we have deemed necessary, it is our opinion that:

1. The Master Financing Contract has been duly authorized, executed and delivered by the State, acting by and through the State Treasurer and the respective State Agencies, and, assuming the due authorization, execution and delivery thereof by the Corporation, constitutes a valid, binding and enforceable obligation of the State payable solely from the sources set forth therein. The Master Financing Contract does not constitute a general obligation of the State, and neither the full faith and credit nor the taxing power of the State is pledged to the payment thereof.

2. The obligation of each State Agency to pay Agency Installment Payments during the term of its State Agency Financing Addenda, constitutes a valid and binding obligation of such State Agency, subject to appropriation by the State Legislature and to Executive Order reduction by the Governor of the State. Such obligation does not constitute a general obligation of the State, and neither the full faith and credit nor taxing power of the State is pledged to the payment thereof.

3. The conditional obligation of the State Treasurer pursuant to the Master Financing Contract to pay Agency Installment Payments under each Local Agency Financing Contract upon the default of any Local Agency is subject to appropriation by the State Legislature and to Executive Order reduction by the Governor of the State. Such conditional obligation does not constitute a general obligation of the State, and neither the full faith and credit nor taxing power of the State is pledged to the payment thereof.

4. Assuming (a) the due authorization, execution and delivery of the Master Assignment by the Corporation and the Fiscal Agent, (b) the due authorization, execution and delivery of the Trust Agreement by the Corporation and the Fiscal Agent, and (c) the due authorization, execution and delivery of the Certificates by the Fiscal Agent, the Certificates are entitled to the benefits of the Master Assignment and the Trust Agreement.

5. Assuming compliance by the State and the Agencies after the date of execution and delivery of the Certificates with applicable requirements of the Code, the Interest Component of each State Payment ("Interest") under the Master Financing Contract and received by the Owners of Certificates is excluded from gross income for federal income tax purposes and is not subject to the federal alternative minimum tax applicable to individuals; however, while Interest also is not an item of tax preference for purposes of the alternative minimum tax applicable to corporations, Interest 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 received by certain S corporations may be subject to tax, and Interest 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 tax consequences arising with respect to the ownership of the Certificates. Owners of the Certificates should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences.

Our opinions with respect to the enforceability of various documents are subject to limitations imposed by bankruptcy, insolvency or other laws affecting creditors' rights and by the application of equitable principles and the exercise of judicial discretion in appropriate cases.

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 submitted,

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APPENDIX D

THE STATE'S 2013 AUDITED FINANCIAL STATEMENTS

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Washington State Auditor
Troy Kelley

INDEPENDENT AUDITOR'S REPORT

November 8, 2013

The Honorable Jay Inslee
Governor, State of Washington

REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate discretely presented component units and remaining fund information of the State of Washington, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the State's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Department of Retirement Systems, Local Government Investment Pool, University of Washington, and the funds managed by the State Investment Board. Those financial statements represent part or all of the total assets, net position, and revenues or additions of the governmental activities, the business-type activities, each major fund, and the aggregate discretely presented component units and remaining fund information as follows:

Opinion Unit	Percent of Total Assets	Percent of Net Position	Percent of Total Revenues/ Additions
Governmental Activities	12.3%	22.4%	8.9.%
Business-Type Activities	75.4%	100%	31.4%
Higher Education Special Revenue Fund	56.2%	52.0%	47.9%
Higher Education Endowment Fund	97.5%	96.0%	100.0%
Higher Education Student Services Fund	68.5%	71.7%	82.0%

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Workers' Compensation Fund	97.2%	100%	9.3%
Guaranteed Education Tuition Program Fund	82.4%	100%	52.4%
Aggregate Discretely Presented Component Units and Remaining Fund Information	91.9%	93.6%	70.8%

Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as it relates to the amounts included for the above mentioned entities and funds, are based solely on the reports of other auditors.

We conducted our audit in accordance with auditing standards generally accepted 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the State's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the State's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate discretely presented component units and remaining fund information of the State of Washington, as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As explained in Note 1.D.1, the financial statements include pension trust fund investments valued at $26.5 billion which comprise 27.0% of total assets and 29.7% of net position of the aggregate discretely presented component units and remaining fund information. The fair values of these investments have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on information provided by the fund managers or, in the case of investments in partnerships, the general partners. Our opinion is not modified with respect to this matter.

As described in Note 2, during the year ended June 30, 2013, the State has implemented the Governmental Accounting Standards Board Statement No. 61, The Financial Reporting Entity:

Omnibus - an amendment of GASB Statements No. 14 and No. 34, Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position and Statement No. 65, Items Previously Reported as Assets and Liabilities. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 25 through 37, budgetary comparison information on pages 163 through 166, information on postemployment benefits other than pensions on page 176, infrastructure modified approach information on pages 177 through 180 and pension trust fund information on pages 167 through 175 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We and other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State's basic financial statements. The accompanying information listed as combining financial statements and supplementary information on pages 183 through 239 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. This information has been subjected to auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us and other auditors. In our opinion, based on our audit, the procedures performed as described above, and the reports of the other auditors, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The information identified in the table of contents as the introductory and statistical sections is presented for purposes of additional analysis and is not a required part of the basic financial statements of the State. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we will also issue our report dated November 8, 2013, on our consideration of the State's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report will be issued under separate cover in the State's Single Audit Report. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State's internal control over financial reporting and compliance.

Sincerely,

Troy X. Kelley

TROY KELLEY
STATE AUDITOR

MD&A
Management's Discussion and Analysis

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MD&A

Management's Discussion & Analysis

As managers of the state of Washington, we offer this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2013. We present this information in conjunction with the information included in our letter of transmittal, which can be found preceding this narrative, and with the state's financial statements, which follow. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

Financial Highlights

- Total assets and deferred outflows of the state of Washington exceeded its liabilities by $21.48 billion (reported as net position). Of this amount, $(8.96) billion was reported as "unrestricted net position." A negative balance indicates that no funds were available for discretionary purposes.

- The state of Washington's governmental funds reported a combined ending fund balance of $12.43 billion, an increase of 6.8 percent compared with the prior year.

- While the state's capital assets increased by $1.51 billion and total bond debt increased by $729.9 million during the current fiscal year, the state's net investment in capital assets is $20.45 billion.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the state of Washington's basic financial statements, which include three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The focus is on both the state as a whole (government-wide) and the major individual funds. The dual perspectives allow the reader to address relevant questions, broaden a basis for comparison (year-to-year or government-to-government), and enhance the state's accountability.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements are designed to provide readers with a broad overview of the state of Washington's finances, in a manner similar to a private sector business.

Statement of Net Position. The *Statement of Net Position* presents information on all of the state of Washington's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the state of Washington is improving or deteriorating.

Statement of Activities. The *Statement of Activities* presents information showing how the state's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave). The Statement of Activities is focused on both the gross and net cost of various activities (including governmental, business-type, and component unit). This is intended to summarize and simplify the reader's analysis of the revenues and costs of various state activities and the degree to which activities are subsidized by general revenues.

Both of these government-wide financial statements distinguish functions of the state of Washington that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities).

The governmental activities of the state of Washington include education, human services, transportation, natural resources, adult corrections, and general government.

The business-type activities of the state of Washington include the workers' compensation and unemployment compensation programs, as well as Washington's lottery, the guaranteed education tuition program and various higher education student services such as housing and dining.

The government-wide financial statements can be found on pages 41-43 of this report.

FUND FINANCIAL STATEMENTS

A fund is a group of related accounts used to maintain control over resources that are segregated for specific activities or objectives. The state of Washington, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the state can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on fund balances at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for three major funds and an aggregate total for all nonmajor funds. The state's major governmental funds are the General Fund, Higher Education Special Revenue Fund, and the Higher Education Endowment Fund. Individual fund data for the state's nonmajor governmental funds are provided in the form of combining statements elsewhere in this report. The governmental fund financial statements can be found on pages 46-49 of this report.

Proprietary Funds. The state of Washington maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Internal service funds represent an accounting device used to accumulate and allocate costs internally among the state of Washington's various functions. The state of Washington uses internal service funds to account for general services such as motor pool, central stores, data processing services, risk management, employee health insurance, and printing services. Because internal service funds predominately benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Proprietary fund financial statements provide the same type of information as the government-wide financial statements, but in greater detail. The proprietary fund financial statements provide separate information for the Workers' Compensation Fund, Unemployment Compensation Fund, the Higher Education Student Services Fund, and the Guaranteed Education Tuition Program Fund, which are considered to be major funds, as well as an aggregated total for all nonmajor enterprise funds.

The internal service funds are combined for presentation purposes. Individual fund data for the state's nonmajor proprietary funds are provided in the form of combining statements elsewhere in this report. The proprietary fund financial statements can be found on pages 50-57 of this report.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the state of Washington's own programs. Washington's fiduciary funds include state administered pension plans. The accounting used for fiduciary funds is much like that used for proprietary funds. Individual fund data for the state's fiduciary funds are provided in the form of combining statements elsewhere in this report. The fiduciary fund financial statements can be found on pages 58-59 of this report.

Component Units. Component units that are legally separate from the state and primarily serve or benefit those outside the state are discretely presented. They are either financially accountable to the state, or have relationships with the state such that exclusion would cause the state's financial statements to be misleading or incomplete. The state discretely reports two major component units, the Washington State Public Stadium Authority and the Health Benefit Exchange, as well as four nonmajor component units. Refer to Note 1 on pages 65-66 for more detailed information. Individual fund data for the state's nonmajor component units are provided in the form of combining statements elsewhere in this report. The component unit financial statements can be found on pages 60-61 of this report.

NOTES TO THE FINANCIAL STATEMENTS

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 63-159 of this report.

OTHER REQUIRED INFORMATION

In addition to this discussion and analysis, this report also presents required supplementary information on budgetary comparisons, pension plans and other postemployment benefits schedules of funding progress and contributions, and infrastructure assets reported using the modified approach.

Required supplementary information can be found on pages 161-180 of this report.

The combining statements referred to earlier are presented immediately following the required supplementary information. Combining and individual fund statements and schedules can be found on pages 181-233 of this report.

STATE OF WASHINGTON
Statement of Net Position
(in millions of dollars)

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
ASSETS						
Current and other assets	$ 19,999	$ 18,354	$ 22,119	$ 21,429	$ 42,118	$ 39,783
Capital assets	35,435	34,298	2,761	2,390	38,196	36,688
Total assets	55,434	52,652	24,880	23,819	80,314	76,471
DEFERRED OUTFLOWS OF RESOURCES	-	-	16	-	16	-
LIABILITIES						
Current and other liabilities	4,585	3,446	912	527	5,497	3,973
Long-term liabilities outstanding	24,508	24,116	28,842	27,869	53,350	51,985
Total liabilities	29,093	27,562	29,754	28,396	58,847	55,958
NET POSITION						
Net Investment in capital assets	19,706	19,561	740	797	20,446	20,358
Restricted	6,524	5,296	3,469	3,225	9,993	8,521
Unrestricted	111	233	(9,067)	(8,599)	(8,956)	(8,366)
Total net position	$ 26,341	$ 25,090	$ (4,858)	$ (4,577)	$ 21,483	$ 20,513

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. For the state of Washington, total assets and deferred outflows of resources exceed liabilities by $21.48 billion at June 30, 2013, as compared to $20.51 billion as reported at June 30, 2012.

The largest portion of the state's net position (95.2 percent for fiscal year 2013 as compared to 99.2 percent for fiscal year 2012) reflects its net investment in capital assets (e.g., land, buildings, equipment and intangible assets), less any related debt used to acquire those assets that is still outstanding. The state of Washington uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

Although the state of Washington's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

A portion of the state of Washington's net position (46.5 percent for fiscal year 2013 as compared to 41.5 percent for fiscal year 2012) represents resources that are subject to external restrictions on how they may be used. The remaining balance of $(8.96) billion represents unrestricted net position. The state's overall negative balance in unrestricted net position is caused by deficits in business-type activities.

In governmental activities, net position increased from $25.09 billion in fiscal year 2012 to $26.34 billion in fiscal year 2013. The increase reflects increases in charges for services and tax revenues that outpaced the increases in expenses.

In business-type activities, the majority of the deficit is caused by the workers' compensation program that provides time-loss, medical, disability, and pension payments to qualifying individuals who sustain work-related injuries or develop occupational diseases as a result of their required work activities.

The main benefit plans of the workers' compensation program are funded on rates that will keep the plans solvent in accordance with recognized actuarial principles. The supplemental pension cost-of-living adjustments (COLAs) 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.

As previously mentioned, the state's activities are divided between governmental and business-type. The majority of support for governmental activities comes from taxes and intergovernmental grants, while business-type activities are supported primarily through user charges.

STATE OF WASHINGTON

Changes in Net Position

(in millions of dollars)

	Governmental Activities		Business-Type Activities		Total	
	2013	2012*	2013	2012	2013	2012
REVENUES						
Program revenues:						
Charges for services	$ 5,749	$ 5,032	$ 6,166	$ 6,393	$ 11,915	$ 11,425
Operating grants and contributions	12,027	11,984	870	1,443	12,897	13,427
Capital grants and contributions	997	944	-	1	997	945
General revenues:						
Taxes	17,072	16,341	23	72	17,095	16,413
Interest and investment earnings (loss)	397	169	523	1,150	920	1,319
Other general revenues	-	-	-	30	-	30
Total revenues	36,242	34,470	7,582	9,089	43,824	43,559
EXPENSES						
General government	(1,537)	(1,219)	-	-	(1,537)	(1,219)
Education - K-12	(8,238)	(8,257)	-	-	(8,238)	(8,257)
Education - Higher education	(6,992)	(6,526)	-	-	(6,992)	(6,526)
Human services	(13,181)	(13,168)	-	-	(13,181)	(13,168)
Adult corrections	(844)	(886)	-	-	(844)	(886)
Natural resources and recreation	(1,096)	(982)	-	-	(1,096)	(982)
Transportation	(2,379)	(2,396)	-	-	(2,379)	(2,396)
Interest on long-term debt	(955)	(911)	-	-	(955)	(911)
Workers' compensation	-	-	(3,330)	(1,919)	(3,330)	(1,919)
Unemployment compensation	-	-	(1,983)	(2,817)	(1,983)	(2,817)
Higher education student services	-	-	(1,927)	(1,834)	(1,927)	(1,834)
Liquor control	-	-	-	(566)	-	(566)
Washington's lottery	-	-	(437)	(407)	(437)	(407)
Guaranteed education tuition program	-	-	105	(96)	105	(96)
Other business-type activities	-	-	(126)	(115)	(126)	(115)
Total expenses	(35,222)	(34,345)	(7,698)	(7,754)	(42,920)	(42,099)
Excess (deficiency) of revenues over expenses before contributions to endowments and transfers	1,020	125	(116)	1,335	904	1,460
Contributions to endowments	63	47	-	-	63	47
Transfers	114	165	(114)	(165)	-	-
Increase (decrease) in net position	1,197	337	(230)	1,170	967	1,507
Net position - July 1, as restated	25,144	24,753	(4,628)	(5,747)	20,516	19,006
Net position - June 30	$ 26,341	$ 25,090	$ (4,858)	$ (4,577)	$ 21,483	$ 20,513

* Prior year balances restated for comparability

Governmental Activities. Governmental activities resulted in an increase in the state of Washington's net position of $1.20 billion. A number of factors contributed to the increase:

- Tax revenues increased by $731.0 million in fiscal year 2013 as compared to fiscal year 2012 reflecting positive growth in the economy. Sales and use taxes reported an increase of $360.5 million. Sales and use taxes are the main tax revenue for governmental activities. Business and occupation tax, the second largest source of tax revenue in governmental activities, increased by $144.8 million in fiscal year 2013 over 2012. It is a tax on the gross receipts of all businesses operating in Washington. Real estate excise tax revenue increased by $156.9 million. Real estate excise taxes are levied on the sale of real estate. These tax revenue increases reflect the slowly rebounding economy, recovering housing markets, and improving employment picture in Washington.

- Charges for services increased by $727.1 million in fiscal year 2013 compared to fiscal year 2012. Tuition and fee increases at higher education institutions accounted for $308.6 million of the increase.

- Operating and capital grants and contributions, and investment earnings in fiscal year 2013 were fairly consistent with fiscal year 2012.

- Expenses grew moderately in fiscal year 2013 as compared to fiscal year 2012. Higher education activities accounted for $466.2 million of the increase which is consistent with the tuition and fee revenue increase.

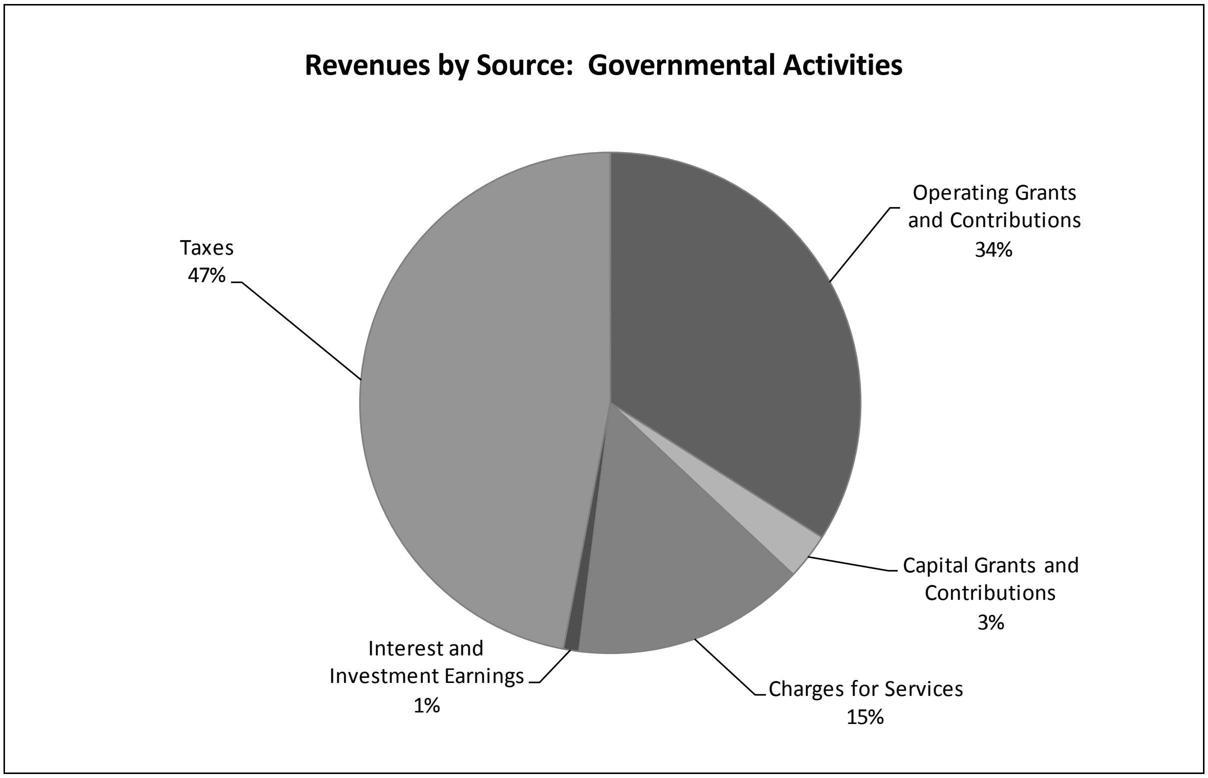
Business-Type Activities. Business-type activities decreased the state of Washington's net position by $230.1 million which was comprised of a decrease in the workers' compensation activity offset by gains in both the unemployment compensation and guaranteed education tuition activities. Key factors contributing to the operating results of business-type activities are:

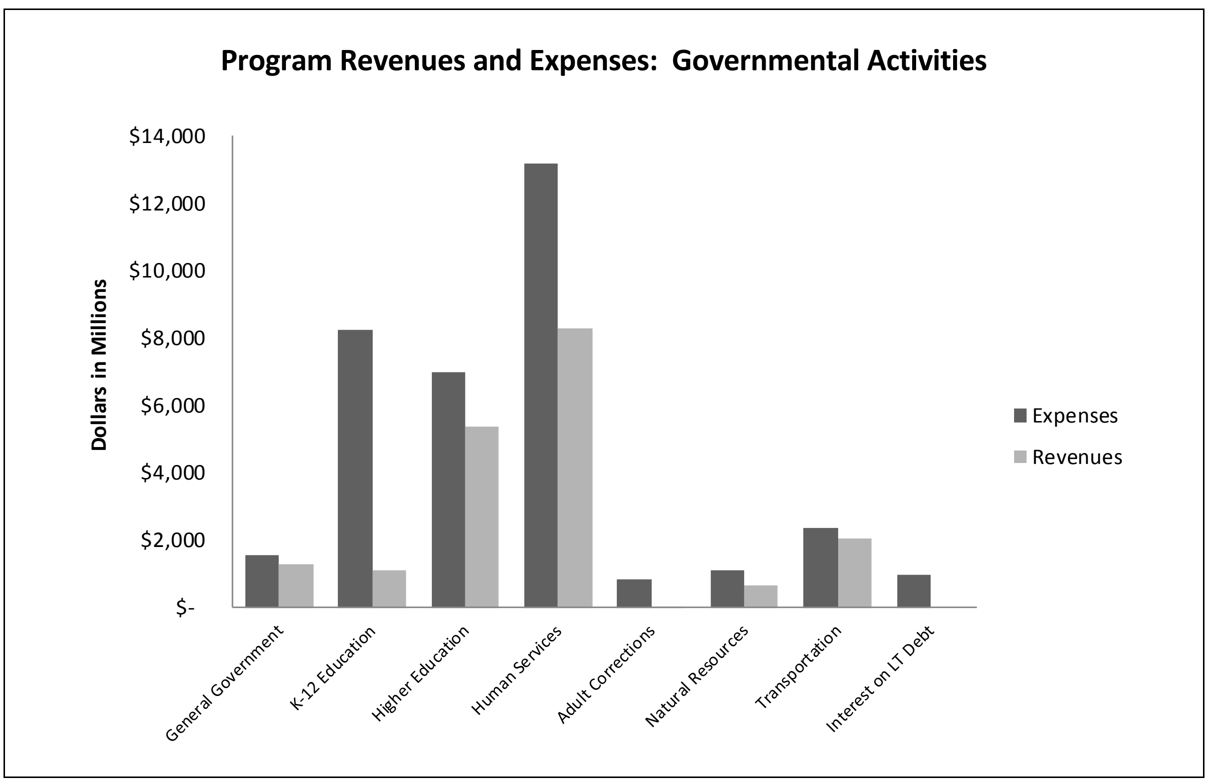
- The workers' compensation activity decrease in net position in fiscal year 2013 was $925.9 million compared to an increase of $1.16 billion in fiscal year 2012. Premium revenue increased by $108.6 million as a result of an increase in the number of hours reported by employers. Claim costs increased by $1.54 billion in fiscal year 2013 compared with fiscal year 2012 reflecting an increase in the actuarial valuation of the present value of future claims costs. Factors increasing the valuation of the supplemental pension plan included actual mortality experience exceeding expected mortality rates; higher actual cost-of-living increase than assumed coupled with a change in future cost-of-living escalation assumption; and a decrease in the discount rate. The key factor increasing the valuation of future obligations associated with the basic plan was an increase in the expected number of claimants receiving medical benefits at older ages. Nonoperating investment income decreased by $785.9 million due predominately to decreases in unrealized losses. While the equity markets experienced significant appreciation from the prior year, the fixed income market experienced significant depreciation. The workers' compensation portfolio is 85.4 percent fixed income investments.

- The unemployment compensation activity reported an operating income in fiscal year 2013 of $174.3 million, compared to $51.8 million operating loss in fiscal year 2012. Washington's unemployment insurance program is an experience-based system with the largest part of an individual employer's tax rate being based on the employer's layoff history over the past four years. The economic recovery in the state has stabilized employment and resulted in a decline in unemployment insurance benefits of $833.6 million in fiscal year 2013 over fiscal year 2012. The decrease in benefit costs was the result of a decline in the number of claims and the duration of claims. The unemployment rate for the state for June 2013 was 7.0 percent, down from 8.4 percent in June 2012, and the insured rate declined to 2.2 percent in fiscal year 2013 from 2.4 percent in fiscal year 2012. Since the state's unemployment insurance premiums are experienced based, the declining unemployment rate resulted in a 2.8 percent decrease in premium revenue. The $569.4 million decline in federal aid also reflects the decrease in the unemployment rate.

- The guaranteed education tuition activity reported an increase in net position of $470.4 million. The increase is the result of the actuarial reduction of the present value of the future tuition obligation. The reduction was caused by a number of factors including: (1) the actual investment rate of return of 9.6 percent exceeded the expected rate of 6.0 percent; (2) the actual annualized rate of tuition growth was 0.0 percent which was less than the assumed rate of 12.0 percent; and (3) tuition unit sales exceeded expectations by 12.0 percent.

- The remaining business-type activities reported relatively proportional increases in both expenses and charges for services when compared to the prior year.


Revenues by Source: Governmental Activities
Operating Grants and Contributions 34%
Taxes 47%
Capital Grants and Contributions 3%
Interest and Investment Earnings 1%
Charges for Services 15%


Program Revenues and Expenses: Governmental Activities
$14,000
$12,000
$10,000
$8,000
$6,000
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$2,000
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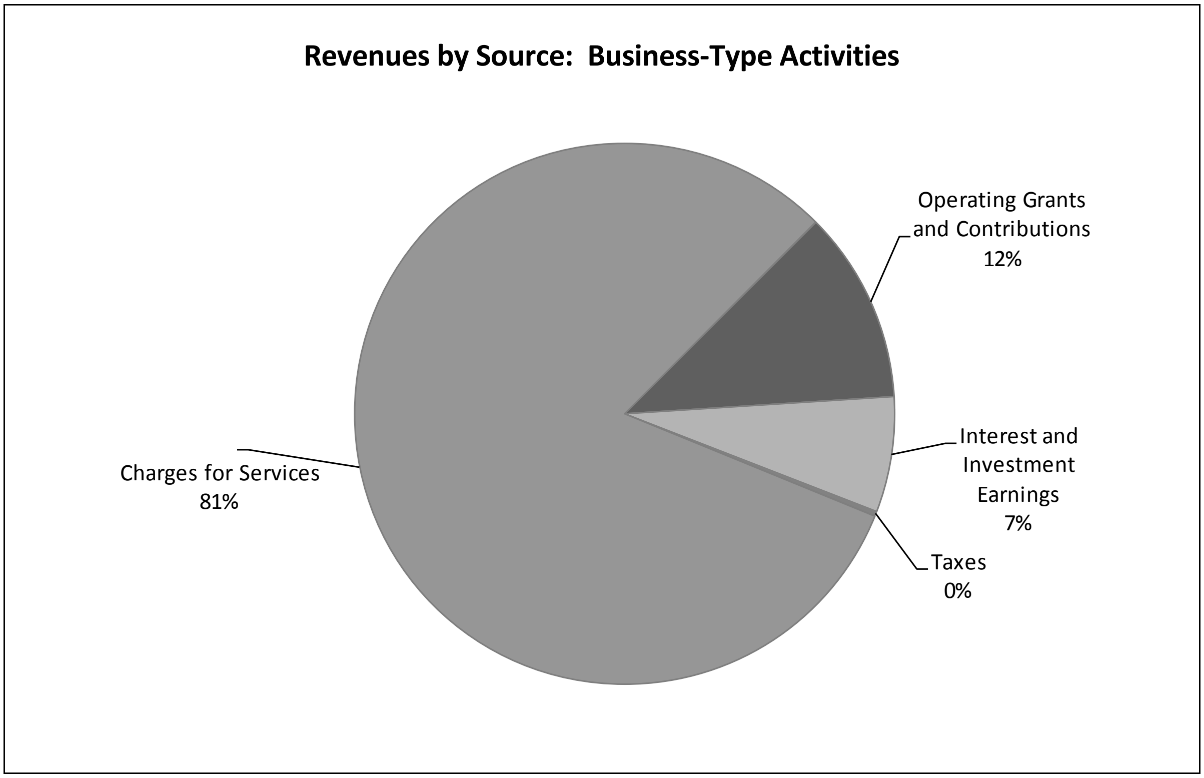
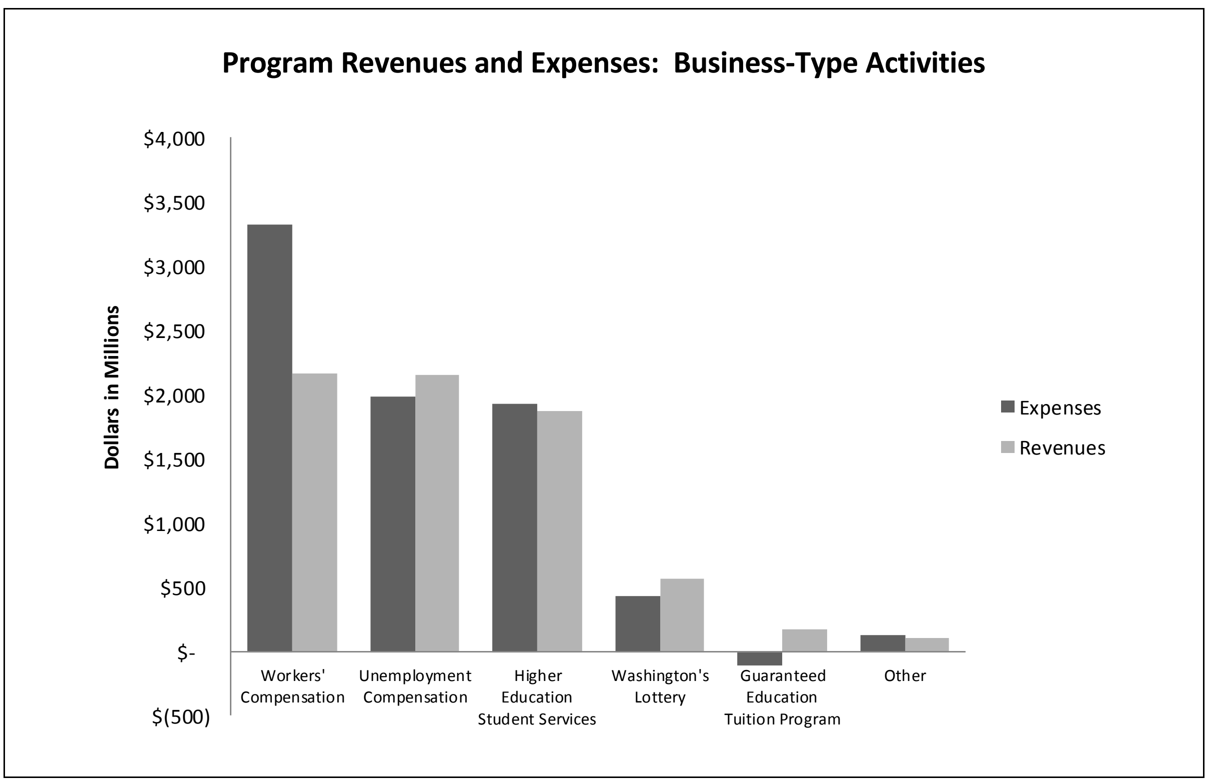
Dollars in Millions
Expenses
Revenues
General Government
K-12 Education
Higher Education
Human Services
Adult Corrections
Natural Resources
Transportation
Interest on LT Debt


Revenues by Source: Business-Type Activities
Operating Grants and Contributions 12%
Interest and Investment Earnings 7%
Taxes 0%
Charges for Services 81%


Program Revenues and Expenses: Business-Type Activities
Dollars in Millions
$4,000
$3,500
$3,000
$2,500
$2,000
$1,500
$1,000
$500
$-
$(500)
Workers' Compensation
Unemployment Compensation
Higher Education Student Services
Washington's Lottery
Guaranteed Education Tuition Program
Other
Expenses
Revenues

Financial Analysis of the Government's Funds

As noted earlier, the state of Washington uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. As previously discussed, the focus of the state of Washington's governmental funds is to provide information on near-term inflows, outflows, and fund balances. Such information is useful in assessing the state of Washington's financing requirements.

Adjustments to Beginning Fund Balances. As described in Note 2 to the financial statements on pages 75 and 76, beginning fund balances of governmental funds were adjusted, including the reclassification of the Liquor Revolving Fund from a business-type activity to a governmental activity.

Fund Balances. At June 30, 2013, the state's governmental funds reported combined ending fund balances of $12.43 billion. Of this amount, $2.34 billion or 18.8 percent is nonspendable, either due to its form or legal constraints, and $4.19 billion or 33.8 percent is restricted for specific programs by external constraints, constitutional provisions or contractual obligations. An additional $5.00 billion or 40 percent of total fund balance has been committed to specific purposes. Committed amounts cannot be used for any other purpose unless approved by the Legislature. An additional $835.2 million or 6.7 percent of total fund balance has been assigned to specific purposes by management.

The General Fund is the chief operating fund of the state of Washington. As noted in the table below, fund balance improved as a result of operations by $375.0 million in fiscal year 2013, as compared to a $214.0 million loss in fiscal year 2012. Increased tax revenue and relatively stable expenditures were the key contributing factors. Assigned fund balance of $835.2 million is reported for fiscal year 2013 and relates to certain accrued revenues which are not considered by management to be available for budgetary purposes.

STATE OF WASHINGTON
General Fund
(in millions of dollars)

	Fiscal Year 2013	Fiscal Year 2012	Difference Increase (Decrease)
REVENUES			
Taxes	$ 15,295	$ 14,547	$ 748
Federal grants	8,780	8,824	(44)
Investment revenue (loss)	(17)	(6)	(11)
Other	644	618	26
Total	24,702	23,983	719
EXPENDITURES			
Human services	13,235	13,209	26
Education	9,115	9,169	(54)
Other	1,392	1,350	42
Total	23,742	23,728	14
Net transfers in (out)	(716)	(560)	(156)
Other financing sources	131	91	40
Net increase (decrease) in fund balance	$ 375	$ (214)	$ 589

General Fund expenditures continue to be concentrated in services and programs most vital to citizens – primarily human services and public education.

In addition to the General Fund, the state reports the Higher Education Special Revenue and the Higher Education Endowment Funds as major governmental funds. Significant changes are as follows:

- The fund balance of the Higher Education Special Revenue Fund increased by $347.5 million in fiscal year 2013. Increases in charges for services offset the increased costs of higher education activities.

- The fund balance for the Higher Education Endowment Fund increased by $282.5 million compared to a decrease of $61.9 in fiscal year 2012. Support from donors increased by $15.4 million and investment earnings increased by $309.5 million compared to fiscal year 2012.

Proprietary Funds. The state of Washington's proprietary funds provides the same type of information found in the government-wide financial statements, but in more detail. Significant changes are as follows:

- The Workers' Compensation Fund reported a decrease in net position of $925.9 million in fiscal year 2013. Operating revenues increased by $107.9 million and operating expenses increased by $1.41 billion as compared to fiscal year 2012. As previously reported, operating revenues increased due to an increase in reported hours and claims expense increased due to the changes to actuarial projections. Investment income decreased as compared to fiscal year 2012 due to net realized and unrealized capital losses.

- Washington's Unemployment Compensation Fund reported an increase in net position of $244.8 million. As reported previously, the decrease in the unemployment rate impacted both revenues and expenses. Premium revenues decreased by $32.6 million in fiscal year 2013 over 2012, and federal aid decreased by $569.4 million over the same period. These were offset by a decrease in unemployment benefit claims by $833.6 million in fiscal year 2013 as compared to 2012.

- The Guaranteed Education Tuition (GET) Program Fund reported an increase in net position of $470.4 million in fiscal year 2013. As previously reported, the increase is largely the result of an actuarial reduction of the present value of the future tuition obligation.

- The Higher Education Student Services Fund reported increases to tuition and fee revenue, and operating expenses. While net operating income for fiscal year 2013 was $9.5 million higher than fiscal year 2012, the change in net position for fiscal year 2013 was $37.3 million less than fiscal year 2012 due to a reduction in transfers in from other funds.

- Nonmajor enterprise funds reported decreased revenue and expenses in fiscal year 2013 compared to fiscal year 2012 largely due to the transfer of liquor distribution and retail sales to the private sector at the end of fiscal year 2012. The net position of the nonmajor enterprise funds declined by $11.9 million in fiscal year 2013 after reporting an increase of $19.6 million in fiscal year 2012. The major contributing factor was the decrease in investment income reported by the Lottery Fund which was caused by market value adjustments. The Lottery Fund funds long term prize obligations with U.S. Treasury securities for which changes in interest rates can have a marked effect on current valuations.

General Fund Budgetary Highlights

Differences between the original budget of the General Fund and the final amended budget reflect adjustment to a slower paced economic recovery during the biennium ended June 30, 2013. Changes to estimates are summarized as follows:

- Estimated biennial resources decreased by $1.25 billion over the course of the biennium. The major decrease in estimated resources is reported in taxes reflecting that the pace of the economic recovery was slower than initially anticipated. Actual revenues are $929.2 million less than the revised estimates.

- Appropriated expenditure authority decreased by $583.1 million over the course of the biennium in response to the decline in estimated revenues. The major decrease in appropriation authority was in human services. Actual expenditures were $1.28 billion less than the final appropriation authority.

The state did not overspend its legal spending authority for the 2011-2013 biennium. Actual General Fund revenues and expenditures were 98.1 and 97.3 percent of final budgeted revenues and appropriations, respectively, for the 2011-2013 biennium.

Capital Assets, Infrastructure, Bond Debt Administration, and Economic Factors

Capital Assets. The state of Washington's investment in capital assets for its governmental and business-type activities as of June 30, 2013, totaled $38.20 billion (net of accumulated depreciation). This investment in capital assets includes land, infrastructure, museum and historical collections, buildings and other improvements, furnishings, equipment, and intangibles, as well as construction in progress.

Washington's fiscal year 2013 investment in capital assets, net of current year depreciation, increased $1.51 billion over fiscal year 2012, including increases to the state's transportation infrastructure of $812.4 million. The state's construction in progress includes both new construction and major improvements to state capital facilities and infrastructure. Remaining commitments on these construction projects total $2.82 billion.

Additional information on the state of Washington's capital assets can be found in Note 6 beginning on page 104 of this report.

Infrastructure. The state uses the modified approach for reporting selected infrastructure assets. The modified approach requires that the state meet certain requirements regarding the inventory and maintenance of eligible capital assets, including condition assessments. Under the modified approach, assets are not depreciated and certain maintenance and preservation costs associated with those assets are expensed. Assets accounted for under this approach include approximately 20,680 lane miles of pavement, 3,267 bridges, and 48 highway safety rest areas.

STATE OF WASHINGTON

Capital Assets - Net of Depreciation

(in millions of dollars)

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Land	$ 2,388	$ 2,358	$ 61	$ 63	$ 2,449	$ 2,421
Transportation infrastructure and other assets not depreciated	21,805	20,991	5	-	21,810	20,991
Buildings	7,610	7,511	1,988	1,402	9,598	8,913
Furnishings, equipment and intangible assets	1,480	1,480	182	162	1,662	1,642
Other improvements and infrastructure	1,218	1,145	83	81	1,301	1,226
Construction in progress	934	813	442	681	1,376	1,494
Total	$ 35,435	$ 34,298	$ 2,761	$ 2,389	$ 38,196	$ 36,687

The state's goal is to maintain 90 percent of pavement, 95 percent of bridges, and 95 percent of safety rest areas at a condition level of fair or better. The condition of these assets, along with the rating scales for pavement, bridges, rest areas, and additional detail comparing planned to actual preservation and maintenance spending are available in the required supplementary information beginning on page 177.

Pavement is assessed on a two year cycle. The most recent pavement condition assessment indicated that 91.2 percent of pavement was in fair or better condition. The condition of pavement has declined in the last three assessment periods. Over the past five fiscal years, the state has invested fewer resources on preservation and maintenance of pavement than was planned. The average variance between actual and planned was 8.2 percent over the five years, and 20.9 percent for fiscal year 2013.

Bridges are assessed on a two year cycle. The most recent bridge condition assessment indicated that 95.4 percent of bridges were in fair or better condition. The condition of bridges has declined over the last three assessment periods. Over the past five fiscal years, the state has invested fewer resources on preservation and maintenance of bridges than was planned. The average variance between actual and planned was 22.3 percent over the five years, and 11.4 percent for fiscal year 2013.

Bond Debt. At the end of fiscal year 2013, the state of Washington had general obligation bond debt outstanding of $18.21 billion, an increase of 2 percent from fiscal year 2012. This debt is secured by a pledge of the full faith and credit of the state. Additionally, the state had authorized $6.33 billion general obligation debt that remains unissued.

During fiscal year 2013, the state issued general obligation debt totaling $2.73 billion for various capital and transportation projects as well as to refund outstanding bonds. Bonds totaling $2.37 billion were retired during the year. Washington's refunding activity produced a savings of $213.9 million in future debt service costs.

General obligation debt is subject to the limitation prescribed by the State Constitution. The aggregate debt contracted by the state as of June 30, 2013, does not exceed that amount for which payments of principal and interest in any fiscal year would require the state to expend more than 9 percent of the arithmetic mean of its general state revenues for the three immediately preceding fiscal years. The arithmetic mean of its general state revenues for fiscal years 2011, 2012, and 2013 is $12.53 billion. The debt service limitation, 9 percent of this mean, is $1.13 billion. The state's maximum annual debt service as of June 30, 2013, subject to the constitutional debt limitation is $1.06 billion, or $71.6 million less than the debt service limitation.

For further information on the debt limit, refer to the Certification of the Debt Limitation of the State of Washington, available from the Office of the State Treasurer at: http://www.tre.wa.gov/documents/debt_cdl2013.pdf.

By statutory provision, the State Finance Committee (SFC) is authorized to supervise and control the issuance of all state bonds, notes, or other evidences of indebtedness. The SFC is composed of the Governor, Lieutenant Governor, and State Treasurer, the latter serving as chairman.

As of June 30, 2013, the state of Washington's general obligation debt was rated Aa1 by Moody's Investor Service, AA+ by Standard & Poor's Rating Group (S & P), and AA+ by Fitch Ratings.

STATE OF WASHINGTON

Bond Debt

(in millions of dollars)

	Governmental Activities		Business-Type Activities		Total	
	2013	2012*	2013	2012*	2013	2012*
General obligation (GO) bonds	$ 18,200	$ 17,838	$ 11	$ 15	$ 18,211	$ 17,853
Accreted interest on zero interest rate GO bonds	439	415	-	-	439	415
Revenue bonds	1,705	1,650	2,031	1,738	3,736	3,388
Total	$ 20,344	$ 19,903	$ 2,042	$ 1,753	$ 22,386	$ 21,656

* Prior year balances restated for comparability

The state had revenue debt outstanding at June 30, 2013, of $3.74 billion, an increase of $347.4 million over fiscal year 2012. This increase is primarily related to revenue bonds issued by state colleges and universities. This debt is not supported or intended to be supported by the full faith and credit of the state. Revenue bond debt is generally secured by specific sources of revenue. The exception is the University of Washington which issues general revenue bonds that are payable from general revenues of the university.

Additional information on the state's bond debt obligations is presented in Note 7 beginning on page 108 of this report.

Additional information on the state's legal debt limit is presented in the statistical section on page 264 of this report.

Conditions with Expected Future Impact

Economic Outlook. The forecast for Washington for the 2013-2015 biennium reflects the continuation of moderate growth. The September 2013 state's revenue forecast of General Fund state revenue increased expected revenue for the 2013 – 2015 biennium by $222.0 million. Additionally, forecasted revenues increased by $123.0 million due to legislation passed in the June 2013 special session.

That said, in the coming year, legislative leaders and management will be facing a number of challenges including:

- The state's economy continues to be adversely impacted by violence in the Middle East and weak Asian and European economies.
- The political discord in the nation's capital and uncertainty surrounding U.S. tax and budget policy also threaten the U.S. and Washington economies. Political wrangling around the federal debt ceiling and the federal budget impasse have the potential to dampen recent gains in consumer confidence.
- As the federal stimulus winds down, government spending has been declining which puts additional pressure on state and local governments.
- The state's operating budget for the 2013-2015 biennium included a $1.03 billion increase in K-12 education funding to address the requirements of the January 2012 Washington Supreme Court's McCleary ruling for the state to fund basic education. The state will be challenged to fully meet the K-12 funding requirements in future biennia.
- Under legislation approved in 2012, and beginning with the 2013-2015 biennium, Washington became the only state in the nation required to pass a budget that balances spending against anticipated revenue over a four year period.

Rainy Day Account. In November 2007, Washington state voters ratified Engrossed Substitute Senate Joint Resolution 8206, amending the state's Constitution and establishing the Budget Stabilization Account (BSA). The Constitution details a limited number of circumstances under which funds can be appropriated from the BSA, one of which is a favorable vote of at least three-fifths of the members of each house of the Legislature.

On June 20, 2013, $139.2 million was transferred to the BSA from the General Fund in accordance with the provisions of the Constitution. The BSA has a fund balance of $269.7 million as of June 30, 2013.

Requests for Information

This financial report is designed to provide a general overview of the state of Washington's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of Financial Management, Accounting Division, P.O. Box 43113, Olympia, WA 98504-3113.

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Basic Financial Statements

Government-wide Financial Statements

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Statement of Net Position

June 30, 2013

(expressed in thousands)

	Primary Government			
	Governmental Activities	Business-Type Activities	Total	Component Units
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES				
ASSETS				
Cash and pooled investments	$ 4,846,863	$ 4,189,390	$ 9,036,253	$ 76,013
Taxes receivable (net of allowance for uncollectibles)	3,303,301	-	3,303,301	-
Other receivables (net of allowance for uncollectibles)	1,446,164	1,567,216	3,013,380	15,511
Internal balances	306,212	(306,212)	-	-
Due from other governments	4,076,147	155,206	4,231,353	-
Inventories	95,368	65,762	161,130	-
Restricted cash and investments	592,168	13,237	605,405	3,770
Investments, noncurrent	5,193,256	15,991,570	21,184,826	-
Restricted investments, noncurrent	-	54,873	54,873	10,963
Restricted receivables, noncurrent	111,197	-	111,197	-
Other assets	28,557	388,304	416,861	106,838
Capital assets:				
Non-depreciable assets	25,127,230	507,008	25,634,238	35,088
Depreciable assets (net of accumulated depreciation)	10,307,302	2,254,210	12,561,512	301,821
Total capital assets	35,434,532	2,761,218	38,195,750	336,909
Total Assets	55,433,765	24,880,564	80,314,329	550,004
DEFERRED OUTFLOWS OF RESOURCES				
Deferred charge on refunding	-	15,848	15,848	-
Total Deferred Outflows ofRresources	-	15,848	15,848	-
Total Assets and Deferred Outflows of Resources	$ 55,433,765	$ 24,896,412	$ 80,330,177	$ 550,004
LIABILITIES AND NET POSITION				
LIABILITIES				
Accounts payable	$ 1,543,845	$ 134,186	$ 1,678,031	$ 44,976
Contracts and retainage payable	192,792	28,068	220,860	4,364
Accrued liabilities	966,783	380,783	1,347,566	5,612
Obligations under security lending agreements	193,915	88,057	281,972	-
Due to other governments	1,376,191	234,272	1,610,463	-
Unearned revenues	311,801	46,613	358,414	17,458
Long-term liabilities:				
Due within one year	1,193,811	2,161,454	3,355,265	-
Due in more than one year	23,313,815	26,680,743	49,994,558	13,206
Total Liabilities	29,092,953	29,754,176	58,847,129	85,616
NET POSITION				
Net investment in capital assets	19,706,029	739,824	20,445,853	320,369
Restricted for:				
Unemployment compensation	-	3,469,741	3,469,741	-
Expendable endowment funds	1,455,021	-	1,455,021	-
Nonexpendable permanent endowments	2,121,711	-	2,121,711	-
Transportation	783,133	-	783,133	-
Wildlife and natural resources	875,766	-	875,766	-
Budget stabilization	269,651	-	269,651	-
Loan programs	135,655	-	135,655	-
Other purposes	882,395	-	882,395	13,429
Unrestricted	111,451	(9,067,329)	(8,955,878)	130,590
Total Net Position	26,340,812	(4,857,764)	21,483,048	464,388
Total Liabilities and Net Position	$ 55,433,765	$ 24,896,412	$ 80,330,177	$ 550,004

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

Statement of Activities

For the Fiscal Year Ended June 30, 2013

(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	$ 1,536,943	$ 976,944	$ 298,393	$ 8,612
Education - elementary and secondary (K-12)	8,237,450	13,718	1,083,034	-
Education - higher education	6,992,422	2,760,015	2,567,009	25,570
Human services	13,181,579	544,435	7,744,199	-
Adult corrections	843,550	7,795	1,658	-
Natural resources and recreation	1,095,814	421,286	191,400	64,258
Transportation	2,378,860	1,025,183	141,328	898,246
Interest on long-term debt	955,158	-	-	-
Total Governmental Activities	35,221,776	5,749,376	12,027,021	996,686
Business-Type Activities:				
Workers' compensation	3,329,444	2,154,318	8,797	175
Unemployment compensation	1,982,958	1,308,089	849,214	-
Higher education student services	1,927,051	1,857,364	11,737	-
Washington's lottery	437,298	569,580	-	-
Guaranteed education tuition program	(105,192)	173,771	-	-
Other	126,100	102,760	337	-
Total Business-Type Activities	7,697,659	6,165,882	870,085	175
Total Primary Government	$ 42,919,435	$ 11,915,258	$ 12,897,106	$ 996,861
COMPONENT UNITS	$ 46,307	$ 32,898	$ 28,495	$ 2,481
Total Component Units	$ 46,307	$ 32,898	$ 28,495	$ 2,481

General Revenues:

Taxes, net of related credits:

Sales and use

Business and occupation

Property

Motor vehicle and fuel

Excise

Cigarette and tobacco

Public utilities

Insurance premium

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 Position

Net Positon - Beginning, as restated

Net Position - Ending

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

Net (Expense) Revenue and Changes in Net Position			
Primary Government			
Governmental Activities	Business-Type Activities	Total	Component Units
$ (252,994)	$ -	$ (252,994)	
(7,140,698)	-	(7,140,698)	
(1,639,828)	-	(1,639,828)	
(4,892,945)	-	(4,892,945)	
(834,097)	-	(834,097)	
(418,870)	-	(418,870)	
(314,103)	-	(314,103)	
(955,158)	-	(955,158)	
(16,448,693)	-	(16,448,693)	
-	(1,166,154)	(1,166,154)	
-	174,345	174,345	
-	(57,950)	(57,950)	
-	132,282	132,282	
-	278,963	278,963	
-	(23,003)	(23,003)	
-	(661,517)	(661,517)	
(16,448,693)	(661,517)	(17,110,210)	
			$ 17,567
			17,567
7,709,900	-	7,709,900	-
3,294,179	-	3,294,179	-
1,939,883	-	1,939,883	-
1,194,910	-	1,194,910	-
651,458	22,605	674,063	-
465,148	-	465,148	-
439,731	-	439,731	-
436,118	-	436,118	-
940,255	-	940,255	-
397,068	523,071	920,139	386
17,468,650	545,676	18,014,326	386
1,019,957	(115,841)	904,116	17,953
62,589	-	62,589	-
114,266	(114,266)	-	-
1,196,812	(230,107)	966,705	17,953
25,144,000	(4,627,657)	20,516,343	446,435
$ 26,340,812	$ (4,857,764)	$ 21,483,048	$ 464,388

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Basic Financial Statements

Fund Financial Statements

Balance Sheet
GOVERNMENTAL FUNDS
June 30, 2013
(expressed in thousands)

	General	Higher Education Special Revenue	Higher Education Endowment	Nonmajor Governmental Funds	Total
ASSETS					
Cash and pooled investments	$ 640,834	$ -	$ 99,367	$ 3,279,464	$ 4,019,665
Investments	6,608	1,417,834	3,312,686	239,185	4,976,313
Taxes receivable (net of allowance)	3,170,338	14,655	-	118,308	3,303,301
Other receivables (net of allowance)	153,516	407,719	24,536	833,125	1,418,896
Due from other funds	154,362	871,008	703	503,431	1,529,504
Due from other governments	1,211,297	154,714	1	2,322,237	3,688,249
Inventories and prepaids	12,910	14,402	-	50,994	78,306
Restricted assets:					
Cash and investments	54,631	1,781	-	535,736	592,148
Receivables	1,748	77,336	-	10,775	89,859
Total Assets	$ 5,406,244	$ 2,959,449	$ 3,437,293	$ 7,893,255	$ 19,696,241
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES					
LIABILITIES					
Accounts payable	$ 862,305	$ 85,467	$ 42,581	$ 491,468	$ 1,481,821
Contracts and retainages payable	33,316	4,419	2,118	151,845	191,698
Accrued liabilities	184,394	291,745	182	63,881	540,202
Obligations under security lending agreements	73,830	1,143	1,068	101,296	177,337
Due to other funds	408,472	40,230	2,177	616,928	1,067,807
Due to other governments	857,470	12,457	-	177,442	1,047,369
Unearned revenue	79,276	149,544	385	80,265	309,470
Claims and judgments payable	32,173	-	-	7,994	40,167
Total Liabilities	2,531,236	585,005	48,511	1,691,119	4,855,871
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue	1,492,418	11,718	9,911	901,176	2,415,223
Total Deferred Inflows of Resources	1,492,418	11,718	9,911	901,176	2,415,223
Fund Balances (Deficits):					
Nonspendable fund balance	49,819	60,425	1,991,845	237,229	2,339,318
Restricted fund balance	299,165	-	1,387,026	2,507,991	4,194,182
Committed fund balance	59,579	2,302,301	-	2,635,027	4,996,907
Assigned fund balance	835,152	-	-	40	835,192
Unassigned fund balance	138,875	-	-	(79,327)	59,548
Total Fund Balances (Deficits)	1,382,590	2,362,726	3,378,871	5,300,960	12,425,147
Total Liabilities, Deferred Inflows of Resources, and Fund Balances (Deficits)	$ 5,406,244	$ 2,959,449	$ 3,437,293	$ 7,893,255	$ 19,696,241

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

Reconciliation of the Balance Sheet
to the Statement of Net Position
GOVERNMENTAL FUNDS

June 30, 2013
(expressed in thousands)

Total Fund Balances for Governmental Funds		$ 12,425,147
Amounts reported for governmental activities in the Statement of Net Position 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	$ 25,079,284	
Depreciable assets	17,409,544	
Less: Accumulated depreciation	(7,803,972)	
Total capital assets		34,684,856
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 considered deferred inflows in the funds.		2,415,223
Certain pension trust funds have been funded in excess of the annual required contributions, creating a year-end asset. This asset is not a financial resource and therefore is not reported in the funds.		20,000
Unmatured interest on general obligation bonds is not recognized in the funds until due.		(379,945)
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 Position.		271,285
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 other financing contracts payable	$ (19,957,617)	
Accreted interest on bonds	(438,787)	
Compensated absences	(529,793)	
Other postemployment benefits obligations	(1,389,683)	
Unfunded pension obligations	(340,441)	
Claims and judgments	(40,249)	
Pollution remediation obligations	(171,816)	
Other obligations	(227,368)	
Total long-term liabilities		(23,095,754)
Net Position of Governmental Activities		$ 26,340,812

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

Statement of Revenues, Expenditures, and Changes in Fund Balances
GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2013
(expressed in thousands)

	General	Higher Education Special Revenue	Higher Education Endowment	Nonmajor Governmental Funds	Total
REVENUES					
Retail sales and use taxes	$ 7,628,507	$ -	$ -	$ 81,393	$ 7,709,900
Business and occupation taxes	3,290,839	-	-	3,340	3,294,179
Property taxes	1,939,883	-	-	-	1,939,883
Excise taxes	581,861	-	-	69,597	651,458
Motor vehicle and fuel taxes	-	-	-	1,194,910	1,194,910
Other taxes	1,852,719	102,659	-	298,583	2,253,961
Licenses, permits, and fees	105,317	299	-	1,493,238	1,598,854
Timber sales	2,080	-	15,065	104,897	122,042
Other contracts and grants	242,955	815,191	-	76,765	1,134,911
Federal grants-in-aid	8,780,167	1,735,344	71	1,373,215	11,888,797
Charges for services	31,960	2,566,134	1	628,572	3,226,667
Investment income (loss)	(17,396)	23,871	330,476	60,117	397,068
Miscellaneous revenue	195,332	91,545	2,071	418,139	707,087
Unclaimed property	68,162	-	-	-	68,162
Contributions and donations	-	-	62,589	-	62,589
Total Revenues	24,702,386	5,335,043	410,273	5,802,766	36,250,468
EXPENDITURES					
Current:					
General government	721,375	-	105	440,842	1,162,322
Human services	13,235,429	385	-	721,162	13,956,976
Natural resources and recreation	419,911	-	1	622,964	1,042,876
Transportation	47,394	-	-	1,750,002	1,797,396
Education	9,114,825	4,901,076	3,447	531,874	14,551,222
Intergovernmental	108,341	-	-	331,455	439,796
Capital outlays	76,300	196,599	630	2,182,487	2,456,016
Debt service:					
Principal	18,251	35,032	-	730,483	783,766
Interest	118	11,609	-	908,871	920,598
Total Expenditures	23,741,944	5,144,701	4,183	8,220,140	37,110,968
Excess of Revenues Over (Under) Expenditures	960,442	190,342	406,090	(2,417,374)	(860,500)
OTHER FINANCING SOURCES (USES)					
Bonds issued	121,789	39,725	-	1,039,386	1,200,900
Refunding bonds issued	-	-	-	1,636,990	1,636,990
Payments to escrow agents for refunded bond debt	-	-	-	(1,893,883)	(1,893,883)
Issuance premiums	4,063	12,850	-	383,428	400,341
Other debt issued	4,469	108,876	-	44,135	157,480
Refunding COPs issued	-	10,590	-	-	10,590
Payments to escrow agents for refunded COP debt	-	(11,950)	-	-	(11,950)
Transfers in	596,496	217,936	1,299	2,335,874	3,151,605
Transfers out	(1,312,231)	(220,885)	(124,918)	(1,393,538)	(3,051,572)
Total Other Financing Sources (Uses)	(585,414)	157,142	(123,619)	2,152,392	1,600,501
Net Change in Fund Balances	375,028	347,484	282,471	(264,982)	740,001
Fund Balances - Beginning, as restated	1,007,562	2,015,242	3,096,400	5,565,942	11,685,146
Fund Balances - Ending	$ 1,382,590	$ 2,362,726	$ 3,378,871	$ 5,300,960	$ 12,425,147

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

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities
GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2013
(expressed in thousands)

Net Change in Fund Balances - Total Governmental Funds		$ 740,001
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 outlays	$ 1,700,805	
Less: Depreciation expense	(607,458)	1,093,347
Some revenues in the Statement of Activities do not provide current financial resources, and therefore, are unavailable in governmental funds. Also, revenues related to prior periods that became available during the current period are reported in governmental funds but are eliminated in the Statement of Activities. This amount is the net adjustment.		37,130
Pension trust funding in excess of annual required contributions uses current financial resources, but does not qualify as an expense.		2,800
Internal service funds are used by management to charge the costs of certain activities to individual funds. The change in net position of the internal service funds is reported with governmental activities.		242,627
Bond proceeds and other financing contracts provide current financial resources to governmental funds, while the repayment of the related debt principal consumes those financial resources. These transactions, however, have no effect on net position. In the current period, these amounts consist of:		
Bonds and other financing contracts issued	$ (3,006,835)	
Principal payments on bonds and other financing contracts	2,471,587	
Accreted interest on bonds	(24,068)	(559,316)
Some expenses/revenue reductions reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not recognized in governmental funds. Also payments of certain obligations related to prior periods are recognized in governmental funds but are eliminated in the Statement of Activities. In the current period, the net adjustments consist of:		
Compensated absences	$ (11,128)	
Other postemployment benefits obligations	(295,498)	
Unfunded pension obligations	(58,018)	
Pollution remediation obligations	(6,582)	
Claims and judgments	(1,161)	
Accrued interest	(10,595)	
Unclaimed property	22,546	
Other obligations	659	(359,777)
Change in Net Position of Governmental Activities		$ 1,196,812

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

Statement of Net Position
PROPRIETARY FUNDS
June 30, 2013
(expressed in thousands)

	Business-Type Activities Enterprise Funds		
	Workers' Compensation	Unemployment Compensation	Higher Education Student Services
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES			
ASSETS			
Current Assets:			
Cash and pooled investments	$ 64,403	$ 2,840,701	$ 1,043,445
Investments	27,592	-	6,050
Other receivables (net of allowance)	701,964	645,475	191,194
Due from other funds	20	4,442	4,302
Due from other governments	1,098	76,725	56,792
Inventories	185	-	57,480
Prepaid expenses	3	-	12,605
Restricted assets:			
Cash and investments	736	-	12,501
Total Current Assets	796,001	3,567,343	1,384,369
Noncurrent Assets:			
Investments, noncurrent	13,381,438	-	166,932
Restricted investments, noncurrent	2,781	-	52,092
Restricted receivables, noncurrent	-	-	-
Other noncurrent assets	-	-	89,146
Capital assets:			
Land and other non-depreciable assets	3,240	-	60,401
Buildings	65,134	-	2,674,121
Other improvements	1,289	-	91,631
Furnishings, equipment, and intangibles	92,218	-	531,974
Infrastructure	-	-	41,944
Accumulated depreciation	(98,921)	-	(1,164,988)
Construction in progress	6,202	-	435,625
Total Noncurrent Assets	13,453,381	-	2,978,878
Total Assets	14,249,382	3,567,343	4,363,247
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflow on refundings	-	-	15,848
Total Deferred Outflows of Resources	-	-	15,848
Total Assets and Deferred Outflows of Resources	$ 14,249,382	$ 3,567,343	$ 4,379,095
LIABILITIES			
Current Liabilities:			
Accounts payable	$ 6,260	$ -	$ 113,000
Contracts and retainages payable	6,706	51	21,312
Accrued liabilities	141,840	13,689	210,919
Obligations under security lending agreements	27,592	-	-
Bonds and notes payable	3,605	-	85,952
Due to other funds	7,247	1,058	430,024
Due to other governments	5	82,804	53
Unearned revenue	6,567	-	39,795
Claims and judgments payable	1,851,660	-	-
Total Current Liabilities	2,051,482	97,602	901,055
Noncurrent Liabilities:			
Claims and judgments payable	21,775,900	-	-
Bonds and notes payable	7,870	-	1,995,281
Other long-term liabilities	38,949	-	123,550
Total Noncurrent Liabilities	21,822,719	-	2,118,831
Total Liabilities	23,874,201	97,602	3,019,886
NET POSITION			
Net investment in capital assets	57,687	-	667,190
Restricted for:			
Unemployment compensation	-	3,469,741	-
Unrestricted	(9,682,506)	-	692,019
Total Net Position	(9,624,819)	3,469,741	1,359,209
Total Liabilities and Net Position	$ 14,249,382	$ 3,567,343	$ 4,379,095

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

Guaranteed Education Tuition Program	Nonmajor Enterprise Funds	Total	Governmental Activities Internal Service Funds
$ 1,104	$ 111,231	$ 4,060,884	$ 818,014
60,465	34,399	128,506	27,854
6,172	22,411	1,567,216	27,187
2	9,804	18,570	88,649
-	4,664	139,279	15,817
-	8,097	65,762	20,793
-	549	13,157	4,826
-	-	13,237	20
67,743	191,155	6,006,611	1,003,160
2,274,568	168,632	15,991,570	198,273
-	-	54,873	-
-	-	-	21,338
286,000	1	375,147	81
-	1,540	65,181	6,475
-	12,828	2,752,083	468,647
-	2,597	95,517	16,213
89	29,675	653,956	854,733
-	-	41,944	1,933
(88)	(25,293)	(1,289,290)	(639,796)
-	-	441,827	41,471
2,560,569	189,980	19,182,808	969,368
2,628,312	381,135	25,189,419	1,972,528
-	-	15,848	-
-		15,848	-
$ 2,628,312	$ 381,135	$ 25,205,267	$ 1,972,528
$ 2,193	$ 12,733	$ 134,186	$ 62,024
151,000	-	179,069	1,094
10,166	71,369	447,983	57,735
60,465	-	88,057	16,578
-	433	89,990	69,224
316	19,046	457,691	111,236
-	2,574	85,436	89,862
-	251	46,613	2,331
-	1,603	1,853,263	167,818
224,140	108,009	3,382,288	577,902
-	9,607	21,785,507	514,472
-	5,967	2,009,118	485,354
2,565,279	158,340	2,886,118	123,515
2,565,279	173,914	26,680,743	1,123,341
2,789,419	281,923	30,063,031	1,701,243
1	14,946	739,824	251,218
-	-	3,469,741	-
(161,108)	84,266	(9,067,329)	20,067
(161,107)	99,212	(4,857,764)	271,285
$ 2,628,312	$ 381,135	$ 25,205,267	$ 1,972,528

Statement of Revenues, Expenses, and Changes in Net Position
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2013
(expressed in thousands)

	Business-Type Activities Enterprise Funds		
	Workers' Compensation	Unemployment Compensation	Higher Education Student Services
OPERATING REVENUES			
Sales	$ -	$ -	$ 106,586
Less: Cost of goods sold	-	-	70,425
Gross profit	-	-	36,161
Charges for services	37	-	1,630,465
Premiums and assessments	2,123,483	1,286,170	-
Federal aid for unemployment insurance benefits	-	849,214	-
Lottery ticket proceeds	-	-	-
Miscellaneous revenue	30,863	21,919	121,975
Total Operating Revenues	2,154,383	2,157,303	1,788,601
OPERATING EXPENSES			
Salaries and wages	140,203	-	695,821
Employee benefits	44,598	-	196,461
Personal services	8,895	-	13,024
Goods and services	79,316	-	704,457
Travel	4,068	-	23,200
Premiums and claims	3,014,795	1,982,958	-
Lottery prize payments	-	-	-
Depreciation and amortization	8,428	-	127,404
Guaranteed education tuition program expense	-	-	-
Miscellaneous expenses	28,485	-	19,217
Total Operating Expenses	3,328,788	1,982,958	1,779,584
Operating Income (Loss)	(1,174,405)	174,345	9,017
NONOPERATING REVENUES (EXPENSES)			
Earnings (loss) on investments	240,161	70,506	24,470
Interest expense	(656)	-	(77,042)
Tax and license revenue	91	-	-
Other revenues (expenses)	8,732	-	10,075
Total Nonoperating Revenues (Expenses)	248,328	70,506	(42,497)
Income (Loss) Before Contributions and Transfers	(926,077)	244,851	(33,480)
Capital contributions	175	-	-
Transfers in	-	-	120,369
Transfers out	-	(61)	(94,402)
Net Contributions and Transfers	175	(61)	25,967
Change in Net Position	(925,902)	244,790	(7,513)
Net Position - Beginning, as restated	(8,698,917)	3,224,951	1,366,722
Net Position - Ending	$ (9,624,819)	$ 3,469,741	$ 1,359,209

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

			Governmental Activities
Guaranteed Education Tuition Program	Nonmajor Enterprise Funds	Total	Internal Service Funds
$ -	$ 68,794	$ 175,380	$ 110,930
-	49,168	119,593	104,225
-	19,626	55,787	6,705
173,771	29,358	1,833,631	617,270
-	1,329	3,410,982	1,303,370
-	-	849,214	-
-	569,587	569,587	-
-	3,246	178,003	118,280
173,771	623,146	6,897,204	2,045,625
2,203	47,396	885,623	275,856
518	17,603	259,180	101,574
127	12,067	34,113	20,306
1,620	83,508	868,901	346,806
40	1,436	28,744	3,571
-	-	4,997,753	965,310
-	339,366	339,366	-
4	1,466	137,302	80,950
(109,704)	-	(109,704)	-
-	362	48,064	2,058
(105,192)	503,204	7,489,342	1,796,431
278,963	119,942	(592,138)	249,194
191,480	(3,547)	523,070	1,913
-	(11,026)	(88,724)	(26,227)
-	22,514	22,605	21
-	364	19,171	1,095
191,480	8,305	476,122	(23,198)
470,443	128,247	(116,016)	225,996
-	-	175	2,398
-	13,164	133,533	70,424
-	(153,336)	(247,799)	(56,191)
-	(140,172)	(114,091)	16,631
470,443	(11,925)	(230,107)	242,627
(631,550)	111,137	(4,627,657)	28,658
$ (161,107)	$ 99,212	$ (4,857,764)	$ 271,285

Statement of Cash Flows
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2013
(expressed in thousands)

	Business-Type Activities Enterprise Funds		
	Workers' Compensation	**Unemployment Compensation**	**Higher Education Student Services**
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	$ 2,126,896	$ 1,211,376	$ 2,133,835
Payments to suppliers	(2,122,727)	(1,963,583)	(900,509)
Payments to employees	(186,823)	-	(864,892)
Other receipts	30,863	871,007	121,975
Net Cash Provided (Used) by Operating Activities	(151,791)	118,800	490,409
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers in	-	-	120,369
Transfers out	-	(61)	(94,402)
Operating grants and donations received	8,843	-	6,492
Taxes and license fees collected	91	-	-
Net Cash Provided (Used) by Noncapital Financing Activities	8,934	(61)	32,459
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Interest paid	(717)	-	(53,163)
Principal payments on long-term capital financing	(3,400)	-	(29,206)
Proceeds from long-term capital financing	-	-	245,328
Proceeds from sale of capital assets	-	-	4,941
Acquisitions of capital assets	(9,896)	-	(492,209)
Net Cash Provided (Used) by Capital and Related Financing Activities	(14,013)	-	(324,309)
CASH FLOWS FROM INVESTING ACTIVITIES			
Receipt of interest	568,442	70,506	17,533
Proceeds from sale of investment securities	5,240,820	-	134,714
Purchases of investment securities	(5,630,653)	-	(32,618)
Net Cash Provided (Used) by Investing Activities	178,609	70,506	119,629
Net Increase (Decrease) in Cash and Pooled Investments	21,739	189,245	318,188
Cash and Pooled Investments, July 1, as restated	43,400	2,651,456	737,758
Cash and Pooled Investments, June 30	$ 65,139	$ 2,840,701	$ 1,055,946
CASH FLOWS FROM OPERATING ACTIVITIES			
Operating Income (Loss)	$ (1,174,405)	$ 174,345	$ 9,017
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operations:			
Depreciation	8,428	-	127,404
Revenue reduced for uncollectible accounts	24,859	-	647
Change in Assets: Decrease (Increase)			
Receivables	4,496	(74,920)	392,910
Inventories	35	-	(6,932)
Prepaid expenses	(3)	-	(549)
Change in Liabilities: Increase (Decrease)			
Payables	984,799	19,375	(32,088)
Net Cash or Cash Equivalents Provided by (Used in) Operating Activities	$ (151,791)	$ 118,800	$ 490,409

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

Continued

Guaranteed Education Tuition Program	Nonmajor Enterprise Funds	Total	Governmental Activities Internal Service Funds
$ 171,774	$ 665,218	$ 6,309,099	$ 2,109,634
(116,293)	(529,308)	(5,632,420)	(1,576,751)
(2,631)	(62,112)	(1,116,458)	(361,449)
-	3,238	1,027,083	121,908
52,850	77,036	587,304	293,342
-	13,164	133,533	70,424
-	(153,336)	(247,799)	(56,191)
-	338	15,673	504
-	22,514	22,605	21
-	(117,320)	(75,988)	14,758
-	(283)	(54,163)	(26,275)
-	(658)	(33,264)	(44,821)
-	-	245,328	35,483
-	19	4,960	14,658
-	(1,336)	(503,441)	(96,907)
-	(2,258)	(340,580)	(117,862)
44,101	66	700,648	4,293
782,433	79,335	6,237,302	159,476
(878,831)	(39,867)	(6,581,969)	(362,400)
(52,297)	39,534	355,981	(198,631)
553	(3,008)	526,717	(8,393)
551	114,239	3,547,404	826,427
$ 1,104	$ 111,231	$ 4,074,121	$ 818,034
$ 278,963	$ 119,942	$ (592,138)	$ 249,194
4	1,466	137,302	80,950
-	74	25,580	455
(1,997)	(4,103)	316,386	77,434
-	409	(6,488)	(1,226)
-	182	(370)	247
(224,120)	(40,934)	707,032	(113,712)
$ 52,850	$ 77,036	$ 587,304	$ 293,342

Statement of Cash Flows
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2013
(expressed in thousands)

	Business-Type Activities Enterprise Funds		
	Workers' Compensation	Unemployment Compensation	Higher Education Student Services
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES			
Contributions of capital assets	$ 175	$ -	$ -
Acquisition of capital assets through Certificates of Participation/capital leases	-	-	36,419
Amortization of annuity prize liability	-	-	-
Increase (decrease) in fair value of investments	(327,470)	-	144
Debt refunding deposited with escrow agent	-	-	87,195
Amortization of debt premium/discount	-	-	13,476
Increase in ownership of joint venture	-	-	6,831

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

Concluded

			Governmental Activities
Guaranteed Education Tuition Program	Nonmajor Enterprise Funds	Total	Internal Service Funds
$ -	$ -	$ 175	$ 2,398
-	10	36,429	14,216
-	10,743	10,743	-
146,865	3,613	(176,848)	(2,797)
-	-	87,195	-
-	-	13,476	-
-	-	6,831	-

Statement of Net Position
FIDUCIARY FUNDS
June 30, 2013
(expressed in thousands)

	Private-Purpose Trust	Local Government Investment Pool	Pension and Other Employee Benefit Plans	Agency Funds
ASSETS				
Current Assets:				
Cash and pooled investments	$ 4,839	$ 3,017,843	$ 40,891	$ 88,344
Investments	-	5,464,589	-	-
Receivables, pension and other employee benefit plans:				
Employers	-	-	137,172	-
Members (net of allowance)	-	-	2,624	-
Interest and dividends	-	-	199,782	-
Investment trades pending	-	-	1,661,905	-
Due from other pension and other employee benefit funds	-	-	1,652	-
Other receivables, all other funds	-	691	-	7,991
Due from other funds	-	-	-	22
Due from other governments	-	-	-	19,533
Total Current Assets	4,839	8,483,123	2,044,026	115,890
Noncurrent Assets:				
Investments, noncurrent, pension and other employee benefit plans:				
Public equity	-	-	32,403,661	-
Fixed income	-	-	14,105,540	-
Private equity	-	-	16,064,517	-
Real estate	-	-	9,380,236	-
Security lending	-	-	1,196,761	-
Liquidity	-	-	1,581,812	-
Tangible assets	-	-	1,031,887	-
Investments, noncurrent, all other funds	-	478,132	-	156
Other noncurrent assets	-	-	-	55,479
Capital assets:				
Furnishings, equipment, and intangibles	33	-	-	-
Accumulated depreciation	(29)	-	-	-
Total Noncurrent Assets	4	478,132	75,764,414	55,635
Total Assets	4,843	8,961,255	77,808,440	$ 171,525
LIABILITIES				
Accounts payable	111	-	-	$ 8,140
Contracts and retainages payable	-	-	-	27,686
Accrued liabilities	166	204,097	1,736,344	54,921
Obligations under security lending agreements	-	-	1,199,842	5,871
Due to other funds	-	-	-	11
Due to other pension and other employee benefit funds	-	-	1,652	-
Due to other governments	-	23,002	-	19,417
Unearned revenue	-	-	726	-
Other long-term liabilities	-	-	-	55,479
Total Liabilities	277	227,099	2,938,564	$ 171,525
NET POSITION				
Net position held in trust for:				
Pension benefits	-	-	71,668,018	
Deferred compensation participants	-	-	3,201,858	
Local government pool participants	-	8,734,156	-	
Individuals, organizations, and other governments	4,566	-	-	
Total Net Position	$ 4,566	$ 8,734,156	$ 74,869,876	

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

Statement of Changes in Net Position
FIDUCIARY FUNDS
For the Fiscal Year Ended June 30, 2013
(expressed in thousands)

	Private-Purpose Trust	Local Government Investment Pool	Pension and Other Employee Benefit Plans
ADDITIONS			
Contributions:			
Employers	$ -	$ -	$ 1,197,445
Members	-	-	1,031,974
State	-	-	60,204
Participants	-	14,032,653	182,305
Total Contributions	-	14,032,653	2,471,928
Investment Income:			
Net appreciation (depreciation) in fair value	-	-	6,574,645
Interest and dividends	-	16,329	1,850,861
Less: Investment expenses	-	-	(258,468)
Net Investment Income (Loss)	-	16,329	8,167,038
Other Additions:			
Unclaimed property	72,472	-	-
Transfers from other pension plans	-	-	5,625
Other contracts, grants and miscellaneous	21	-	528
Total Other Additions	72,493	-	6,153
Total Additions	72,493	14,048,982	10,645,119
DEDUCTIONS			
Pension benefits	-	-	3,259,510
Pension refunds	-	-	368,806
Transfers to other pension plans	-	-	5,625
Administrative expenses	3,577	904	4,449
Distributions to participants	-	13,310,671	178,638
Payments to or on behalf of individuals, organizations and other governments in accordance with state unclaimed property laws	70,177	-	-
Total Deductions	73,754	13,311,575	3,817,028
Net Increase (Decrease)	(1,261)	737,407	6,828,091
Net Position - Beginning, as restated	5,827	7,996,749	68,041,785
Net Position - Ending	$ 4,566	$ 8,734,156	$ 74,869,876

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

Statement of Net Position
COMPONENT UNITS
June 30, 2013

(expressed in thousands)

	Public Stadium	Health Benefit Exchange	Nonmajor Component Units	Total
ASSETS				
Current Assets:				
Cash and pooled investments	$ 7,003	$ 41	$ 27,323	$ 34,367
Investments	-	-	41,646	41,646
Investments, restricted	3,770	-	-	3,770
Other receivables (net of allowance)	1,197	6,830	7,484	15,511
Prepaid expenses	22	40	117	179
Total Current Assets	11,992	6,911	76,570	95,473
Noncurrent Assets:				
Restricted investments, noncurrent	10,963	-	-	10,963
Other noncurrent assets	-	986	105,673	106,659
Capital assets:				
Land	34,677	-	-	34,677
Buildings	460,636	-	-	460,636
Furnishings, equipment and intangible assets	19,436	11,133	1,608	32,177
Accumulated depreciation	(187,928)	(1,485)	(1,579)	(190,992)
Construction in progress	-	411	-	411
Total Noncurrent Assets	337,784	11,045	105,702	454,531
Total Assets	$ 349,776	$ 17,956	$ 182,272	$ 550,004
LIABILITIES				
Current Liabilities:				
Accounts payable	$ 68	$ 4,851	$ 40,057	$ 44,976
Contracts and retainages payable	4,364	-	-	4,364
Accrued liabilities	3,497	2,060	55	5,612
Unearned revenue	-	-	17,458	17,458
Total Current Liabilities	7,929	6,911	57,570	72,410
Noncurrent Liabilities:				
Other long-term liabilities	12,220	986	-	13,206
Total Noncurrent Liabilities	12,220	986	-	13,206
Total Liabilities	20,149	7,897	57,570	85,616
NET POSITION				
Net investment in capital assets	310,281	10,059	29	320,369
Restricted for deferred sales tax	12,346	-	-	12,346
Restricted for other purposes	-	-	1,083	1,083
Unrestricted	7,000	-	123,590	130,590
Total Net Position	329,627	10,059	124,702	464,388
Total Liabilities and Net Position	$ 349,776	$ 17,956	$ 182,272	$ 550,004

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

Statement of Revenues, Expenses, and Changes in Net Position
COMPONENT UNITS
For the Fiscal Year Ended June 30, 2013
(expressed in thousands)

	Public Stadium	Health Benefit Exchange	Nonmajor Component Units	Total
OPERATING REVENUES				
Charges for services	$ 1,067	$ -	$ 31,831	$ 32,898
Total Operating Revenues	1,067	-	31,831	32,898
OPERATING EXPENSES				
Salaries and wages	403	1,256	4,277	5,936
Employee benefits	120	389	1,445	1,954
Personal services	194	7,945	1,465	9,604
Goods and services	304	239	2,288	2,831
Travel	2	-	20	22
Depreciation and amortization	15,231	1,485	45	16,761
Miscellaneous expenses	-	180	2,030	2,210
Total Operating Expenses	16,254	11,494	11,570	39,318
Operating Income (Loss)	(15,187)	(11,494)	20,261	(6,420)
NONOPERATING REVENUES (EXPENSES)				
Earnings (loss) on investments	304	-	82	386
Operating grants and contributions	-	18,116	8,249	26,365
Distributions of operating grants	-	-	(7,602)	(7,602)
Naming rights	2,130	-	-	2,130
Other	(15)	628	-	613
Total Nonoperating Revenues (Expenses)	2,419	18,744	729	21,892
Income (Loss) before Contributions	(12,768)	7,250	20,990	15,472
Capital grants and contributions	(328)	2,809	-	2,481
Total Contributions	(328)	2,809	-	2,481
Change in Net Position	(13,096)	10,059	20,990	17,953
Net Position - Beginning, as restated	342,723	-	103,712	446,435
Net Position - Ending	$ 329,627	$ 10,059	$ 124,702	$ 464,388

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

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Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2013

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. Following is a summary of the significant accounting policies:

A. REPORTING ENTITY

In defining the state of Washington for financial reporting purposes, management considers: all funds, organizations, institutions, agencies, departments, and offices that are legally part of the state (the primary government) and organizations for which the state is financially accountable. Additionally, other organizations that do not meet the financial accountability criteria may be included in the reporting entity if the nature and significance of their relationship with the state are such that exclusion would cause the state's financial statements to be misleading.

Financial accountability exists when the primary government appoints a voting majority of an organization's governing body and is either (1) able to impose its will on that organization or (2) 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 is also financially accountable if an organization is fiscally dependent on and there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the primary government regardless of whether the organization has (1) a separately elected governing board, (2) a governing board appointed by a higher level of government, or (3) 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. The organization has a financial benefit or burden relationship with the primary government if, for example, any one of these conditions exists: (1) the primary government is legally entitled to or can access the organization's resources; (2) the primary government is legally obligated or has otherwise assumed the obligation to finance or provide financial support to the organization; (3) the primary government is obligated in some manner for the debt of the organization.

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, 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 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. The governing board of each college and university appoints a president to function as chief administrator. The Legislature approves budgets and budget amendments for the appropriated funds of each college and university, 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 and universities are authorized to issue revenue bonds.

The University of Washington issues general revenue bonds that are payable from general revenues, including student tuition and fees, grant indirect cost recovery, sales and services revenue, and investment income. All other revenue bonds issued by colleges and universities pledge the income derived from acquired or constructed assets such as housing, dining, and parking facilities. 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 and university assets reside with the state.

Colleges and universities 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 and universities are legally part of the state, their financial operations, including their blended component units, are reported in the state's financial statements using the fund structure prescribed by GASB.

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

There are three additional retirement systems administered outside of the Department of Retirement Systems. The Volunteer Fire Fighters' and Reserve Officers' Relief and Pension Fund is administered through the Board for Volunteer Fire Fighters, which is appointed by the Governor. The Judicial Retirement Account is administered through the Administrative Office of the Courts under the direction of the Board for Judicial Administration. The Higher Education Retirement Plan Supplemental Defined Benefit Plans are administered by the state's colleges and universities.

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

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

Tobacco Settlement Authority. The Tobacco Settlement Authority (TSA) was created by the 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 solely for the purpose of issuing bonds to securitize a portion of the state's future tobacco settlement revenue. Proceeds of the debt instrument were transferred to the state to help fund health care, long-term care, and other programs of the state. Refer to Note 7.A for additional information.

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

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

Other Blended Component Units. Tumwater Office Properties, FYI Properties, the University of Washington (UW) Physicians, UW Medicine Neighborhood Clinics, TSB Properties, Washington Biomedical Research Properties I and II, and Washington Biomedical Research Facilities 3 are blended component units in the state's financial statements. All the aforementioned blended component units provide services entirely or almost entirely to the state. Financial information for these blended component units may be obtained from their respective administrative offices.

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

The Washington State Housing Finance Commission, the Washington Higher Education Facilities Authority, the Washington Health Care Facilities Authority, and the Washington Economic Development Finance Authority (financing authorities) were created by the 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 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 $327 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 required 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
CenturyLink Field & Event Center
800 Occidental Avenue South, #700
Seattle, WA 98134

The Washington Health Benefit Exchange (Exchange) was created by the Legislature to implement a central marketplace for individuals, families, and small employers to shop for health insurance and access federal tax credits pursuant to the Patient Protection and Affordable Care Act of 2010. Federal grant funding is financing the Exchange design, development, and implementation phases as well as the first full year of operation during 2014. Beginning in 2015 the Exchange must be self-sustaining through state funding appropriations, premium tax assessments, and administrative fees.

Financial reports of the Exchange may be obtained at the following address:

Washington Health Benefit Exchange
810 Jefferson Street SE
Olympia, WA 98501

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

Joint Venture. In 1998, the University of Washington Medical Center (Medical Center) entered into an agreement with Seattle Children's Hospital and Fred Hutchinson Cancer Research Center to establish the Seattle Cancer Care Alliance (SCCA). Each member of the SCCA has a one-third interest. The mission of the SCCA is to eliminate cancer as a cause of human suffering and death and to become recognized as the premier cancer research and treatment center in the Pacific Northwest. The SCCA integrates the cancer research, teaching, and clinical cancer programs of all three institutions to provide state-of-the-art cancer care. Under the agreement, the Medical Center provides the patient care to all adult inpatients of the SCCA.

Inpatient Services – The SCCA operates a 20-bed unit located within the Medical Center in which its adult inpatients receive care. The fiscal intermediary has determined that the 20-bed unit qualifies as a hospital within a hospital for Medicare reimbursement purposes. The SCCA provides medical oversight and management of the inpatient unit. Under agreements, the Medical Center provides inpatient care services to the SCCA including necessary personnel, equipment, and ancillary services.

Outpatient Services – The SCCA operates an ambulatory cancer care service facility in Seattle. The Medical Center provides various services to the SCCA's outpatient facility including certain pharmacy, laboratory, and pathology services as well as billing, purchasing, and other administrative services.

The state accounts for the Medical Center's interest in SCCA under the equity method of accounting. Income of $6.8 million was recorded in fiscal year 2013, bringing the total equity investment to $89.1 million which is recognized in the state's financial statements in the Higher Education Student Services Fund.

Separate financial statements for SCCA may be obtained from:

Seattle Cancer Care Alliance
825 Eastlake Avenue East
PO Box 19023
Seattle, WA 98109-1023

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Government-wide Financial Statements

The state presents two basic government-wide financial statements: the Statement of Net Position 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 Position. The Statement of Net Position presents the state's non-fiduciary assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position. As a general rule, balances between governmental and business-type activities are eliminated.

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

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

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

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

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

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

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

Fund Financial Statements

The state uses 630 accounts that are combined into 52 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 tuition, student fees, and grants and contracts received for research and other educational purposes.

- **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.

- **Guaranteed Education Tuition Program Fund** accounts for Washington's Guaranteed Education Tuition (GET) Program. GET is a qualified tuition program under Section 529 of the Internal Revenue Code.

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 restricted or committed 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 interstate and non-interstate highway systems; driver licensing, highway and non-highway operations, and capital improvements; K-12 school construction; and construction and loan programs for local public works projects.

- **Debt Service Funds** account for the accumulation of resources that are restricted or committed to expenditures for, and the payment of, principal and interest on the state's bonds issued in support of governmental activities.

- **Capital Projects Funds** account for financial resources that are restricted or committed to expenditures for the acquisition, construction, or improvement of major state-owned capital facilities (other than highway infrastructure or those financed by proprietary funds).

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

Nonmajor Proprietary Funds:

- **Enterprise Funds** account for the state's business type operations for which a fee is charged to external users for goods or services including: the state lottery; vocational/education programs at correctional institutions, and other activities.

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

The state reports the following fiduciary funds:

- **Pension (and other employee benefit) Trust Funds** are used to report resources that are required to be held in trust by the state for the members and beneficiaries of defined benefit 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, which is reported by the state as the sponsoring government.

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

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

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

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 and deferred outflows of resources and deferred inflows of resources are included on the governmental funds balance sheet. Operating statements for these funds present inflows (i.e., revenues and other financing sources) and outflows (i.e., expenditures and other financing uses) of expendable financial resources.

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

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

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

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

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

All proprietary and trust funds are accounted for using the economic resources measurement focus. With this measurement focus, all assets and liabilities and deferred outflows of resources and deferred inflows of resources associated with the operations of these funds are included on their respective statements of net position. Operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in total net position.

Net position for trust funds is held in trust for external individuals and organizations.

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

D. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES AND NET POSITION/FUND BALANCE

1. Cash and Investments

Investments of surplus or pooled cash balances are reported on the accompanying Statements of Net Position, 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. For reporting purposes, pooled investments are stated at fair value or amortized cost, which approximates fair value. For purposes of reporting cash flows, the state considers cash and pooled investments to be cash equivalents. Pooled investments include short-term, highly-liquid investments that are both readily convertible to cash and are so near their maturity dates that they present insignificant risk of changes in value because of changes in interest rates.

The method of accounting for noncurrent investments varies depending upon the fund classification. Investments in the state's Local Government Investment Pool (LGIP), an external investment pool operated in a manner consistent with the Securities and Exchange Commission's Rule 2a-7 of the Investment Company Act of 1940, are reported at amortized cost which approximates fair value. 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.

Certain pension trust fund investments, including real estate and private equity, are reported at fair value based on appraisals or estimates in the absence of readily ascertainable fair values. At June 30, 2013, these alternative investments are valued at $26.48 billion. Because of the inherent uncertainties in the estimation of fair value, it is possible that the estimates will change.

All other noncurrent 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. Additional disclosure describing investments is provided in Note 3.

2. Receivables and Payables

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

For government-wide reporting purposes, amounts recorded as interfund/interagency receivables and payables are eliminated in the governmental and business-type activities columns on the Statement of Net Position, 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 and Prepaids

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

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

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

For governmental fund financial reporting, inventory balances are also recorded as a reservation of fund balance indicating that they do not constitute "available spendable resources" except for $6.3 million in federally donated consumable inventories, which are offset by unearned revenue because they are not earned until they are distributed to clients.

Prepaid items are those certain types of supplies and/or services (not inventory) that are acquired or purchased during an accounting period but not used or consumed during that accounting period.

In governmental fund type accounts, prepaid items are generally accounted for using the purchases method. Under the purchases method, prepaid items are treated as expenditures when purchased and residual balances, if any, at year end are not accounted for as assets.

In proprietary and trust fund type accounts, prepaid items are accounted for using the consumption method. The portion of supplies or services consumed or used during a period is recorded as an expense. The balance that remains is reported as an asset until consumed or used.

4. Restricted Assets

Certain cash, investments, and other assets are classified as restricted assets on the Statement of Net Position and Balance Sheet because their use is limited by bond covenants, escrow arrangements, or other regulations.

5. Capital Assets

Capital assets are tangible and intangible assets held and used in state operations, which have a service life of more than one year and meet the state's capitalization policy.

It is the state's policy to capitalize:

- All land, including land use rights with indefinite lives acquired with the purchase of the underlying land, and ancillary costs;
- The state highway system operated by the Department of Transportation;
- Infrastructure, other than the state highway system, with a cost of $100,000 or more;
- Buildings, building improvements, improvements other than buildings, and leasehold improvements with a cost of $100,000 or more;
- Intangible assets, either purchased or internally developed, with a cost of $1.0 million or more that are identifiable by meeting one of the following conditions:
    - The asset is capable of being separated or divided and sold, transferred, licensed, rented, exchanged;
    - The asset arises from contractual or other legal rights, regardless of whether those rights are transferable or separable;
- All capital assets acquired with Certificates of Participation, a debt financing program administered by the Office of the State Treasurer; and

All other capital assets with a unit cost (including ancillary costs) of $5,000 or greater, or collections with a total cost of $5,000 or greater except for assets held by the University of Washington (UW). The capitalization threshold for all other capital assets held by the UW is $2,000.

Assets acquired by capital leases are capitalized if the asset's fair market value meets the state's capitalization threshold described above.

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 (ancillary costs). Normal maintenance and repair costs that do not materially add to the value or extend the life of the state's capital assets are not capitalized.

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

The value of assets constructed by agencies for their own use includes all direct construction costs and indirect costs that are related to the construction. In enterprise and trust funds, net interest costs (if material) incurred during the period of construction are capitalized. In fiscal year 2013, $21.8 million net interest costs were capitalized.

State agencies are not required to capitalize art collections, library reserve collections, and museum and historical collections that are considered inexhaustible, in that their value does not diminish over time, 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/amortization 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
Intangibles	3-50 years
Infrastructure	20-50 years

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

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

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

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

For government-wide financial reporting purposes, capital assets of the state are reported as assets in the applicable governmental or business-type activities column on the Statement of Net Position. Depreciation/amortization expense related to capital assets is reported in the Statement of Activities.

Capital assets and the related depreciation/amortization 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 assets are acquired or construction costs are incurred. No depreciation/amortization is reported.

6. Deferred Outflows/Inflows of Resources

In addition to assets, the Balance Sheet and Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of fund equity that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then. The state only has one item that qualifies for reporting in this category. It is the deferred outflow of resources on refunding reported in the government-wide and proprietary fund statements of net position. A deferred outflow on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the Balance Sheet and Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of fund equity that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The state is reporting as a deferred inflow unavailable revenue, which arises only under the modified accrual basis of accounting, and so is reported only on the governmental funds balance sheet. Governmental funds report unavailable revenues primarily from two sources: taxes and long-term receivables. These amounts are recognized as inflows of resources in the periods that the amounts become available.

7. Compensated Absences

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

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

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

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

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

8. 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 Position. 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. Premiums and discounts on original debt issuance are also reported as other financing sources and uses, respectively. Issue costs are reported as debt service expenditures.

9. Fund Equity

In governmental fund type accounts, fund equity is called "fund balance." Fund balance is reported in classifications which reflect the extent to which the state is bound to honor constraints on the purposes for which the amounts can be spent. Classifications include:

- **Nonspendable** fund balance represents amounts that are either not in a spendable form or are legally or contractually required to remain intact.
- **Restricted** fund balance represents amounts for which constraints are placed on their use by the constitution, enabling legislation, or external resource providers such as creditors, grantors, or laws or regulations of other governments.
- **Committed** fund balance represents amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the state Legislature through a statute or appropriation.
- **Assigned** fund balance represents amounts that are intended for a specific purpose by management, but are neither restricted nor committed. Generally assignment is expressed by joint legislative and executive staff action.

- **Unassigned** fund balance represents the residual amount for the General Fund that is not contained in the other classifications. Additionally, any deficit fund balance within the other governmental fund types is reported as unassigned.

When resources meeting more than one of the classifications (excluding nonspendable) are comingled in an account, assuming that an expenditure meets the constraints of the classification, the assumed order of spending is restricted first, committed second, and finally assigned.

For government-wide reporting as well as in proprietary funds, fund equity is called net position. Net position is comprised of three components: net investment in capital assets; restricted; and unrestricted.

- **Net investment in capital assets** 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. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are included in this component of net position.

- **Restricted** net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Assets are reported as restricted when constraints are placed on asset use either by external parties or by law through constitutional provision or enabling legislation.

- **Unrestricted** net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that does not meet the definition of the two preceding categories.

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.

E. OTHER INFORMATION

1. Insurance Activities

Workers' Compensation. Title 51 RCW establishes the state of Washington's workers' compensation program. The statute requires all employers to secure coverage for job-related injuries and diseases, with few exceptions, 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, vocational, disability, and pension benefits to qualifying individuals sustaining work-related injuries or illnesses. 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 plan supports cost-of-living adjustments (COLA) granted for time-loss and disability payments; however, these 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, except for the Supplemental Pension Fund premiums which are based on a flat rate per hours worked independent of risk class or past experience. In addition to its regular premium plan which is required for all employers, the Workers' Compensation Fund offers a voluntary retrospective premium rating plan under which premiums are subject to three annual adjustments based on group and individual employers' loss experience. Initial adjustments to the standard premiums are paid to or collected from the groups and individual employers approximately ten months after the end of each plan year.

The Department of Labor and Industries, as administrator of the workers' compensation program, establishes claims liabilities based on estimates of the ultimate cost of claims (including future claims adjustment expenses) that have already occurred. 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 payable are recomputed quarterly using a variety of actuarial and statistical techniques. These techniques are used to produce current estimates that reflect recent settlements, claim frequency, expected inflation, and other economic, legal, and social factors. Adjustments to claims payable are charged or credited to claims expense in the periods in which they are made.

Risk Management. The state of Washington operates a self-insurance liability program pursuant to RCW 4.92.130. The state manages its tort claims as an insurance business activity rather than a general governmental activity. The state's policy is generally not to purchase commercial insurance for the risk of losses to which it is exposed. Instead, the state's management believes it is more economical to manage its risks internally and set aside assets for claims settlement in the Risk Management Fund, an internal service fund. A limited amount of commercial insurance is purchased for liabilities arising from the operations of the Washington state ferries, 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 ten fiscal years. Otherwise, the self-insurance 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 self-insurance liability program in proportion to their anticipated exposure to liability losses.

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

The state's share of the cost of coverage for state employees is based on a per capita amount determined annually by the Legislature and allocated to state agencies.

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

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

The state secures commercial insurance for certain coverage offered, but self-insures the risk of loss for the Uniform Medical Plan. The Uniform Medical Plan enrolled 64 percent of the eligible subscribers in fiscal year 2013. Claims are paid from premiums collected, and claims adjudication is contracted through a third-party administrator.

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

2. Postemployment Benefits

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

Medical Expense Plan. As disclosed in Note 1.D, at the time of separation from state service due to retirement or death, the state offers a 25 percent buyout of an employee's accumulated sick leave. Individual state agencies may offer eligible employees a medical expense plan (MEP) that meets the requirements of the Internal Revenue Code. Agencies offering an MEP deposit the retiring employee's sick leave buyout in the MEP for reimbursement of medical expenses.

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

3. Interfund/Interagency Activities

The state engages in two major categories of interfund/interagency activity: reciprocal and nonreciprocal. Reciprocal interfund/interagency activity is the internal counterpart to exchange and exchange-like transactions and includes both interfund loans and services provided and used. Nonreciprocal activity is nonexchange in nature and includes both transfers and reimbursements.

4. Donor-restricted Endowments

The state of Washington reports endowments in higher education endowment permanent accounts. These accounts are established outside of the state treasury for use by the higher education institutions. There is no state law that governs endowment spending; rather, the policies of individual university and college boards govern the spending of net appreciation on investments.

Under the current spending policy, distributions to programs approximate an annual percentage rate of 4 percent of a five-year rolling average of the endowment's market valuation.

The net appreciation available for authorization for expenditure by governing boards totaled $393.7 million. This amount is reported as restricted for expendable endowment funds on the government-wide Statement of Net Position.

Note 2

Accounting, Reporting, and Entity Changes

Reporting Changes. Effective for fiscal year 2013 reporting, the state adopted the following new standards issued by the Governmental Accounting Standards Board (GASB):

Statement No. 60 *Accounting and Financial Reporting for Service Concession Arrangements*. GASB Statement No. 60 addresses service concession arrangements (SCAs), which are a type of public-private or public-public partnership.

Statement No. 61 *The Financial Reporting Omnibus – an amendment of GASB Statements No. 14 and No. 34*. GASB Statement No. 61 modifies certain requirements for inclusion of component units in the financial reporting entity.

Statement No. 62 *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. GASB Statement No. 62 incorporates into the GASB's authoritative literature accounting and financial reporting guidance issued on or before November 30, 1989, which do not conflict with or contradict GASB pronouncements.

Statement No. 63 *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. GASB Statement No. 63 introduces and defines deferred outflows and deferred inflows of resources as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively.

Statement No. 65 *Items Previously Reported as Assets and Liabilities*. GASB Statement No. 65 reclassifies certain items that were previously reported as assets and liabilities and recognizes these items as outflows of resources or inflows of resources.

Fund Reclassification. During fiscal year 2013, it was determined that one activity reported in the Pension and Other Employee Benefit Plans Fund did not meet the definition of a pension plan and would be more appropriately reported as governmental activity in the General Fund. Accordingly, beginning fund balances were restated by a reduction of $2.9 million in Pension and Other Employee Benefit Plans and an increase of $2.9 million in the Administrative Account in the General Fund.

Due to the passage of Initiative 1183, the distribution and retail sale of spirits was transferred to the private sector on June 1, 2012. As a result, the remaining activities of the Liquor Revolving Fund include promoting public safety by enforcing laws and regulating alcohol and tobacco sales. Since these activities are not supported by charges for goods or services, the Liquor Revolving Fund was reclassified from the Nonmajor Enterprise Fund and reported in the Nonmajor Governmental Fund. Accordingly, fiscal year 2013 beginning fund balances were restated by a reduction of $50.9 million in Nonmajor Enterprise and an increase of $47.2 million in Nonmajor Governmental. The remaining amounts of $24.5 million and $20.7 million relate to governmental capital assets and long-term obligations, respectively, to effect proper fund classification of the activities.

Fund equity at July 1, 2012, has been restated as follows (expressed in thousands):

	Fund equity (deficit) at June 30, 2012, as previously reported	Fund Reclassification	Fund equity (deficit) as restated, July 1, 2012
Governmental Funds:			
General	$ 1,004,623	$ 2,939	$ 1,007,562
Higher Education Special Revenue	2,015,242	-	2,015,242
Higher Education Endowment	3,096,400	-	3,096,400
Nonmajor Governmental	5,518,784	47,158	5,565,942
Proprietary Funds:			
Enterprise Funds:			
Workers' Compensation	(8,698,917)	-	(8,698,917)
Unemployment Compensation	3,224,951	-	3,224,951
Higher Education Student Services	1,366,722	-	1,366,722
Guaranteed Education Tuition Program	(631,550)	-	(631,550)
Nonmajor Enterprise *	162,036	(50,899)	111,137
Internal Service Funds	28,658	-	28,658
Fiduciary Funds:			
Private Purpose Trust	5,827	-	5,827
Local Government Investment Pool	7,996,749	-	7,996,749
Pension and Other Employee Benefit Plans **	68,044,724	(2,939)	68,041,785
Component Units:			
Public Stadium	342,723	-	342,723
Nonmajor Component Units	103,712	-	103,712

* The Liquor Revolving Fund was reported in the Nonmajor Enterprise Fund in fiscal year 2012, but is reported in the Nonmajor Governmental Fund for fiscal year 2013.

** The Higher Education Retirement Plan Supplemental Benefit Account was reported in the Pension and Other Employee Benefit Plans Fund in fiscal year 2012, but is reported as an Administrative Account within the General Fund in fiscal year 2013.

Note 3
Deposits and Investments

A. DEPOSITS

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

The state minimizes custodial credit risk by restrictions set forth in state law. Statutes require state agencies to deposit funds in financial institutions that are physically located in Washington unless otherwise expressly permitted by statute and authorized by the Washington Public Deposit Protection Commission (PDPC). The PDPC, established under chapter 39.58 of the Revised Code of Washington (RCW), makes and enforces regulations and administers a collateral pool program to ensure public funds are protected if a financial institution becomes insolvent. Securities pledged are held by a trustee agent for the benefit of the collateral pool.

At June 30, 2013, $1.12 billion of the state's deposits with financial institutions were insured or collateralized, with the remaining $13.8 million uninsured/ uncollateralized.

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

1. Summary of Investment Policies

Under RCW 43.33A.030, trusteeship of the pension trust funds is vested within the voting members of the Washington State Investment Board (WSIB). The Legislature has established a standard of care for investment of these funds in RCW 43.33A.140. Additionally, the WSIB and its staff must comply with other state laws, such as the Ethics in Public Service Act, chapter 42.52 RCW, in making investment decisions and seeking to meet investment objectives.

The pension trust funds consist of retirement contributions from employer and employee participants in the Washington State Retirement System and related earnings on those contributions. The Retirement System is administered by the Department of Retirement Systems. The WSIB has exclusive control of the investment of all money invested in the pension trust funds.

In accordance with RCW 43.33A.110, the WSIB manages the pension fund portfolio to achieve maximum return at a prudent level of risk. The WSIB establishes asset allocation targets that must be considered at all times when making investment decisions. The asset mix may deviate from the target. Deviations greater than predetermined acceptable levels require rebalancing back to the target. When an asset class exceeds its range, the goal of rebalancing is to meet the target allocation within consideration of the other remaining asset classes.

Eligible Investments. The WSIB is authorized by statute as having investment management responsibility for pension funds. The WSIB is authorized to invest as provided by statute (chapter 43.33A RCW) and WSIB policy in the following: U.S. 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; non-U.S. dollar bonds; investment grade corporate bonds; non-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, and other tangible assets, or other forms of private equity; asset-backed securities; and derivative securities including futures, options, options on futures, forward contracts, and swap transactions. There were no violations of these investment restrictions during fiscal year 2013.

Commingled Trust Fund. Pension trust funds are invested in the Commingled Trust Fund (CTF). The CTF is a diversified pool of investments used as an investment vehicle for 14 separate retirement plans and one supplemental pension funding account. These plans hold shares in the CTF, which represent a percentage ownership in the pool of investments. Plans are allowed to purchase or sell shares in the CTF, based on the fair value of the underlying assets, on the first business day of each month.

In addition to share ownership in the CTF, each retirement plan holds short-term investments that are used to manage each plan's cash needs.

The CTF consists of the Public Employees' Retirement System (PERS) Plans 1 and 2/3; Teachers' Retirement System (TRS) Plans 1 and 2/3; School Employees' Retirement System (SERS) Plans 2/3; Law Enforcement Officers' and Fire Fighters' Retirement Plans 1 and 2; Washington State Patrol Retirement System Plans 1 and 2; Public Safety Employees' Retirement System Plan 2; Volunteer Fire Fighters' and Reserve Officers' Relief and Pension Fund; and the Higher Education Retirement Supplemental Benefit Account. PERS Plan 3, TRS Plan 3, and SERS Plan 3 are hybrid defined benefit/defined contribution plans. The participants of those plans have the option to direct their contributions to the CTF or invest their defined contributions in other external options not managed by the WSIB.

CTF Investment Policies and Restrictions. The CTF is comprised of public markets equities, fixed income securities, private equity investments, tangible assets, real estate, and an innovation portfolio. The CTF's performance objective is to exceed the return of two custom benchmarks, each consisting of public market indices weighted according to asset allocation targets.

The asset allocation for the CTF is formally reviewed at least every four years. The allocation policy is reviewed more frequently if there has been a fundamental change in the structure of the capital markets or in the underlying cash flow or liability structure of the pension trust funds.

When market values fall outside policy ranges, assets are rebalanced first by using normal cash flows and then through reallocations of assets across asset classes. In cases of a major rebalancing, the pension trust funds can utilize futures, forward contracts, and options in order to maintain exposure within each asset class and reduce transaction costs. Major rebalancing can occur to bring asset classes within their target ranges or when the pension trust funds are transitioning managers.

To achieve the performance and diversification objectives of the pension trust funds, the public markets equity program seeks to achieve the highest return possible from active management consistent with prudent risk management and the desire for downside protection with passive management as the default; provide diversification to the pension trust funds overall investment program; maintain liquidity in public equity; and maintain transparency into all public equity strategies to the extent possible.

The public markets equity portion of the pension trust funds invests in publicly traded equities globally, including equity securities in the U.S., developed non-U.S., and emerging markets. The program has a global benchmark, currently the Morgan Stanley Capital International All Country World Investable Market Index. A mix of external managers approved by the WSIB is used to manage the program. Passive management delivers broad diversified equity market exposure at low cost and is used when active managers cannot be identified and monitored with existing resources. Passive management is also used when it is considered an appropriate alternative to active management, typically in more efficient markets. Active management is used when the pension trust funds can identify, access, and monitor successful managers in markets that are less efficient. Active management seeks to enhance the risk/return profile of the program.

The fixed income segment is managed to achieve the highest return possible consistent with the desire to control asset volatility, emphasize high yield to maturity opportunities to add value through active management, provide diversification to the overall investment program, and to meet or exceed the return of the Barclays Capital Universal Bond Index, with volatility similar to or less than the index.

RCW 43.33A.140 prohibits a corporate fixed income issue cost from exceeding 3 percent of the CTF's market value at the time of purchase, and 6 percent of its market value thereafter. However, the WSIB manages with a more restrictive concentration constraint, limiting exposure to any corporate issuer to 3 percent of the CTF fixed income portfolio's market value at all times.

The fixed income portfolio is constrained by policy from investing more than 1 percent of the portfolio's par holdings in any single issuer with a quality rating below investment grade (as defined by Barclays Capital Global Family of Fixed Income Indices). Total market value of below investment grade credit bonds (as defined by Barclays Capital Global Family of Fixed Income Indices) shall not exceed 15 percent of the market value of the fixed income portfolio. Although below investment grade mortgage-backed, asset-backed, or commercial mortgage-backed securities may not be purchased, portfolio holdings that are downgraded to those levels or are no longer rated may continue to be held. The total market value of below investment grade mortgage-backed, asset-backed, and commercial mortgage-backed securities shall not exceed 5 percent of the market value of the fixed income portfolio. The duration of the portfolio (the sensitivity of the portfolio's fair value to changes in the level of interest rates) is targeted to be within plus or minus 20 percent of the duration of the Barclays Capital Universal Index.

The major sector allocations of the fixed income portfolio are limited to the following ranges: U.S treasuries and government agencies – 10 percent to 45 percent, credit bonds – 10 percent to 60 percent, asset-backed securities – 0 percent to 10 percent, commercial mortgage-backed securities – 0 percent to 10 percent, and mortgage-backed securities – 5 percent to 45 percent.

Pension trust funds can be invested in any appropriate private equity investment opportunity that has the potential for returns superior to traditional investment opportunities and which is not prohibited by the WSIB's policies or by law. These investment types include venture capital, corporate finance, growth equity, special situations, distressed, mezzanine, and other investments. Private equity investments are made through limited partnership or direct investment vehicles.

The private equity investment portfolio is managed to meet or exceed the returns of the Russell 3000 by 300 basis points in the long term. To meet the return and plan objectives, the private equity portfolio has diversified investments in companies in a variety of growth stages. The portfolio also includes a broad cross-section of opportunities in different industries and geographic regions.

The primary goal of the tangible asset portfolio is to generate a long-term, high quality, stable income stream. The secondary goal is to generate appreciation approximately commensurate with inflation. The structure of the investments are primarily targeted to those funds, separate accounts, or tangible asset operating companies providing the WSIB with the most robust governance provisions related to acquisitions, dispositions, debt levels, and ongoing operational decisions for annual capital expenditures. The tangible asset portfolio invests in a number of sectors, but the primary focus is infrastructure, timber, and natural resource rights (oil and natural gas).

The WSIB's current return objective for tangible assets calls for a target benchmark of 4 percent above the U.S. Consumer Price Index over a long-term investment horizon defined as at least five years.

The WSIB's real estate program is an externally managed pool of selected partnership investments, intended to provide alternative portfolio characteristics when compared to traditional stock and bond investments. The majority of the WSIB's partnerships invest in institutional-quality real estate assets that are leased to third parties. The income generated from bond-like lease payments coupled with the hard asset qualities of commercial real estate combine to generate returns that are expected to fall between the return expectations for fixed income and equities over the long term. The real estate portfolio is managed to deliver risk-adjusted returns that are consistent with the WSIB's long-term return expectations for the asset class.

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

Volatility in the real estate portfolio is minimized through a combination of factors. First, the majority of the WSIB's partners own real estate assets in a private investment form which are not subject to public market volatility. Second, real estate capital is diversified among a host of partners with varying investment styles. Third, partnership assets are invested in numerous economic regions, including foreign markets, and in various property types. Finally, the WSIB's partners invest at different points within the properties' capital structure and life cycle.

The WSIB's real estate portfolio current benchmark seeks to earn an 8 percent annual investment return over a rolling 10-year period.

The innovation portfolio investment strategy is to provide the WSIB with the ability to invest in assets that fall outside of traditional asset classes and to provide the WSIB with comfort and demonstrated success before committing large dollar amounts to the strategy. The overall benchmark for the innovation portfolio is the weighted average of the underlying benchmark for each asset in the portfolio.

Currently, there are three investment strategies in the innovation portfolio, two involving private partnerships and one investing in public equities.

2. Unfunded Commitments

The WSIB has entered into a number of agreements that commit the pension trust funds, upon request, to make additional investment purchases up to predetermined amounts. As of June 30, 2013, the pension trust funds had unfunded commitments of $10.16 billion, $7.77 billion, $783.4 million, and $52.3 million in private equity, real estate, tangible assets, and the innovation portfolio, respectively.

3. Securities Lending

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

The fair value of the securities on loan at June 30, 2013, was approximately $1.40 billion. The pension trust funds report securities on loan in their respective categories in the Statement of Net Position. At June 30, 2013, cash collateral received totaling $1.20 billion is reported as securities lending obligation, and the fair value of the reinvested cash collateral totaling $1.20 billion is reported as security lending collateral in the Statement of Net Position. Securities received as collateral for which the pension trust funds do not have the ability to pledge or sell unless the borrower defaults are not reported as assets and liabilities in the Statement of Net Position.

Fixed income securities were loaned during the fiscal year and collateralized by the pension trust funds' agent with cash, U.S. government or U.S. agency securities (exclusive of mortgage-backed securities and letters of credit). When the loaned securities had collateral denominated in the same currency, the collateral requirement was 102 percent of the fair value, including accrued interest, of the securities loaned. All other securities were required to be collateralized at 105 percent of the fair value, including accrued interest, of the loaned securities.

As of June 30, 2013, the pension trust funds held the following cash and securities as lending collateral (in thousands):

Cash and cash equivalents	$ 275,286
Commercial paper	217,356
Repurchase agreements	670,261
U.S. Treasury and agency securities	298,862
Miscellaneous	33,992
Total collateral held	$1,495,757

During fiscal year 2013, securities lending transactions could be terminated on demand by either the pension trust funds or the borrower. As of June 30, 2013, the collateral held had an average duration of 22.42 days and an average weighted final maturity of 57.44 days.

Because the securities lending agreements were terminable at will, their duration did not generally match the duration of the investments made with the cash collateral. Non-cash collateral could not be pledged or sold absent borrower default. No more than 20 percent of the total on loan value could be held by a specific borrower. There are no restrictions on the amount of securities that can be lent.

Securities were lent with the agreement that they would be returned in the future for exchange of the collateral. State Street Corporation indemnified the pension trust funds 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. State Street Corporation's responsibilities included performing appropriate borrower and collateral investment credit analyses, demanding adequate types and levels of collateral, and complying with applicable federal regulations concerning securities lending.

During fiscal year 2013, there were no significant violations of legal or contractual provisions and no failures by any borrowers to return loaned securities or to pay distributions thereon. Further, the pension trust funds incurred no losses during fiscal year 2013 resulting from a default by either the borrowers or the securities lending agents.

4. Interest Rate Risk

Interest rate risk is the risk that changes in interest rates over time will adversely affect the fair value of an investment. The risk is managed within the portfolios using effective duration, which is the measure of a debt investment's exposure to fair value changes arising from changes in interest rates. Increases in prevailing interest rates generally translate into decreases in fair values of those investments.

While the pension trust funds do not have a formal policy relating to interest rate risk, the pension trust funds' fixed income investments are actively managed to meet or exceed the return of the Barclays Capital Universal Index, with a duration target within plus or minus 20 percent of the duration of the portfolio's performance benchmark. As of June 30, 2013, the duration of the pension trust funds' fixed income investments was within the duration target of this index.

The schedule below provides information about the interest rate risks associated with the pension trust funds' investments as of June 30, 2013. The schedule displays various asset classes held by maturity in years and credit ratings. Residential mortgage-backed, commercial mortgage-backed, and asset-backed securities are reported using the average life within the portfolio. The average life is a calculated estimate of the average time (in years) until maturity for these securities taking into account possible prepayments of principal. All other securities on this schedule are reported using the stated maturity date. Certain foreign investments are recorded in U.S. dollars (USD), while others are recorded in non U.S. dollars (Non USD) but have been converted to U.S. dollars for reporting purposes.

Pension Trust Funds
Schedule of Maturities and Credit Quality
June 30, 2013
(expressed in thousands)

Investment Type	Fair Value	Maturity: Less than 1 Year	1-5 Years	6-10 Years	More than 10 Years	Credit Rating
Asset-backed securities	$ 11	$ -	$ -	$ -	$ 11	Multiple
Residential mortgage-backed securities	1,121,501	382,311	739,132	58	-	Multiple
Commercial mortgage-backed securities	213,136	-	203,617	9,519	-	Aaa
Corporate bonds - domestic (USD)	861,611	65,980	285,681	365,864	144,086	Multiple
Corporate bonds - domestic (Non USD)	54,629	36,341	18,288	-	-	Multiple
Corporate bonds - foreign (USD)	3,928,374	50,399	731,493	2,647,272	499,210	Multiple
Corporate bonds - foreign (Non USD)	270,496	-	186,658	53,409	30,429	Multiple
U.S. government treasuries	5,001,554	861,218	3,086,878	1,053,458	-	Aaa
Foreign government and agencies (USD)	1,247,989	27,128	159,094	867,914	193,853	Multiple
Foreign government and agencies (Non USD)	888,202	40,147	319,179	283,297	245,579	Multiple
Supranational securities (Non USD)	519,629	137,683	287,107	94,839	-	Aaa
Total investments categorized	14,107,132	$ 1,601,207	$ 6,017,127	$ 5,375,630	$ 1,113,168	
Investments not required to be categorized						
Corporate stock (USD)	3,461,808					
Corporate stock (Non USD)	10,792,860					
Commingled equity index funds	11,408,159					
Alternative investments	26,479,630					
Liquidity	1,579,719					
Total investments not categorized	53,722,176					
Total Investments	$ 67,829,308					

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

Pension Trust Funds
Investments with Multiple Credit Ratings
June 30, 2013
(expressed in thousands)

	Investment Type								
Moody's Equivalent Credit Rating	**Asset-Backed Securities**	**Residential Mortgage-Backed Securities**	**Corporate Bonds - Domestic (USD)**	**Corporate Bonds - Domestic (Non USD)**	**Corporate Bonds - Foreign (USD)**	**Corporate Bonds - Foreign (Non USD)**	**Foreign Government and Agencies (USD)**	**Foreign Government and Agencies (Non USD)**	**Total**
Aaa	$ -	$ 1,106,243	$ -	$ -	$ -	$ -	$ 8,883	$ 172,785	$ 1,287,911
Aa1	11	-	-	-	-	-	17,964	63,322	81,297
Aa2	-	-	16,833	-	27,860	-	28,000	-	72,693
Aa3	-	-	38,047	-	35,324	-	169,265	60,397	303,033
A1	-	1,855	19,392	-	75,686	10,538	246,563	40,146	394,180
A2	-	1,713	184,773	18,288	110,549	57,739	22,929	16,282	412,273
A3	-	-	52,881	-	257,644	-	25,195	96,051	431,771
Baa1	-	-	240,424	36,341	422,302	18,198	86,574	74,822	878,661
Baa2	-	11,690	152,218	-	1,058,678	84,984	259,732	80,193	1,647,495
Baa3	-	-	53,380	-	1,077,594	81,813	239,017	235,280	1,687,084
Ba1 or lower	-	-	103,663	-	862,737	17,224	143,867	48,924	1,176,415
Total	$ 11	$ 1,121,501	$ 861,611	$ 54,629	$ 3,928,374	$ 270,496	$ 1,247,989	$ 888,202	$ 8,372,813

5. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The pension trust funds' investment policies limit the fixed income securities to investment grade or higher at the time of purchase. Investment grade securities are those fixed income securities with a Moody's rating of Aaa to Baa or a Standard and Poor's rating of AAA to BBB. The rated debt investments of the pension trust funds as of June 30, 2013, were rated by Moody's and/or an equivalent national rating organization.

Concentration of Credit Risk. Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. The policy of the pension trust funds states no corporate fixed income issue cost shall exceed 3 percent of cost at the time of purchase or 6 percent of fair value thereafter of the fund, and no high yield issues shall exceed 1 percent of cost or 2 percent of fair value of the fund. There was no concentration of credit risk exceeding these policy guidelines as of June 30, 2013.

Custodial Credit Risk. Custodial credit risk is the risk that, in the event a depository institution or counterparty fails, the pension trust funds would not be able to recover the value of their deposits, investments, or collateral securities that are in the possession of an outside party. The pension trust funds do not have a policy relating to custodial credit risk. The WSIB mitigates custodial credit risk by having its investment securities (excluding cash and cash equivalents and repurchase agreements held as securities lending collateral) registered and held in the name of the WSIB for the benefit of the pension trust funds.

6. Foreign Currency Risk

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

The following schedule presents the exposure of pension fund investments to foreign currency risk. The schedule provides information on deposits and investments held in various foreign currencies. Private equity and real estate are presented according to the financial reporting currency of the individual funds. This is not a presentation of currency exposure relating to the underlying holdings. The schedule is stated in U.S. dollars.

Pension Trust Funds
Foreign Currency Exposure by Country
June 30, 2013
(expressed in thousands)

	Investment Type					
Foreign Currency Denomination	**Currency**	**Fixed Income**	**Common Stock**	**Private Equity**	**Real Estate**	**Total**
Australia-Dollar	$ 4,464	$ 408,094	$ 565,325	$ -	$ -	$ 977,883
Brazil-Real	195	340,301	78,776	-	-	419,272
Canada-Dollar	12,409	-	725,351	-	-	737,760
Chile-Peso	-	155,555	421	-	-	155,976
Columbia-Peso	-	135,553	-	-	-	135,553
Denmark-Krone	50	-	86,011	-	-	86,061
E.M.U.-Euro	14,314	-	2,660,647	2,349,429	201,710	5,226,100
Hong Kong-Dollar	3,391	-	405,601	-	-	408,992
India-Rupee	384	135,355	100,154	-	-	235,893
Indonesia-Rupiah	118	63,812	72,289	-	-	136,219
Japan-Yen	28,318	-	1,995,729	-	-	2,024,047
Malaysia-Ringgit	345	67,808	18,253	-	-	86,406
Mexico-Peso	(25)	85,066	42,971	-	-	128,012
Singapore-Dollar	853	-	159,026	-	-	159,879
South Korea-Won	531	-	123,101	-	-	123,632
Sweden-Krona	4,474	-	280,693	-	-	285,167
Switzerland-Franc	133	-	855,134	-	-	855,267
Thailand-Baht	80	48,427	60,265	-	-	108,772
Turkey-Lira	227	93,795	78,912	-	-	172,934
United Kingdom-Pound	20,902	-	2,222,583	-	-	2,243,485
Other-Miscellaneous	5,195	199,190	261,618	-	-	466,003
Total	$ 96,358	$ 1,732,956	$ 10,792,860	$ 2,349,429	$ 201,710	$ 15,173,313

7. Derivatives

Pension trust funds are authorized to utilize various derivative financial instruments, including financial futures, forward contracts, interest rate swaps, credit default swaps, equity swaps, and options. Derivative transactions involve, to varying degrees, market and credit risk. In connection with the cash overlay program, at June 30, 2013, the pension trust funds held investments in financial futures and forward currency contracts that are recorded at fair value with changes in value recognized in investment income in the Statement of Changes in Net Position in the period of change. The derivative instruments are considered investments and not hedges.

Derivatives are generally used to achieve the desired market exposure of a security, index, or currency; adjust portfolio duration; or rebalance the total portfolio to the target asset allocation. Derivative contracts are instruments that derive their value from underlying assets, indices, reference interest rates, or a combination of these factors.

A derivative instrument could be a contract negotiated on behalf of the pension trust funds and a specific counterparty. This would typically be referred to as an "over the counter (OTC) contract" such as forward contracts. Alternatively, a derivative instrument, such as futures, could be listed and traded on an exchange and referred to as "exchange traded."

Inherent in the use of OTC derivatives, the pension trust funds are exposed to counterparty credit risk on all open OTC positions. Counterparty credit risk is the risk that a derivative counterparty may fail to meet its payment obligation under the derivative contract. As of June 30, 2013, the pension trust funds counterparty risk was not deemed to be significant.

Futures contracts are standardized, exchange-traded contracts to purchase or sell a specific financial instrument at a predetermined price. Gains and losses on futures contracts are settled daily based on a notional (underlying) principal value and do not involve an actual transfer of the specific instrument. The exchange assumes the risk that the counterparty will not pay and generally requires margin payments to minimize such risk. Futures are generally used to achieve the desired market exposure of a security or index or to rebalance the total portfolio.

Forward currency contracts are agreements to exchange the currency of one country for the currency of another country at an agreed-upon price and settlement date. These forward commitments are not standardized and carry counterparty credit risk due to the possible nonperformance by one of the counterparties. The maximum potential loss is the aggregate face value in U.S. dollars at the time the contract was opened; however, the likelihood of such loss is remote.

At June 30, 2013, the pension trust funds had outstanding forward currency contracts with a net unrealized gain of $9.2 million which is included in the Statement of Changes in Net Position. The contracts have varying maturity dates ranging from July 1, 2013, to September 18, 2013.

At June 30, 2013, the pension trust funds' fixed income portfolio held derivative securities consisting of collateralized mortgage obligations with a fair value of $312.0 million. Domestic and foreign passive equity index fund managers may also utilize various derivative securities to manage exposure to risk and increase portfolio returns. Information on the extent of use and holdings of derivative securities by passive equity index fund managers is unavailable.

Derivatives which are exchange traded are not subject to credit risk.

The following schedule presents the significant terms for derivatives held as investments by the pension trust funds:

Pension Trust Funds
Derivative Investments
June 30, 2013
(expressed in thousands)

	Changes in Fair Value - Included in Investment Income (Loss) Amount	Fair Value - Investment Derivative Amount	Notional
Futures Contracts:			
Bond index futures	$ (19,140)	$ (8,137)	$ 565,700
Equity index futures	7,755	(689)	7,297
Total	$ (11,385)	$ (8,826)	$ 572,997
Forward Currency Contracts:			
Australia-Dollar	$ 3,286	$ 5,374	$ 87,700
Canada-Dollar	(2,556)	(2,746)	103,134
Denmark-Krone	(340)	(1,712)	141,820
E.M.U.-Euro	(4,967)	5,554	377,771
Hong Kong-Dollar	(38)	105	195,827
Israel-Shekel	(311)	17	2,674
Japan-Yen	6,978	3,241	148,777
Mexico-Peso	(61)	(72)	3,013
New Zealand-Dollar	(4,014)	(1,997)	87,298
Norway-Krone	287	340	8,473
Singapore-Dollar	(280)	(338)	21,581
South Africa-Rand	(101)	(124)	4,335
Sweden-Krona	336	753	45,162
Switzerland-Franc	549	493	42,005
United Kingdom-Pound	(1,144)	361	46,013
Total	$ (2,376)	$ 9,249	$ 1,315,583

8. Reverse Repurchase Agreements – None.

C. INVESTMENTS – WORKERS' COMPENSATION FUND

1. Summary of Investment Policies

Under RCW 43.33A.030, trusteeship of the Workers' Compensation Fund investments is vested in the voting members of the WSIB. The Legislature established a standard of care for investment of these funds in RCW 43.33A.140. Additionally, the WSIB and its staff must comply with other state laws, such as the Ethics in Public Service Act, chapter 42.52 RCW, in making investment decisions and seeking to meet investment objectives.

The Workers' Compensation Fund consists of contributions from employers and their employees participating in the state workers' compensation program and related earnings on those contributions. The workers' compensation program provides medical, time-loss, and disability benefit payments to qualifying individuals sustaining work-related injuries.

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

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

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

- U.S. equities.
- International equities.
- Treasury inflation protection securities (TIPS).
- U.S. treasuries and government agencies.
- Credit bonds.
- Mortgage-backed securities rated investment grade, as defined by Barclays Capital Global Family of Fixed Income Indices.
- Asset-backed securities rated investment grade, as defined by Barclays Capital Global Family of Fixed Income Indices.
- Commercial mortgage-backed securities rated investment grade, as defined by Barclays Capital Global Family of Fixed Income Indices.
- Investment grade non-U.S. dollar bonds.

Investment Restrictions. To meet stated objectives, investments of the Workers' Compensation Fund are subject to the following constraints:

- All assets under the management of the WSIB are to be invested to maximize return at a prudent level of risk in accordance with RCW 43.33A.110 and RCW 43.33A.140.
- No corporate fixed income issue cost shall exceed 3 percent of the fund's fair value at the time of purchase, nor shall its fair value exceed 6 percent of the fund's fair value at any time.
- Asset allocations are to be reviewed every three to four years or sooner if there are significant changes in funding levels or the liability durations.
- Assets are to be rebalanced across asset classes when the fair value of the assets falls outside the policy ranges. The timing of any rebalancing will be based on market opportunities, cash flows, and the consideration of transaction costs; therefore, they need not occur immediately.
- Sector allocation for U.S. equities should be within a range of 55 percent to 65 percent. Allocation for international equities should be within a range of 35 percent to 45 percent.
- The benchmark and structure for U.S. equities will be the broad U.S. stock market as defined by the Morgan Stanley Capital International (MSCI) U.S. Investable Market Index passive mandate. The benchmark and structure for international equities will be the MSCI All Country World Ex U.S. Investable Market Index. Both portfolios will be 100 percent passively managed in commingled index funds. The commingled funds may use futures for hedging or establishing a long position.
- TIPS will be managed to plus or minus 20 percent of the duration of the Barclays Capital U.S. TIPS Index.
- Sector allocation of fixed income investments must be managed within the following prescribed ranges: U.S. treasuries and government agencies – 5 percent to 25 percent, credit bonds – 20 percent to 70 percent, asset-

backed securities – 0 percent to 10 percent, commercial mortgage-backed securities – 0 percent to 10 percent and mortgage-backed securities – 0 percent to 25 percent. These targets are long-term in nature. Deviations may occur in the short term as a result of interim market conditions. However, if a range is exceeded the portfolios must be rebalanced to the target allocations as soon as it is practical.

- Total market value of below investment grade credit bonds (as defined by Barclays Capital Global Family of Fixed Income Indices) shall not exceed 5 percent of the total market value of the funds. Although below investment grade mortgage-backed, asset-backed, and commercial mortgage-backed securities may not be purchased, portfolio holdings that are downgraded to those levels or are no longer rated may continue to be held.

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

2. Securities Lending

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

The fair value of the securities on loan at June 30, 2013, was approximately $26.2 million. The Workers' Compensation Fund reports securities on loan in the Statement of Net Position in their respective categories. At June 30, 2013, cash collateral received totaling $26.4 million is reported as a securities lending obligation, and the fair value of the reinvested cash collateral totaling $26.4 million is reported as security lending collateral in the Statement of Net Position. Securities received as collateral for which the Workers' Compensation Fund does not have the ability to pledge or sell unless the borrower defaults are not reported as assets and liabilities in the Statement of Net Position.

During fiscal year 2013, fixed income securities were loaned and collateralized by the Workers' Compensation Fund's agent with cash and U.S. government or U.S. agency securities (exclusive of mortgage-backed securities and letters of credit). When the loaned securities had collateral denominated in the same currency, the collateral requirement was 102 percent of the fair value, including accrued interest, of the securities loaned. All other securities were required to be collateralized at 105 percent of the fair value, including accrued interest, of the loaned securities.

As of June 30, 2013, the Workers' Compensation Fund held the following cash and securities as lending collateral (in thousands):

Cash and cash equivalents	$ 6,068
Commercial paper	4,791
Repurchase agreements	14,773
Miscellaneous	749
Total collateral held	$26,381

Securities lending transactions could be terminated on demand by either the Workers' Compensation Fund or the borrower. As of June 30, 2013, the collateral held had an average duration of 22.42 days and an average weighted final maturity of 57.44 days. Because the securities lending agreements were terminable at will, their duration did not generally match the duration of the investments made with the cash collateral. Non-cash collateral could not be pledged or sold absent borrower default. No more than 20 percent of the total on loan value can be held by a specific borrower. There are no restrictions on the amount of securities that can be lent.

Securities were lent with the agreement that they would be returned in the future for exchange of the collateral. State Street Corporation indemnified the Workers' Compensation Fund 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. State Street Corporation's responsibilities included performing appropriate borrower and collateral investment credit analyses, demanding adequate types and levels of collateral, and complying with applicable federal regulations concerning securities lending.

During fiscal year 2013, there were no significant violations of legal or contractual provisions, no failures by any borrowers to return loaned securities or to pay distributions thereon. Further, the Workers' Compensation Fund incurred no losses during fiscal year 2013 resulting from a default by either the borrowers or the securities lending agents.

3. Interest Rate Risk

Interest rate risk is the risk that changes in interest rates over time will adversely affect the fair value of an investment.

While the Workers' Compensation Fund does not have a formal policy relating to interest rate risk, the risk is managed within the Workers' Compensation Fund portfolio using effective duration which is the measure of a debt investment's exposure to fair value changes arising from changes in interest rates. Increases in prevailing interest rates generally translate into decreases in fair values of those investments. As of June 30, 2013, the Workers' Compensation Fund portfolio durations were within the prescribed duration targets.

The schedule below provides information about the interest rate risks associated with the Workers' Compensation Fund investments as of June 30, 2013. The schedule displays various asset classes held by maturity in years and credit ratings. Residential mortgage-backed, commercial mortgage-backed, and asset-backed securities are reported using the average life within the portfolio. The average life is a calculated estimate of the average time (in years) until maturity for these securities taking into account possible prepayments of principal. All other securities on the schedule are reported using the stated maturity date.

Workers' Compensation Fund
Schedule of Maturities and Credit Quality
June 30, 2013
(expressed in thousands)

		Maturity				
Investment Type	**Fair Value**	**Less than 1 Year**	**1-5 Years**	**6-10 Years**	**More than 10 Years**	**Credit Rating**
Residential mortgage-backed securities	$ 1,571,705	$ 23,168	$ 1,133,536	$ 384,248	$ 30,753	Aaa
Commercial mortgage-backed securities	388,249	13,785	339,825	34,639	-	Multiple
Corporate bonds-domestic	2,915,263	59,546	569,409	972,528	1,313,780	Multiple
Corporate bonds-foreign (USD)	2,510,029	51,555	671,293	889,082	898,099	Multiple
Foreign government and agencies (USD)	1,042,639	1,006	431,110	332,664	277,859	Multiple
Supranational securities (USD)	161,055	-	161,055	-	-	Aaa
U.S. government treasuries	1,113,738	205,133	614,574	294,031	-	Aaa
U.S. treasury inflation protected securities	1,726,900	27,864	600,201	418,228	680,607	Aaa
Total investments categorized	11,429,578	$ 382,057	$ 4,521,003	$ 3,325,420	$ 3,201,098	
Investments not required to be categorized						
Commingled index funds-domestic	1,062,288					
Commingled index funds-foreign	668,182					
Money market funds	221,518					
Total investments not categorized	1,951,988					
Total	$ 13,381,566					

USD: Reported in U.S. dollars

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

Workers' Compensation Fund
Investments with Multiple Credit Ratings
June 30, 2013
(expressed in thousands)

	Investment Type				
Moody's Equivalent Credit Rating	**Commercial Mortgage-Backed Securities**	**Corporate Bonds - Domestic**	**Corporate Bonds-Foreign (USD)**	**Foreign Government and Agencies (USD)**	**Total**
Aaa	$ 336,369	$ 5,580	$ 1,012	$ 139,846	$ 482,807
Aa2	-	32,539	-	51,791	84,330
Aa3	51,880	170,665	266,429	251,228	740,202
A1	-	145,241	176,194	205,971	527,406
A2	-	720,940	48,543	-	769,483
A3	-	374,226	302,844	-	677,070
Baa1	-	671,081	424,204	58,376	1,153,661
Baa2	-	619,912	594,511	123,235	1,337,658
Baa3	-	129,744	541,891	135,867	807,502
Ba1 or lower	-	45,335	154,401	76,325	276,061
Total	$ 388,249	$ 2,915,263	$ 2,510,029	$ 1,042,639	$ 6,856,180

4. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Workers' Compensation Fund investment policies limit the fixed income securities to investment grade or higher at the time of purchase. Investment grade securities are those fixed income securities with a Moody's rating of Aaa to Baa or a Standard and Poor's rating of AAA to BBB.

The rated debt investments of the Workers' Compensation Fund as of June 30, 2013, were rated by Moody's and/or an equivalent national rating organization.

Concentration of Credit Risk. Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. The Workers' Compensation Fund policy states that no corporate fixed income issue cost shall exceed 3 percent of the fund's fair value at the time of purchase, nor shall its fair value exceed 6 percent of the fund's fair value at any time. There was no concentration of credit risk as of June 30, 2013.

Custodial Credit Risk. Custodial credit risk is the risk that, in the event a depository institution or counterparty fails, the Workers' Compensation Fund would not be able to recover the value of its deposits, investments, or collateral securities. The Workers' Compensation Fund does not have a policy relating to custodial credit risk. The WSIB mitigates custodial credit risk by having its investment securities (excluding cash and cash equivalents and repurchase agreements held as securities lending collateral) registered and held in the name of the WSIB for the benefit of the Workers' Compensation Fund.

5. Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The Workers' Compensation Fund does not have a formal policy to limit foreign currency risk. At June 30, 2013, the only security held by the Workers' Compensation Fund with foreign currency exposure consists of $668.2 million invested in an international commingled equity index fund.

6. Derivatives

The Workers' Compensation Fund is authorized to utilize various derivative financial instruments including collateralized mortgage obligations, financial futures, forward contracts, interest rate and equity swaps, and options to manage its exposure to fluctuations in interest and currency rates while increasing portfolio returns. Derivative transactions involve, to varying degrees, market and credit risk. The Workers' Compensation Fund 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.

Domestic and foreign passive equity index fund managers may also utilize various derivative securities to manage exposure to risk and increase portfolio returns. Information on the extent of use and holdings of derivative securities by passive equity index fund managers is unavailable.

At June 30, 2013, the only derivative securities held directly by the Workers' Compensation Fund were collateralized mortgage obligations of $1.57 billion.

7. Reverse Repurchase Agreements – None.

D. INVESTMENTS – LOCAL GOVERNMENT INVESTMENT POOL

1. Summary of Investment Policies

The Local Government Investment Pool (LGIP) is managed and operated by the Office of the State Treasurer (OST). The State Finance Committee is the administrator of the statute that created the pool and adopts appropriate rules. The OST is responsible for establishing the investment policy for the pool and reviews the policy annually. Any proposed changes are reviewed by the LGIP Advisory Committee. The terms of the policy are designed to ensure the safety and liquidity of the funds deposited in the LGIP.

The state treasurer and designated investment officers shall adhere to all restrictions on the investment of funds established by law and by policy.

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

Investments, other than bank deposits, are valued at amortized cost. The bank deposits are valued at historical cost. Both valuation methods approximate fair value. Security transactions are reported on a trade date basis in accordance with generally accepted accounting principles.

Investment Objectives. The objectives of the LGIP investment policy, in priority order, are safety, liquidity, and return on investment.

Safety of principal is the primary objective. Investments shall be undertaken in a manner that seeks to ensure preservation of capital in the overall portfolio.

The investment portfolio will remain liquid to enable the state treasurer to meet all cash requirements that might reasonably be anticipated.

The LGIP will be structured with the objective of attaining a market rate of return throughout budgetary and economic cycles, commensurate with the investment risk parameters and the cash flow characteristics of the pool.

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

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

Investment Restrictions. To provide for safety and liquidity of funds, the LGIP policy places the following restrictions on the investment portfolio:

- Investments are restricted to fixed rate securities that mature in 397 days or less, except securities utilized in repurchase agreements and U.S. agency floating or variable rate notes which may have a maximum maturity of 762 days, provided they have reset dates within one year and that on any reset date can reasonably be expected to have a fair value that approximates their amortized cost.
- The weighted average maturity of the portfolio will not exceed 60 days.
- The weighted average life of the portfolio will not exceed 120 days.
- The purchase of investments in securities other than those issued by the U.S. government or its agencies will be limited.
- Cash generated through securities lending or reverse repurchase agreement transactions will not increase the dollar amount of specified investment types beyond stated limits.

2. Securities Lending

State statutes permit the LGIP to lend its securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. The LGIP, which has contracted with Citibank as a lending agent to lend securities in the LGIP, earns a fee for this activity. The lending agent lends securities and receives collateral, which can be in the form of cash or other securities. The collateral, which must be valued at 102 percent of the fair value of the loaned securities, is priced daily and, if necessary, action is taken to maintain the collateralization level at 102 percent. Cash collateral received from the lending of non coupon-bearing securities shall not be valued at less than 102 percent of market value, not to exceed par.

The cash is invested by the lending agent in accordance with investment guidelines approved by the LGIP. The securities held as collateral and the securities underlying the cash collateral are held by the LGIP's custodian. One option available to the lending agent is to invest cash collateral with the LGIP. Maturities of investments made with cash collateral are generally matched to maturities of securities loaned.

During fiscal year 2013, the LGIP lent U.S. treasury securities in exchange for cash collateral. The cash collateral was reinvested in repurchase agreements. At fiscal year end, there were no securities on loan.

The LGIP investment policy requires that any securities on loan be made available by the lending agent for next day liquidity at the option of the LGIP. During fiscal year 2013, the LGIP had no credit risk exposure to borrowers because the amounts owed to the borrowers exceeded the amounts the borrowers owed the LGIP. Furthermore, the contract requires the lending agent to indemnify the LGIP if the borrowers fail to return the securities (and if collateral is inadequate to replace the securities lent) or if the borrower fails to pay the LGIP for income distribution by the securities' issuers while the securities are on loan.

The LGIP cannot pledge or sell collateral securities received unless the borrower defaults. The LGIP investment policy limits the amount of reverse repurchase agreements and securities lending to 30 percent of the total portfolio. There were no violations of legal or contractual provisions and no losses resulting from a default of a borrower or lending agent during the year.

3. Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt instruments will adversely affect the fair value of an investment. The LGIP portfolio is invested in a manner generally consistent with the Securities and Exchange Commission's Rule 2a-7 of the Investment Company Act of 1940, i.e., money market funds. To a great extent, the Rule 2a-7 investment guidelines and LGIP policy restrictions are directed towards limiting interest rate risk in order to maintain a stable net asset value. As of June 30, 2013, the LGIP had a weighted average maturity of 58 days and a weighted average life of 98 days.

The following schedule presents the LGIP investments, deposits, and related maturities, by type, and provides information about the associated interest rate risks as of June 30, 2013:

Local Government Investment Pool (LGIP)
June 30, 2013
(expressed in thousands)

		Maturity	
Investment Type	**Fair Value**	**Less than 1 Year**	**1-5 Years**
U.S. agency obligations	$ 6,513,556	$ 6,035,424	$ 478,132
U.S. government obligations	1,399,598	1,399,598	-
Repurchase agreements	1,797,874	1,797,874	-
Interest bearing bank accounts	879,635	879,635	-
Certificates of deposit and other	42,738	42,738	-
Total	$ 10,633,401	$ 10,155,269	$ 478,132

4. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The LGIP investment policy limits the types of securities available for investment to obligations of the U.S. government or its agencies, obligations of government-sponsored corporations, banker's acceptances, commercial paper, deposits with qualified public depositaries, and obligations of the state of Washington or its political subdivisions.

Banker's acceptances and commercial paper must be rated with the highest short-term credit rating of any two Nationally Recognized Statistical Rating Organizations at the time of purchase. The LGIP currently does not have any banker's acceptances, commercial paper, or municipal bonds in its portfolio.

Custodial Credit Risk. Custodial credit risk is the risk that, in the event of a failure of the counterparty, the LGIP will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. The LGIP investment policy requires that securities purchased by the office be held by the master custodian, acting as an independent third party, in its safekeeping or trust department. Securities utilized in repurchase agreements are subject to additional restrictions. These restrictions are designed to limit the LGIP's exposure to risk and insure the safety of the investment. All securities utilized in repurchase agreements were rated AAA by Moody's and AA+ by Standard & Poor's. The fair value of securities utilized in repurchase agreements must be at least 102 percent of the value of the repurchase agreement.

Concentration of Credit Risk. Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The LGIP mitigates concentration of credit risk by limiting the purchase of securities of any one issuer, with the exception of U.S. treasury and U.S. agency securities, to no more than 5 percent of the portfolio.

Repurchase agreements comprise 16.9 percent of the total portfolio as of June 30, 2013. The LGIP limits the securities utilized in repurchase agreements to U.S. treasury and U.S. agency securities. The LGIP requires delivery of all securities utilized in repurchase agreements and the securities are priced daily.

As of June 30, 2013, U.S. treasury securities comprised 13.2 percent of the total portfolio. U.S. agency securities comprised 61.2 percent of the total portfolio, including Federal Home Loan Bank (31.9 percent), Federal Home Loan Mortgage Corporation (15.1 percent), Federal Farm

Credit Bank (7.5 percent), and Federal National Mortgage Association (6.7 percent).

5. Foreign Currency Risk - None.

6. Derivatives - None.

7. Repurchase and Reverse Repurchase Agreements

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

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

If the dealers default on their obligations to resell these securities to the LGIP or to provide equal value in securities or cash, the LGIP would suffer an economic loss equal to the difference between the fair value plus accrued interest of the underlying securities and the agreement obligation, including accrued interest. During fiscal year 2013, there was no credit risk for the LGIP due to the fair value plus accrued interest of the underlying securities being less than the fair value plus accrued interest of the reinvested cash. On June 30, 2013, there were no obligations under reverse repurchase agreements.

The fair value plus accrued income of mortgage-backed securities utilized in repurchase agreements with more than seven days remaining until maturity will be 105 percent of the value of the repurchase agreement. The fair value plus accrued income of securities utilized in all other repurchase agreements will be 102 percent of the value of the repurchase agreement.

The securities utilized in repurchase agreements are priced daily and held by the LGIP's custodian in the state's name. Collateralized Mortgage Obligations utilized in repurchase agreements must pass the Federal Financial Institutions Examination Council test, or not exceed a volatility rating of V-5 by Fitch Investor Services, or a similar rating of a nationally recognized rating agency. As of June 30, 2013, repurchase agreements totaled $1.80 billion.

E. INVESTMENTS – HIGHER EDUCATION SPECIAL REVENUE, ENDOWMENT, AND STUDENT SERVICES FUNDS

1. Summary of Investment Policies

The investments of the University of Washington represent 71 percent of the total investments in Higher Education Special Revenue, Endowment, and Student Services Funds.

The Board of Regents of the University of Washington is responsible for the management of the University's investments. The Board establishes investment policy, which is carried out by the Chief Investment Officer.

The University of Washington Investment Committee, comprised of Board members and investment professionals, advises on matters relating to the management of the University's investment portfolios.

The majority of the University's investments are insured, registered, and held by the University's custodial bank as an agent for the University. Investments not held by the custodian include venture capital, private equity, opportunistic investments, marketable alternatives, mortgages, real assets, and miscellaneous investments.

The University combines most short-term cash balances in the Invested Funds Pool. At June 30, 2013, the Invested Funds Pool totaled $1.56 billion. The fund also owns units in the Consolidated Endowment Fund valued at $468.2 million on June 30, 2013.

By University policy, departments with qualifying funds in the Invested Funds Pool receive distributions based on their average balances and on the type of balance. Campus depositors received 2 percent in fiscal year 2013. Endowment operating and gift accounts received 3 percent in fiscal year 2013 with the distributions directed to University Advancement. The difference between the actual earnings of the Invested Funds Pool and the calculated distributions is used to support activities benefiting all University departments.

The majority of the endowed funds are invested in a pooled fund called the Consolidated Endowment Fund (CEF). Individual endowments purchase units in the pool on the basis of a per unit valuation of the CEF at fair value on the last business day of the calendar quarter. Income is distributed based on the number of units held. Chapter 24.55 RCW and the Uniform Prudent Management of Institutional Funds Act allow for the spending of appreciation in the CEF under comprehensive prudent standards.

Under the CEF spending policy approved by the Board of Regents, quarterly distributions to programs are based on an annual percentage rate of 4 percent applied to the five-year rolling average of the CEF's market valuation. Additionally, the policy allows for an administrative fee of 1 percent supporting campus-wide fundraising and stewardship activities and offsetting the internal cost of managing endowment assets.

The University records its permanent endowments at the lower of original gift value or current market value in the Restricted Nonexpendable Net Position category. For those endowments where the original gift value exceeded market value as of June 30, 2013, there was a net deficiency of $18.3 million from the original gift value.

Funds in irrevocable trusts managed by trustees other than the University are not reported in the financial statements. The fair value of these funds was $49.6 million at June 30, 2013. Income received from these trusts, which is included in investment income, was $2.2 million for the year ended June 30, 2013.

Net appreciation (depreciation) in the fair value of investments includes both realized and unrealized gains and losses on investments. The University realized net gains of $72.8 million in 2013 from the sale of investments.

The calculation of realized gains and losses is independent of the net appreciation of the fair value of investments. Realized gains and losses on investments that have been held in more than one fiscal year and are sold in the current year include the net appreciation of these investments reported in the prior year(s). The net appreciation in the fair value of investments during the year ended June 30, 2013, was $264.1 million.

The following schedule presents the fair value of the University's investments by type at June 30, 2013:

University of Washington
June 30, 2013
(expressed in thousands)

Investment Type	Fair Value
Cash equivalents	$ 256,781
Fixed income	1,655,711
Equity	1,287,084
Non-marketable alternatives	362,632
Absolute return	404,416
Real assets	165,792
Miscellaneous	5,917
Total	$ 4,138,333

2. Funding Commitments

The University enters into contracts with investment managers to fund alternative investments. As of June 30, 2013, the University had outstanding commitments to fund alternative investments in the amount of $191.7 million.

3. Securities Lending

The University's investment policies permit it to lend its securities to broker dealers and other entities. Due to market conditions, the University terminated this program in September 2008, and as of June 30, 2013, the University had no securities on loan.

4. Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of fixed income securities. The University manages interest rate risk through its investment policies and the investment guidelines established with each manager. Each fixed income manager is assigned a maximum boundary for duration as compared to the manager's relevant benchmark index. The goal is to allow ample freedom for the manager to perform while controlling the interest rate risk in the portfolio.

Effective duration is a commonly used measure of interest rate risk. The longer the duration, the more sensitive the portfolio is to changes in interest rates. The weighted average effective duration of the University's fixed income portfolio was 2.95 years at June 30, 2013.

5. Credit Risk

Fixed income securities are subject to credit risk, which is the risk that the issuer or other counterparty to a financial instrument will not fulfill its obligations, or negative perceptions of the issuer's ability to make these payments will cause prices to decline.

The University investment policies include guidelines for fixed income investments. In the case of the University's Invested Funds, the Cash Pool must maintain an average credit rating of "AA" as issued by a nationally recognized rating organization, while the Liquidity Pool must maintain an average credit rating of "A." Additionally, the Liquidity Pool must have at least 25 percent of its funds invested in obligations of the U.S. government and its agencies.

The CEF investments policy for fixed income specifies bonds and other high quality investment vehicles that support current spending needs and stability to protect capital in down markets. The investment policy for the CEF reflects its long-term nature by specifying average quality rating levels by individual manager, but still restricting investments to investment grade credits.

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

Concentration of Credit Risk. Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. The CEF investment policy limits concentration by manager, country (other than U.S.), and market sector. The University further mitigates concentration of credit risk through the due diligence of each manager and careful monitoring of asset concentrations.

The composition of the fixed income securities at June 30, 2013, along with credit quality and effective duration measures is summarized below. The schedule excludes $53.5 million of fixed income securities held outside the CEF and the Invested Funds Pool, which makes up 2.80 percent of the University's investments.

University of Washington
Invested Funds Pool and Consolidated Endowment Fund
Fixed Income Credit Quality and Effective Duration
June 30, 2013
(expressed in thousands, duration in years)

Investments	U.S. Government	Investment Grade	Non-Investment Grade	Not Rated	Total	Duration (in years)
U.S. treasuries	$ 730,492	$ -	$ -	$ -	$ 730,492	2.42
U.S. government agency	661,159	-	-	-	661,159	3.41
Mortgage-backed	-	98,779	94,196	9,067	202,042	4.33
Asset-backed	-	164,394	9,743	3,908	178,045	2.44
Corporate and other	-	86,585	-	628	87,213	2.51
Total	$ 1,391,651	$ 349,758	$ 103,939	$ 13,603	$ 1,858,951	2.95

6. Foreign Currency Risk

Foreign currency risk is the risk that investments denominated in foreign currencies may lose value due to adverse fluctuations in the value of the U.S. dollar relative to foreign currencies. The University's investment policies permit investments in international equity and other asset classes that can include foreign currency exposure. To manage foreign currency exposure, the University also enters into foreign currency forward contracts, futures contracts, and options. The University held non-U.S. denominated securities at June 30, 2013, of $771.1 million.

The following schedule details the market value of foreign denominated securities by currency type:

University of Washington
Consolidated Endowment Fund
Foreign Currency Risk
June 30, 2013
(expressed in thousands)

Foreign Currency	Amount
E.M.U.-Euro	$ 114,213
China-Renminbi	73,109
India-Rupee	65,686
Britain-Pound	51,193
Brazil-Real	47,956
Russia-Ruble	47,302
Japan-Yen	45,735
Switzerland-Franc	36,888
South Korea-Won	29,477
Canada-Dollar	27,109
Hong Kong-Dollar	24,285
Taiwan-Dollar	23,796
Philippines-Peso	22,737
Indonesia-Rupiah	19,301
Remaining currencies	142,283
Total	$ 771,070

7. Derivatives

The University's investment policies allow investing in various derivative instruments, including futures, swaps, and forwards, to manage exposures within or across the portfolio and to improve the portfolio's risk/return profile. Futures are financial contracts obligating the buyer to purchase an asset at a predetermined future date and price. Total return swaps involve commitments to pay interest in exchange for a market linked return, both based on notional amounts. Derivative instruments are recorded on the contract date and are carried at fair value using listed price quotations or amounts that approximate fair value.

Credit exposure represents exposure to counterparties relating to financial instruments where gains exceed collateral held by the University or losses are less than the collateral posted by the University. There was no credit exposure as of June 30, 2013. No derivative instruments have been reclassified from a hedging instrument to an investment instrument.

Details on foreign currency derivatives are disclosed under Foreign Currency Risk.

The following schedule presents the significant terms for derivatives held as investments by the University:

University of Washington
Derivative Investments
June 30, 2013
(expressed in thousands)

Category	Changes in Fair Value - Included in Investment Income (Loss) Amount	Fair Value - Investment Derivative Amount	Notional
Futures contracts	$ 184	$ 34,278	$ 34,462

8. Reverse Repurchase Agreements – None.

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

1. Summary of Investment Policies

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

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

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

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

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

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

- The final maturity of any security will not exceed ten years.
- Purchase of collateralized mortgage obligations is not allowed.
- The allocation to investments subject to high price sensitivity or reduced marketability will not exceed 15 percent of the daily balance of the portfolio.

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

2. Securities Lending

State statutes permit the OST to lend its securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. The OST, which has contracted with Citibank as a lending agent to lend securities, receives earnings 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 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. One option available to the lending agent is to invest cash collateral into an OST account in the LGIP. At June 30, 2013, cash collateral totaled $204.0 million, all of which was invested in the LGIP.

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, 2013, the fair value of securities on loan totaled $199.8 million.

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 2013, the OST had no credit risk exposure to borrowers because the amounts owed to the borrowers exceeded the amounts the borrowers owed the OST.

There were no violations of legal or contractual provisions or any losses resulting from a default of a borrower or lending agent during the fiscal year.

3. Interest Rate Risk

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

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

The following schedule presents the fair value of the OST's investments by type at June 30, 2013:

Office of the State Treasurer (OST)
Cash Management Account
June 30, 2013
(expressed in thousands)

		Maturity	
Investment Type	**Fair Value**	**Less than 1 Year**	**1-5 Years**
U.S. agency obligations	$ 1,547,870	$ 303,903	$ 1,243,967
U.S. government obligations	560,632	-	560,632
Repurchase agreements	1,000,000	1,000,000	-
Certificates of deposit	154,266	154,266	-
Investments with LGIP	1,361,414	1,361,414	-
Interest bearing bank accounts	310,773	310,773	-
Total	$ 4,934,955	$ 3,130,356	$ 1,804,599

4. Credit Risk

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

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

Concentration of Credit Risk. Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. For non-governmental securities, the OST limits its exposure to concentration of credit risk by restricting the amount of investments to no more than 5 percent of the portfolio to any single issuer. During fiscal year 2013, the OST did not own any non-governmental securities subject to this restriction.

5. Foreign Currency Risk - None.

6. Derivatives - None.

7. Repurchase and Reverse Repurchase Agreements

State law also permits the OST to enter into reverse repurchase agreements, which are, by contract, sales of securities with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest. The fair value of the securities pledged as collateral by the OST underlying the reverse repurchase agreements normally exceeds the cash received, providing the dealers a margin against a decline in the fair value of the securities.

If the dealers default on their obligations to resell these securities to the OST or to provide equal value in securities or cash, the OST would suffer an economic loss equal to the differences between the fair value plus accrued interest of the underlying securities and the agreement obligation, including accrued interest. The OST investment policy limits the amount of reverse repurchase agreements to 30 percent of the total portfolio. There were no reverse repurchase agreements during fiscal year 2013.

The market value, plus accrued income, of mortgage-backed securities utilized in repurchase agreements with more than seven days remaining until maturity will be 105 percent of the value of the repurchase agreement.

The market value, plus accrued income, of securities utilized in all other repurchase agreements will be 102 percent of the value of the repurchase agreement. The securities utilized in repurchase agreements are priced daily and held by the Treasury/Trust custodian in the state's name. Collateralized mortgage obligations utilized in repurchase agreements must pass the Federal Financial Institutions Examination Council test or not exceed a volatility rating of V-5 by Fitch Investor Services, or a similar rating of a nationally recognized rating agency. As of June 30, 2013, repurchase agreements totaled $1.0 billion.

Note 4
Receivables, Unearned and Unavailable Revenues

A. GOVERNMENTAL FUNDS

Taxes Receivable
Taxes receivable at June 30, 2013, consisted of the following (expressed in thousands):

Taxes Receivable	General	Higher Education Special Revenue	Higher Education Endowment	Nonmajor Governmental Funds	Total
Property	$ 994,026	$ -	$ -	$ 224	$ 994,250
Sales	1,554,619	-	-	-	1,554,619
Business and occupation	656,357	-	-	-	656,357
Estate	1,112	14,655	-	-	15,767
Fuel	-	-	-	108,742	108,742
Liquor		-	-	9,490	9,490
Other	10,576	-	-	641	11,217
Subtotals	3,216,690	14,655	-	119,097	3,350,442
Less: Allowance for uncollectible receivables	46,352	-	-	789	47,141
Total Taxes Receivable	$ 3,170,338	$ 14,655	$ -	$ 118,308	$ 3,303,301

Other Receivables
Other receivables at June 30, 2013, consisted of the following (expressed in thousands):

Other Receivables	General	Higher Education Special Revenue	Higher Education Endowment	Nonmajor Governmental Funds	Total
Public assistance [(1)]	$ 769,720	$ -	$ -	$ -	$ 769,720
Accounts receivable	29,379	203,473	630	97,091	330,573
Interest	2,157	8,327	4,386	5,619	20,489
Loans [(2)]	5,540	130,653	-	442,534	578,727
Long-term contracts [(3)]	1,003	-	9,911	77,046	87,960
Miscellaneous	120,593	92,895	9,612	236,350	459,450
Subtotals	928,392	435,348	24,539	858,640	2,246,919
Less: Allowance for uncollectible receivables	774,876	27,629	3	25,515	828,023
Total Other Receivables	$ 153,516	$ 407,719	$ 24,536	$ 833,125	$ 1,418,896

Notes:
(1) Public assistance receivables mainly represent amounts owed the state as a part of the Support Enforcement Program at the Department of Social and Health Services for the amounts due from persons required to pay support for individuals currently on state assistance, and have a low realization expectation. Accordingly, the receivable is offset by a large allowance for uncollectible receivables.
(2) Significant long-term portions of loans receivable include $104.7 million in the Higher Education Special Revenue Fund for student loans and $433.4 million in Nonmajor Governmental Funds for low income housing, public works, and economic development/revitalization loans.
(3) Long-term contracts in Nonmajor Governmental Funds are for timber sales contracts.

Unearned Revenue

Unearned revenue at June 30, 2013, consisted of the following (expressed in thousands):

Unearned Revenue	General	Higher Education Special Revenue	Higher Education Endowment	Nonmajor Governmental Funds	Total
Other taxes	$ 1,843	$ -	$ -	$ -	$ 1,843
Charges for services	37,488	143,096	385	37,849	218,818
Donable goods	-	-	-	6,283	6,283
Grants and donations	14,964	952	-	4,930	20,846
Loan programs		-	-	16	16
Seizure of forfeited assets	-	-	-	5,238	5,238
Miscellaneous	24,981	5,496	-	25,949	56,426
Total Unearned Revenue	**$ 79,276**	**$ 149,544**	**$ 385**	**$ 80,265**	**$ 309,470**

Unavailable Revenue

Unavailable revenue at June 30, 2013, consisted of the following (expressed in thousands):

Unavailable Revenue	General	Higher Education Special Revenue	Higher Education Endowment	Nonmajor Governmental Funds	Total
Property taxes	$ 972,650	$ -	$ -	$ 80	$ 972,730
Other taxes	514,807	11,718	-	364	526,889
Timber sales	1,003	-	9,911	77,046	87,960
Charges for services	3,857	-	-	1,065	4,922
Grants and donations	93	-	-	-	93
Loan programs	7	-	-	796,314	796,321
Miscellaneous	1	-	-	26,307	26,308
Total Unavailable Revenue	**$ 1,492,418**	**$ 11,718**	**$ 9,911**	**$ 901,176**	**$ 2,415,223**

B. PROPRIETARY FUNDS

Other Receivables

Other receivables at June 30, 2013, consisted of the following (expressed in thousands):

	Business-Type Activities Enterprise Funds						Governmental Activities
Other Receivables	**Workers' Compensation**	**Unemployment Compensation**	**Higher Education Student Services**	**Guaranteed Education Tuition Program**	**Nonmajor Enterprise Funds**	**Total**	**Internal Service Funds**
Accounts receivable	$ 150,933	$ -	$ 244,009	$ 1	$ 22,581	$ 417,524	$ 11,308
Interest	108,971	-	553	6,104	-	115,628	541
Miscellaneous	591,050	746,821	20,560	67	4	1,358,502	15,902
Subtotals	850,954	746,821	265,122	6,172	22,585	1,891,654	27,751
Less: Allowance for uncollectible receivables	148,990	101,346	73,928	-	174	324,438	564
Total Other Receivables	$ 701,964	$ 645,475	$ 191,194	$ 6,172	$ 22,411	$ 1,567,216	$ 27,187

Unearned Revenue

Unearned revenue at June 30, 2013, consisted of the following (expressed in thousands):

	Business-Type Activities Enterprise Funds						Governmental Activities
Unearned Revenue	**Workers' Compensation**	**Unemployment Compensation**	**Higher Education Student Services**	**Guaranteed Education Tuition Program**	**Nonmajor Enterprise Funds**	**Total**	**Internal Service Funds**
Charges for services	$ -	$ -	$ 37,188	$ -	$ 251	$ 37,439	$ 2,316
Other taxes	181	-	-	-	-	181	-
Miscellaneous	6,386	-	2,607	-	-	8,993	15
Total Unearned Revenue	$ 6,567	$ -	$ 39,795	$ -	$ 251	$ 46,613	$ 2,331

C. FIDUCIARY FUNDS

Other Receivables

Other receivables at June 30, 2013, consisted of the following (expressed in thousands):

Other Receivables	**Local Government Investment Pool**	**Agency Funds**
Interest	$ 691	$ 53
Other	-	12,290
Subtotals	691	12,343
Less: Allowance for uncollectible receivables	-	4,352
Total Other Receivables	$ 691	$ 7,991

Unearned Revenue

Unearned revenue at June 30, 2013, consisted of $726,000 for service credit restorations reported in Pension and Other Employee Benefit Plans.

Note 5
Interfund Balances and Transfers

A. INTERFUND BALANCES

Interfund balances as reported in the financial statements at June 30, 2013, consisted of the following (expressed in thousands):

	Due From				
Due To	General	Higher Education Special Revenue	Higher Education Endowment	Nonmajor Governmental Funds	Workers' Compensation
General	$ -	$ 34,657	$ -	$ 101,147	$ 254
Higher Education Special Revenue	47,361	-	-	318,698	516
Higher Education Endowment	-	-	-	703	-
Nonmajor Governmental Funds	326,973	696	2,177	169,215	891
Workers' Compensation	5	-	-	9	-
Unemployment Compensation	1,510	1,264	-	1,492	48
Higher Education Student Services	820	2,084	-	1,130	268
Guaranteed Education Tuition Program	2	-	-	-	-
Nonmajor Enterprise Funds	5,536	374	-	1,693	495
Internal Service Funds	26,265	1,147	-	22,835	4,775
Fiduciary Funds	-	8	-	6	-
Totals	$ 408,472	$ 40,230	$ 2,177	$ 616,928	$ 7,247

Nearly 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. Interfund balances include: (1) a $24.5 million loan from a nonmajor governmental fund to the General Fund which is expected to be paid over the next six years; and (2) a $3.1 million loan between nonmajor governmental funds which is expected to be paid over the next eight years.

In addition to the interfund balances noted in the schedule above, there are interfund balances of $1.7 million within the state's Pension Trust Funds.

Due From						
Unemployment Compensation	Higher Education Student Services	Guaranteed Education Tuition Program	Nonmajor Enterprise Funds	Internal Service Funds	Fiduciary Funds	Totals
$ -	$ -	$ 111	$ 17,266	$ 927	$ -	$ 154,362
-	429,515	200	16	74,691	11	871,008
-	-	-	-	-	-	703
1,058	4	-	148	2,269	-	503,431
-	-	-	1	5	-	20
-	32	-	20	76	-	4,442
-	-	-	-	-	-	4,302
-	-	-	-	-	-	2
-	446	-	1,127	133	-	9,804
-	27	5	460	33,135	-	88,649
-	-	-	8	-	-	22
$ 1,058	$ 430,024	$ 316	$ 19,046	$ 111,236	$ 11	$ 1,636,745

B. INTERFUND TRANSFERS

Interfund transfers as reported in the financial statements for the year ended June 30, 2013, consisted of the following (expressed in thousands):

	Transferred To				
Transferred From	General	Higher Education Special Revenue	Higher Education Endowment	Nonmajor Governmental Funds	Workers' Compensation
General	$ -	$ 1,851	$ -	$ 1,295,354	$ -
Higher Education Special Revenue	26,122	-	420	67,790	-
Higher Education Endowment	-	95,702	-	29,216	-
Nonmajor Governmental Funds	440,129	20,066	879	932,464	-
Workers' Compensation	-	-	-	-	-
Unemployment Compensation	61	-	-	-	-
Higher Education Student Services	-	94,079	-	323	-
Guaranteed Education Tuition Program	-	-	-	-	-
Nonmajor Enterprise Funds	130,147	-	-	10,704	-
Internal Service Funds	37	6,238	-	23	-
Totals	$ 596,496	$ 217,936	$ 1,299	$ 2,335,874	$ -

Except as noted below, 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 Lottery Fund as required by law, and 5) transfer amounts to and from the General Fund as required by law.

On June 20, 2013, $139.2 million was transferred from the General Fund Basic Account to the Budget Stabilization Account (BSA) in accordance with the provisions of the Constitution. The BSA is reported as an Administrative Account within the General Fund. The Constitution details a limited number of circumstances under which funds can be appropriated from the BSA, one of which is a favorable vote of at least three-fifths of the members of each house of the Legislature.

In addition to the transfers noted in the schedule above, there were transfers of $5.6 million within the state's Pension Trust Funds.

Transferred To					
Unemployment Compensation	Higher Education Student Services	Guaranteed Education Tuition Program	Nonmajor Enterprise Funds	Internal Service Funds	Totals
$ -	$ -	$ -	$ 679	$ 14,347	$ 1,312,231
-	120,369	-	-	6,184	220,885
-	-	-	-	-	124,918
-	-	-	-	-	1,393,538
-	-	-	-	-	-
-	-	-	-	-	61
-	-	-	-	-	94,402
-	-	-	-	-	-
-	-	-	12,485	-	153,336
-	-	-	-	49,893	56,191
$ -	$ 120,369	$ -	$ 13,164	$ 70,424	$ 3,355,562

Note 6
Capital Assets

Capital assets at June 30, 2013, are reported by the state of Washington within Governmental Activities and Business-Type Activities, as applicable.

A. GOVERNMENTAL CAPITAL ASSETS

The following is a summary of governmental capital asset activity for the year ended June 30, 2013 (expressed in thousands):

Capital Assets	Balances July 1, 2012*	Additions	Deletions / Adjustments	Balances June 30, 2013
Capital assets, not being depreciated:				
Land	$ 2,358,301	$ 48,944	$ (19,684)	$ 2,387,561
Transportation infrastructure	20,867,495	812,401	-	21,679,896
Intangible assets - indefinite lives	1,520	1,246	-	2,766
Art collections, library reserves, and museum and historical collections	122,672	616	(13)	123,275
Construction in progress	812,601	531,112	(409,981)	933,732
Total capital assets, not being depreciated	24,162,589			25,127,230
Capital assets, being depreciated:				
Buildings	11,490,063	456,631	(61,369)	11,885,326
Accumulated depreciation	(3,956,662)	(331,407)	12,608	(4,275,463)
Net buildings	7,533,401			7,609,863
Other improvements	1,266,062	105,919	(1,058)	1,370,923
Accumulated depreciation	(582,593)	(49,468)	115	(631,946)
Net other improvements	683,469			738,977
Furnishings, equipment and intangible assets	4,454,654	314,267	(206,569)	4,562,353
Accumulated depreciation	(2,973,048)	(278,151)	168,501	(3,082,698)
Net furnishings, equipment and intangible assets	1,481,606			1,479,655
Infrastructure	886,216	46,855	(601)	932,470
Accumulated depreciation	(424,474)	(29,381)	192	(453,663)
Net infrastructure	461,742			478,807
Total capital assets, being depreciated, net	10,160,218			10,307,302
Governmental Activities Capital Assets, Net	$ 34,322,807			$ 35,434,532

* Beginning balances reflect the prior period adjustment to reclassify the Liquor Revolving Fund from business-type to governmental, which resulted in an increase in capital assets of $46.4 million and an increase in accumulated depreciation of $21.9 million.

B. BUSINESS-TYPE CAPITAL ASSETS

The following is a summary of business-type capital asset activity for the year ended June 30, 2013 (expressed in thousands):

Capital Assets	Balances July 1, 2012*	Additions	Deletions / Adjustments	Balances June 30, 2013
Capital assets, not being depreciated:				
Land	$ 62,584	$ -	$ (2,018)	$ 60,566
Intangible assets - indefinite lives	-	4,580	-	4,580
Art collections	35	-	-	35
Construction in progress	681,414	135,832	(375,419)	441,827
Total capital assets, not being depreciated	744,033			507,008
Capital assets, being depreciated:				
Buildings	2,073,812	694,857	(16,586)	2,752,083
Accumulated depreciation	(694,283)	(84,860)	14,671	(764,472)
Net buildings	1,379,529			1,987,611
Other improvements	87,544	7,978	(5)	95,517
Accumulated depreciation	(31,502)	(3,966)	3	(35,465)
Net other improvements	56,042			60,052
Furnishings, equipment and intangible assets	600,490	69,181	(15,715)	653,956
Accumulated depreciation	(440,313)	(47,001)	15,767	(471,547)
Net furnishings, equipment and intangible assets	160,177			182,409
Infrastructure	41,682	262	-	41,944
Accumulated depreciation	(16,331)	(1,475)	-	(17,806)
Net infrastructure	25,351			24,138
Total capital assets, being depreciated, net	1,621,099			2,254,210
Business-Type Activities Capital Assets, Net	$ 2,365,132			$ 2,761,218

* Beginning balances reflect the prior period adjustment to reclassify the Liquor Revolving Fund from business-type to governmental, which resulted in a decrease in capital assets of $46.4 million and a decrease in accumulated depreciation of $21.9 million.

C. DEPRECIATION

Depreciation expense for the year ended June 30, 2013, was charged by the primary government as follows (expressed in thousands):

	Amount
Governmental Activities:	
General government	$ 71,423
Education - elementary and secondary (K-12)	9,703
Education - higher education	403,564
Human services	25,477
Adult corrections	47,097
Natural resources and recreation	34,430
Transportation	96,713
Total Depreciation Expense - Governmental Activities *	$ 688,407
Business-Type Activities:	
Workers' compensation	$ 8,428
Unemployment compensation	-
Higher education student services	127,404
Guaranteed education tuition program	4
Other	1,466
Total Depreciation Expense - Business-Type Activities	$ 137,302

* Includes $81.0 million internal service fund depreciation that was allocated to governmental activities as a component of net internal service fund activity.

D. CONSTRUCTION IN PROGRESS

Major construction commitments of the state at June 30, 2013, are as follows (expressed in thousands):

Agency / Project Commitments	Construction In Progress June 30, 2013	Remaining Project Commitments
Department of Enterprise Services:		
O'Brien Building improvement, legislative building improvements, Capitol Campus high voltage system, and other projects	$ 69,178	$ 4,131
Department of Labor and Industries:		
Data warehouse enhancement, occupational health, and stay at work projects	6,202	1,922
Department of Social and Health Services:		
Residential housing unit renovations, and other projects	31,201	8,741
Department of Veterans Affairs:		
Walla Walla Veterans Home	10,683	36,495
Department of Corrections:		
Prison intake center	-	252,226
Correctional center housing units and kitchen expansion, and other projects	52,077	-
Department of Transportation:		
State ferry vessels and terminals, and other projects	255,248	129,598
Transportation infrastructure	-	1,615,292
Department of Fish and Wildlife:		
Voights Creek Hatchery, Carpenter Creek Estuary, Deschutes Watershed Center, and other projects	20,946	88,021
Employment Security Department:		
Next generation TAXIS system project	38,622	4,702
University of Washington:		
Ethnic Cultural Center and HUB renovation	1,923	2,029
Husky ballpark and Husky stadium projects	254,505	10,333
UWMC expansion	14,715	28,673
Maple and Terry Hall renovations, Lander and Mercer Hall replacement, and new projects	134,151	63,329
UW Tacoma and Bothell campus, and other projects	75,714	71,428
Washington State University:		
Agricultural Animal Health Research Facility	250	22,150
Biomedical and Health Sciences Building	56,214	22,401
Martin Stadium improvements and athletics indoor practice facility	19,494	60,706
Clean Technology Laboratory	2,503	55,197
Chief Joseph village renovation	-	20,000
Smart Grid energy and other projects	7,742	25,628
Eastern Washington University:		
Patterson Hall renovation, residence hall project, and other projects	63,844	19,772
Central Washington University:		
New residence hall construction, and other projects	5,890	9,282
The Evergreen State College:		
Housing and other projects	15,638	6,358
Western Washington University:		
Carver and Fraser Hall renovation, housing and dining, and other projects	23,728	2,643
Community and Technical Colleges:		
Everett index replacement and CCEC renovation	32,321	2,904
Green River Trades and Industry, and SMT renovation	16,734	29,448
Seattle Community College District Employment Residence Center, Georgetown PSIEC, and wood construction replacement	32,900	873
South Puget Sound Building 22 renovation	24,021	5,810
Tacoma Health Careers Center	13,916	27,107
Other miscellaneous community college projects	81,812	169,774
Other Agency Projects	13,387	24,684
Total Construction in Progress	$ 1,375,559	$ 2,821,657

Note 7
Long-Term Liabilities

A. BONDS PAYABLE

Bonds payable at June 30, 2013, 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 Legislature or by a body designated by statute (presently the State Finance Committee).

Legislative authorization arises from:

- An affirmative vote of 60 percent of the members of each house of the Legislature, without voter approval, in which case the amount of such debt is generally subject to the constitutional debt limitation described below;
- When authorized by law for a distinct work or object and approved by a majority of the voters voting thereon at a general election, or a special election called for that purpose, in which case the amount of the debt so approved is not subject to the constitutional debt limitations described below;
- By the State Finance Committee without limitation as to amount, and without approval of the Legislature or approval of the voters.

The State Finance Committee debt authorization does not require voter approval; however, it is limited to providing for: (1) meeting temporary deficiencies of the state treasury if such debt is discharged within 12 months of the date of incurrence and is incurred only to provide for appropriations already made by the Legislature; or (2) refunding of outstanding obligations of the state.

Legal Debt Limitation

The State Constitution limits the amount of state debt that may be incurred by restricting the amount of general state revenues which may be allocated to pay principal and interest on debt subject to these limitations. More specifically, the constitutional debt limitation prohibits the issuance of new debt if it would cause the maximum annual debt service on all thereafter outstanding debt to exceed 9 percent of the arithmetic mean of general state revenues for the preceding three fiscal years. This limitation restricts the incurrence of new debt and not the amount of debt service that may be paid by the state in future years.

The State Constitution and current statutes require the State Treasurer to certify the debt service limitation for each fiscal year. In accordance with these provisions, the debt service limitation for fiscal year 2013 is $1.13 billion.

This computation excludes specific bond issues and types, which are not secured by general state revenues. Of the $18.21 billion general obligation bond debt outstanding at June 30, 2013, $10.73 billion is subject to the limitation.

Based on the debt limitation calculation, the debt service requirements as of June 30, 2013, did not exceed the authorized debt service limitation.

For further information on the debt limit refer to the Certification of the Debt Limitation of the State of Washington available from the Office of the State Treasurer at:
http://www.tre.wa.gov/documents/debt_cdl2013.pdf,
or to Schedule 11 in the Statistical Section of this report.

Authorized But Unissued

The state had a total of $6.33 billion in general obligation bonds authorized but unissued as of June 30, 2013, for the purpose of capital construction, higher education, and transportation projects throughout the state.

Interest Rates

Interest rates on fixed rate general obligation bonds ranged from 0.35 to 6.75 percent. Interest rates on revenue bonds range from 1.6 to 7.4 percent.

Debt Service Requirements to Maturity

General Obligations Bonds

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

- Acquisition and construction of state and common school capital facilities;
- Transportation construction and improvement projects;
- Assistance to local governments for public works capital projects; and
- Refunding of general obligation bonds outstanding.

Outstanding general obligation bonds are presented in the Washington State Treasurer's Annual Report for 2013. 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, or by visiting their website at:
http://www.tre.wa.gov/aboutUs/publications/annualReports.shtml

Total debt service requirements to maturity for general obligation bonds as of June 30, 2013, are as follows (expressed in thousands):

	Governmental Activities		Business-Type Activities		Totals	
General Obligation Bonds	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**
By Fiscal Year:						
2014	$ 787,632	$ 852,186	$ 3,605	$ 527	$ 791,237	$ 852,713
2015	817,385	832,051	3,820	325	821,205	832,376
2016	837,837	802,332	4,050	110	841,887	802,442
2017	864,744	788,311	-	-	864,744	788,311
2018	857,009	748,173	-	-	857,009	748,173
2019-2023	4,232,725	3,114,731	-	-	4,232,725	3,114,731
2024-2028	4,112,620	2,085,926	-	-	4,112,620	2,085,926
2029-2033	3,510,413	1,063,905	-	-	3,510,413	1,063,905
2034-2038	1,595,285	310,216	-	-	1,595,285	310,216
2039-2043	584,054	54,268	-	-	584,054	54,268
Total Debt Service Requirements	$ 18,199,704	$ 10,652,099	$ 11,475	$ 962	$ 18,211,179	$ 10,653,061

Revenue Bonds

Revenue bonds are authorized under current state statutes, which provide for the issuance of bonds that are not supported, or not intended to be supported, by the full faith and credit of the state.

The University of Washington issues general revenue bonds that are payable from general revenues, including student tuition and fees, grant indirect cost recovery, sales and services revenue, and investment income. General revenue bonds outstanding as of June 30, 2013, include $237.4 million in governmental activities and $1.42 billion in business-type activities.

The remainder of the state's revenue bonds pledge income derived from acquired or constructed assets for retirement of the debt and payment of the related interest.

Total debt service requirements for revenue bonds to maturity as of June 30, 2013, are as follows (expressed in thousands):

	Governmental Activities		Business-Type Activities		Totals	
Revenue Bonds	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**
By Fiscal Year:						
2014	$ 33,498	$ 96,138	$ 80,581	$ 85,778	$ 114,079	$ 181,916
2015	30,478	94,116	45,597	83,221	76,075	177,337
2016	80,141	91,618	47,859	81,275	128,000	172,893
2017	84,452	87,527	49,604	79,255	134,056	166,782
2018	83,341	83,199	49,970	77,201	133,311	160,400
2019-2023	484,871	367,181	274,884	397,409	759,755	764,590
2024-2028	394,221	237,354	285,385	315,657	679,606	553,011
2029-2033	296,605	141,475	287,951	233,411	584,556	374,886
2034-2038	100,734	72,575	386,688	146,079	487,422	218,654
2039-2043	123,262	14,701	421,777	40,479	545,039	55,180
Total Debt Service Requirements	$ 1,711,603	$ 1,285,884	$ 1,930,296	$ 1,539,765	$ 3,641,899	$ 2,825,649

Governmental activities include revenue bonds outstanding at June 30, 2013, of $369.9 million issued by the Tobacco Settlement Authority (TSA), which is a blended component unit of the state. In November 2002, the TSA issued $517.9 million in bonds and transferred $450.0 million to the state to be used for increased health care, long-term care, and other programs.

These bonds do not constitute either a legal or moral obligation of the state, nor does the state pledge its full faith, credit, or taxing power for payment of these bonds. The bonds are obligations of the TSA and are secured solely by the TSA's right to receive 29.2 percent of the state's tobacco settlement revenues, restricted investments of the TSA, undistributed TSA bond proceeds, and the earnings thereon held under the indenture authorizing the bonds. Total principal and interest remaining on the bonds is $647.8 million, payable through 2032. For the current year, pledged revenue and debt service were $44.2 million and $44.4 million, respectively.

Governmental activities include grant anticipation revenue bonds outstanding at June 30, 2013, of $500.4 million issued for the Washington State Department of Transportation. The bonds were issued to finance a portion of the costs of constructing the State Route 520 Floating Bridge and Eastside Project.

These bonds do not constitute either a legal or moral obligation of the state, nor does the state pledge its full faith, credit, or taxing power for payment of these bonds. Total principal and interest remaining on the bonds is $684.2 million, payable through 2025. For the current year both pledged revenue and debt service were $18.3 million.

Governmental activities include revenue bonds outstanding at June 30, 2013, of $245.1 million issued by Washington State University. The bonds were issued to fund various capital construction projects.

These bonds do not constitute either a legal or moral obligation of the state, nor does the state pledge its full faith, credit, or taxing power for payment of these bonds. Total principal and interest remaining on the bonds is $396.1 million, payable through 2038. For the current year, pledged revenue and debt service were $30.8 million and $12.3 million, respectively.

Governmental activities include revenue bonds outstanding at June 30, 2013, of $51.7 million issued by the Tumwater Office Properties (TOP), which is a blended component unit of the state. The bonds, issued in 2004, are payable solely from the trust estate pledged under the indenture, including rental payments. The bonds were used to construct an office building in Tumwater, Washington which the state occupied beginning in fiscal year 2006.

The bonds are not a general obligation of the state, nor does the state pledge its full faith, credit, or taxing power for payment of these bonds. Total principal and interest remaining on the bonds is $79.1 million, payable through 2028. For the current year, both pledged revenue and debt service were $4.1 million.

Governmental activities include revenue bonds outstanding at June 30, 2013, of $298.6 million issued by FYI Properties, a blended component unit of the state. The bonds, issued in 2009, are payable solely from the trust estate pledged under the indenture, including rental payments. The bonds were used to construct an office building in Olympia, Washington which the state occupied beginning in fiscal year 2012.

The bonds are not a general obligation of the state, nor does the state pledge its full faith, credit, or taxing power for payment of these bonds. Total principal and interest remaining on the bonds is $562.1 million, payable through 2039. For the current year, both pledged revenue and debt service were $21.2 million.

Additionally, governmental activities include revenue bonds outstanding at June 30, 2013, of $8.5 million issued by the City of Aberdeen. The bonds were used to extend utilities to the state Department of Corrections Stafford Creek Corrections Center (SCCC). The Department of Corrections entered into an agreement with the City of Aberdeen to pay a system development fee sufficient to pay the debt service on the bonds. The bonds were issued in 1998 and 2002, and refunded by the City in 2010, and are payable solely from current operating appropriations.

The bonds are not a general obligation of the state, nor does the state pledge its full faith, credit, or taxing power for payment of these bonds. Total principal and interest remaining on these bonds is $10.1 million, payable through 2022. For the current year, both pledged revenue and debt service were $1.5 million.

The state's colleges and universities issue bonds for the purpose of housing, dining, parking, and student facilities construction. These bonds are reported within business-type activities and are secured by a pledge of specific revenues. These bonds are not a general obligation of the state, nor does the state pledge its full faith, credit, or taxing power for payment of these bonds.

Total pledged specific revenues for the state's colleges and universities to repay the principal and interest of revenue bonds as of June 30, 2013, are as follows (expressed in thousands):

Source of Revenue Pledged	Housing and Dining Revenues (Net of Operating Expenses)	Student Facilities Fees and Earnings on Invested Fees	Parking Revenues (Net of Operating Expenses)	Bookstore Revenues
Current revenue pledged	$ 39,619	$ 42,189	$ 2,821	$ 184
Current year debt service	20,976	19,747	776	148
Total future revenues pledged *	448,449	438,564	8,535	3,570
Description of debt	Housing and dining bonds issued in 1998-2013	Student facilities bonds issued in 2002-2012	Parking system revenue bonds issued in 2005	Student union and recreation center bonds issued in 2004
Purpose of debt	Construction and renovation of student housing and dining projects	Construction, renovation and improvements to student activity facilities and sports stadium	Construction of parking garage and improvements	Construct new bookstore as part of new student union and recreation center building
Term of commitment	2026-2042	2030-2038	2024	2034
Percentage of debt service to pledged revenues (current year)	52.94%	46.81%	27.50%	80.16%

* Total future principal and interest payments.

B. CERTIFICATES OF PARTICIPATION

Certificates of participation at June 30, 2013, are reported by the state of Washington within governmental activities and business-type activities, as applicable.

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

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

Total debt service requirements for certificates of participation to maturity as of June 30, 2013, are as follows (expressed in thousands):

	Governmental Activities		Business-Type Activities		Totals	
Certificates of Participation	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**
By Fiscal Year:						
2014	$ 98,894	$ 32,399	$ 4,011	$ 1,314	$ 102,905	$ 33,713
2015	58,852	19,502	4,200	1,392	63,052	20,894
2016	55,112	17,520	3,933	1,250	59,045	18,770
2017	41,430	15,518	2,957	1,108	44,387	16,626
2018	37,959	14,008	2,709	1,000	40,668	15,008
2019-2023	149,068	50,233	10,639	3,585	159,707	53,818
2024-2028	109,220	21,786	7,795	1,555	117,015	23,341
2029-2033	37,883	3,102	2,704	221	40,587	3,323
Total Debt Service Requirements	$ 588,418	$ 174,068	$ 38,948	$ 11,425	$ 627,366	$ 185,493

C. DEBT REFUNDINGS

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

When the state refunds outstanding bonds, the net proceeds of each refunding issue are used to purchase U.S. government securities that are placed in irrevocable trusts with escrow agents to provide for all future debt service payments on the refunded bonds.

As a result, the refunded bonds are considered defeased and the liability is removed from the government-wide statement of net position.

Current Year Defeasances

Bonds

Governmental Activities.
On July 26, 2012, the state issued $78.3 million of taxable general obligation refunding bonds with an average interest rate of .47 percent to refund $77.9 million of various purpose general obligation bonds with an average interest rate of 5.4 percent. The refunding resulted in a $6.4 million gross debt service savings over the next 4 years and a net present value savings of $6.4 million.

On September 6, 2012, the state issued $380.4 million of motor vehicle fuel tax general obligation refunding bonds with an average interest rate of 4.26 percent to refund $388.1 million of motor vehicle fuel tax general obligation bonds with an average interest rate of 4.98 percent. The refunding resulted in a $50.6 million gross debt service savings over the next 18 years and a net present value savings of $39.7 million.

Also on September 6, 2012, the state issued $352.2 million of various purpose general obligation refunding bonds with an average interest rate of 4.33 percent to refund $357.6 million of various purpose general obligation bonds with an average interest rate of 5.0 percent. The refunding resulted in a $43.4 million gross debt service savings over the next 18 years and a net present value savings of $34.7 million.

On February 5, 2013, the state issued $159.4 million of motor vehicle fuel tax general obligation refunding bonds with an average interest rate of 3.93 percent to refund $158.3 million of motor vehicle fuel tax general obligation bonds with an average interest rate of 5 percent. The refunding resulted in a $23.2 million gross debt service savings over the next 19 years and a net present value savings of $18.5 million.

Also on February 5, 2013, the state issued $666.7 million of various purpose general obligation refunding bonds with an average interest rate of 4.22 percent to refund $703.9 million of various purpose general obligation bonds with an average interest rate of 4.72 percent. The refunding resulted in a $73.7 million gross debt service savings over the next 19 years and a net present value savings of $57.7 million.

Business-Type Activities.
On July 19, 2012, Western Washington University issued $9.2 million in business-type activity revenue refunding bonds with an average interest rate of 3.56 percent to refund $9.5 million of business-type activity revenue bonds with an average interest rate of 4.58 percent. The refunding resulted in a $877,313 gross debt service savings over the next 11 years and an economic gain of $760,746.

On March 28, 2013, Central Washington University issued $53.4 million in business-type activity revenue refunding bonds with an average interest rate of 3.76 percent to refund $53.8 million of business-type activity revenue bonds with an average interest rate of 5.25 percent. The refunding resulted in a $10.8 million gross debt service savings over the next 21 years and an economic gain of $7.9 million.

On April 2, 2013, Washington State University issued $9.8 million in general revenue bonds with an average interest rate 4.52 percent to refund $10.9 million of housing and dining revenue bonds with an average interest rate of 4.64 percent. The refunding resulted in $1.6 million gross debt service savings over the next 12 years and an economic gain of $1.3 million.

Certificates of Participation (COPs)

On March 19, 2013, the state issued $25.4 million in refunding certificates of participation with an average interest rate of 4.23 percent to refund $31.6 million of certificates of participation with interest rates between 4.18 and 4.34 percent. The refunding resulted in a $3.3 million gross debt service savings over the next 11 years and a net present value savings of $5.7 million.

Prior Year Defeasances

In prior years, the state defeased certain general obligation bonds, revenue bonds, and certificates of participation by placing the proceeds of new bonds and certificates in an irrevocable trust to provide for all future debt service payments on the prior bonds and certificates.

Accordingly, the trust account assets and the liability for the defeased bonds and certificates are not included in the state's financial statements.

General Obligation Bond Debt

On June 30, 2013, $2.95 billion of general obligation bonded debt outstanding is considered defeased.

Revenue Bond Debt

On June 30, 2013, $90.6 million of revenue bonded debt outstanding is considered defeased.

Certificates of Participation Debt

On June 30, 2013, $80.7 million of certificates of participation debt outstanding is considered defeased.

D. LEASES

Leases at June 30, 2013, are reported by the state of Washington within governmental activities and business-type activities, as applicable.

The state leases land, office facilities, office and computer equipment, and other assets under a variety of agreements. Although lease terms vary, most leases are subject to appropriation from the Legislature to continue the obligation. If the possibility of receiving no funding from the Legislature is remote, leases are considered noncancelable for financial reporting purposes. Leases that represent acquisitions are classified as capital leases, and the related assets and liabilities are recorded in the financial records at the inception of the lease.

Other leases are classified as operating leases with the lease payments recorded as expenditures or expenses during the life of the lease. Certain operating leases are renewable for specified periods. In most cases, management expects that the leases will be renewed or replaced by other leases.

Land, buildings, and equipment under capital leases as of June 30, 2013, include the following (expressed in thousands):

	Governmental Activities	Business-Type Activities
Land (non-depreciable)	$ 1,918	$ -
Buildings	14,022	4,512
Equipment	18,249	13,244
Less: Accumulated depreciation	(19,422)	(5,271)
Totals	$ 14,767	$ 12,485

The following schedule presents future minimum payments for capital and operating leases as of June 30, 2013 (expressed in thousands):

	Capital Leases		Operating Leases	
Capital and Operating Leases	Governmental Activities	Business-Type Activities	Governmental Activities	Business-Type Activities
By Fiscal Year:				
2014	$ 3,075	$ 2,304	$ 130,583	$ 33,528
2015	2,745	2,288	115,551	30,874
2016	1,442	2,274	90,497	22,509
2017	1,031	2,265	68,379	14,132
2018	470	2,002	53,885	7,934
2019-2023	1,979	6,711	153,596	27,572
2024-2028	-	-	82,842	18,055
2029-2033	-	-	63,994	20,921
2034-2038	-	-	64,399	24,242
2039-2043	-	-	65,132	22,645
Total Future Minimum Payments	10,742	17,844	888,858	222,412
Less: Executory Costs and Interest Costs	(588)	(2,356)	-	-
Net Present Value of Future Minimum Lease Payments	$ 10,154	$ 15,488	$ 888,858	$ 222,412

The total operating lease rental expense for fiscal year 2013 for governmental activities was $327.4 million, of which $582,391 was for contingent rentals. The total operating lease rental expense for fiscal year 2013 for business-type activities was $32.9 million, of which $61,385 was for contingent rentals.

E. CLAIMS AND JUDGMENTS

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

Workers' Compensation

At June 30, 2013, $34.75 billion of unpaid claims and claim adjustment expenses are presented at their net present and settlement value of $23.63 billion. These claims are discounted at assumed interest rates of 1.5 percent (time loss and medical) to 6.5 percent (pensions) to arrive at a settlement value.

The claims and claim adjustment liabilities of $23.63 billion as of June 30, 2013, include $11.29 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 $12.34 billion are fully funded by long-term investments, net of obligations under securities lending agreements.

Changes in the balances of workers' compensation claims liabilities during fiscal years 2012 and 2013 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
2012	$ 22,943,311	1,731,341	(2,078,302)	$ 22,596,350
2013	$ 22,596,350	3,150,517	(2,119,307)	$ 23,627,560

Risk Management

The Risk Management Fund administers tort and sundry claims filed against Washington state agencies, except the University of Washington and the Department of Transportation Ferries Division. The Fund reports a tort 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 tort claims that have been incurred but not reported. It also includes an actuarial estimate of loss adjustment expenses for tort defense.

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

The state is a defendant in a significant number of lawsuits pertaining to general and automobile liability matters.

As of June 30, 2013, outstanding and actuarially determined claims against the state and its agencies, with the exception of the University of Washington, including actuarially projected defense costs were $542.7 million for which the state has recorded a liability. The state is restricted by law from accumulating funds in the Self Insurance Liability Program in excess of 50 percent of total outstanding and actuarially determined liabilities.

At June 30, 2013, the Risk Management Fund held $60.2 million in cash and pooled investments designated for payment of these claims under the state's Self Insurance Liability Program.

Changes in the balances of risk management claims liabilities during fiscal years 2012 and 2013 were as follows (expressed in thousands):

Risk Management Fund	Balances Beginning of Fiscal Year	Incurred Claims and Changes in Estimates	Claim Payments	Tort Defense Payments	Balances End of Fiscal Year
2012	$ 702,632	170,437	(42,747)	(16,949)	$ 813,373
2013	$ 813,373	(187,481)	(65,548)	(17,635)	$ 542,709

Health Insurance

The Health Insurance Fund establishes a liability when it becomes probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an actuarially determined amount for claims that have been incurred but not reported. Because actual claims liabilities depend on various complex factors, the process used in computing claims liabilities does not always result in an exact amount.

Claims liabilities are re-evaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors.

At June 30, 2013, health insurance claims liabilities totaling $59.9 million are fully funded with cash and investments, net of obligations under securities lending agreements.

Changes in the balances of health insurance claims liabilities during fiscal years 2012 and 2013 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
2012	$ 84,990	771,328	(787,411)	$ 68,907
2013	$ 68,907	816,965	(825,999)	$ 59,873

F. POLLUTION REMEDIATION

The state reports pollution remediation obligations in accordance with GASB Statement No. 49. The liability reported involves estimates of financial responsibility and amounts recoverable as well as remediation costs.

The liability could change over time as new information becomes available and as a result of changes in remediation costs, technology and regulations governing remediation efforts. Additionally, the responsibilities and liabilities discussed in this disclosure are intended to refer to obligations solely in the accounting context. This disclosure does not constitute an admission of any legal responsibility or liability. Further, it does not establish or affect the rights or obligations of any person under the law, nor does this disclosure impose upon the state any new mandatory duties or obligations.

The state and its agencies are participating as potentially responsible parties in numerous pollution remediation projects under the provisions of the federal Comprehensive Environmental Response, Compensation, and Liability Act of 1980 (CERCLA, generally referred to as Superfund) and the state Model Toxics Control Act.

There are 28 projects in progress for which the state has recorded a liability of $43.7 million.

The state has also voluntarily agreed to conduct certain remediation activities to the extent of funding paid to the state by third parties for such purposes. At June 30, 2013, the state has recorded a liability of $128.1 million for remaining project commitments.

Overall, the state has recorded a pollution remediation liability of $171.8 million, measured at its estimated amount, using the expected cash flow technique. The overall estimate is based on professional judgment, experience, and historical cost data. For some projects, the state can reasonably estimate the range of expected outlays early in the process because the site situation is common or similar to other sites with which the state has experience. In other cases, the estimates are limited to an amount specified in a settlement agreement, consent decree, or contract for remediation services.

The pollution remediation activity at some sites for which the state would otherwise have a reportable obligation is at a point where certain costs are not reasonably estimable. For example, a site assessment, remedial investigation, or feasibility study is in progress and the cleanup methodology has not yet been determined; consequently, associated future costs cannot be estimated.

The state's reported liability does not include remediation costs for future activities where costs are not yet reasonably estimable.

G. LONG-TERM LIABILITY ACTIVITY

Long-term liability activity at June 30, 2013, is reported by the state of Washington within governmental activities and business-type activities, as applicable. Long-term liability activity for governmental activities for fiscal year 2013 is as follows (expressed in thousands):

Governmental Activities:	Beginning Balance July 1, 2012*	Additions	Reductions	Ending Balance June 30, 2013	Amounts Due Within One Year
Long-Term Debt:					
GO Bonds Payable:					
General obligation (GO) bonds	$ 17,206,550	$ 2,729,170	$ 2,331,825	$ 17,603,895	$ 748,765
GO - zero coupon bonds (principal)	631,301	-	35,492	595,809	38,867
Subtotal - GO bonds payable	17,837,851	2,729,170	2,367,317	18,199,704	787,632
Accreted interest - GO - zero coupon bonds	414,719	24,068	-	438,787	-
Revenue bonds payable	1,657,156	108,720	54,273	1,711,603	33,498
Less: Deferred issuance discounts	(6,684)	840	-	(5,844)	-
Total Bonds Payable	19,903,042	2,862,798	2,421,590	20,344,250	821,130
Other Liabilities:					
Certificates of participation	473,941	405,267	290,790	588,418	98,894
Claims and judgments	1,021,984	70,701	329,980	762,705	211,003
Installment contracts	6,799	-	4,482	2,317	-
Leases	7,151	6,143	3,140	10,154	2,854
Compensated absences	555,974	311,246	297,876	569,344	59,919
Unfunded pension obligations	282,423	58,018	-	340,441	-
Other postemployment benefits obligations	1,146,490	321,635	-	1,468,125	-
Pollution remediation obligations	165,234	21,723	15,141	171,816	-
Unclaimed property refunds	129,252	-	22,585	106,667	11
Other	131,096	45,956	33,663	143,389	-
Total Other Liabilities	3,920,344	1,240,689	997,657	4,163,376	372,681
Total Long-Term Debt	$ 23,823,386	$ 4,103,487	$ 3,419,247	$ 24,507,626	$ 1,193,811

* Beginning balances reflect the prior period adjustment to reclassify the Liquor Revolving Fund from business-type activity to a governmental, which resulted in an increase in certificates of participation of $5.3 million and an increase in compensated absences of $2.0 million.

For governmental activities, certificates of participation are being repaid approximately 49 percent from the General Fund, 33 percent from the Higher Education Special Revenue Fund, and the balance from various governmental funds. The compensated absences liability will be liquidated approximately 43 percent by the General Fund, 34 percent by the Higher Education Special Revenue Fund, and the balance by various other governmental funds. The claims and judgments liability will be liquidated approximately 71 percent by the Risk Management Fund (an internal service fund), 10 percent by the Higher Education Special Revenue Fund, and the balance by various other governmental funds. The other postemployment benefits obligations liability will be liquidated approximately 44 percent by the General Fund, 33 percent by the Higher Education Special Revenue Fund, and the balance by various other governmental funds. The pollution remediation liability will be liquidated approximately 75 percent by the Wildlife and Natural Resources Fund, a nonmajor governmental fund, and the balance by various other governmental funds. The unclaimed property refunds will be liquidated against future unclaimed property deposited to the General Fund. Leases, installment contract obligations, and other liabilities will be repaid from various other governmental funds.

Long-term liability activity for business-type activities for fiscal year 2013 is as follows (expressed in thousands):

Business-Type Activities	Beginning Balance July 1, 2012*	Additions	Reductions	Ending Balance June 30, 2013	Amounts Due Within One Year
Long-Term Debt:					
General obligation bonds payable	$ 14,875	$ -	$ 3,400	$ 11,475	$ 3,605
Revenue bonds payable	1,681,830	332,749	84,283	1,930,296	80,581
Plus: Unamortized issuance premiums	72,661	36,680	8,864	100,477	-
Less: Deferred issuance discounts	(416)	147	-	(269)	-
Total Bonds Payable	1,768,950	369,576	96,547	2,041,979	84,186
Other Liabilities:					
Certificates of participation	46,834	14,864	22,750	38,948	4,011
Plus: Deferred issuance premiums	1,248	1,581	136	2,693	-
Claims and judgments	22,607,953	2,040,428	1,009,611	23,638,770	1,853,263
Lottery prize annuities payable	206,579	50,835	81,384	176,030	33,438
Tuition benefits payable	2,942,000	195,002	421,002	2,716,000	151,000
Leases	5,722	10,311	545	15,488	1,793
Compensated absences	63,565	25,028	22,188	66,405	33,763
Other postemployment benefits obligations	132,891	29,389	16,630	145,650	-
Other	25,349	40	25,155	234	-
Total Other Liabilities	26,032,141	2,367,478	1,599,401	26,800,218	2,077,268
Total Long-Term Debt	$ 27,801,091	$ 2,737,054	$ 1,695,948	$ 28,842,197	$ 2,161,454

* Beginning balances reflect the prior period adjustment to reclassify the Liquor Revolving Fund from business-type activity to a governmental, which resulted in a decrease in certificates of participation of $5.3 million and a decrease in compensated absences of $2.0 million.

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 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 full 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 schedule below presents the June 30, 2013, balances for the "No Commitment" debt of the state's financing authorities (expressed in thousands):

Financing Authorities	Principal Balance
Washington State Housing Finance Commission	$ 3,490,997
Washington Higher Education Facilities Authority	706,243
Washington Health Care Facilities Authority	5,484,000
Washington Economic Development Finance Authority	758,663
Total No Commitment Debt	$ 10,439,903

Note 9
Governmental Fund Balances

A. GOVERNMENTAL FUND BALANCES

The state's governmental fund balances are reported according to the relative constraints that control how amounts can be spent. Net position restricted as a result of enabling legislation totaled $43.7 million. Classifications include nonspendable, restricted, committed, and assigned, which are further described in Note 1.D.9.

A summary of governmental fund balances at June 30, 2013, is as follows (expressed in thousands):

Fund Balances	General	Higher Education Special Revenue	Higher Education Endowment	Nonmajor Governmental Funds	Total
Nonspendable:					
Permanent funds	$ -	$ -	$ 1,929,641	$ 192,070	$ 2,121,711
Consumable inventories	12,904	11,332	-	44,050	68,286
Petty cash	565	2,660	-	744	3,969
Investments	-	46,433	62,204	365	109,002
Other receivables – long-term	36,350	-	-	-	36,350
Total Nonspendable Fund Balance	$ 49,819	$ 60,425	$ 1,991,845	$ 237,229	$ 2,339,318
Restricted for:					
Higher education	$ -	$ -	$ 1,361,921	$ 93,037	$ 1,454,958
Education	-	-	24,896	12,975	37,871
Transportation	-	-	-	783,142	783,142
Other purposes	683	-	-	9,472	10,155
Human services	-	-	209	251,275	251,484
Wildlife and natural resources	28,155	-	-	847,611	875,766
Local grants and loans	-	-	-	273	273
School construction	676	-	-	143,208	143,884
Budget stabilization	269,651	-	-	-	269,651
Debt service	-	-	-	86,231	86,231
Pollution remediation	-	-	-	127,703	127,703
Operations and maintenance	-	-	-	6,410	6,410
Repair and Replacement	-	-	-	1,875	1,875
Unspent GARVEE bond proceeds	-	-	-	142,593	142,593
Third tier debt service	-	-	-	2,186	2,186
Total Restricted Fund Balance	$ 299,165	$ -	$ 1,387,026	$ 2,507,991	$ 4,194,182
Committed for:					
Higher education	$ 20,981	$ 2,302,301	$ -	$ 49,338	$ 2,372,620
Education	-	-	-	2,036	2,036
Transportation	-	-	-	160,233	160,233
Other purposes	-	-	-	169,147	169,147
Human services	2,778	-	-	277,159	279,937
Wildlife and natural resources	35,820	-	-	466,629	502,449
Local grants and loans	-	-	-	996,518	996,518
State facilities	-	-	-	1,724	1,724
Debt service	-	-	-	512,243	512,243
Total Committed Fund Balance	$ 59,579	$ 2,302,301	$ -	$ 2,635,027	$ 4,996,907
Assigned for:					
Working capital	$ 835,152	$ -	$ -	$ -	$ 835,152
Other purposes	-	-	-	40	40
Total Assigned Fund Balance	$ 835,152	$ -	$ -	$ 40	$ 835,192

B. BUDGET STABILIZATION ACCOUNT

In accordance with Article 7, Section 12 of the Washington State Constitution, the state maintains the Budget Stabilization Account ("Rainy Day Fund"). The Budget Stabilization Account is reported in the General Fund.

By June 30 of each fiscal year, an amount equal to 1.0 percent of the general state revenues for that fiscal year is transferred to the Budget Stabilization Account.

The Budget Stabilization Account balance can only be used as follows: (a) If the governor declares a state of emergency resulting from a catastrophic event that necessitates government action to protect life or public safety, then for that fiscal year money may be withdrawn and appropriated from the Budget Stabilization Account, via separate legislation setting forth the nature of the emergency and containing an appropriation limited to the above-authorized purposes as contained in the declaration, by a favorable vote of a majority of the members elected to each house of the Legislature; (b) If the employment growth forecast for any fiscal year is estimated to be less than 1 percent, then for that fiscal year money may be withdrawn and appropriated from the Budget Stabilization Account by the favorable vote of a majority of the members elected to each house of the Legislature; (c) Any amount may be withdrawn and appropriated from the Budget Stabilization Account at any time by the favorable vote of at least three-fifths of the members of each house of the Legislature.

When the balance in the Budget Stabilization Account, including investment earnings, equals more than 10 percent of the estimated general state revenues in that fiscal year, the Legislature by the favorable vote of a majority of the members elected to each house of the Legislature may withdraw and appropriate the balance to the extent that the balance exceeds 10 percent of the estimated general state revenues. These appropriations may be made solely for deposit to the Education Construction Fund.

At June 30, 2013, the Budget Stabilization Account had restricted fund balance of $269.7 million.

Note 10
Deficit Net Position

Risk Management Fund

The Risk Management Fund, an internal service fund, had a deficit net position of $486.3 million at June 30, 2013. The Risk Management Fund is used to administer the Self-Insurance Liability Program (SILP). The SILP was initiated in 1990 and is intended to provide funds for the payment of all tort claims and defense expenses. The program investigates, processes, and adjudicates tort and sundry claims filed against Washington state agencies, with the exception of the University of Washington and the Department of Transportation Ferries Division.

The Risk Management Fund is supported by premium assessments to state agencies. The state is restricted by law from accumulating funds in the SILP in excess of 50 percent of total outstanding and actuarially determined claims. As a consequence, when outstanding and incurred but not reported claims are actuarially determined and accrued, the result is a deficit net position.

The net position in the Risk Management Fund improved in the fiscal year ended June 30, 2013. The actuarial projection of the expected claims liability is based on actual experience for the past five years. The projected liability decreased due to the decrease in the number of claims filed and the relative stability in the severity of the claims.

The following schedule details the change in net position for the Risk Management Fund during the fiscal year ended June 30, 2013 (expressed in thousands):

Risk Management Fund	Net Position
Balance, July 1, 2012	$ (709,742)
Fiscal year 2013 activity	223,491
Balance, June 30, 2013	$ (486,251)

State Facilities Fund

The State Facilities Fund had a deficit fund balance of $79.3 million at June 30, 2013.

The State Facilities Fund is used to pay for various capital projects throughout the state. It is primarily supported by bond proceeds, income from property, and sales of property.

Costs were incurred during fiscal year 2013 but the bonds to support these projects were not issued until after June 30, 2013, resulting in a deficit fund balance.

The following schedule details the change in fund balance for the State Facilities Fund during the fiscal year ended June 30, 2013 (expressed in thousands):

State Facilities Fund	**Fund Balance**
Balance, July 1, 2012	$ 270,318
Fiscal year 2013 activity	(349,645)
Balance, June 30, 2013	$ (79,327)

Note 11
Retirement Plans

A. GENERAL

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

Basis of Accounting

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

Investments

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

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

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

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

- Judicial Retirement System (JRS)
  Defined benefit plan

- Judges' Retirement Fund (Judges)
  Defined benefit plan

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

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

In January 2012, the Department of Retirement Systems began collecting contributions from state institutions of higher education for deposit in the Higher Education Retirement Plan (HERP) Supplemental Benefit Fund. The contributions are to begin prefunding the unfunded future obligations related to the supplemental benefits of the HERP. The HERP Supplemental Benefit Fund was not created as a pension trust fund and is reported by the state as an administrative account in the General Fund.

Pursuant to RCW 41.50.770, the state offers its employees and employees of those political subdivisions that elect to participate, a deferred compensation program in accordance with Internal Revenue Code Section 457. The deferred compensation is not available to employees until termination, retirement, disability, death or unforeseeable financial emergency. This deferred compensation plan is administered by the Department of Retirement Systems.

The Department of Retirement Systems prepares a stand-alone financial report. Copies of the report that include financial statements and required supplementary information may be obtained by writing to Washington

State Department of Retirement Systems, PO Box 48380, Olympia, Washington 98504-8380 or by visiting their website at: http:\\www.drs.wa.gov.

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

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

Higher Education. As established in chapter 28B.10 RCW, eligible higher education state employees may participate in Higher Education Retirement Plans. These plans are privately administered defined contribution plans with a supplemental defined benefit component.

Plan Disclosures

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

Membership of each state administered plan consisted of the following at June 30, 2012, the date of the latest actuarial valuation for all plans:

Number of Participating Members

Plans	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	52,672	1,594	6,275	360	60,901
PERS 2	27,820	24,953	88,630	27,247	168,650
PERS 3	1,750	3,968	11,412	16,666	33,796
TRS 1	36,054	477	2,989	30	39,550
TRS 2	3,060	2,348	5,431	5,418	16,257
TRS 3	3,804	6,720	34,558	16,931	62,013
SERS 2	4,437	4,992	13,209	7,637	30,275
SERS 3	3,214	5,928	20,139	10,573	39,854
LEOFF 1	7,845	-	186	-	8,031
LEOFF 2	2,344	689	14,087	2,633	19,753
WSPRS 1	915	120	712	-	1,747
WSPRS 2	-	8	195	159	362
PSERS 2	27	60	2,083	2,167	4,337
JRS	119	-	2	-	121
Judges	12	-	-	-	12
JRA	1	156	7	-	164
VFFRPF	3,971	6,174	3,955	6,477	20,577
Total	148,045	58,187	203,870	96,298	506,400

Following is a summary of the number of government employers participating in state administered retirement plans as of June 30, 2013:

Number of Participating Employers

Plans	State Agencies	School Districts	Counties/ Municipalities	Other Political Subdivisions	Total Employers
PERS 1	135	216	172	183	706
PERS 2	167	-	276	491	934
PERS 3	157	-	209	298	664
TRS 1	49	295	-	-	344
TRS 2	36	304	-	-	340
TRS 3	38	303	-	-	341
SERS 2	-	302	-	-	302
SERS 3	-	301	-	-	301
LEOFF 1	-	-	41	10	51
LEOFF 2	8	-	212	154	374
WSPRS 1	1	-	-	-	1
WSPRS 2	1	-	-	-	1
PSERS 2	9	-	65	1	75
JRS	1	-	-	-	1
Judges	1	-	-	-	1
JRA	3	-	-	-	3
VFFRPF	-	-	-	642	642
Total	606	1,721	975	1,779	5,081

Employers can participate in multiple systems and/or plans. The actual total number of participating employers as of June 30, 2013 is 1,958.

B. PLAN DESCRIPTIONS

Public Employees' Retirement System

The Legislature established the Public Employees' Retirement System (PERS) in 1947. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior Courts (other than judges currently in a judicial retirement system); employees of legislative committees; community and technical colleges, college and university employees not in national higher education retirement programs; judges of district and municipal courts; and employees of local governments. Approximately 49 percent of PERS salaries are accounted for by state employment. PERS retirement benefit provisions are established in chapters 41.34 and 41.40 RCW and may be amended only by the Legislature.

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 members 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 exercised 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. Employees who fail to choose within 90 days default to PERS Plan 3.

PERS is comprised of and reported as three separate plans: Plan 1, Plan 2/3, and Plan 3. Plan 1 accounts for the defined benefits of Plan 1 members. Plan 2/3 accounts for the defined benefits of Plan 2 members and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members.

Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 defined benefit plan may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. 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 Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. During fiscal year 2013, the rate was 5.5 percent compounded quarterly. Members in PERS Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest thereon, in lieu of any retirement benefit, upon separation from PERS-covered employment.

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. PERS Plan 3 defined contribution retirement benefits are financed from employee contributions and investment earnings. Members 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.

PERS Plan 1 members are vested after the completion of 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 monthly benefit is 2 percent of the average final compensation (AFC) per year of service capped at 60 percent. AFC is the monthly average of the 24 consecutive highest-paid service credit months. If a survivor option is chosen, the benefit is reduced.

PERS Plan 1 members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits. Plan 1 members may elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

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. The benefit 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, at which time the benefit is converted to the member's service retirement amount.

A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the benefit amount is 2 percent of the AFC for each year of service reduced by 2 percent for each year that the member's age is less than 55. The total benefit is limited to 60 percent of the AFC and is actuarially reduced if a survivor option is chosen. Plan 1 members may elect to receive an optional COLA amount based on the Consumer Price Index, capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 2 members are vested after completing five years of eligible service. Plan 2 members are eligible for normal retirement at the age of 65 with five years of service. The monthly benefit is 2 percent of the AFC per year of service. AFC is the monthly average of the 60 consecutive highest-paid service credit months. There is no cap on years of service credit, and a COLA is granted based on the Consumer Price Index, capped at 3 percent annually.

PERS Plan 2 members who have at least 20 years of service credit and are 55 years of age or older are eligible for early retirement with a reduced benefit. The benefit is reduced by an early retirement factor (ERF) that varies according to age, for each year before age 65.

PERS Plan 2 members who have 30 or more years of service credit and are at least 55 years old, can retire under one of two provisions if hired prior to May 1, 2013:

- With a benefit that is reduced by 3 percent for each year before age 65; or
- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

PERS Plan 2 members hired on or after May 1, 2013, have the option to retire early by accepting a reduction of 5 percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service.

PERS Plan 2 benefits are actuarially reduced if a survivor option is chosen.

The defined benefit portion of PERS Plan 3 provides members a monthly benefit that is 1 percent of the AFC per year of service. AFC is the monthly average of the 60 consecutive highest-paid service credit months. There is no cap on years of service credit, and Plan 3 provides the same COLA as Plan 2.

Effective June 7, 2006, PERS Plan 3 members are vested in the defined benefit portion of their plan after 10 years of service; or after five years of service, if 12 months of that service are earned after age 44; or after five service credit years earned in PERS Plan 2 by June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan.

Vested Plan 3 members are eligible for normal retirement at age 65, or they may retire early with the following conditions and benefits:

- If they have at least 10 service credit years and are 55 years old, the benefit is reduced by an ERF that varies according to age, for each year before age 65;
- If they have 30 service credit years and are at least 55 years old, and were hired before May 1, 2013, they have the choice of a benefit that is reduced by 3 percent for each year before age 65; or a benefit with a smaller (or no) reduction factor (depending on age) that imposes stricter return-to-work rules.
- If they have 30 service credit years, are at least 55 years old, and were hired after May 1, 2013, they have the option to retire early by accepting a reduction of 5 percent for each year before age 65.

PERS Plan 3 retirement benefits are actuarially reduced if a survivor option is chosen.

Refer to section J of this note for a description of the defined contribution component of PERS Plan 3.

PERS Plan 2 and Plan 3 provide disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 monthly benefit amount is 2 percent of the AFC per year of service. For Plan 3, the monthly benefit amount is 1 percent of the AFC per year of service. These disability benefit amounts are actuarially reduced for each year that the member's age is less than 65, and to reflect the choice of a survivor option. There is no cap on years of service credit, and a COLA is granted based on the Consumer Price Index, capped at 3 percent annually.

PERS members meeting specific eligibility requirements have options available to enhance their retirement benefits. Some of these options are available to their survivors.

A one-time duty-related death benefit is provided to the estate (or duly designated nominee) of a PERS member who dies in the line of service as a result of injuries or illness sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by the Director of the Department of Labor and Industries.

Portability of retirement benefits allows for PERS members' compensation that is reportable in all dual members' systems, except in WSPRS, to be included in the calculation of all dual members' benefits, and removing the "maximum benefit rule" for dual members who have less than 15 years of service in one capped plan and service in one uncapped plan.

Effective after the January 2008 distribution, gain sharing for PERS Plan 1 and Plan 3 members was discontinued.

Additional COLAs were provided to PERS Plan 1 retirees in July 2009 and new alternative early retirement provisions were created for PERS Plan 2 and Plan 3 members.

From January 1, 2007, through December 31, 2007, judicial members of PERS were given the choice to elect participation in the Judicial Benefit Multiplier (JBM) Program enacted in 2006. Justices and judges in PERS Plan 1 and Plan 2 were able to make an irrevocable election to pay increased contributions that would fund a retirement benefit with a 3.5 percent multiplier. The benefit is capped at 75 percent of AFC.

Judges in PERS Plan 3 could elect a 1.6 percent of pay per year of service benefit, capped at 37.5 percent of AFC.

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

Material changes, if any, in PERS benefit provisions for the fiscal year ended June 30, 2013, are listed in the table at the end of this section.

Teachers' Retirement System

The Legislature established the Teachers' Retirement System (TRS) in 1938. Eligibility for membership requires service as a certificated public school employee working in an instructional, administrative or supervisory capacity. TRS is comprised principally of non-state agency employees. TRS retirement benefit provisions are established in chapters 41.32 and 41.34 RCW and may be amended only by the Legislature.

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 defined benefit plan with a defined contribution component.

TRS members 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 members joining the system on or after July 1, 1996, and those who exercised their transfer option, are members of TRS Plan 3.

Legislation passed in 2007 gives TRS members hired on or after July 1, 2007, 90 days to make an irrevocable choice to become a member of TRS Plan 2 or Plan 3. At the end of 90 days, any member who has not made a choice, becomes a member of Plan 3.

TRS is comprised of and reported as three separate plans: Plan 1, Plan 2/3, and Plan 3. Plan 1 accounts for the defined benefits of Plan 1 members. Plan 2/3 accounts for the defined benefits of Plan 2 members and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members.

Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 defined benefit plan may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. 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 Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. During fiscal year 2013, the rate was 5.5 percent compounded quarterly. Members in TRS Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest thereon upon separation from TRS-covered employment.

TRS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. 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 Plan 1 members are vested after the completion of five years of eligible service. Plan 1 members are eligible for retirement at any age 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 monthly benefit is 2 percent of the average final compensation (AFC) for each year of service credit, up to a maximum of 60 percent. AFC is the total earnable compensation for the two consecutive highest-paid fiscal years, divided by two.

TRS Plan 1 members may elect to receive an optional COLA amount based on the Consumer Price Index, capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

TRS Plan 1 provides death, as well as, permanent and temporary disability benefits.

TRS Plan 1 members on temporary disability receive a monthly payment of $180 payable for up to two years, for the same occurrence. After five years of service, members on a disability retirement receive a benefit based on their salary and service to date of disability.

TRS Plan 2 retirement benefits are vested after completing five years of eligible service. Plan 2 members are eligible for normal retirement at the age of 65 with five years of service. The monthly benefit is 2 percent of the AFC per year of service. AFC is the monthly average of the 60 consecutive highest-paid service credit months. There is no cap on years of service credit; and a COLA is granted based on the Consumer Price Index, capped at 3 percent annually.

TRS Plan 2 members who have at least 20 years of service credit and are 55 years of age or older are eligible for early retirement with a reduced benefit. The benefit is reduced by an early retirement factor (ERF) that varies according to age, for each year before age 65.

TRS Plan 2 members who have 30 or more years of service credit, were hired prior to May 1, 2013, and are at least 55 years old, can retire under one of two provisions:

- With a benefit that is reduced by 3 percent for each year before age 65; or
- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

TRS Plan 2 members hired on or after May 1, 2013, have the option to retire early by accepting a reduction of 5 percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service.

TRS Plan 2 retirement benefits are actuarially reduced if a survivor option is chosen.

The defined benefit portion of TRS Plan 3 provides members a monthly benefit that is 1 percent of the AFC per year of service. AFC is the monthly average of the 60 consecutive highest-paid service credit months. There is no cap on years of service credit, and Plan 3 provides the same COLA as Plan 2.

TRS Plan 3 members are vested in the defined benefit portion of their plan after 10 years of service; or after five years of service, if 12 months of that service are earned after age 44; or after five service credit years earned in TRS Plan 2 by July 1, 1996. Plan 3 members are immediately vested in the defined contribution portion of their plan.

Vested TRS Plan 3 members are eligible for normal retirement at age 65, or they may retire early with the following conditions and benefits:

- If they have at least 10 service credit years and are 55 years old, the benefit is reduced by an ERF that varies according to age, for each year before age 65;
- If they have 30 service credit years, were hired prior to May 1, 2013, and are at least 55 years old, they have the choice of a benefit that is reduced 3 percent for each year before age 65, or a benefit with a smaller (or no) reduction factor (depending on age) that imposes stricter return-to-work rules.
- If they have 30 service credit years, are at least 55 years old, and were hired after May 1, 2013, they have the option to retire early by accepting a reduction of 5 percent for each year before age 65.

TRS Plan 3 retirement benefits are actuarially reduced if a survivor option is chosen.

TRS Plan 2 and Plan 3 provide disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 monthly benefit amount is 2 percent of the AFC per year of service. For Plan 3, the monthly benefit amount is 1 percent of the AFC per year of service. These disability benefit amounts are actuarially reduced for each year that the member's age is less than 65, and to reflect the choice of a survivor option. There is no cap on years of service credit, and a COLA is granted based on the Consumer Price Index, capped at 3 percent annually.

TRS members meeting specific eligibility requirements, have options available to enhance their retirement benefits. Some of these options are available to their survivors.

A one-time duty-related death benefit is provided to the estate (or duly designated nominee) of a TRS member who dies in the line of service as a result of injuries or illness sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by the Director of the Department of Labor and Industries.

Portability of retirement benefits allows for TRS members' compensation that is reportable in all dual members' systems, except in WSPRS, to be included in the calculation of all dual members' benefits, and removing the "maximum benefit rule" for dual members who have less than 15 years of service in one capped plan and service in one uncapped plan.

Effective after the January 2008 distribution, gain sharing for TRS Plan 1 and Plan 3 members was discontinued.

Additional COLAs were provided to TRS Plan 1 retirees in July 2009 and new alternative early retirement provisions were created for TRS Plan 2 and Plan 3 members.

From January 1, 2007, through December 31, 2007, judicial members of TRS were given the choice to elect participation in the Judicial Benefit Multiplier (JBM) Program enacted in 2006. Justices and judges in TRS Plan 1 were able to make an irrevocable election to pay increased contributions that would fund a retirement benefit with a 3.5 percent multiplier. The benefit is capped at 75 percent of AFC.

Newly elected or appointed justices and judges who chose to become TRS members on or after January 1, 2007, were required to participate in the JBM Program.

Material changes, if any, in TRS benefit provisions for the fiscal year ended June 30, 2013, are listed in the table at the end of this section.

School Employees' Retirement System

The Legislature established the School Employees' Retirement System (SERS) effective in 2000. Membership in the system includes classified employees of school districts and educational service districts. SERS is comprised principally of non-state agency employees. SERS retirement benefit provisions are established in chapters 41.34 and 41.35 RCW and may be amended only by the Legislature.

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 defined benefit plan with a defined contribution component.

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.

Until June 30, 2007, SERS members joining the system on or after September 1, 2000 became members of SERS Plan 3. Legislation passed in 2007 gives SERS members hired on or after July 1, 2007, 90 days to make an irrevocable choice to become a member of either SERS Plan 2 or Plan 3. At the end of the 90 days, any member who has not made a choice, becomes a member of Plan 3.

SERS is comprised of and reported as two separate plans: Plan 2/3 and Plan 3. Plan 2/3 accounts for the defined benefits of Plan 2 members and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members.

Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 defined benefit plan may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered to be 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 the Director of DRS. During fiscal year 2013, the rate was 5.5 percent compounded quarterly. Members in SERS Plan 2 can elect to withdraw total employee contributions and interest thereon upon separation from SERS-covered employment.

SERS Plan 2 members are vested after completing five years of eligible service. Plan 2 members are eligible for normal retirement at the age of 65 with five years of service. The monthly benefit is 2 percent of the average final compensation (AFC) per year of service. AFC is the monthly average of the 60 consecutive highest-paid service credit months. There is no cap on years of service credit and a COLA is granted based on the 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. 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.

SERS Plan 2 members who have at least 20 years of service credit and are 55 years of age or older are eligible for early retirement with a reduced benefit. The benefit is reduced by an early retirement factor (ERF) that varies according to age, for each year before age 65.

SERS Plan 2 members hired prior to May 1, 2013, who have 30 service credit years and are at least 55 years old can retire under one of two provisions:

- With a benefit that is reduced by 3 percent for each year before age 65; or
- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

SERS Plan 2 members hired on or after May 1, 2013, have the option to retire early by accepting a reduction of five percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service.

SERS Plan 2 retirement benefits are actuarially reduced if a survivor option is chosen.

The defined benefit portion of SERS Plan 3 provides members a monthly benefit that is 1 percent of the AFC per year of service. AFC is the monthly average of the 60 consecutive highest-paid service credit months. There is no cap on years of service credit, and Plan 3 provides the same COLA as Plan 2.

Effective June 7, 2006, SERS Plan 3 members are vested in the defined benefit portion of their plan after 10 years of service; or after five years of service, if 12 months of that service are earned after age 44; or after five service credit years earned in PERS Plan 2 by September 1, 2000. Plan 3 members are immediately vested in the defined contribution portion of their plan.

Vested SERS Plan 3 members are eligible for normal retirement at age 65, or they may retire early with the following conditions and benefits:

- If they have at least 10 service credit years and are 55 years old, the benefit is reduced by an ERF that varies according to age, for each year before age 65;
- If they have 30 service credit years, are at least 55 years old, and hired before May 1, 2013, they have the choice of a benefit that is reduced by 3 percent for each year before age 65; or a benefit with a smaller (or

no) reduction factor (depending on age) that imposes stricter return-to-work rules.

- If they have 30 service credit years, are at least 55 years old, and were hired after May 1, 2013, they have the option to retire early by accepting a reduction of five percent for each year before age 65.

SERS Plan 3 retirement benefits are also actuarially reduced if a survivor option is chosen.

SERS Plan 2 and Plan 3 provide disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 monthly benefit amount is 2 percent of the AFC per year of service. For Plan 3, the monthly benefit amount is 1 percent of the AFC per year of service. These disability benefit amounts are actuarially reduced for each year that the member's age is less than 65, and to reflect the choice of a survivor option. There is no cap on years of service credit, and a COLA is granted based on the Consumer Price Index, capped at 3 percent annually.

SERS members meeting specific eligibility requirements have options available to enhance their retirement benefits. Some of these options are available to their survivors.

A one-time duty-related death benefit is provided to the estate (or duly designated nominee) of a SERS member who dies in the line of service as a result of injuries or illness sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by the Director of the Department of Labor and Industries.

Portability of retirement benefits allows for SERS members' compensation that is reportable in all dual members' systems, except in WSPRS, to be included in the calculation of all dual members' benefits, and removing the "maximum benefit rule" for dual members who have less than 15 years of service in one capped plan and service in one uncapped plan.

Material changes, if any, in SERS benefit provisions for the fiscal year ended June 30, 2013, are listed in the table at the end of this section.

Law Enforcement Officers' and Fire Fighters' Retirement System

The Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) was established in 1970 by the Legislature. Membership includes all full-time, fully compensated, local law enforcement commissioned officers, firefighters, and as of July 24, 2005, emergency medical technicians.

LEOFF membership is comprised primarily of non-state employees, with Department of Fish and Wildlife enforcement officers who were first included effective July 27, 2003, being an exception. LEOFF retirement benefit provisions are established in chapter 41.26 RCW and may be amended only by the Legislature.

LEOFF is a cost-sharing multiple-employer retirement system comprised of two separate defined benefit plans. LEOFF members 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.

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.

LEOFF 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 legislative appropriations. Employee contributions to the LEOFF Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. During fiscal year 2013, the rate was 5.5 percent compounded quarterly. Members in LEOFF Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest earnings upon separation from LEOFF-covered employment.

LEOFF Plan 1 members are vested after the completion of 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. A COLA is granted based on the Consumer Price Index.

LEOFF Plan 1 provides death and disability benefits. Death benefits for survivors of 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 eligible surviving child, with a limitation on the combined benefit of 60 percent of the FAS; or (2) If no eligible spouse, eligible children receive 30 percent of FAS for the first child plus 10 percent for each additional child, subject to a 60 percent limitation of FAS, divided equally.

A one-time duty-related death benefit is provided to the estate (or duly designated nominee) of a LEOFF Plan 1 member who dies as a result of injuries or illness sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by the Director of the Department of Labor and Industries.

The LEOFF Plan 1 disability benefit 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 benefit or service retirement benefit.

LEOFF Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members are eligible for retirement at the age of 53 with five years of service, or at age 50 with 20 years of service. Plan 2 members receive a benefit of 2 percent of the FAS per year of service (FAS is based on the highest consecutive 60 months), actuarially reduced to reflect the choice of a survivor option. Members who retire prior to the age of 53 receive reduced benefits. If the member has at least 20 years of service and is age 50, the reduction is 3 percent for each year prior to age 53. Otherwise, the benefits are actuarially reduced for each year prior to age 53. A COLA is granted based on the Consumer Price Index, capped at 3 percent annually.

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

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

A disability benefit equal to 70 percent of their FAS, subject to offsets for workers' compensation and Social Security disability benefits received, is also available to those LEOFF Plan 2 members who are catastrophically disabled in the line of duty and incapable of future substantial gainful employment in any capacity. Effective June 2010, benefits to LEOFF Plan 2 members who are catastrophically disabled include payment of eligible health care insurance premiums.

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

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

A one-time duty-related death benefit is provided to the estate (or duly designated nominee) of a LEOFF Plan 2 member who dies as a result of injuries or illness sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by the Director of the Department of Labor and Industries.

Benefits to eligible surviving spouses and dependent children of LEOFF Plan 2 members killed in the course of employment include the payment of eligible health care insurance premiums.

Legislation passed in 2009 provides to the Washington-state-registered domestic partners of LEOFF Plan 2 members the same treatment as married spouses, to the extent that the treatment is not in conflict with federal laws.

LEOFF members meeting specific eligibility requirements have options available to enhance their retirement benefits. Some of these options are available to their survivors.

Portability of retirement benefits allows for LEOFF Plan 2 members' compensation that is reportable in all dual members' systems, except in WSPRS, to be included in the calculation of all dual members' benefits, and removing the "maximum benefit rule" for dual members who have less than 15 years of service in one capped plan and service in one uncapped plan.

Material changes, if any, in LEOFF benefit provisions for the fiscal year ended June 30, 2013, are listed in the table at the end of this section.

Washington State Patrol Retirement System

The Washington State Patrol Retirement System (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 chapter 43.43 RCW and may be amended only by the Legislature.

WSPRS is a single-employer defined benefit retirement system. WSPRS members 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 the Director of DRS. During fiscal year 2013, the rate was 5.364 percent annually, compounded monthly. Members in WSPRS can elect to withdraw total employee contributions and interest earnings thereon upon separation from WSPRS-covered employment.

WSPRS member contribution rates will be no more than 7 percent of pay plus half the cost of any future benefit improvements. The employer will pay the contribution rate required to cover all system costs that are not covered by the member contribution rate. Also a minimum total contribution rate is established for WSPRS, beginning July 1, 2010.

There is no vesting requirement for active WSPRS members. Inactive WSPRS members are vested after the completion of five years of eligible service. Members are eligible for retirement at the age of 55 with five years of service, or after 25 years of service, and must retire at age 65. This mandatory requirement does not apply to the Chief of the Washington State Patrol.

Effective June 7, 2012, those WSPRS members who have service credit within PERS Plan 2 have options to transfer their service credit earned as commercial vehicle enforcement officers or as communications officers into the WSPRS, provided the member pays the full actuarial cost of the transfer.

The monthly benefit is 2 percent of the average final salary (AFS) per year of service, capped at 75 percent. A cost-of-living allowance is granted, based on the Consumer Price Index, capped at 3 percent annually.

For WSPRS Plan 1 members, AFS is based on the average of the 24 highest-paid service credit months and excludes voluntary overtime. Death benefits for these members, if on active duty, consist of the following: (1) If eligible spouse, 50 percent of the AFS, plus 5 percent of the AFS for each eligible surviving child, with a limitation on the combined benefit 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, or (3) If no spouse or eligible children, beneficiary gets refund of contributions and interest.

For WSPRS Plan 2 members, AFS is based on the average of the 60 consecutive highest-paid service credit months and excludes both voluntary overtime and cash-outs of annual and holiday leave. At retirement, these members also have the option of selecting an actuarially reduced benefit in order to provide for post-retirement survivor benefits.

WSPRS members meeting specific eligibility requirements have options available to enhance their retirement benefits. Some of these options are available to their survivors.

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.

A one-time duty-related death benefit is provided to the estate (or duly designated nominee) of a WSPRS member who dies as a result of injuries or illness sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by the Director of the Department of Labor and Industries.

Benefits to eligible surviving spouses and dependent children of WSPRS members killed in the course of employment include the payment of on-going eligible health care insurance premiums.

Compensation for members of WSPRS Plans 1 and 2 who become totally disabled in the line of duty includes any payments for premiums for employer-provided medical insurance.

Legislation passed in 2009 provides to the Washington-state-registered domestic partners of WSPRS members the same treatment as married spouses, to the extent that the treatment is not in conflict with federal laws.

Material changes, if any, in WSPRS benefit provisions for the fiscal year ended June 30, 2013, are listed in the table at the end of this section.

Public Safety Employees' Retirement System

The Public Safety Employees' Retirement System (PSERS) was created by the 2004 Legislature and became effective July 1, 2006. PSERS retirement benefit provisions are established by chapter 41.37 RCW and may be amended only by the Legislature.

PSERS is a cost-sharing multiple-employer retirement system comprised of a single defined benefit plan, PSERS Plan 2. PSERS membership includes:

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

- Full-time employees hired on or after July 1, 2006, by a covered employer, that meet at least one of the PSERS eligibility criteria.

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

- State of Washington agencies: Department of Corrections, Department of Natural Resources, Gambling Commission, Liquor Control Board, Parks and Recreation Commission, and Washington State Patrol;

- Washington state counties;

- Corrections departments of Washington state cities except for Seattle, Tacoma, and Spokane; and,

- Correctional entities formed by PSERS employers under the Interlocal Cooperation Act.

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

- Have completed a certified criminal justice training course with authority to arrest, conduct criminal investigations, enforce the criminal laws of Washington, and carry a firearm as part of the job; or

- Have primary responsibility to ensure the custody and security of incarcerated or probationary individuals; or

- Function as a limited authority Washington peace officer, as defined in RCW 10.93.020; or

- Have primary responsibility to supervise eligible members who meet the above criteria.

PSERS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the plan accrue interest at a rate specified by the Director of DRS. During fiscal year 2013, the rate was 5.5 percent compounded quarterly. Members in PSERS Plan 2 can elect to withdraw total employee contributions and interest thereon upon separation from PSERS-covered employment.

PSERS members are vested after an employee completes five years of eligible service. PSERS members may retire with a monthly benefit of 2 percent of the average final compensation (AFC) at the age 65 with five years of service, or at the age of 60 with at least 10 years of PSERS service credit, or at age 53 with 20 years of service. AFC is the monthly average of the member's 60 consecutive highest-paid service credit months. There is no cap on years of service credit; and a COLA is granted based on the Consumer Price Index, capped at 3 percent annually.

PSERS members who retire prior to the age of 60 receive reduced benefits. If retirement is at age 53 or older with at least 20 years of service, a 3 percent per year reduction for each year between the age at retirement and age 60 applies.

PSERS Plan 2 provides disability benefits. There is no minimum amount of service credit required for eligibility. The monthly benefit amount is 2 percent of the AFC for each year of service. AFC is based on the member's 60 consecutive highest creditable months of service. Benefits are actuarially reduced for each year that the member's age is less than 60 (with 10 or more service credit years in PSERS), or less than 65 (with fewer than 10 service credit years). There is no cap on years of service credit and a COLA is granted based on the Consumer Price Index, capped at 3 percent annually.

PSERS members meeting specific eligibility requirements have options available to enhance their retirement benefits. Some of these options are available to their survivors.

A one-time duty-related death benefit is provided to the estate (or duly designated nominee) of a PSERS member who dies as a result of injuries or illness sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by the Director of the Department of Labor and Industries.

Portability of retirement benefits allows for PSERS members' compensation that is reportable in all dual members' systems, except in WSPRS, to be included in the calculation of all dual members' benefits, and removing the "maximum benefit rule" for dual members who have less than 15 years of service in one capped plan and service in one uncapped plan.

Material changes, if any, in PSERS benefit provisions for the fiscal year ended June 30, 2013, are listed in the table at the end of this section.

Judges' Retirement Fund

The Judges' Retirement Fund was created by the Legislature on March 22, 1937, pursuant to chapter 2.12 RCW, to provide retirement benefits to judges elected or appointed to the Supreme Court, Court of Appeals, and Superior Courts of the state of Washington. The system was closed to new entrants on August 8, 1971, with new judges joining the Judicial Retirement System. Judges' retirement benefit provisions are established in chapter 2.12 RCW and may be amended only by the Legislature.

Judges' Retirement Fund is a single-employer defined benefit retirement system. There are currently no active members in this plan. Retirement benefits are financed on a pay-as-you-go basis from a combination of investment earnings and employer contributions.

Material changes, if any, in benefit provisions for Judges for the fiscal year ended June 30, 2013, are listed in the table at the end of this section.

Judicial Retirement System

The Judicial Retirement System (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. JRS retirement benefit provisions are established in chapter 2.10 RCW and may be amended only by the Legislature.

JRS is a single-employer defined benefit retirement system. JRS retirement benefits are financed on a pay-as-you-go basis from a combination of investment earnings, employer contributions, and employee contributions.

Employee contributions to the plan accrue interest at a rate specified by the Director of DRS. During fiscal year 2013, the rate on employee contributions was 5.5 percent compounded quarterly. JRS members who are vested in the plan may not elect to withdraw their contributions upon termination.

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 final average salary (FAS) is shown in the table below. This benefit is capped at 75 percent of FAS, exclusive of cost-of-living increases.

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

Death and disability benefits are also provided. Eligibility for death benefits while on active duty requires 10 or more years of service. A monthly spousal benefit is provided which is equal to 50 percent of the benefit that the 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 FAS. For members with 10 or more years of service, a disability benefit of 50 percent of FAS is provided.

Material changes, if any, in JRS benefit provisions for the fiscal year ended June 30, 2013, are listed in the table at the end of this section.

The Volunteer Fire Fighters' and Reserve Officers' Relief and Pension Fund

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 chapter 41.24 RCW and may be amended only by the Legislature.

The Volunteer Fire Fighters' and Reserve Officers' Relief and Pension Fund (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 state contributions. Since retirement benefits cover volunteer service, benefits are paid based on years of service not salary. Members are vested after ten years of service. VFFRPF members accrue no interest on contributions and may elect to withdraw their contributions upon termination.

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 $214,000. 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 injured while 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.

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

Effective July 22, 2007, vocational rehabilitation may be paid for disabled members who are unable to return to their previous employment. Members who qualify are subject to a $4,000 maximum limit and are required to follow certain conditions established by the board and authorized by chapter 41.24 RCW.

Effective June 10, 2010, members of the VFFRPF retirement system with vested pensions who have reached age 65 may, under certain conditions, retire from service, draw their pensions, and return to service. Additional service does not count toward the pension, and members cannot draw disability compensation. Departments opting to allow their members to participate in the retire-rehire program agree to pay for annual physicals and an additional surcharge.

Effective June 7, 2012 at any time prior to retirement or at the time of retirement, a member of the VFFRPF may purchase retirement pension coverage for years of eligible service prior to the member's enrollment in the system or for years of service credit lost due to the withdrawal of the member's pension fee contributions. A member choosing to purchase such retirement pension coverage must make a contribution to the system equal to the actuarial value of the resulting benefit increase.

Material changes, if any, in VFFRPF benefit provisions for the fiscal year ended June 30, 2013, are listed in the table at the end of this section.

Material Legislative Changes to Pension Plans
For the Fiscal Year Ended June 30, 2013

System/Plan Affected	Effective Date	Description of the changes
All systems, plans	6/7/12*	This legislation allows same-gender couples to marry, and automatically converts certain domestic partnerships to marriages unless the couple marries or dissolves the partnership before June 30, 2014. Under the provisions of this bill, survivor benefits may be available to certain members of the state's retirement systems sooner than under current law. (Chapter 3, Laws of 2012) * This law was on hold pending the results of the referendum which passed in November, 2012.

C. FUNDING POLICIES

All employers are required to contribute at the level established by the Legislature. The table at the end of this section provides the required contribution rates for all plans (expressed as a percentage of current year covered payroll) at the close of fiscal year 2013.

Public Employees' Retirement System

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

- Plan 1 - Employee contribution rates 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.
- Plan 2/3 - 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.
- Plan 3 – The employee contribution rates range from 5 to 15 percent, based on member choice.

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

Teachers' Retirement System

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

- Plan 1 - Employee contribution rates 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.

- Plan 2/3 – 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.

- Plan 3 – The employee contribution rates range from 5 to 15 percent, based on member choice.

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

School Employees' Retirement System

Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 employer contribution rates. The methods used to determine the contribution requirements are established under state statute in accordance with chapters 41.35 and 41.45 RCW.

- Plan 2/3 – 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.

- Plan 3 – The employee contribution rates range from 5 to 15 percent, based on member choice.

Law Enforcement Officers' and Fire Fighters' Retirement System

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

The Legislature, by means of a special funding arrangement, appropriates money from the state General Fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the recommendations of the Pension Funding Council and the LEOFF Plan 2 Retirement Board.

However, this special funding situation is not mandated by the State Constitution and this funding requirement could be returned to the employers by a change of statute. For fiscal year 2013, the state contributed $54.2 million to LEOFF Plan 2.

Washington State Patrol Retirement System

Each biennium, the state Pension Funding Council adopts the employee and the state contribution rates, subject to revision by the Legislature. The methods used to determine the contribution requirements are established under state statute in accordance with chapters 43.43 and 41.45 RCW.

The preliminary employee and the state contribution rates are developed by the Office of the State Actuary to fully fund the plan. State statute also requires employees to contribute at a rate of at least 4.85 percent.

Public Safety Employees' Retirement System

Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates. The methods used to determine the contribution requirements are established under state statute in accordance with chapters 41.37 and 41.45 RCW.

The employer and employee contribution rates for Plan 2 are developed by the Office of the State Actuary to fully fund Plan 2.

Judges' Retirement Fund

There are no active members remaining in the Judges' Retirement Fund. Past contributions were made based on rates set in chapter 2.12 RCW. By statute, employees were required to contribute 6.5 percent with an equal amount contributed by the state.

The state guarantees the solvency of the Judges' Retirement Fund on a pay-as-you-go basis. Each biennium, the Legislature, through appropriations from the state General Fund, contributes amounts sufficient to meet benefit payment requirements. For fiscal year 2013, no such appropriations or contributions were made.

Judicial Retirement System

There are no active members remaining in the Judicial Retirement System. Past contributions were made based on rates set in chapter 2.10 RCW. By statute, employees were required to contribute 7.5 percent with an equal amount contributed by the state.

The state guarantees the solvency of the Judicial Retirement System on a pay-as-you-go basis. Each biennium, the Legislature, through appropriations from the state General Fund, contributes amounts sufficient to meet benefit payment requirements. For fiscal year 2013, the state contributed $10.1 million.

The Volunteer Fire Fighters' and Reserve Officers' Relief and Pension Fund

The retirement provisions of Volunteer Fire Fighters' and Reserve Officers' Relief and Pension Fund (VFFRPF) are funded through member contributions of $30 per year, varying employer contributions, and 40 percent of the Fire Insurance Premium Tax, per chapter 41.24 RCW. For fiscal year 2013, the insurance premium tax contribution was $6.0 million.

Employers consist of fire departments, emergency medical service districts and law enforcement agencies. The contribution rate for fire districts is set by the Legislature and was $30 per member for the years 2011, 2012, and 2013. The rate for emergency medical service districts and law enforcement agencies is set each year by the State Board for Volunteer Fire Fighters' and Reserve Officers' Relief and Pension, based on the actual cost of participation as determined by the Office of the State Actuary. For the year 2013, the rate was $90 per member. Employers may opt to pay the member's fee on their behalf.

VFFRPF members earn no interest on contributions and may elect to withdraw their contributions upon termination.

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

Required contribution rates (expressed as a percentage of current year covered payroll) for all retirement plans at the close of fiscal year 2013 were as follows:

Required Contribution Rates	Employer			Employee		
	Plan 1	Plan 2	Plan 3	Plan 1	Plan 2	Plan 3
PERS						
Members Not Participating in JBM						
State agencies*	7.21%	7.21%	7.21%**	6.00%	4.64%	***
Local governmental units*	7.21%	7.21%	7.21%**	6.00%	4.64%	***
State govt elected officials*	10.74%	7.21%	7.21%**	7.50%	4.64%	***
Members Participating in JBM						
State agencies*	9.71%	9.71%	9.71%**	9.76%	9.10%	7.50%****
Local governmental units*	7.21%	7.21%	7.21%**	12.26%	11.60%	7.50%****
TRS						
Members Not Participating in JBM						
State agencies*	8.05%	8.05%	8.05%**	6.00%	4.69%	***
Local governmental units*	8.05%	8.05%	8.05%**	6.00%	4.69%	***
State govt elected officials*	8.05%	8.05%	8.05%**	7.50%	4.69%	***
Members Participating in JBM						
State agencies*	8.05%	N/A	N/A	9.76%	N/A	N/A
SERS						
State agencies*	N/A	7.59%	7.59%**	N/A	4.09%	***
Local governmental units*	N/A	7.59%	7.59%**	N/A	4.09%	***
LEOFF						
Ports and universities*	N/A	8.62%	N/A	N/A	8.46%	N/A
Local governmental units*	0.16%	5.24%	N/A	N/A	8.46%	N/A
State of Washington	N/A	3.38%	N/A	N/A	N/A	N/A
WSPRS						
State agencies*	8.07%	8.07%	N/A	6.59%	6.59%	N/A
PSERS						
State agencies*	N/A	8.87%	N/A	N/A	6.36%	N/A
Local governmental units*	N/A	8.87%	N/A	N/A	6.36%	N/A
JRS						
State agencies*	7.50%	N/A	N/A	7.50%	N/A	N/A

* Includes an administrative expense rate of 0.16%.
** Plan 3 defined benefit portion only.
*** Variable from 5% to 15% based on rate selected by the member.
**** Minimum rate.
N/A indicates data not applicable.

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.

Plans	2013	2012	2011
PERS Plan 1	$ 125.6	$ 124.0	$ 72.3
PERS Plan 2/3	182.9	182.8	158
TRS Plan 1	3.7	3.1	4.4
TRS Plan 2/3	1.2	1.1	0.7
PSERS Plan 2	7.5	7.4	8.0
LEOFF Plan 2	54.2	52.8	52.9
VFFRPF	6.0	5.6	5.7

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

E. FUNDED STATUS AND FUNDING PROGRESS

The funded status of each plan as of June 30, 2012, the most recent actuarial valuation date, is as follows (dollars in millions):

Plans	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
PERS Plan 1	$ 8,520.6	$ 12,359.7	$ 3,839.0	69%	$ 370.8	1035%
PERS Plan 2/3*	22,652.6	22,779.9	127.4	99%	8,192.6	2%
TRS Plan 1	7,144.5	9,038.4	1,893.9	79%	228.5	829%
TRS Plan 2/3*	7,757.9	7,478.2	(279.7)	104%	4,076.9	0%
SERS Plan 2/3*	3,100.3	3,103.3	3.0	100%	1,478.8	0%
LEOFF Plan 1	5,561.6	4,120.3	(1,441.2)	135%	18.8	0%
LEOFF Plan 2*	7,221.9	6,352.9	(869.0)	114%	1,560.1	0%
WSPRS Plan 1/2*	981.7	884.2	(97.5)	111%	80.2	0%
PSERS Plan 2*	180.5	158.7	(21.8)	114%	238.0	0%
JRS	3.5	104.0	100.5	3%	0.3	33779%
Judges	1.9	3.6	1.7	52%	N/A	N/A
VFFRPF	170.3	170.3	-	100%	N/A	N/A

N/A indicates data not applicable.

Note: Figures may not total due to rounding. Percentages are calculated using unrounded totals.

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

Source: Washington State Office of the State Actuary

Defined Benefit Pension Plans Administered by the State

For the Fiscal Year Ended June 30, 2013

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

	PERS Plan 1	PERS Plan 2/3	TRS Plan 1	TRS Plan 2/3	SERS Plan 2/3
Valuation date	6/30/2012	6/30/2012	6/30/2012	6/30/2012	6/30/2012
Actuarial cost method	Entry age normal (1)	Aggregate (2)	Entry age normal (1)	Aggregate (2)	Aggregate (2)
Amortization method					
Funding	Level % (4)	N/A	Level % (4)	N/A	N/A
GASB	Level $	N/A	Level $	N/A	N/A
Remaining amortization years (closed)	10-year rolling	Open plan	10-year rolling	Open plan	Open plan
Remaining amortization period (closed)	N/A	N/A	N/A	N/A	N/A
Asset valuation method	8-year graded smoothed fair value (5)	8-year graded smoothed fair value (5)	8-year graded smoothed fair value (5)	8-year graded smoothed fair value (5)	8-year graded smoothed fair value (5)
Actuarial assumptions					
Investment rate of return (7)	7.90%	7.90%	7.90%	7.90%	7.90%
Projected salary increases					
Salary inflation at 3.75%, plus the merit increases described below:					
Initial salary merit (grades down to 0%)	6.1%	6.1%	5.8%	5.8%	6.9%
Merit period (years of service)	17 yrs	17 yrs	26 yrs	26 yrs	20 yrs
Includes inflation at	N/A	3.00%	N/A	3.00%	3.00%
cost of living adjustments	Minimum COLA (6)	CPI increase, maximum 3%	Minimum COLA (6)	CPI increase, maximum 3%	CPI increase, maximum 3%

N/A indicates data not applicable.

(1) PERS and TRS Plans 1 use a variation of the entry age normal (EAN) cost method, whereas LEOFF Plan 1 uses a variation of the frozen initial liability (FIL) cost method.

(2) The aggregate cost method does not identify or separately amortize unfunded actuarial accrued liabilities.

(3) Pay as you go basis for funding.

(4) Level percent of system payroll, including system growth.

(5) 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). The VFFRPF annual gain/loss is centered around a 7% expected rate of return instead of 8% and LEOFF Plan 2 around 7.5%.

Annual Gain/Loss			Annual Gain/Loss		
Rate of Return	**Smoothing Period**	**Annual Recognition**	**Rate of Return**	**Smoothing Period**	**Annual Recognition**
14.9% and Up	8 years	12.50%	5.9-6.9%	2 years	50.00%
13.9-14.9%	7 years	14.29%	4.9-5.9%	3 years	33.33%
12.9-13.9%	6 years	16.67%	3.9-4.9%	4 years	25.00%
11.9-12.9%	5 years	20.00%	2.9-3.9%	5 years	20.00%
10.9-11.9%	4 years	25.00%	1.9-2.9%	6 years	16.67%
9.9-10.9%	3 years	33.33%	1.9-2.9%	7 years	14.29%
8.9-9.9%	2 years	50.00%	0.9% and lower	8 years	12.50%
6.9-8.9%	1 year	100.00%			

LEOFF Plan 1	LEOFF Plan 2	PSERS Plan 2	WSPRS	JRS	Judges	VFFRPF
6/30/2012	6/30/2012	6/30/2012	6/30/2012	6/30/2012	6/30/2012	6/30/2012
Frozen initial liability [(1)]	Aggregate [(2)]	Aggregate [(2)]	Aggregate [(2)]	Entry age [(3)]	Entry age [(3)]	Entry age
Level % [(4)]	N/A	N/A	N/A	N/A	N/A	Level $
Level $	N/A	N/A	N/A	Level $	Level $	Level $
12	Open plan	Open plan	Open plan	5-year rolling	5-year rolling	Open plan
6/30/2024	N/A	N/A	N/A	N/A	N/A	15-year rolling
8-year graded smoothed fair value [(5)]	8-year graded smoothed fair value [(5)]	8-year graded smoothed fair value [(5)]	8-year graded smoothed fair value [(5)]	Market	Market	8-year graded smoothed fair value [(5)]
7.90%	7.50%	7.90%	7.90%	4.00%	4.00%	7.00%
11.0%	11.0%	6.1%	7.1%	0.0%	0.0%	N/A
21 yrs	21 yrs	17 yrs	26 yrs	N/A	N/A	N/A
3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	N/A
CPI increase	CPI increase maximum 3%	CPI increase, maximum 3%	CPI increase, maximum 3%	CPI increase, maximum 3%	None	None

[(6)] The PERS Plan 1 and TRS Plan 1 COLA: Qualifying retirees receive an increase in their monthly benefit once a year. The COLA on minimum benefit levels is calculated as the last unrounded minimum COLA amount increased by 3%, rounded to the nearest penny. These are some historical monthly COLA amounts per year of service:

Date	COLA Type	Amount
7/1/2009	Uniform	$1.83
7/1/2010	Uniform	$1.88
7/1/2011	Minimum	$1.94
7/1/2012	Minimum	$2.00
7/1/2013	Minimum	$2.06

[(7)] The Legislature prescribes the assumed rate of investment return for all plans except Judicial, Judges, and VFFRPF.

F. ANNUAL PENSION COST AND OTHER RELATED INFORMATION

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

Annual Pension Cost and Net Pension Obligation	WSPRS	JRS	Judges
Annual required contribution	$2.5	$21.7	$0.4
Interest on NPO	(1.3)	2.8	(0.0)
Adjustment to annual required contribution	2.1	(15.3)	0.1
Annual pension cost	3.3	9.2	0.5
Less: Contributions made	6.5	10.1	0.0
Increase (decrease) in NPO	(3.2)	(0.9)	0.5
NPO at beginning of year	(16.8)	71.0	(0.4)
NPO at end of year	$(20.0)	$70.1	$0.1

G. THREE YEAR HISTORICAL TREND INFORMATION

The following table presents three-year trend information for the state's single employer defined benefit plans (dollars in millions):

Single Employer Plans	2013	2012	2011
WSPRS			
Annual pension cost	$3.3	$3.6	$2.8
% of APC contributed	197.0	180.6	187.5
NPO	$(20.0)	$(16.8)	$(13.9)
JRS			
Annual pension cost	$9.2	$10.5	$7.7
% of APC contributed	109.8	77.1	141.6
NPO	$70.1	$71.0	$68.6
Judges			
Annual pension cost	$0.5	$0.4	$0.3
% of APC contributed	0.0	0.0	0.0
NPO	$0.1	($0.4)	($0.8)

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

H. HIGHER EDUCATION RETIREMENT PLAN SUPPLEMENTAL DEFINED BENEFIT PLAN

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

An actuarial valuation of the supplemental component of the Higher Education Retirement plans was done at the end of fiscal year 2013. The previous valuation was performed in 2011.

The Unfunded Actuarial Accrued Liability (UAL) calculated as of June 30, 2013, and 2011, was $459.5 million and $357.4 million, respectively, and is amortized over an 11 year period. The Annual Required Contribution (ARC) of $63.7 million includes amortization of the UAL ($44.3 million) and normal cost (or current cost) ($18.2 million).

The UAL and ARC were established using the entry age normal cost method. The actuarial assumptions included an investment rate of return of 4.3 to 7.3 percent and projected salary increases ranging from 2 to 4 percent. Approximately $1.76 billion and $1.91 billion of payroll were covered under these plans during 2013 and 2011, respectively.

A 0.25 percent of pay employer contribution rate was initiated in January 1, 2012 for employees covered by higher education retirement plans. The contributions are deposited in the Higher Education Retirement Plan Supplemental Benefit Fund administered by the Department of Retirement Systems and invested by the Washington State Investment Board. The contribution rate increased to 0.5 percent of pay beginning January 1, 2013. The Higher Education Retirement Plan Supplemental Benefit Fund was not created as a pension trust fund and is reported by the state as an administrative account in the General Fund.

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

Net Pension Obligation	2013	2012	2011
Annual required contribution	$ 63.7	$ 49.8	$ 49.8
Payments to beneficiaries	(4.9)	(4.1)	(3.7)
Increase (decrease) in NPO	58.8	45.7	46.1
NPO at beginning of year	211.4	165.7	119.6
NPO at end of year	$ 270.2	$ 211.4	$ 165.7

I. CHANGES IN ACTUARIAL ASSUMPTIONS AND METHODS

There were no changes in actuarial assumptions for the fiscal year 2013 reporting period.

The method for the entry age normal cost as a level percentage was changed to spread over the member's career rather than the period from entry to the last decrement age where each benefit is available.

The method for the entry age used in the entry age normal calculation was changed to the age the member entered into the current plan rather than the age the member entered service in any state plan.

J. CHANGES IN BENEFIT PROVISIONS

There were no changes in benefit provisions for the fiscal year 2013 reporting period.

K. DEFINED CONTRIBUTION PLANS

Public Employees' Retirement System Plan 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). 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 chapter 41.34 RCW, employee contribution rates to the defined contribution component range from 5 to 15 percent of salaries, based on member choice. There are currently no requirements for employer contributions to the defined contribution component of PERS Plan 3.

PERS Plan 3 defined contribution retirement benefits are dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions. Any expenses incurred in conjunction with self-directed investments are paid by members. Absent a member's self-direction, PERS Plan 3 contributions are invested in the Retirement Strategy Fund that assumes the member will retire at age 65.

For fiscal year 2013, covered payroll was $1.50 billion, employee contributions required and made were $99.0 million, and plan refunds paid out were $69.4 million.

Teachers' Retirement System Plan 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). 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 chapter 41.34 RCW, employee contribution rates to the defined contribution component range from 5 to 15 percent of salaries, based on member choice. Members who do not choose a contribution rate default to a 5 percent rate. 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 dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions. Any expenses incurred in conjunction with self-directed investments are paid by members. Absent a member's self-direction, TRS Plan 3 investments are made in the retirement strategy fund that assumes the member will retire at age 65.

For fiscal year 2013, covered payroll was $3.46 billion, employee contributions required and made were $262.3 million and plan refunds paid out were $177.6 million.

School Employees' Retirement System Plan 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). 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 chapter 41.34 RCW, employee contribution rates to the defined contribution component range from 5 to 15 percent of salaries, based on member choice. Members who do not choose a contribution rate default to a 5 percent rate. 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 dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions. Any expenses incurred in conjunction with self-directed investments are paid by members. Absent a member's self-direction, SERS Plan 3 investments are made in the retirement strategy fund that assumes the member will retire at age 65.

For fiscal year 2013, covered payroll was $903 million, employee contributions required and made were $59.3 million and plan refunds paid out were $66.1 million.

Judicial Retirement Account

The Judicial Retirement Account (JRA) Plan was established by the Legislature in 1988 to provide supplemental retirement benefits. It is a defined contribution plan administered by the state Administrative Office of the Courts (AOC), under the direction of the Board for Judicial Administration. Membership includes judges elected or appointed to the Supreme Court, Court of Appeals, and Superior Courts, and who are members of PERS for their services as a judge. Vesting is full and immediate. At June 30, 2013, there were seven active members and 157 inactive members in JRA. The state, through the AOC, is the sole participating employer.

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

JRA plan members are required to contribute 2.5 percent of covered salary. The state, as employer, contributes an equal amount on a monthly basis. 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 Legislature.

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

For fiscal year 2013, covered payroll was $1.1 million and the contribution requirement was $63,198. Actual employer and employee contributions were $31,599 and $31,599 respectively. Plan benefits paid out for fiscal year 2013 totaled $1.1 million.

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

Higher Education Retirement Plans

The Higher Education Retirement Plans are privately administered defined contribution plans with a supplemental defined benefit plan component. The state and regional universities, the state college, the state community and technical colleges and the Student Achievement Council each participate in a plan. As authorized by chapter 28B.10 RCW, the plans cover faculty and other positions as designated by each participating employer.

Contributions to the plans are invested in annuity contracts or mutual fund accounts offered by one or more fund sponsors. Benefits from fund sponsors are available upon separation or retirement at the member's option. Employees have, at all times, a 100 percent vested interest in their accumulations.

RCW 28B.10.400 et. seq. assigns the authority to establish and amend benefit provisions to: the board of regents of the state universities, the boards of trustees of the regional universities and the state college, the state board for community colleges, and the Student Achievement Council.

Employee contribution rates, based on age, range from 5 to 10 percent of salary. The employers match the employee contributions. The employer and employee obligations to contribute are established per chapter 28B.10 RCW.

Effective July 29, 2009, domestic partners registered with the state will be treated the same as married spouses, to the extent that treatment is not in conflict with federal laws.

For fiscal year 2013, covered payroll was $2.16 billion. Employer and employee contributions were $169.5 and $169.5 million respectively, for a total of $339.0 million. These contribution amounts represent approximately 7.86 percent each of covered payroll for employers and employees.

L. PLAN NET POSITION AND CHANGES IN PLAN NET POSITION

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

Combining Statement of Plan Net Position
Pension and Other Employee Benefit Funds
June 30, 2013
(expressed in thousands)

continued

	PERS Plan 1	PERS Plan 2/3 Defined Benefit	PERS Plan 3 Defined Contribution	TRS Plan 1	TRS Plan 2/3 Defined Benefit
ASSETS					
Cash and pooled investments	$ 932	$ 4,151	$ 327	$ 813	$ 5,556
Receivables:					
Employer accounts receivable	3,152	47,762	4,671	1,740	26,086
Member accounts receivable (net of allowance)	732	241	-	199	27
Due from other pension and other employee benefit funds	37	61	671	201	306
Interest and dividends	21,618	68,832	3,310	18,036	23,736
Investment trades pending	179,772	572,656	27,538	149,987	197,465
Total Receivables	205,311	689,552	36,190	170,163	$ 247,620
Investments, Noncurrent:					
Public equity	2,775,713	8,841,941	1,250,196	2,315,826	3,048,883
Fixed income	1,525,839	4,860,510	233,731	1,273,034	1,676,004
Private equity	1,737,748	5,535,538	266,191	1,449,833	1,908,767
Real estate	1,014,689	3,232,257	155,432	846,573	1,114,549
Security lending	129,457	412,382	19,831	108,008	142,198
Liquidity	166,659	530,466	30,660	138,443	189,071
Tangible assets	111,622	355,569	17,099	93,128	122,608
Total Investments, Noncurrent	7,461,727	23,768,663	1,973,140	6,224,845	8,202,080
Total Assets	7,667,970	24,462,366	2,009,657	6,395,821	8,455,256
LIABILITIES					
Obligations under security lending agreements	129,999	412,381	20,215	108,405	142,198
Accrued liabilities	190,780	590,057	31,357	159,890	203,604
Due to other pension and other employee benefit funds	236	671	-	-	201
Unearned revenues	192	196	-	66	26
Total Liabilities	321,207	1,003,305	51,572	268,361	346,029
NET POSITION					
Net position held in trust for:					
Pension Benefits	7,346,763	23,459,061	1,958,085	6,127,460	8,109,227
(Schedule of Funding Progress by Plan begins on Page 167)					
Deferred compensation participants	-	-	-	-	-
Total Net Position	$ 7,346,763	$ 23,459,061	$ 1,958,085	$ 6,127,460	$ 8,109,227

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

June 30, 2013
(expressed in thousands)

continued

	TRS Plan 3 Defined Contribution	SERS Plan 2/3 Defined Benefit	SERS Plan 3 Defined Contribution	LEOFF Plan 1	LEOFF Plan 2
ASSETS					
Cash and pooled investments	$ 4,536	$ 3,397	$ 1,059	$ 293	$ 1,022
Receivables:					
Employer accounts receivable	22,350	9,745	5,028	545	13,692
Member accounts receivable (net of allowance)	-	19	-	158	52
Due from other pension and other employee benefit funds	-	376	-	-	-
Interest and dividends	10,318	9,404	3,066	15,120	22,386
Investment trades pending	85,832	78,236	25,504	125,763	186,238
Total Receivables	118,500	97,780	33,598	141,586	222,368
Investments, Noncurrent:					
Public equity	3,661,769	1,207,960	764,117	1,941,801	2,875,545
Fixed income	728,509	664,029	216,468	1,067,429	1,580,718
Private equity	829,685	756,249	246,531	1,215,674	1,800,248
Real estate	484,461	441,582	143,952	709,844	1,051,183
Security lending	61,809	56,338	18,366	90,564	134,113
Liquidity	95,357	73,126	27,390	114,735	182,365
Tangible assets	53,294	48,577	15,836	78,087	115,637
Total Investments, Noncurrent	5,914,884	3,247,861	1,432,660	5,218,134	7,739,809
Total Assets	6,037,920	3,349,038	1,467,317	5,360,013	7,963,199
LIABILITIES					
Obligations under security lending agreements	62,278	56,338	18,578	90,714	134,205
Accrued liabilities	91,755	80,795	30,072	129,525	191,361
Due to other pension and other employee benefit funds	306	-	201	-	-
Unearned revenues	-	1	-	-	245
Total Liabilities	154,339	137,134	48,851	220,239	325,811
NET POSITION					
Net position held in trust for:					
Pension Benefits	5,883,581	3,211,904	1,418,466	5,139,774	7,637,388
(Schedule of Funding Progress by Plan begins on Page 167)					
Deferred compensation participants	-	-	-	-	-
Total Net Position	$ 5,883,581	$ 3,211,904	$ 1,418,466	$ 5,139,774	$ 7,637,388

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

June 30, 2013
(expressed in thousands)

continued

	WSPRS Plan 1/2	PSERS Plan 2	JRS	JRA	Judges
ASSETS					
Cash and pooled investments	$ 721	$ 286	$ 3,936	$ 212	$ 1,400
Receivables:					
Employer accounts receivable	521	1,880	-	-	-
Member accounts receivable (net of allowance)	2	-	-	2	-
Due from other pension and other employee benefit funds	-	-	-	-	-
Interest and dividends	2,807	652	-	-	-
Investment trades pending	23,350	5,419	1	-	-
Total Receivables	26,680	7,951	1	2	-
Investments, Noncurrent:					
Public equity	360,519	83,676	-	12,269	-
Fixed income	198,182	45,998	-	-	-
Private equity	225,705	52,386	-	-	-
Real estate	131,791	30,589	-	-	-
Security lending	16,815	3,903	-	-	-
Liquidity	21,646	7,487	155	8	54
Tangible assets	14,498	3,365	-	-	-
Total Investments, Noncurrent	969,156	227,404	155	12,277	54
Total Assets	996,557	235,641	4,092	12,491	1,454
LIABILITIES					
Obligations under security lending agreements	16,867	3,917	174	9	60
Accrued liabilities	24,177	5,580	34	203	2
Due to other pension and other employee benefit funds	-	37	-	-	-
Unearned revenues	-	-	-	-	-
Total Liabilities	41,044	9,534	208	212	62
NET POSITION					
Net position held in trust for:					
Pension Benefits (Schedule of Funding Progress by Plan begins on Page 167)	955,513	226,107	3,884	12,279	1,392
Deferred compensation participants	-	-	-	-	-
Total Net Position	$ 955,513	$ 226,107	$ 3,884	$ 12,279	$ 1,392

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

June 30, 2013
(expressed in thousands)

concluded

	VFFRPF	Deferred Compensation	Total
ASSETS			
Cash and pooled investments	$ 8,289	$ 3,961	$ 40,891
Receivables:			
Employer accounts receivable	-	-	137,172
Member accounts receivable (net of allowance)	-	1,192	2,624
Due from other pension and other employee benefit funds	-	-	1,652
Interest and dividends	497	-	199,782
Investment trades pending	4,143	1	1,661,905
Total Receivables	4,640	1,193	2,003,135
Investments, Noncurrent:			
Public equity	63,832	3,199,614	32,403,661
Fixed income	35,089	-	14,105,540
Private equity	39,962	-	16,064,517
Real estate	23,334	-	9,380,236
Security lending	2,977	-	1,196,761
Liquidity	4,039	151	1,581,812
Tangible assets	2,567	-	1,031,887
Total Investments, Noncurrent	171,800	3,199,765	75,764,414
Total Assets	184,729	3,204,919	77,808,440
LIABILITIES			
Obligations under security lending agreements	3,335	169	1,199,842
Accrued liabilities	4,260	2,892	1,736,344
Due to other pension and other employee benefit funds	-	-	1,652
Unearned revenues	-	-	726
Total Liabilities	7,595	3,061	2,938,564
NET POSITION			
Net position held in trust for:			
Pension Benefits (Schedule of Funding Progress by Plan begins on Page 167)	177,134	-	71,668,018
Deferred compensation participants	-	3,201,858	3,201,858
Total Net Position	$ 177,134	$ 3,201,858	$ 74,869,876

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

For the Fiscal Year Ended June 30, 2013
(expressed in thousands)

continued

	PERS Plan 1	PERS Plan 2/3 Defined Benefit	PERS Plan 3 Defined Contribution	TRS Plan 1	TRS Plan 2/3 Defined Benefit
ADDITIONS					
Contributions:					
Employers	$ 266,270	$ 389,020	$ -	$ 118,569	$ 228,975
Members	29,289	335,586	99,007	16,157	35,846
State	-	-	-	-	-
Participants	-	-	-	-	-
Total Contributions	295,559	724,606	99,007	134,726	264,821
Investment Income:					
Net appreciation (depreciation) in fair value	685,103	2,018,298	177,137	572,037	693,242
Interest and dividends	206,500	622,516	30,567	172,394	213,759
Less: investment expenses	(28,418)	(84,685)	(4,796)	(23,725)	(29,438)
Net investment income (loss)	863,185	2,556,129	202,908	720,706	877,563
Transfers from other pension plans	38	292	1,539	-	34
Other additions	-	-	-	-	-
Total Additions	1,158,782	3,281,027	303,454	855,432	1,142,418
DEDUCTIONS					
Pension benefits	1,181,381	460,771	-	914,609	118,231
Pension refunds	3,998	34,982	69,368	1,989	1,345
Transfers to other pension plans	17	3,832	428	-	315
Administrative expenses	759	676	-	618	67
Distributions to participants	-	-	-	-	-
Total Deductions	1,186,155	500,261	69,796	917,216	119,958
Net Increase (Decrease)	(27,373)	2,780,766	233,658	(61,784)	1,022,460
Net Position - Beginning	7,374,136	20,678,295	1,724,427	6,189,244	7,086,767
Net Position - Ending	$ 7,346,763	$ 23,459,061	$ 1,958,085	$ 6,127,460	$ 8,109,227

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

For the Fiscal Year Ended June 30, 2013
(expressed in thousands)

continued

	TRS Plan 3 Defined Contribution	SERS Plan 2/3 Defined Benefit	SERS Plan 3 Defined Contribution	LEOFF Plan 1	LEOFF Plan 2
ADDITIONS					
Contributions:					
Employers	$ -	$ 78,399	$ -	$ 556	$ 82,397
Members	262,293	26,727	59,258	1,436	143,777
State	-	-	-	-	54,246
Participants	-	-	-	-	-
Total Contributions	262,293	105,126	59,258	1,992	280,420
Investment Income:					
Net appreciation (depreciation) in fair value	547,836	275,636	123,072	464,542	651,033
Interest and dividends	94,618	84,986	28,192	141,271	201,350
Less: investment expenses	(14,711)	(11,664)	(4,072)	(19,339)	(28,243)
Net investment income (loss)	627,743	348,958	147,192	586,474	824,140
Transfers from other pension plans	839	5	466	-	1,833
Other additions	-	-	-	-	-
Total Additions	890,875	454,089	206,916	588,466	1,106,393
DEDUCTIONS					
Pension benefits	-	66,890	-	351,796	100,532
Pension refunds	177,621	2,191	66,107	14	8,677
Transfers to other pension plans	522	315	190	-	2
Administrative expenses	-	63	-	76	291
Distributions to participants	-	-	-	-	-
Total Deductions	178,143	69,459	66,297	351,886	109,502
Net Increase (Decrease)	712,732	384,630	140,619	236,580	996,891
Net Position - Beginning	5,170,849	2,827,274	1,277,847	4,903,194	6,640,497
Net Position - Ending	$ 5,883,581	$ 3,211,904	$ 1,418,466	$ 5,139,774	$ 7,637,388

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

For the Fiscal Year Ended June 30, 2013
(expressed in thousands)

continued

	WSPRS Plan 1/2	PSERS Plan 2	JRS	JRA	Judges
ADDITIONS					
Contributions:					
Employers	$ 6,478	$ 15,649	$ 10,112	$ 32	$ -
Members	6,567	15,879	12	32	-
State	-	-	-	-	-
Participants	-	-	-	-	-
Total Contributions	13,045	31,528	10,124	64	-
Investment Income:					
Net appreciation (depreciation) in fair value	84,358	17,633	(24)	950	(9)
Interest and dividends	25,827	5,585	14	84	5
Less: investment expenses	(3,523)	(750)	-	(18)	-
Net investment income (loss)	106,662	22,468	(10)	1,016	(4)
Transfers from other pension plans	575	4	-	-	-
Other additions	-	-	-	2	-
Total Additions	120,282	54,000	10,114	1,082	(4)
DEDUCTIONS					
Pension benefits	43,521	148	9,698	1,071	474
Pension refunds	304	2,186	-	-	-
Transfers to other pension plans	-	4	-	-	-
Administrative expenses	28	1	-	-	-
Distributions to participants	-	-	-	-	-
Total Deductions	43,853	2,339	9,698	1,071	474
Net Increase (Decrease)	76,429	51,661	416	11	(478)
Net Position - Beginning	879,084	174,446	3,468	12,268	1,870
Net Position - Ending	$ 955,513	$ 226,107	$ 3,884	$ 12,279	$ 1,392

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

For the Fiscal Year Ended June 30, 2013
(expressed in thousands)

concluded

	VFFRPF	Deferred Compensation	Total
ADDITIONS			
Contributions:			
Employers	$ 988	$ -	$ 1,197,445
Members	108	-	1,031,974
State	5,958	-	60,204
Participants	-	182,305	182,305
Total Contributions	7,054	182,305	2,471,928
Investment Income:			
Net appreciation (depreciation) in fair value	14,597	249,204	6,574,645
Interest and dividends	4,536	18,657	1,850,861
Less: investment expenses	(613)	(4,473)	(258,468)
Net investment income (loss)	18,520	263,388	8,167,038
Transfers from other pension plans	-	-	5,625
Other additions	-	526	528
Total Additions	25,574	446,219	10,645,119
DEDUCTIONS			
Pension benefits	10,388	-	3,259,510
Pension refunds	24	-	368,806
Transfers to other pension plans	-	-	5,625
Administrative expenses	1,870	-	4,449
Distributions to participants	-	178,638	178,638
Total Deductions	12,282	178,638	3,817,028
Net Increase (Decrease)	13,292	267,581	6,828,091
Net Position - Beginning	163,842	2,934,277	68,041,785
Net Position - Ending	$ 177,134	$ 3,201,858	$ 74,869,876

Note 12
Other Postemployment Benefits

Plan Description and Funding Policy

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

Employers participating in the PEBB plan include the state (which includes general government agencies and higher education institutions), 54 of the state's K-12 schools and educational service districts (ESDs), and 207 political subdivisions and tribal governments. Additionally, the PEBB plan is available to the retirees of the remaining 243 K-12 schools and ESDs. As of June 2013, membership in the PEBB plan consisted of the following:

	Active Employees	Retirees [1]	Total
State	107,003	28,633	135,636
K-12 schools and ESDs [2]	1,838	30,354	32,192
Political subdivisions	11,840	1,392	13,232
Total	120,681	60,379	181,060

[1] Retirees include retired employees, surviving spouses, and terminated members entitled to a benefit.
[2] In fiscal year 2013, there were 101,189 full-time equivalent active employees in the 243 K-12 schools and ESDs that elected to limit participation in PEBB only to their retirees.

For fiscal year 2013, the estimated monthly cost for PEBB benefits for active employees (average across all plans and tiers) is as follows:

Required Premium [3]	
Medical	$ 913
Dental	82
Life	4
Long-term disability	2
Total	$1,001
Employer contribution	$ 865
Employee contribution	136
Total	$1,001

[3] Per 2013 Index Rate Model 7.2.

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

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

Per RCW 41.05.022, retirees who are not yet eligible for Medicare benefits may continue participation in the state's non-Medicare community-rated health insurance risk pool on a self-pay basis. Retirees in the non-Medicare risk pool receive an implicit subsidy. The implicit subsidy exists because retired members pay a premium based on a claims experience for active employees and other non-Medicare retirees. The subsidy is valued using the difference between the age-based claims costs and the premium. In calendar year 2012, the average weighted implicit subsidy was valued at $330 per member per month, and in calendar year 2013, the average weighted implicit subsidy is projected to be $294 per member per month.

Retirees who are enrolled in both Parts A and B of Medicare may participate in the state's Medicare community-rated health insurance risk pool. Medicare retirees receive an explicit subsidy in the form of reduced premiums. Annually, the HCA administrator recommends an amount for the next calendar year's explicit subsidy for inclusion in the Governor's budget. In calendar year 2012, the explicit subsidy was $150 per member per month, and it remained $150 per member per month in calendar year 2013.

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

Contributions are set each biennium as part of the budget process. In fiscal year 2013, the cost of the subsidies was approximately 6.0 percent of the cost of benefits for active employees. The benefits are funded on a pay-as-you-go basis.

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

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

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

Annual OPEB Cost and Net OPEB Obligation

The state's (general government agencies and higher education institutions) annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC) of the state as the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45.

The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

The following tables show the components of the state's annual OPEB cost for fiscal year 2013, the amount contributed to the plan, and changes in the state's Net OPEB Obligation (NOO) (expressed in thousands):

Annual required contribution	$ 342,283
Interest on Net OPEB Obligation	53,434
Amortization of Net OPEB Obligation	(48,684)
Annual OPEB cost (expense)	347,033
2012 Adjustment	56,476
Contributions made	(69,114)
Increase in Net OPEB Obligation	334,394
Net OPEB Obligation - beginning of year	1,279,381
Net OPEB Obligation - end of year*	$1,613,775
*estimated	

The state's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal years 2011, 2012, and 2013 were as follows (expressed in thousands):

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/13	$347,033	19.9%	$1,613,775
6/30/12	330,286	23.8%	1,279,381
6/30/11	328,568	23.9%	1,027,767

Funded Status and Funding Progress

The funded status of the plan as of January 1, 2013, the latest date for which information is available, was as follows (expressed in thousands):

Actuarial accrued liability (AAL)	$3,706,856
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	$3,706,856

Funded ratio (actuarial value of plan assets/AAL)	0.0%
Covered payroll (active plan members)	$5,786,960
UAAL as a percentage of covered payroll	64.1%

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

Actuarial Methods and Assumptions

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

Significant methods and assumptions were as follows:

Actuarial valuation date	January 1, 2013
Actuarial cost method	Projected Unit Credit (PUC)
Amortization method	Closed, level percentage of projected payroll amortization method
Remaining amortization period	30 years
Asset valuation method	N/A - no assets
Actuarial assumptions:	
Investment rate of return	4.0%
Projected salary increases	3.75%
Health care inflation rate	8.0% initial rate, 5.0% ultimate rate in 2093
Inflation rate	3.0%

Note 13
Commitments and Contingencies

A. CONSTRUCTION AND OTHER COMMITMENTS

Capital Commitments

Outstanding commitments related to state infrastructure and facility construction, improvement, and/or renovation totaled $2.82 billion at June 30, 2013.

Encumbrances

Encumbrances, which represent commitments related to unperformed contracts for goods or services, are included in restricted, committed or assigned fund balance, as appropriate. 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 the end of fiscal year 2013 are (in thousands):

General Fund	$ 41,541
Higher Education Special Revenue Fund	2,133
Nonmajor Governmental Funds	335,855

B. SUMMARY OF SIGNIFICANT LITIGATION

Pending Litigation

The state and its agencies are parties to numerous routine legal proceedings that normally occur in governmental operations. In addition, at any given point, there may be numerous lawsuits involving the implementation, reduction, or elimination of specific state programs that could significantly impact expenditures, revenues, and potentially have future budgetary impact. This summary considers significant litigation not covered by tort insurance. Tort case liabilities are disclosed in Note 7E, Claims and Judgments, Risk Management.

The state is the defendant in a number of cases alleging inadequate funding of state programs or services. Claims include: funding inadequacies and inequities in basic education; inadequate funding for care of foster children, the disabled and elderly; and inadequate funding for the provision of, daily personal care, medical and mental health services to children, the elderly and the disabled. Collective claims in these programmatic and service cases exceed $551 million exclusive of the basic education case, which could be substantial but is difficult to quantify at this juncture. In addition, adverse rulings in some of these cases could result in significant future costs.

The state is also a defendant in a number of cases contesting: the denial of health care benefits to seasonal and part-time state employees, the methodologies used to calculate reimbursement rates to certain health care providers, and the scope of covered care. Claims in this category exceed $183 million.

The Department of Revenue routinely has claims for refunds in various stages of administrative and legal review. Cases involving claims for refunds currently total approximately $192 million, though an adverse ruling could result in additional claims being brought by similarly situated taxpayers. In addition, the state is defending cases challenging the constitutionality of certain taxes that fund discrete state programs.

The state is a defendant in a number of lawsuits related to: habitat restoration and environmental clean-up arising out of highway/roadway construction and maintenance and historic mining activity. While estimates are not available for all lawsuits, claims for damages equate to approximately $254 million.

The state is a defendant in a number of lawsuits by employees and employee unions alleging various infractions of law or contract. These suits claim back pay, damages, or future entitlements in excess of $784 million. Of the $784 million, $237 million is associated with a single case challenging the legislative repeal of the so-called gain-sharing benefit offered to members of certain state retirement plans. Pursuant to the legislative repeal, replacement benefits were offered in lieu of gain-sharing. It is estimated that if the gain-sharing benefit is restored and replacement benefits are retained, the biennial cost to state employers participating in the relevant plans would be approximately $237 million for the 2013-15 biennium. A second retirement benefits case challenges the legislative discontinuation of annual cost of living increases for PERS and TRS Plan 1 retirees. The anticipated biennial cost-savings to the state associated with the challenged legislation is estimated to be approximately $501 million for the 2013-15 biennium. The estimated impact of restoring both benefits together ($766 million) exceeds the cost of restoring both benefits separately due to the interaction of the two benefits. Both of the aforementioned cases were argued to the state Supreme Court on October 24, 2013.

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

Tobacco Settlement

In November 1998, Washington joined 45 other states in a Master Settlement Agreement (MSA) with the nation's largest tobacco manufacturers to provide restitution for monies spent under health care programs for the treatment of smoking-related illnesses. Washington's share of the settlement was approximately $112.8 million in fiscal year 2013 and is subject to various offsets, reductions, and adjustments. Beginning in 2008, Washington received the first of ten "strategic contribution payments" under the MSA. This payment is subject to the same offsets, reductions, and adjustments as are applicable to the base payment. The 2013 strategic contribution payment was approximately $37.8 million.

In 2006, 2007, 2008, and 2009, determinations were made that disadvantages experienced by manufacturers as a result of participating in the MSA were a "significant factor" contributing to market share losses by those manufacturers. These determinations related to sales data for the years 2003, 2004, 2005, and 2006. Washington faces a potential "nonparticipating manufacturer (NPM) adjustment" in its share of between $0 and $130 million for the year 2003, $0 and $137 million for the year 2004, $0 and $131 million for the year 2005, and $0 and $119 million for the year 2006.

In addition, the states and the participating manufacturers have entered into an agreement under which the states will not contest that the disadvantages experienced by manufacturers as a result of participating in the MSA were a significant factor contributing to market share losses for the years 2007, 2008, and 2009, respectively. Washington faces a potential NPM adjustment of between $0 and $123 million for the year 2007, $0 and $173 million for the year 2008, and $0 and $176 million for the year 2009.

Washington and 37 other states each filed court actions seeking declarations that they had diligently enforced their escrow statutes – a defense to the adjustment claim. Thirty-six of the 37 states are participating in a single national arbitration of the NPM adjustment dispute.

The arbitration panel issued a decision in Washington's favor, unanimously concluding that Washington proved that it diligently enforced the qualifying statute during calendar year 2003 and, therefore, for that calendar year is not subject to an NPM adjustment under the MSA. Of the 15 states that went to an arbitration hearing, only nine were found to have diligently enforced.

There is approximately $723.6 million in the MSA Disputed Payment Account (DPA) related to the 2003 calendar year. Washington's share of that amount should be about $14.8 million. The timing of the distribution of that money is subject to certain variables. Some states (the ones that lost the arbitration) may take the position that no money should be released because, until possible appeals are exhausted, the dispute will not be "resolved with finality" and thus disputed payments should not be released. But absent an injunction that prevents the MSA independent auditor from releasing the money from the DPA, the state anticipates that it should receive its money no later than April 2014, when the next MSA annual and strategic contribution payments are distributed.

Finally, the panel's decision addresses only the 2003 calendar year. Washington and other states are engaged in negotiations with participating manufacturers regarding potential arbitration proceedings involving the 2004 calendar year.

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 estimates and recognizes claims and judgments liabilities 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. 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 2013, the state had guaranteed 213 school districts' voter-approved general obligation debt with 180 districts having a total outstanding principal of $8.55 billion. The state estimates that the school bond guarantee liability, if any, will be immaterial to its overall financial condition.

Local Option Capital Asset Lending Program

On September 1, 1998, the state lease-purchase program was extended to local governments seeking low cost financing of essential equipment and in the year 2000 for real estate. The Local Option Capital Assets Lending (LOCAL) 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 COPs do not constitute a debt or pledge of the full 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, 2013, outstanding certificates of participation notes totaled $78.1 million for 165 local governments participating in LOCAL. The state estimates that the LOCAL program liability, if any, will be immaterial to its overall financial condition.

Note 14
Subsequent Events

A. BOND ISSUES

In August 2013, the state issued:

- $276.5 million in motor vehicle fuel tax general obligation bonds for various transportation projects.
- $535.3 million in general obligation bonds for various capital projects.
- $55.5 million in taxable general obligation bonds for various capital projects.

In September 2013, the University of Washington issued $146.4 million in general revenue bonds to partially finance renovations to Husky Stadium, Husky Ballpark, housing and food services and pay off commercial paper.

In September 2013, the state issued $285.9 million in Federal Highway Grant Anticipation Revenue (GARVEE) Bonds for the State Route 520 Corridor Program.

In October 2013, the state issued:

- $117.9 million in refunding general obligation bonds.
- $106.0 million in refunding motor vehicle fuel tax general obligation bonds.

In October 2013, the Tobacco Settlement Authority, a blended component unit of the state, issued $334.7 million in tobacco settlement revenue refunding bonds.

B. CERTIFICATES OF PARTICIPATION

In August 2013, the state issued $35.0 million in Certificates of Participation.

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Required Supplementary Information

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BUDGETARY COMPARISON SCHEDULE
General Fund

Budgetary Comparison Schedule
General Fund
For the Biennium Ended June 30, 2013
(expressed in thousands)

	Original Budget 2011-13 Biennium	Final Budget 2011-13 Biennium	Actual 2011-13 Biennium	Variance with Final Budget
Budgetary Fund Balance, July 1, as restated	$ 62,736	$ 62,736	$ 62,736	$ -
Resources				
Taxes	31,065,106	29,614,048	29,627,123	13,075
Licenses, permits, and fees	176,925	199,135	204,358	5,223
Other contracts and grants	523,672	535,322	465,516	(69,806)
Timber sales	7,280	6,501	6,584	83
Federal grants-in-aid	15,009,646	15,019,506	14,065,536	(953,970)
Charges for services	60,097	66,388	62,112	(4,276)
Investment income (loss)	3,563	(18,779)	(17,241)	1,538
Miscellaneous revenue	395,704	412,620	350,343	(62,277)
Unclaimed property	108,623	182,082	179,381	(2,701)
Transfers from other funds	1,897,780	1,978,280	2,122,236	143,956
Total Resources	49,311,132	48,057,839	47,128,684	(929,155)
Charges To Appropriations				
General government	3,550,365	3,755,334	3,592,729	162,605
Human services	24,280,399	23,514,370	22,966,408	547,962
Natural resources and recreation	639,392	663,520	596,710	66,810
Transportation	101,879	103,401	93,001	10,400
Education	18,765,529	18,559,381	18,299,145	260,236
Capital outlays	627,393	747,691	341,096	406,595
Transfers to other funds	939,890	978,063	1,148,839	(170,776)
Total Charges To Appropriations	48,904,847	48,321,760	47,037,928	1,283,832
Excess Available For Appropriation Over (Under) Charges To Appropriations	406,285	(263,921)	90,756	354,677
Reconciling Items				
Debt service	-	-	(26)	(26)
Bond sale proceeds	103,825	111,089	194,555	83,466
Issuance premiums	-	183	6,350	6,167
Refunding COPs issued	-	-	3,270	3,270
Pmts to escrow agents for refunded debt	-	-	(3,565)	(3,565)
Assumed reversions	-	165,888	-	(165,888)
Working capital adjustment	-	238,000	238,000	-
Changes in reserves (net)	-	-	29,762	29,762
Entity adjustments (net)	-	-	(62,166)	(62,166)
Total Reconciling Items	103,825	515,160	406,180	(108,980)
Budgetary Fund Balance, June 30	$ 510,110	$ 251,239	$ 496,936	$ 245,697

BUDGETARY COMPARISON SCHEDULE
Budget to GAAP Reconciliation

General Fund
For the Biennium Ended June 30, 2013
(expressed in thousands)

		General Fund
Sources/Inflows of Resources		
Actual amounts (budgetary basis) "Total Resources" from the Budgetary Comparison Schedule	$	47,128,684
Differences - budget to GAAP:		
The following items are inflows of budgetary resources but are not revenue for financial reporting purposes:		
Transfers from other funds		(2,122,236)
Budgetary fund balance at the beginning of the biennium		(62,736)
Appropriated loan principal repayment		(2,760)
The following items are not inflows of budgetary resources but are revenue for financial reporting purposes:		
Noncash commodities and electronic food stamp benefits		3,524,819
Revenues collected for other governments		215,056
Unanticipated receipts		11,626
Noncash revenues		(20,766)
Other		6,563
Biennium total revenues		48,678,250
Fiscal year 2012 total revenues, as restated		(23,986,435)
Nonappropriated activity		10,571
Total Revenues (GAAP Basis) as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	$	24,702,386
Uses/Outflows of Resources		
Actual amounts (budgetary basis) "Total Charges to Appropriations" from the Budgetary Comparison Schedule	$	47,037,928
Differences - budget to GAAP:		
The following items are outflows of budgetary resources but are not expenditures for financial reporting purposes:		
Appropriated transfers to other funds		(2,820,218)
Other transfers to other funds		(1,148,839)
Appropriated loan disbursements		(325)
The following items are not outflows of budgetary resources but are recorded as current expenditures for financial reporting purposes:		
Noncash commodities and electronic food stamp benefits		3,524,819
Distributions to other governments		215,056
Certificates of participation and capital lease acquisitions		22,021
Expenditures related to unanticipated receipts		11,626
Interest on debt service		26
Other		12,280
Biennium total expenditures		46,854,374
Fiscal year 2012 total expenditures, as restated		(23,727,637)
Nonappropriated activity		615,207
Total expenditures (GAAP basis) as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds	$	23,741,944

BUDGETARY INFORMATION
Notes to Required Supplementary Information

GENERAL BUDGETARY POLICIES AND PROCEDURES

The Governor is required to submit a budget to the 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 schedule is 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 schedule 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 2011-13 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 the Budget-to-Actual Detail Report for governmental funds. A copy of this report is available at the Office of Financial Management, PO Box 43113, Olympia, Washington 98504-3113.

Legislative appropriations are strict legal limits on expenditures/expenses, and over-expenditures 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. Because allotments are not the strict legal limit on expenditures/expenses, the accompanying budgetary schedule is 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.

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 restricted, committed, or assigned fund balance.

Budgetary Reporting vs. 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 capital 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.

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, and Tobacco Settlement Securitization Bond Debt Service Fund. Additionally, certain items including federal surplus food commodities, electronic food stamp benefits, and resources collected and distributed to other governments are also excluded because they are not appropriated.

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.

In the General Fund, Budgetary Fund Balance equals unassigned fund balance as reported on the Governmental Funds Balance Sheet. In all other funds except Wildlife and Natural Resources, Budgetary Fund Balance equals total fund balance less nonspendable fund balance as reported on the Governmental Funds Balance Sheet. The Budgetary Fund Balance in the Wildlife and Natural Resources fund is further reduced by a portion of restricted fund balance that is not available for budgeting.

PENSION PLAN INFORMATION
Schedules of Funding Progress
continued

Schedule of Funding Progress
Public Employees' Retirement System - Plan 1
Valuation Years 2012 through 2007
(dollars in millions)

	2012	2011	2010	2009	2008	2007
Actuarial valuation date	6/30/2012	6/30/2011	6/30/2010	6/30/2009	6/30/2008	6/30/2007
Actuarial value of plan assets	$ 8,521	$ 8,883	$ 9,293	$ 9,776	$ 9,853	$ 9,715
Actuarial accrued liability	12,360	12,571	12,538	13,984	13,901	13,740
Unfunded actuarial liability	3,839	3,688	3,245	4,208	4,048	4,025
Percentage funded	69%	71%	74%	70%	71%	71%
Covered payroll	371	432	507	580	638	676
Unfunded actuarial liability as a percentage of covered payroll	1035%	854%	640%	726%	634%	595%

Source: Washington State Office of the State Actuary.

Schedule of Funding Progress
Public Employees' Retirement System - Plan 2/3
Valuation Years 2012 through 2007
(dollars in millions)

	2012	2011	2010	2009	2008	2007
Actuarial valuation date	6/30/2012	6/30/2011	6/30/2010	6/30/2009	6/30/2008	6/30/2007
Actuarial value of plan assets	$ 22,653	$ 20,997	$ 19,474	$ 18,260	$ 16,693	$ 14,888
Actuarial accrued liability	22,780	21,627	20,029	18,398	16,508	14,661
Unfunded actuarial liability	127	630	555	138	(185)	(227)
Percentage funded	99%	97%	97%	99%	101%	102%
Covered payroll	8,193	8,148	8,206	8,132	7,869	7,157
Unfunded actuarial liability as a percentage of covered payroll	2%	8%	7%	2%	0%	0%

PERS Plan 2/3 uses the aggregate actuarial cost method. Effective for reporting year 2007, this Schedule of Funding Progress is prepared using the entry age actuarial cost method and is intended to serve as a surrogate for the funded status and funding progress information of this plan as required by GASB Statement No. 50.

Source: Washington State Office of the State Actuary.

PENSION PLAN INFORMATION
Schedules of Funding Progress

continued

Schedule of Funding Progress
Teachers' Retirement System - Plan 1
Valuation Years 2012 through 2007
(dollars in millions)

	2012	2011	2010	2009	2008	2007
Actuarial valuation date	6/30/2012	6/30/2011	6/30/2010	6/30/2009	6/30/2008	6/30/2007
Actuarial value of plan assets	$ 7,145	$ 7,485	$ 7,791	$ 8,146	$ 8,262	$ 8,302
Actuarial accrued liability	9,038	9,232	9,201	10,820	10,754	10,826
Unfunded actuarial liability	1,894	1,747	1,410	2,674	2,492	2,524
Percentage funded	79%	81%	85%	75%	77%	77%
Covered payroll	228	284	344	389	432	426
Unfunded actuarial liability as a percentage of covered payroll	829%	615%	410%	687%	577%	592%

Source: Washington State Office of the State Actuary.

Schedule of Funding Progress
Teachers' Retirement System - Plan 2/3
Valuation Years 2012 through 2007
(dollars in millions)

	2012	2011	2010	2009	2008	2007
Actuarial valuation date	6/30/2012	6/30/2011	6/30/2010	6/30/2009	6/30/2008	6/30/2007
Actuarial value of plan assets	$ 7,758	$ 7,141	$ 6,593	$ 6,160	$ 5,681	$ 5,277
Actuarial accrued liability	7,478	7,194	6,558	6,048	5,264	4,682
Unfunded (assets in excess of) actuarial liability	(280)	53	(36)	(112)	(417)	(595)
Percentage funded	104%	99%	101%	102%	108%	113%
Covered payroll	4,077	4,085	3,966	3,957	3,621	3,318
Unfunded actuarial liability as a percentage of covered payroll	0%	1%	0%	0%	0%	0%

TRS Plan 2/3 uses the aggregate actuarial cost method. Effective for reporting year 2007, this Schedule of Funding Progress is prepared using the entry age actuarial cost method and is intended to serve as a surrogate for the funded status and funding progress information of this plan as required by GASB Statement No. 50.

Source: Washington State Office of the State Actuary.

PENSION PLAN INFORMATION
Schedules of Funding Progress

continued

Schedule of Funding Progress
School Employees' Retirement System - Plan 2/3
Valuation Years 2012 through 2007
(dollars in millions)

	2012	2011	2010	2009	2008	2007
Actuarial valuation date	6/30/2012	6/30/2011	6/30/2010	6/30/2009	6/30/2008	6/30/2007
Actuarial value of plan assets	$ 3,100	$ 2,872	$ 2,664	$ 2,503	$ 2,303	$ 2,133
Actuarial accrued liability	3,103	2,956	2,706	2,493	2,207	1,998
Unfunded (assets in excess of) actuarial liability	3	84	41	(10)	(96)	(135)
Percentage funded	100%	97%	98%	100%	104%	107%
Covered payroll	1,479	1,490	1,475	1,467	1,379	1,283
Unfunded actuarial liability as a percentage of covered payroll	0%	6%	3%	0%	0%	0%

SERS Plan 2/3 uses the aggregate actuarial cost method. Effective for reporting year 2007, this Schedule of Funding Progress is prepared using the entry age actuarial cost method and is intended to serve as a surrogate for the funded status and funding progress information of this plan as required by GASB Statement No. 50.

Source: Washington State Office of the State Actuary.

Schedule of Funding Progress
Law Enforcement Officers' and Fire Fighters' Retirement System - Plan 1
Valuation Years 2012 through 2007
(dollars in millions)

	2012	2011	2010	2009	2008	2007
Actuarial valuation date	6/30/2012	6/30/2011	6/30/2010	6/30/2009	6/30/2008	6/30/2007
Actuarial value of plan assets	$ 5,562	$ 5,565	$ 5,561	$ 5,612	$ 5,592	$ 5,298
Actuarial accrued liability	4,120	4,145	4,393	4,492	4,368	4,340
Unfunded (assets in excess of) actuarial liability	(1,441)	(1,420)	(1,168)	(1,120)	(1,224)	(958)
Percentage funded	135%	134%	127%	125%	128%	122%
Covered payroll	19	25	29	33	37	43
Unfunded actuarial liability as a percentage of covered payroll	0%	0%	0%	0%	0%	0%

Source: Washington State Office of the State Actuary.

PENSION PLAN INFORMATION
Schedules of Funding Progress

continued

Schedule of Funding Progress
Law Enforcement Officers' and Fire Fighters' Retirement System - Plan 2
Valuation Years 2012 through 2007
(dollars in millions)

	2012	2011	2010	2009	2008	2007
Actuarial valuation date	6/30/2012	6/30/2011	6/30/2010	6/30/2009	6/30/2008	6/30/2007
Actuarial value of plan assets	$ 7,222	$ 6,621	$ 6,043	$ 5,564	$ 5,053	$ 4,360
Actuarial accrued liability	6,353	5,941	5,164	4,641	3,998	3,626
Unfunded (assets in excess of) actuarial liability	(869)	(680)	(879)	(923)	(1,055)	(734)
Percentage funded	114%	111%	117%	120%	126%	120%
Covered payroll	1,560	1,535	1,490	1,442	1,345	1,234
Unfunded actuarial liability as a percentage of covered payroll	0%	0%	0%	0%	0%	0%

LEOFF Plan 2 uses the aggregate actuarial cost method. Effective for reporting year 2007, this Schedule of Funding Progress is prepared using the entry age actuarial cost method and is intended to serve as a surrogate for the funded status and funding progress information of this plan as required by GASB Statement No. 50.

Source: Washington State Office of the State Actuary.

Schedule of Funding Progress
Washington State Patrol Retirement System - Plan 1/2
Valuation Years 2012 through 2007
(dollars in millions)

	2012	2011	2010	2009	2008	2007
Actuarial valuation date	6/30/2012	6/30/2011	6/30/2010	6/30/2009	6/30/2008	6/30/2007
Actuarial value of plan assets	$ 982	$ 949	$ 920	$ 900	$ 870	$ 800
Actuarial accrued liability	884	859	812	790	745	702
Unfunded (assets in excess of) actuarial liability	(97)	(90)	(108)	(110)	(125)	(98)
Percentage funded	111%	110%	113%	114%	117%	114%
Covered payroll	80	82	83	83	79	72
Unfunded actuarial liability as a percentage of covered payroll	0%	0%	0%	0%	0%	0%

WSPRS Plan 1/2 uses the aggregate actuarial cost method. Effective for reporting year 2007, this Schedule of Funding Progress is prepared using the entry age actuarial cost method and is intended to serve as a surrogate for the funded status and funding progress information of this plan as required by GASB Statement No. 50.

Source: Washington State Office of the State Actuary.

PENSION PLAN INFORMATION
Schedules of Funding Progress

continued

Schedule of Funding Progress
Public Safety Employees' Retirement System - Plan 2
Valuation Years 2012 through 2007
(dollars in millions)

	2012	2011	2010	2009	2008	2007
Actuarial valuation date	6/30/2012	6/30/2011	6/30/2010	6/30/2009	6/30/2008	6/30/2007
Actuarial value of plan assets	$ 180	$ 141	$ 103	$ 69	$ 39	$ 14
Actuarial accrued liability	159	127	94	64	37	19
Unfunded (assets in excess of) actuarial liability	(22)	(14)	(9)	(5)	(2)	6
Percentage funded	114%	111%	109%	108%	106%	74%
Covered payroll	238	233	227	223	200	134
Unfunded actuarial liability as a percentage of covered payroll	0%	0%	0%	0%	0%	0%

PSERS Plan 2 uses the aggregate actuarial cost method. Effective for reporting year 2007, this Schedule of Funding Progress is prepared using the entry age actuarial cost method and is intended to serve as a surrogate for the funded status and funding progress information of this plan as required by GASB Statement No. 50.

Source: Washington State Office of the State Actuary.

Schedule of Funding Progress
Judicial Retirement System
Valuation Years 2012 through 2007
(dollars in millions)

	2012	2011	2010	2009	2008	2007
Actuarial valuation date	6/30/2012	6/30/2011	6/30/2010	6/30/2009	6/30/2008	6/30/2007
Actuarial value of plan assets	$ 3.5	$ 5.0	$ 4.0	$ 2.0	$ 1.0	$ 1.0
Actuarial accrued liability	104	109	84	89	92	85
Unfunded actuarial liability	101	104	80	87	91	84
Percentage funded	3%	5%	5%	2%	1%	1%
Covered payroll	0.3	0.5	0.7	0.9	1.3	1.3
Unfunded actuarial liability as a percentage of covered payroll	33779%	22574%	11565%	9667%	7000%	6462%

Source: Washington State Office of the State Actuary.

PENSION PLAN INFORMATION
Schedules of Funding Progress

concluded

Schedule of Funding Progress
Judges' Retirement Fund
Valuation Years 2012 through 2007
(dollars in millions)

	2012	2011	2010	2009	2008	2007
Actuarial valuation date	6/30/2012	6/30/2011	6/30/2010	6/30/2009	6/30/2008	6/30/2007
Actuarial value of plan assets	$ 1.9	$ 2.3	$ 2.8	$ 3.3	$ 3.6	$ 4.0
Actuarial accrued liability	3.6	3.9	3.2	3.4	3.5	3.9
Unfunded (assets in excess of) actuarial liability	1.7	1.6	0.4	0.1	(0.1)	(0.1)
Percentage funded	52%	61%	87%	97%	103%	103%
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

N/A indicates data not applicable.

* Covered payroll is not applicable because there are no active plan members.

Source: Washington State Office of the State Actuary.

Schedule of Funding Progress
Volunteer Fire Fighters' and Reserve Officers' Relief and Pension Fund
Valuation Years 2012 through 2007
(dollars in millions)

	2012	2011	2010	2009	2008	2007
Actuarial valuation date	6/30/2012	6/30/2011	6/30/2010	6/30/2009	6/30/2008	6/30/2007
Actuarial value of plan assets***	$ 170	$ 168	$ 166	$ 166	$ 161	$ 151
Actuarial accrued liability*	170	168	166	163	153	141
Unfunded (assets in excess of) actuarial liability	-	-	-	(3)	(8)	(10)
Percentage funded	100%	100%	100%	102%	105%	107%
Covered payroll**	N/A	N/A	N/A	N/A	N/A	N/A
Unfunded actuarial liability as a percentage of covered payroll	N/A	N/A	N/A	N/A	N/A	N/A

* Pension plan liability only - excludes relief benefits.

**Covered payroll is not presented because it is not applicable since this is a volunteer organization.

*** Board for Volunteer Fire Fighters adopted a new funding policy as of 2010 where assets above the accrued pension liability are allocated to fund relief benefits.

N/A indicates data not applicable.

Source: Washington State Office of the State Actuary.

PENSION PLAN INFORMATION

Schedules of Contributions from Employers and Other Contributing Entities (cont'd)

Schedules of Contributions from Employers and Other Contributing Entities
For the Fiscal Years Ended June 30, 2013 through 2008
(dollars in millions)

	2013	2012	2011	2010	2009	2008
PUBLIC EMPLOYEES' RETIREMENT PLAN SYSTEM - PLAN 1						
Employers' annual required contribution	$ 534.2	$ 508.0	$ 439.3	$ 627.8	$ 620.2	$ 453.1
Employers' actual contribution	266.3	257.2	145.6	154.0	325.2	221.8
Percentage contributed	50%	51%	33%	25%	52%	49%
PUBLIC EMPLOYEES' RETIREMENT PLAN SYSTEM - PLAN 2/3						
Employers' annual required contribution	$ 408.3	$ 407.7	$ 408.6	$ 383.1	$ 369.7	$ 363.3
Employers' actual contribution	389.0	385.3	328.3	327.5	439.7	318.7
Percentage contributed	95%	95%	80%	85%	119%	88%
TEACHERS' RETIREMENT SYSTEM - PLAN 1						
Employers' annual required contribution	$ 275.4	$ 254.0	$ 205.9	$ 406.1	$ 391.0	$ 294.7
Employers' actual contribution	118.6	111.9	96.8	112.7	178.9	113.1
Percentage contributed	43%	44%	47%	28%	46%	38%
TEACHERS' RETIREMENT SYSTEM - PLAN 2/3						
Employers' annual required contribution	$ 231.6	$ 232.2	$ 232.3	$ 221.1	$ 186.9	$ 208.9
Employers' actual contribution	229.0	213.9	168.3	165.0	160.8	109.5
Percentage contributed	99%	92%	72%	75%	86%	52%
SCHOOL EMPLOYEES' RETIREMENT SYSTEM - PLAN 2/3						
Employers' annual required contribution	$ 86.6	$ 85.2	$ 88.6	$ 82.3	$ 71.5	$ 75.8
Employers' actual contribution	78.4	74.6	62.3	62.1	63.5	52.1
Percentage contributed	91%	88%	70%	75%	89%	69%

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 experience gains and losses. The methods used to derive the ARC for this reporting disclosure are different from the methods 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 ARCs. Starting in 2009, the ARC for PERS and TRS Plans 1 was calculated using the Entry Age Normal cost method with a rolling 10-year amortization (excluding the temporary rate ceilings). Starting in 2011, the calculation of the ARC reflects the underlying actuarial cost method (excluding minimum contribution rates).

Source: Washington State Office of the State Actuary

PENSION PLAN INFORMATION
Schedules of Contributions from Employers and Other Contributing Entities (cont'd)

Schedules of Contributions from Employers and Other Contributing Entities
For the Fiscal Years Ended June 30, 2013 through 2008
(dollars in millions)

	2013	2012	2011	2010	2009	2008
LAW ENFORCEMENT OFFICERS' AND FIRE FIGHTERS' RETIREMENT SYSTEM - PLAN 1						
Employers' annual required contribution	$ -	$ -	$ -	$ -	$ -	$ -
Employers' actual contribution	0.6	-	-	-	-	-
Percentage contributed	N/A	N/A	N/A	N/A	N/A	N/A
State annual required contribution	$ -	$ -	$ -	$ -	$ -	$ -
State actual contribution	-	-	-	-	-	-
Percentage contributed	N/A	N/A	N/A	N/A	N/A	N/A
LAW ENFORCEMENT OFFICERS' AND FIRE FIGHTERS' RETIREMENT SYSTEM - PLAN 2						
Employers' annual required contribution*	$ 56.8	$ 59.1	$ 50.4	$ 67.3	$ 63.2	$ 61.3
Employers' actual contribution	82.4	80.5	79.7	77.0	77.8	73.4
Percentage contributed	145%	136%	158%	114%	123%	120%
State annual required contribution*	$ 37.9	$ 38.2	$ 33.6	$ 44.4	$ 42.1	$ 40.8
State actual contribution	54.2	52.8	52.0	51.4	51.1	45.9
Percentage contributed	143%	138%	155%	116%	121%	113%
WASHINGTON STATE PATROL RETIREMENT SYSTEM						
Employers' annual required contribution	$ 2.5	$ 2.9	$ 2.3	$ 6.6	$ 5.0	$ 6.8
Employers' actual contribution	6.5	6.5	5.3	5.3	6.4	6.1
Percentage contributed	260%	224%	230%	80%	128%	90%

N/A indicates data not applicable

*The Annual Required Contribution (ARC) for the LEOFF Plan 2 presented is the Office of the State Actuary's recommended figure.

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 experience gains and losses. The methods used to derive the ARC for this reporting disclosure are different from the methods 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 ARCs. Starting in 2009, the ARC for PERS and TRS Plans 1 was calculated using the Entry Age Normal cost method with a rolling 10-year amortization (excluding the temporary rate ceilings). Starting in 2011, the calculation of the ARC reflects the underlying actuarial cost method (excluding minimum contribution rates).

Source: Washington State Office of the State Actuary

PENSION PLAN INFORMATION

Schedules of Contributions from Employers and Other Contributing Entities (concl'd)

Schedules of Contributions from Employers and Other Contributing Entities

For the Fiscal Years Ended June 30, 2013 through 2008

(dollars in millions)

	2013	2012	2011	2010	2009	2008
PUBLIC SAFETY EMPLOYEES' RETIREMENT PLAN SYSTEM - PLAN 2						
Employers' annual required contribution	$ 15.1	$ 14.7	$ 14.7	$ 14.8	$ 14.3	$ 12.4
Employers' actual contribution	15.6	15.3	15.6	15.2	14.5	11.7
Percentage contributed	103%	104%	106%	103%	101%	94%
JUDICIAL RETIREMENT SYSTEM						
Employers' annual required contribution	$ 21.7	$ 22.6	$ 18.6	$ 20.4	$ 21.2	$ 26.6
Employers' actual contribution	10.1	8.1	10.9	11.6	10.2	9.6
Percentage contributed	47%	36%	59%	57%	48%	36%
JUDGES' RETIREMENT FUND						
Employers' annual required contribution	$ 0.4	$ 0.3	$ 0.1	$ -	$ -	$ -
Employers' actual contribution	-	-	-	-	-	-
Percentage contributed	N/A	N/A	N/A	N/A	N/A	N/A
VOLUNTEER FIRE FIGHTERS' AND RESERVE OFFICERS' RELIEF AND PENSION FUND						
Employers' annual required contribution	$ 0.9	$ 1.0	$ 1.1	$ 1.0	$ 1.1	$ 1.0
Employers' actual contribution	0.9	1.0	1.1	1.0	1.0	1.0
Percentage contributed	100%	100%	100%	100%	91%	100%
State annual required contribution	$ 3.7	$ 3.7	$ 4.2	$ 1.8	$ 1.4	$ 0.9
State actual contribution	6.0	5.6	5.8	5.7	5.2	5.0
Percentage contributed	162%	151%	138%	317%	371%	556%

N/A indicates data not applicable

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 experience gains and losses. The methods used to derive the ARC for this reporting disclosure are different from the methods 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 ARCs. Starting in 2009, the ARC for PERS and TRS Plans 1 was calculated using the Entry Age Normal cost method with a rolling 10-year amortization (excluding the temporary rate ceilings). Starting in 2011, the calculation of the ARC reflects the underlying actuarial cost method (excluding minimum contribution rates).

Source: Washington State Office of the State Actuary

OTHER POSTEMPLOYMENT BENEFITS INFORMATION
Schedule of Funding Progress

Schedule of Funding Progress
Other Postemployment Benefits
Valuation Years 2013 through 2009
(dollars in millions)

	2013	2011	2009
Actuarial valuation date	1/1/2013	1/1/2011	1/1/2009
Actuarial value of plan assets	$ -	$ -	$ -
Actuarial accrued liability (AAL)*	3,707	3,492	3,787
Unfunded actuarial accrued liability (UAAL)	3,707	3,492	3,787
Funded ratio	0%	0%	0%
Covered payroll	5,787	5,937	5,678
UAAL as a percentage of covered payroll	64%	59%	67%

* Based on projected unit credit actuarial cost method.

Source: Washington State Office of the State Actuary

INFRASTRUCTURE ASSETS REPORTED USING THE MODIFIED APPROACH

Condition Assessment

The state of Washington reports certain networks of infrastructure assets under the modified approach of the Governmental Accounting Standards Board Statement No. 34. Expenditures to maintain and preserve these assets are budgeted, recorded, and reported in lieu of depreciation expense. The state must meet the following requirements to report networks of assets under the modified approach:

- Maintain an up-to-date inventory of eligible infrastructure assets in an asset management system.
- Disclose the condition level established by administrative or executive policy, or by legislative action at which assets are to be preserved or maintained.
- Perform condition assessments of eligible assets and summarize the results using a measurement scale.
- Document that assets are being preserved approximately at or above the disclosed condition level.
- Annually estimate the cost to maintain and preserve the assets at the established condition level.

Assets accounted for under the modified approach include the state's network of highway pavements, bridges, and rest areas. In fiscal year 2013, the state was responsible to maintain and preserve 20,680 pavement lane miles, 3,267 bridges and tunnels, and 48 rest areas.

PAVEMENT CONDITION

The Washington State Department of Transportation (WSDOT) performs highway pavement assessments over a two year cycle utilizing three measurements to develop a scaled condition assessment: Pavement Structural Condition (PSC), International Roughness Index (IRI), and rutting.

The WSDOT uses the following rating scale for PSC:

Category	PSC Range	Description
Very Good	80 – 100	Little or no distress. Example: Flexible pavement with 5 percent of wheel track length having "hairline" severity alligator cracking will have a PSC of 80.
Good	60 – 79	Early stage deterioration. Example: Flexible pavement with 15 percent of wheel track length having "hairline" alligator cracking will have a PSC of 70.
Fair	40 – 59	This is the threshold value for rehabilitation. Example: Flexible pavement with 25 percent of wheel track length having "hairline" alligator cracking will have a PSC of 50.
Poor	20 – 39	Structural deterioration. Example: Flexible pavement with 25 percent of wheel track length having "medium (spalled)" severity alligator cracking will have a PSC of 30.
Very Poor	0 – 19	Advanced structural deterioration. Example: Flexible pavement with 40 percent of wheel track length having "medium (spalled)" severity alligator cracking will have a PSC of 10. May require extensive repair and thicker overlays.

The IRI scale is measured in inches per mile. The WSDOT assesses pavements with a ride performance measure less than 221 inches per mile to be in fair or better condition.

Rutting is measured in inches with a measurement of 0.58 inches or less assessed at a condition of fair or better.

PSC, IRI, and rutting are combined to rate a section of pavement which is assigned the lowest condition of any of the three indices.

The WSDOT's policy is to maintain 90 percent of pavements at a condition level of fair or better. The following table shows the combined conditions and the ratings for pavement for each index:

Category	PSC	IRI	Rutting
Very Good	80 – 100	< 96	< 0.24
Good	60 – 79	96 – 170	0.24 – 0.41
Fair	40 – 59	171 – 220	0.42 – 0.58
Poor	20 – 39	221 – 320	0.59 – 0.74
Very Poor	0 – 19	> 320	> 0.74

The following table shows payment condition ratings for state highways:

Pavement Percentage in Fair or Better Condition Calendar Year		
2011	**2009**	**2007**
91.2%	92.7%	93.0%

The following table reflects the state's estimated and actual expenditures necessary to preserve state highways at the established condition level:

Pavement Preservation and Maintenance - Planned to Actual - Fiscal Year *(expressed in thousands)*					
	2013	**2012**	**2011**	**2010**	**2009**
Planned	$ 137,779	$ 148,811	$ 122,203	$ 168,204	$ 144,897
Actual	$ 108,972	$ 148,366	$ 117,811	$ 159,441	$ 128,449

Actual expenditures may vary from planned amounts for a variety of reasons which include, but are not limited to, management's decision to accelerate, defer, or reduce preservation or maintenance activity in response to economic forecasts and other factors.

For more information about pavements, refer to the WSDOT's website at:
http://www.wsdot.wa.gov/Business/MaterialsLab/Pavements/default.htm.

BRIDGE CONDITION

The WSDOT performs sample condition assessments on state owned bridges in excess of 20 feet in length each year with all bridges inspected over a two year cycle. Underwater bridge components are inspected at least once every five years in accordance with Federal Highway Administration (FHWA) requirements.

The WSDOT uses a performance measure which classifies a bridge as good, fair, or poor using the National Bridge Inspection Standards (NBIS) codes for bridge superstructure, substructure, and deck. The following categories for condition rating are based on the structural sufficiency standards established in FHWA's "Recording and Coding Guide for the Structural Inventory and Appraisal of the Nation's Bridges."

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.

The WSDOT's policy is to maintain 95 percent of bridges at a condition level of fair or better. The following table shows bridge condition ratings:

Bridges Percentage in Fair or Better Condition Calendar Year		
2011	**2009**	**2007**
95.4%	97.7%	97.2%

The following table reflects the state's estimated and actual expenditures necessary to preserve the bridges at the established condition level:

Bridges Preservation and Maintenance - Planned to Actual - Fiscal Year *(expressed in thousands)*					
	2013	**2012**	**2011**	**2010**	**2009**
Planned	$ 98,519	$ 66,510	$ 46,708	$ 54,490	$ 76,801
Actual	$ 87,306	$ 61,026	$ 43,709	$ 44,436	$ 29,992

Actual expenditures may vary from planned amounts for a variety of reasons which include, but are not limited to, management's decision to accelerate, defer, or reduce preservation or maintenance activity in response to economic forecasts and other factors.

For more information about bridges, refer to the WSDOT's website at:
http://www.wsdot.wa.gov/eesc/bridge/index.cfm.

SAFETY REST AREA CONDITION

The WSDOT performs safety rest area condition assessments every two years. Sites are given a good to poor numerical rating for each of the following functional components: ADA compliance; proximity to the next rest area; traffic flow/access from/to the highway; security (fencing, visibility, and lighting); facility size (vehicle/pedestrian circulation, parking, potential facility expansion); drainage; landscaping maintenance; signage; water supply (rate flow, potable, hydrant system), and sanitation (municipal or on-site). A weighting multiplier is applied based on the criticality of each component.

The WSDOT's policy is to maintain 95 percent of safety rest areas in a condition of fair or better. The following table shows the safety rest area condition ratings:

Safety Rest Areas Percentage in Fair or Better Condition Calendar Year		
2011	**2009**	**2007**
100.0%	97.6%	95.2%

The following table reflects the state's estimated and actual expenditures necessary to preserve the safety rest areas at the established condition level:

Safety Rest Areas Preservation and Maintenance - Planned to Actual - Fiscal Year *(expressed in thousands)*					
	2013	**2012**	**2011**	**2010**	**2009**
Planned	$ 6,607	$ 6,278	$ 6,259	$ 5,815	$ 6,007
Actual	$ 6,676	$ 6,467	$ 6,514	$ 5,925	$ 5,824

Actual expenditures may vary from planned amounts for a variety of reasons which include, but are not limited to, management's decision to accelerate, defer, or reduce preservation or maintenance activity in response to economic forecasts and other factors.

For more information about safety rest areas, refer to WSDOT's website at: http://www.wsdot.wa.gov/safety/restareas.

APPENDIX E

DTC AND ITS BOOK-ENTRY SYSTEM

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DTC AND ITS BOOK-ENTRY SYSTEM

The following information has been provided by DTC. The state takes no responsibility 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).

1. The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Certificates. The Certificates will be issued as fully registered securities 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 certificate will be issued for each Principal Payment Date of the Certificates, each in the aggregate principal amount represented by such Certificates, and will be deposited with DTC.

2. DTC, the world's largest securities 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 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 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 is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. 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 rating of AA+. 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 (which website is not incorporated herein by reference).

3. Purchases of Certificates under the DTC system must be made by or through Direct Participants, which will receive a credit for the Certificates on DTC's records. The ownership interest of each actual purchaser of each Certificate ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Certificates are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Certificates, except in the event that use of the book-entry system for the Certificates is discontinued.

4. To facilitate subsequent transfers, all Certificates deposited by Direct Participants with DTC are to be 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 Certificates 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 Certificates; DTC's records reflect only the identity of the Direct Participants to whose accounts such Certificates are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

5. When notices are given, they shall be sent by the Fiscal Agent 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.

6. Prepayment notices shall be sent to DTC. If less than all of the Certificates of a Principal Payment Date are being prepaid, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be prepaid.

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

8. Principal, prepayment and interest payments on the Certificates 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 Certificate Registrar, on the 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 are the responsibility of such Participant and not of DTC, the Fiscal Agent or the state, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, prepayment and interest 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 Fiscal Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

9. DTC may discontinue providing its services as depository with respect to the Certificates at any time by giving reasonable notice to the state or the Fiscal Agent. Under such circumstances, in the event that a successor depository is not obtained, Certificates are required to be printed and delivered.

10. The state may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Certificates will be printed and delivered to DTC.