This Preliminary Official Statement and the information contained herein are subject to completion, revision and amendment. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful.

PRELIMINARY OFFICIAL STATEMENT DATED JANUARY 12, 2016

SALE DATE: JANUARY 20, 2016
NEW ISSUE, BOOK-ENTRY ONLY

STATE OF WASHINGTON

Ratings:
Fitch Ratings: AA+
Moody's: Aa1
Standard & Poor's: AA+
(See "BOND RATINGS.")

$529,360,000*
VARIOUS PURPOSE GENERAL OBLIGATION REFUNDING BONDS, SERIES R-2016B

$143,645,000*
MOTOR VEHICLE FUEL TAX GENERAL OBLIGATION REFUNDING BONDS, SERIES R-2016C

Dated: Date of Initial Delivery **Due: July 1, as shown on the inside cover pages**

The Series R-2016B Bonds and the Series R-2016C Bonds referenced above (together, the "Bonds") are general obligations of the State of Washington (the "State") to which the State has pledged its full faith, credit and taxing power. The Series R-2016C Bonds are first payable from State excise taxes on motor vehicle and special fuels. See "SECURITY FOR THE BONDS."

Interest on the Bonds is payable semiannually on each January 1 and July 1, beginning July 1, 2016. Principal of the Bonds is payable in the stated maturity amounts on each July 1 as set forth on pages i and ii.

The Bonds may be subject to redemption prior to maturity at the times and prices set forth under "DESCRIPTION OF THE BONDS—Redemption Provisions."

The Bonds are issuable as fully registered bonds under a book-entry only system, initially registered in the name of Cede & Co. (the "Registered Owner"), as bond owner and nominee for The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository for the Bonds. The Bonds will be issued in the denomination of $5,000 each or any integral multiple thereof within a single maturity of each Series. The principal of and interest on the Bonds are payable by the fiscal agent of the State, as paying agent and registrar (the "Bond Registrar") (currently U.S. Bank National Association), to DTC, for subsequent disbursement to beneficial owners of the Bonds, as described herein under "DESCRIPTION OF THE BONDS—Book-Entry System."

In the opinion of Bond 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 Bonds, interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the alternative minimum tax applicable to individuals. While interest on the Bonds also is not an item of tax preference for purposes of the alternative minimum tax applicable to corporations, interest on the Bonds received by corporations is taken into account in the computation of adjusted current earnings for purposes of the alternative minimum tax applicable to corporations, interest on the Bonds received by certain S corporations may be subject to tax, and interest on the Bonds received by foreign corporations with United States branches may be subject to a foreign branch profits tax. Receipt of interest on the Bonds may have other federal tax consequences for certain taxpayers. See "TAX MATTERS."

The Bonds are offered when, as and if issued, subject to receipt of the approving opinion of Foster Pepper PLLC, Seattle, Washington, Bond 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 Bonds will be available for delivery through the facilities of DTC in New York, New York, or to the Bond Registrar on behalf of DTC by Fast Automated Securities Transfer, on or about February 16, 2016.

* Preliminary, subject to change by the State.

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

The information set forth herein has been obtained from sources 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 IT'S 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 Bonds, the Underwriters may overallot or effect transactions which stabilize or maintain the market price of the Bonds 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 Underwriters have provided the following sentence for inclusion in this Official Statement: The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

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

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 Bonds. Information appearing on any such website is not incorporated by reference in this Official Statement.

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 the Rule.

STATE OF WASHINGTON
$529,360,000[1]
VARIOUS PURPOSE GENERAL OBLIGATION REFUNDING BONDS, SERIES R-2016B

Due July 1	Principal Amounts[1]	Interest Rates	Yields	Prices	CUSIP[3]
2016	$ 435,000				
2019	21,925,000				
2020	22,825,000				
2021	23,900,000				
2022	25,135,000				
2023	26,445,000				
2024	27,845,000				
2025	29,300,000				
2026	30,830,000[2]				
2027	32,445,000[2]				
2028	34,150,000[2]				
2029	48,445,000[2]				
2030	51,045,000[2]				
2031	53,780,000[2]				
2032	56,700,000[2]				
2033	44,155,000[2]				
Total	$529,360,000				

(1) Preliminary, subject to change as provided in the Official Notice of Sale.
(2) These amounts will constitute principal maturities of the Series R-2016B Bonds unless all or a portion of these Series R-2016B Bonds are designated as Term Bonds by the successful bidder, in which case these amounts will constitute mandatory sinking fund redemptions of such Series R-2016B Term Bonds.
(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 Series R-2016B Bonds. Neither the State nor the Underwriter(s) take responsibility for the accuracy of the CUSIP numbers.

STATE OF WASHINGTON
$143,645,000[1]
MOTOR VEHICLE FUEL TAX GENERAL OBLIGATION REFUNDING BONDS, SERIES R-2016C

Due July 1	Principal Amounts[1]	Interest Rates	Yields	Prices	CUSIP[3]
2016	$ 85,000				
2019	5,085,000				
2020	5,305,000				
2021	5,595,000				
2022	5,900,000				
2023	6,235,000				
2024	6,575,000				
2025	6,945,000				
2026	7,315,000[2]				
2027	7,710,000[2]				
2028	8,125,000[2]				
2029	8,560,000[2]				
2030	9,020,000[2]				
2031	9,515,000[2]				
2032	25,175,000[2]				
2033	26,500,000[2]				
Total	$143,645,000				

(1) Preliminary, subject to change as provided in the Official Notice of Sale.
(2) These amounts will constitute principal maturities of the Series R-2016C Bonds unless all or a portion of these Series R-2016C Bonds are designated as Term Bonds by the successful bidder, in which case these amounts will constitute mandatory sinking fund redemptions of such Series R-2016C Term Bonds.
(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 Series R-2016C Bonds. Neither the State nor the Underwriter(s) take responsibility for the accuracy of the CUSIP numbers.

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

BOND COUNSEL AND DISCLOSURE COUNSEL TO THE STATE

Foster Pepper PLLC
Seattle, Washington

FINANCIAL ADVISORS TO THE STATE

Piper Jaffray & Co., Seattle-Northwest Division
Seattle, Washington

Montague DeRose and Associates, LLC
Walnut Creek, California

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

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
Bond Registrar and Paying Agent	U.S. Bank National Association Corporate Trust Services 1420 5th Avenue, 7th Floor Seattle, WA 98101 Phone: (206) 344-4678
Bond Counsel and Disclosure Counsel	Foster Pepper PLLC 1111 Third Avenue, Suite 3400 Seattle, Washington 98101 Phone: (206) 447-4400
Financial Advisors	Piper Jaffray & Co., Seattle-Northwest Division 1420 Fifth Avenue, Suite 4300 Seattle, Washington 98101 Phone: (206) 628-2882 Date of Sale Phone: (206) 601-2249
	Montague DeRose and Associates, LLC 2175 N. California Boulevard, Suite 745 Walnut Creek, California 94596 Phone: (925) 256-9797 Date of Sale Phone: (925) 239-5483

TABLE OF CONTENTS

Page

OFFICIAL NOTICE OF SALE vii

INTRODUCTION 1
- State Finance Committee 1

DESCRIPTION OF THE BONDS 2
- Authority and Purpose 2
- Description of the Bonds 2
- Redemption Provisions 3
- Purchase of Bonds 3
- Defeasance 3
- Book-Entry System 4
- Termination of Book-Entry System 4
- State and Bond Registrar Responsibilities 4

SOURCES AND USES OF FUNDS 5
- Sources and Uses 5
- Plan of Refunding 5

SECURITY FOR THE BONDS 7
- Pledge of Full Faith and Credit 7
- Pledge of Excise Tax on Motor Vehicle and Special Fuels 8
- Payment of Bonds 8
- Additional Information 8

FUTURE SALES OF OBLIGATIONS 8

FINANCIAL STATEMENTS 8

ECONOMIC AND REVENUE FORECASTS 9

LITIGATION 9

BALLOT MEASURES 9

LEGAL MATTERS 10

TAX MATTERS 10

CONTINUING DISCLOSURE UNDERTAKING 11

BOND RATINGS 13

FINANCIAL ADVISORS 14

UNDERWRITING 14

MISCELLANEOUS 14

GENERAL AND ECONOMIC INFORMATION ..... APPENDIX A
- Table of Contents at A-i

BONDS OUTSTANDING ..... APPENDIX B

PROPOSED FORMS OF LEGAL OPINIONS ..... APPENDIX C

THE STATE'S 2015 AUDITED FINANCIAL STATEMENTS ..... APPENDIX D

DTC AND IT'S BOOK-ENTRY SYSTEM ..... APPENDIX E

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OFFICIAL NOTICE OF SALE

STATE OF WASHINGTON

$529,360,000*
VARIOUS PURPOSE GENERAL OBLIGATION REFUNDING BONDS, SERIES R-2016B

$143,645,000*
MOTOR VEHICLE FUEL TAX GENERAL OBLIGATION REFUNDING BONDS, SERIES R-2016C

Separate electronic bids will be received by the State Finance Committee (the "Committee") acting by and through the State Treasurer (the "Treasurer"), at the Office of the State Treasurer, Legislative Building, Second Floor, Room 230, 416 Sid Snyder Avenue SW, Olympia, Washington, on behalf of the State of Washington (the "State"), for purchase of each of the above separate Series of the Bonds (together, the "Bonds") on

JANUARY 20, 2016, at

SERIES R-2016B BONDS:	**8:00 A.M., PACIFIC TIME**
SERIES R-2016C BONDS:	**8:30 A.M., PACIFIC TIME**

Each Series of the Bonds will be sold separately, on an all-or-none basis. Bids must be submitted electronically via the Qualified Electronic Bid Provider (defined below). See "Bidding Detail."

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

Modification; Cancellation; Postponement. Bidders are advised that the State may modify the terms of this Official Notice of Sale prior to the time for receipt of bids, including to change the principal amount and principal payments of one or more Series of the Bonds. Any such modifications will be provided to the Qualified Electronic Bid Provider and i-Deal Prospectus prior to the sale. In addition, the State may cancel or postpone the date and time for the receipt of bids for the Bonds at any time prior to the opening of the bids. The issuance of the Bonds is subject to market conditions. Notice of such cancellation or postponement will be communicated by the State through the Qualified Electronic Bid Provider and i-Deal Prospectus as soon as practicable following such cancellation or postponement. As an accommodation to bidders, telephonic or electronic notice of any amendment or modification of this Official Notice of Sale will be given to any bidder requesting such notice from the State's financial advisor at the address and phone number listed in the last paragraph of this Official Notice of Sale. Failure of any bidder to receive such notice from the Qualified Electronic Bid Provider or i-Deal Prospectus will not affect the legality of the sale.

Each bidder (and not the Committee or the State) is responsible for the timely electronic delivery of its bid. The official time will be determined by the Committee acting by and through the Treasurer and not by any bidder or Qualified Electronic Bid Provider.

Description of the Bonds

Series R-2016B Bonds. The Series R-2016B Bonds will be dated the date of their initial delivery, will be issued in denominations of $5,000 each or any integral multiple thereof within a single maturity and will bear interest at such rate or rates as the Committee acting by and through the Treasurer shall approve at the time of sale, payable semiannually on each January 1 and July 1, beginning July 1, 2016, to their maturity or earlier redemption.

* Preliminary, subject to change by the State as described in this Official Notice of Sale.

The Series R-2016B Bonds will mature as follows:

Maturity Dates (July 1)	Principal Amounts[1]
2016	$ 435,000
2019	21,925,000
2020	22,825,000
2021	23,900,000
2022	25,135,000
2023	26,445,000
2024	27,845,000
2025	29,300,000
2026	30,830,000[2]
2027	32,445,000[2]
2028	34,150,000[2]
2029	48,445,000[2]
2030	51,045,000[2]
2031	53,780,000[2]
2032	56,700,000[2]
2033	44,155,000[2]
	$529,360,000

(1) Preliminary, subject to change by the State as described in this Official Notice of Sale.
(2) These amounts will constitute principal maturities of the Series R-2016B Bonds unless all or a portion of these Series R-2016B Bonds are designated as Term Bonds by the successful bidder, in which case these amounts will constitute mandatory sinking fund redemptions of such Series R-2016B Term Bonds.

Series R-2016C Bonds. The Series R-2016C Bonds will be dated the date of their initial delivery, will be issued in denominations of $5,000 each or any integral multiple thereof within a single maturity and will bear interest at such rate or rates as the Committee acting by and through the Treasurer shall approve at the time of sale, payable semiannually on each January 1 and July 1, beginning July 1, 2016, to their maturity or earlier redemption.

The Series R-2016C Bonds will mature as follows:

Maturity Dates (July 1)	Principal Amounts[1]
2016	$ 85,000
2019	5,085,000
2020	5,305,000
2021	5,595,000
2022	5,900,000
2023	6,235,000
2024	6,575,000
2025	6,945,000
2026	7,315,000[2]
2027	7,710,000[2]
2028	8,125,000[2]
2029	8,560,000[2]
2030	9,020,000[2]
2031	9,515,000[2]
2032	25,175,000[2]
2033	26,500,000[2]
	$143,645,000

(1) Preliminary, subject to change by the State as described in this Official Notice of Sale.
(2) These amounts will constitute principal maturities of the Series R-2016C Bonds unless all or a portion of these Series R-2016C Bonds are designated as Term Bonds by the successful bidder, in which case these amounts will constitute mandatory sinking fund redemptions of such Series R-2016C Term Bonds.

Adjustment of Amount of Bonds and Bid Price. The State has reserved the right to increase or decrease the preliminary principal amount of each Series of the Bonds by an amount not to exceed 10 percent following the opening of the bids. The State reserves the right to increase or decrease the preliminary principal amount of any maturity of the Series R-2016B Bonds by an amount not to exceed 15 percent of the preliminary principal amount of that maturity, or up to $2,500,000 for the 2016 maturity. This adjustment may result in the elimination of the 2016 maturity of the Series R-2016B Bonds. The State reserves the right to increase or decrease the preliminary principal amount of any maturity of the Series R-2016C Bonds by an amount not to exceed 15 percent of the preliminary principal amount of that maturity, or up to $500,000 for the 2016 maturity. This adjustment may result in the elimination of the 2016 maturity of the Series R-2016C Bonds. The price bid by the successful bidder will be adjusted by the State on a proportionate basis to reflect an increase or decrease in the principal amount and maturity schedule within 24 hours of the bid opening. The State will not be responsible in the event and to the extent that any adjustment affects the net compensation to be realized by the successful bidder.

Optional Redemption. The State may redeem any Series of the Bonds maturing on or after July 1, 2026, as a whole or in part on any date on or after January 1, 2026 (with the maturities to be redeemed to be selected by the State and randomly within a maturity in such manner as the Bond Registrar shall determine), at par plus accrued interest to the date fixed for redemption.

The State may declare, subject to market conditions, that a Series of the Bonds will not be subject to optional redemption. The State will provide notice to the Qualified Bid Provider and i-Deal Prospectus before the sale of the Bonds if it so declares.

Mandatory Redemption. The Bonds of a Series will be subject to mandatory redemption if the successful bidder for that Series designates certain maturities as Term Bonds. See “DESCRIPTION OF THE BONDS—Redemption Provisions” in the Preliminary Official Statement.

Book-Entry Only. The Bonds will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository for the Bonds. Individual purchases will be made in book-entry form only, and purchasers will not receive physical certificates representing their interests in the Bonds purchased. See Appendix E—"DTC AND IT'S BOOK-ENTRY SYSTEM."

Purpose

The Series R-2016B Bonds are being issued to refund certain outstanding various purpose general obligation bonds of the State for debt service savings and to pay the administrative costs of such refunding and the costs of issuance of the Series R-2016B Bonds. The Series R-2016C Bonds are being issued to refund certain outstanding motor vehicle fuel tax general obligation bonds of the State for debt service savings and to pay the administrative costs of such refunding and the costs of issuance of the Series R-2016C Bonds. See "DESCRIPTION OF THE BONDS—Authority and Purpose" and "SOURCES AND USES OF FUNDS—Plan of Refunding" in the Preliminary Official Statement.

Security

The Bonds are general obligations of the State, and the full faith, credit and taxing power of the State are pledged irrevocably to the payment of the Bonds. The Series R-2016C Bonds are first payable from State excise taxes on motor vehicle and special fuels. See "SECURITY FOR THE BONDS" in the Preliminary Official Statement.

Bidding Detail

Electronic Bids. Electronic bids for each Series of the Bonds must be submitted via the Qualified Electronic Bid Provider only. The State has designated Parity® as the Qualified Electronic Bid Provider for purposes of receiving electronic bids for the Bonds. 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 any Series of the Bonds thereby agrees to the following terms and conditions:

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

(2) Each bidder shall 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 Bonds. 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 Committee acting by and through the Treasurer, 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 each Series of the Bonds must be unconditional, and for not less than all of that Series. 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 each Series of the Bonds 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 Bonds 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. All Bonds must have a maximum interest rate of 5.00%. Bonds maturing on or after July 1, 2026, must have an interest rate of 5.00%. All Bonds of the same maturity of a particular Series must bear interest at the same rate.

Premium and Discount. No bid offering to pay an amount less than 117.5 percent or more than 125.0 percent of the par value of the Series R-2016B Bonds will be considered.

No bid offering to pay an amount less than 118.0 percent or more than 125.0 percent of the par value of the Series R-2016C Bonds will be considered.

Selection of Winning Bids

The bids for the Bonds will be considered by the Committee acting by and through the Treasurer in the Office of the State Treasurer, commencing at approximately 11:00 a.m., Pacific Time, on January 20, 2016. The results of the foregoing bond sales will be posted on the Treasurer's website promptly following approval of the Bond Sale Resolutions by the Committee acting by and through the Treasurer.

The Bonds of each Series 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 amounts identified in this Official Notice of Sale. The TIC will be the rate necessary, when using a 360-day year and semiannual compounding, to discount the debt service payments from the payment dates to the initial delivery date of the Bonds (currently anticipated to be February 16, 2016) and to the price bid.

Upon award of each Series of Bonds, the successful bidder for the Bonds of such Series shall advise the State and Bond Counsel of the initial reoffering prices at which each maturity of such Series of Bonds 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 Bonds.

The successful bidder for each Series of the Bonds will be bound to purchase such Series of the Bonds in the principal amount, at such price and with such interest rates as are specified in its bid, subject to adjustment of principal as described above.

Right of Rejection

The Committee acting by and through the Treasurer 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 for a Series of the Bonds submit bids at the same lowest TIC, the Committee acting by and through the Treasurer will determine which bidder is awarded those Bonds in its sole discretion.

Good Faith Deposit

The successful bidder shall deliver to the Treasurer a good faith deposit in the amount of $5,300,000 with respect to the Series R-2016B Bonds and $1,400,000 with respect to the Series R-2016C Bonds. 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.

(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.

The good faith deposit of the successful bidder for each Series of the Bonds will be retained by the State as security for the performance of such bid, and will be applied to the purchase price of such Series of the Bonds on the delivery of such Series of the Bonds to the successful bidder. Pending delivery of the Bonds, the good faith deposit for each Series of the Bonds may be invested for the sole benefit of the State.

If the Bonds of a Series are ready for delivery and the successful bidder for a Series of the Bonds fails to complete the purchase of that Series by February 16, 2016, such good faith deposit will be forfeited to the State, and, in that event, the Committee acting by and through the Treasurer may accept the next best bid or call for additional bids.

Ratings

The State has received ratings from Fitch Ratings, Moody's Investors Service Inc., and Standard & Poor's Ratings Services, a business unit within Standard & Poor's Financial Services LLC, of AA+, Aa1 and AA+, respectively. The State will pay the fees for these ratings. Any other ratings are the responsibility of the successful bidder(s).

Bond Insurance

The purchase of any insurance policy for any Series of the Bonds or the issuance of any commitment therefor will be at the sole option and expense of the successful bidder(s) for such Series of Bonds. Bids may not be conditioned upon qualification for or the receipt of municipal bond insurance. Any increased costs of issuance of the Bonds of any Series resulting from such purchase of insurance will be paid by the successful bidder for that Series and will not, in any event, be paid by the State. Payment of any bond insurance premium and satisfaction of any conditions to the issuance of the municipal bond insurance policy will be the sole responsibility of the successful bidder. In particular, the State will not enter into any agreements with respect to the provisions of any such policy.

Failure of any municipal bond insurer to issue or deliver its policy will not constitute cause for failure or refusal by the successful bidder to accept delivery of or to tender payment for the Bonds.

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 Committee acting by and through the Treasurer. The State will require delivery, on or prior to the date of initial delivery of the Bonds, 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 validity and enforceability of the municipal bond insurance policy, and

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

each in a form reasonably satisfactory to the State and its Bond Counsel.

Delivery of Bonds

The Bonds of each Series will be delivered to DTC in New York, New York, or to the Bond Registrar on behalf of DTC by 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 for the applicable Series of Bonds. On or before the date of initial delivery of the Bonds, the successful bidders for each Series of Bonds shall provide to the State such information as Bond Counsel to the State deems necessary to determine the yield on the Bonds for purposes of Section 148 of the Code.

Simultaneously with or before delivery of the Bonds, the successful bidder for such Series of Bonds shall furnish to the State and Bond Counsel a certificate in form and substance acceptable to Bond Counsel:

(1) confirming the Initial Reoffering Prices,

(2) certifying that a *bona fide* offering of such Series of Bonds 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 Series of Bonds 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 Series of Bonds 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 Bonds of such Series of Bonds maturing in the years specified by the bidder.

The successful bidder for each Series of the Bonds must actually reoffer all of the Bonds of such Series 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, Piper Jaffray & Co.

The Bonds 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 the award of the Bonds, the successful bidder(s) must either participate in DTC or clear through or maintain a custodial relationship with an entity that participates in DTC.

The State will furnish to the successful bidder(s) of each Series of the Bonds one CD ROM transcript of proceedings; additional transcripts will be furnished at such successful bidder's cost.

If, prior to the delivery of the Bonds, the interest on a Series of the Bonds shall become 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(s), at its option, may be relieved of the obligation to purchase such Series of Bonds, or the State, at its option, may be relieved of the obligation to deliver such Series of Bonds.

CUSIP Numbers

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

The successful bidder for each Series of the Bonds is responsible for obtaining CUSIP numbers for the Bonds of such Series, and the CUSIP Global Services charge for the 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(s) and have delivered with the Bonds of each Series the legal opinion of Foster Pepper PLLC, Seattle, Washington, Bond Counsel, for each Series of the Bonds in substantially the forms included in the Preliminary Official Statement as Appendix C.

Continuing Disclosure

The State has entered into an undertaking for the benefit of the holders and beneficial owners of the Bonds to provide certain historical financial information and operating data to the Municipal Securities Rulemaking Board (the "MSRB") and to provide notice to the MSRB of certain events pursuant to the requirements of paragraph (b)(5)(i) of Securities and Exchange Commission ("SEC") Rule 15c2-12 (the "Rule"). See "CONTINUING DISCLOSURE UNDERTAKING" in the Preliminary Official Statement. Within the past five years, the State has complied in all material respects with all prior written undertakings under the Rule.

Closing Documents

As a condition to the obligations of the successful bidder(s) to accept delivery of and pay for the Bonds of each Series, the successful bidder(s) will be furnished the following, dated as of the date of closing:

(1) A certificate of the Deputy State Treasurer on behalf of the Committee certifying that to her knowledge and belief, and after reasonable investigation, and in reliance on the certificates from those individuals having substantive knowledge as to the subject matter contained therein, the Preliminary Official Statement relating to the Bonds did not as of its date, and the Official Statement relating to the Bonds did not as of its date or as of the date of closing, contain any untrue statement of a 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, and no event affecting the Bonds 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, no action, suit or proceeding 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 pending or threatened against the State which: (a) questions the existence of the State or title to office of any member of the State Finance Committee; (b) affects or seeks to prohibit, restrain or enjoin the issuance, sale or delivery of the Bonds, the collection of revenues pledged under the Bond Resolutions or the use of the Official Statement; (c) affects or questions the validity or enforceability of the Bonds or the Bond Resolutions or any other proceedings authorizing the issuance of the Bonds; (d) questions the tax-exempt status of the Bonds, or the completeness or accuracy of the Official Statement; or (e) questions the powers of the State to carry out the transactions contemplated by the Official Statement or the Bond Resolutions.

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 for each Series of the Bonds not later than seven business days after the Committee's acceptance of the

successful bidder's proposal, in sufficient quantities to permit the successful bidder(s) to comply with the Rule, at the State's expense.

The successful bidder(s) 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.

Each 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 Initial Reoffering Prices of the Bonds, necessary for completion of the final Official Statement;

(2) to disseminate to all members of the underwriting syndicate, if any, copies of the final Official Statement, including any amendments or supplements 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 Bonds to ultimate purchasers, including without limitation, the delivery of a final Official Statement to each investor who purchases Bonds.

Additional Information

Additional information relating to the Bonds may be obtained from the State's financial advisor, Piper Jaffray & Co., 1420 5th Avenue, Suite 4300; telephone: (206) 628-2882; telephone on date of sale: (206) 601-2249. 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 L. Evans
Deputy State Treasurer—Debt Management

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OFFICIAL STATEMENT

STATE OF WASHINGTON

$529,360,000*
VARIOUS PURPOSE GENERAL OBLIGATION REFUNDING BONDS, SERIES R-2016B

$143,645,000*
MOTOR VEHICLE FUEL TAX GENERAL OBLIGATION REFUNDING BONDS, SERIES R-2016C

INTRODUCTION

The purpose of this Official Statement, including the cover hereof and the appendices hereto, is to provide information in connection with the offering and sale by the State of Washington (the "State" or "Washington") of the above-captioned bonds (together, the "Bonds").

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, 2015, are included as Appendix D—"THE STATE'S 2015 AUDITED FINANCIAL STATEMENTS."

This Official Statement is not to be construed as a contract with the purchasers of the Bonds.

State Finance Committee

The State Legislature (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.

By the enactment of Chapter 18, Laws of 2010, 1st Spec. Sess., the Legislature amended RCW 39.42.030(2) to authorize the Committee to delegate to the 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.

* Preliminary, subject to change by the State.

DESCRIPTION OF THE BONDS

Authority and Purpose

The State of Washington Various Purpose General Obligation Refunding Bonds, Series R-2016B (the "Series R-2016B Bonds"), in the principal amount of $529,360,000,* are being issued pursuant to Chapters 39.42 and 39.53 RCW, and Resolution No. 1172 of the Committee and Resolution No. _____ of the Committee acting by and through the Treasurer (collectively, the "Series R-2016B Bond Resolution"), for the purpose of refunding certain various purpose general obligation bonds of the State for debt service savings and to pay the administrative costs of such refunding and the costs of issuance of the Series R-2016B Bonds.

The State of Washington Motor Vehicle Fuel Tax General Obligation Refunding Bonds, Series R-2016C (the "Series R-2016C Bonds"), in the principal amount of $143,645,000,* are being issued pursuant to Chapters 39.42 and 39.53 RCW, and Resolution No. 1172 of the Committee and Resolution No. ____ of the Committee acting by and through the Treasurer (collectively, the "Series R-2016C Bond Resolution"), for the purpose of refunding certain motor vehicle fuel tax general obligation bonds of the State for debt service savings and to pay the administrative costs of such refunding and the costs of issuance of the Series R-2016C Bonds.

Together, the Series R-2016B Bond Resolution and the Series R-2016C Bond Resolution are referred to as the "Bond Resolutions."

Based on market conditions, the State may refund none, some or all of the Refunded Bond Candidates. See "SOURCES AND USES OF FUNDS—Plan of Refunding."

Description of the Bonds

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

Interest on the Bonds is calculated on the basis of a 360-day year and 12 30-day months. Interest on the Bonds will be payable semiannually on each January 1 and July 1, beginning July 1, 2016, at the rates shown on pages i and ii.

Principal of the Bonds is payable on each July 1 in the years and amounts shown on pages i and ii.

When the Bonds are in book-entry form and held by DTC, payments of principal and interest on the Bonds will be made as provided in the operational arrangements of DTC as referenced in the Letter of Representations. See Appendix E—"DTC AND IT'S BOOK-ENTRY SYSTEM."

Pursuant to authority granted in Chapter 43.80 RCW, the Committee appoints one or more fiscal agents for the State with the authority to act as paying agent, transfer agent, authenticating agent, and bond registrar for all obligations issued by the State and its political subdivisions. The fiscal agent appointed by the Committee from time to time is herein referred to as the Fiscal Agent or the Bond Registrar. The Committee currently has a contract with U.S. Bank National Association to act as the Fiscal Agent for a term that began February 1, 2015, and continues to January 31, 2019. Under the terms of the current fiscal agency contract, U.S. Bank National Association will authenticate the Bonds for delivery to DTC and will remit payments received from the State as principal and interest to DTC. See "DESCRIPTION OF THE BONDS–Book-Entry Bonds."

Redemption Provisions

Optional Redemption. The State may redeem the Bonds maturing on or after July 1, 2026, as a whole or in part on any date on or after January 1, 2026 (with the maturities to be redeemed to be selected by the State and randomly within a maturity in such manner as the Bond Registrar shall determine), at par plus accrued interest to the date fixed for redemption.

The State may declare, depending on the final maturity of a Series or market conditions, that the Bonds will not be subject to optional redemption. The State will notify bidders as provided in the Official Notice of Sale before the sale of any such Series of Bonds if it so declares.

Mandatory Redemption. The State will redeem the Series R-2016B Term Bonds, if any, randomly in the manner determined by the Bond Registrar at par plus accrued interest on July 1 in the years 20__ through 20__, inclusive, in the amounts set forth on page i. The State will redeem the Series R-2016C Term Bonds, if any, ratably in the manner determined by the Bond Registrar at par plus accrued interest on July 1 in the years 20__ through 20__, inclusive, in the years and amounts set forth on page ii hereof.

If the State purchases in the open market or defeases Term Bonds of a Series of the Bonds, the par amount of the Term Bonds so purchased or defeased (irrespective of their actual purchase prices) will be credited against one or more scheduled mandatory redemption amounts for those Term Bonds, as determined by the State.

Partial Redemption. If less than all of the Bonds of a Series are to be redeemed at the option of the State, the State may select the maturity or maturities to be redeemed. If less than all of any maturity of the Bonds of a Series are to be redeemed, those Bonds or portions thereof to be redeemed are to be selected in a random method by the Bond Registrar or DTC, as applicable, in accordance with their respective standard procedures. Any Bond in the principal amount of greater than $5,000 may be partially redeemed in any integral multiple of $5,000.

Notice of Redemption; Conditional Notice of Optional Redemption. Notice of redemption shall be given by the Bond Registrar not less than 20 nor more than 60 days prior to the date fixed for redemption by first-class mail, postage prepaid, to the Registered Owners of the Bonds to be redeemed at the address appearing on the bond register maintained by the Bond Registrar; provided, however, so long as the Bonds are in book-entry only form, notice of redemption will be given in accordance with the operational arrangements then in effect at DTC. The State will not provide notice of redemption to any beneficial owners of the Bonds. In the case of an optional redemption, such redemption is to be conditioned on the receipt by the Bond Registrar of sufficient funds for such redemption. If the Bond Registrar does not receive funds sufficient to carry out an optional redemption, the redemption notice may be rescinded by further notice given to the Registered Owners of the affected Bonds. A notice of optional redemption may state that the State retains the right to rescind the redemption notice and the related optional redemption of Bonds by giving a notice of rescission to the affected Registered Owners at any time prior to the scheduled redemption date.

Purchase of Bonds

The State has reserved the right to purchase any of the Bonds at any time and at any price.

Defeasance

Each Bond Resolution provides that if money and/or "Government Obligations" (as defined in Chapter 39.53 RCW, as now in existence or hereafter amended) maturing at such time(s) and bearing such interest to be earned thereon (without any reinvestment thereof) as will provide a series of payments which shall be sufficient, together with any money initially deposited, to provide for the payment of the principal of and interest on all or a designated portion of a Series of the Bonds when due in accordance with their respective terms are set aside in a special fund (the "trust account") to effect such payment, and are pledged irrevocably in accordance with a refunding plan adopted by the State for the purpose of effecting such payment, then no further payments need be made into the appropriate bond fund for the payment of principal of and interest on such Series of Bonds, the Registered Owners thereof shall cease to be entitled to any lien, benefit or security of the respective Bond Resolution, except the right to receive payment

of the principal of and interest on such Bonds when due in accordance with their respective terms from the money and the principal and interest proceeds on the Government Obligations set aside in the trust account, and such Bonds shall no longer be deemed to be outstanding under the Bond Resolution.

Although as a matter of internal policy the State uses only direct obligations of the United States of America and obligations guaranteed by the United States of America in defeasance escrows, each Bond Resolution permits the use of any Government Obligations. The term "Government Obligations" has the meaning given in Chapter 39.53 RCW, as amended, currently: (1) direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America and bank certificates of deposit secured by such obligations; (2) bonds, debentures, notes, participation certificates, or other obligations issued by the Banks for Cooperatives, the Federal Intermediate Credit Bank, the Federal Home Loan Bank system, the Export-Import Bank of the United States, Federal Land Banks, or the Federal National Mortgage Association; (3) public housing bonds and project notes fully secured by contracts with the United States; and (4) obligations of financial institutions insured by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation, to the extent insured or to the extent guaranteed as permitted under any other provision of State law.

Book-Entry System

When issued, the Bonds 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 Bonds. Individual purchases will be made in book-entry form only through DTC, and purchasers will not receive physical certificates representing their interests in the Bonds purchased. For information about DTC and its book-entry system, see Appendix E—"DTC AND IT'S BOOK-ENTRY SYSTEM."

Termination of Book-Entry System

If DTC resigns as the securities depository and no substitute can be obtained, or if the State has determined that it is in the best interest of the beneficial owners of the Bonds that they be able to obtain bond certificates, the ownership of the Bonds may be transferred to any person as described in the Bond Resolutions and the Bonds no longer will be held in fully immobilized form. New bond certificates then will be issued in appropriate denominations and registered in the names of the beneficial owners. Thereafter, interest on the Bonds will be paid by check or draft mailed (or by wire transfer to a Registered Owner) at the addresses for such Registered Owners appearing on the Bond Register on the 15th day of the month preceding the interest payment date. Principal of the Bonds will be payable upon presentation and surrender of such Bonds by the Registered Owners to the Bond Registrar. See Appendix E—"DTC AND IT'S BOOK-ENTRY SYSTEM."

State and Bond Registrar Responsibilities

Neither the State nor the Bond Registrar will have any responsibility or any liability to the beneficial owners for any error, omission, action, or failure to act on the part of DTC or any Direct Participant or Indirect Participant of DTC with respect to the following: (1) proper recording of beneficial ownership interests of the Bonds 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 of and premium, if any, or interest on the Bonds; (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 Bonds.

SOURCES AND USES OF FUNDS

Sources and Uses

The following table shows the estimated sources and uses of proceeds to be received from the sale of the Bonds:

	R-2016B	R-2016C	Total[1]
Sources			
Par Amount of Bonds			
[Net] Original Issue Premium/Discount			
Total Sources[1]			
Uses			
Deposit to Escrow Funds			
Costs of Issuance[2]			
Underwriting Spread			
Total Uses[1]			

(1) Totals may not add due to rounding.
(2) Includes fees for services of the rating agencies, financial advisors, escrow agent, escrow verification, Bond Counsel and disclosure counsel, and other costs.

Plan of Refunding

Upon delivery of the Bonds, the State will enter into an Escrow Agreement with U.S. Bank National Association, as Escrow Agent. The Escrow Agreement will provide for the refunding of the various purpose general obligation bonds (the "Various Purpose Refunded Bonds") and for the refunding of the motor vehicle fuel tax general obligation bonds (the "Motor Vehicle Fuel Tax Refunded Bonds," and together with the Various Purpose Refunded Bonds, the "Refunded Bonds") shown in the tables set forth below. The refundings are being undertaken to achieve debt service savings. The Escrow Agreement creates irrevocable trust funds to be held by the Escrow Agent and to be applied solely to the payment of the applicable Refunded Bonds. The proceeds of the Bonds required to carry out the plan of refunding will be deposited with the Escrow Agent and held in cash and/or invested in Government Obligations that will mature and bear interest at rates sufficient to pay the principal of and accrued interest coming due on the respective redemption dates of the Refunded Bonds.

The money and Government Obligations and earnings thereon described above will be held solely for the benefit of the Registered Owners of the Refunded Bonds.

The mathematical accuracy of (1) the computations of the adequacy of the money and maturing principal amounts of and interest on the Government Obligations to be held by the Escrow Agent to pay principal of and interest on the Refunded Bonds as described above, and (2) the computations supporting the conclusion of Bond Counsel that the Bonds are not "arbitrage bonds" under Section 148 of the Code, will be verified by Causey, Demgen & Moore P.C., independent certified public accountants.

The following tables list the Refunded Bond Candidates. Issuance of the Bonds and the Refunded Bond Candidates to be refunded, if any, will be based on market conditions.

VARIOUS PURPOSE REFUNDED BOND CANDIDATES

Bonds	Maturity Dates	Interest Rates (%)	Par Amounts ($)	Call Dates	Call Price (%)	CUSIP Numbers
Various Purpose GO Bonds, Series 2007F, dated May 30, 2007						
Serial	07/01/2029	4.500	14,620,000	07/01/2017	100	93974BC75
Term	07/01/2032	4.500	48,515,000	07/01/2017	100	93974BC83
Subtotal			63,135,000			
Various Purpose GO Bonds, Series 2009C, dated January 22, 2009						
Serials	02/01/2020	5.000	9,070,000	02/01/2019	100	93974CDX5
	02/01/2021	5.000	9,520,000	02/01/2019	100	93974CDY3
	02/01/2022	5.000	10,020,000	02/01/2019	100	93974CDZ0
	02/01/2023	5.000	10,545,000	02/01/2019	100	93974CEA4
	02/01/2024	5.000	11,100,000	02/01/2019	100	93974CEB2
	02/01/2025	5.000	11,685,000	02/01/2019	100	93974CEC0
	02/01/2026	5.000	12,295,000	02/01/2019	100	93974CED8
	02/01/2027	5.000	12,945,000	02/01/2019	100	93974CEE6
	02/01/2028	5.000	13,625,000	02/01/2019	100	93974CEF3
	02/01/2029	5.000	14,340,000	02/01/2019	100	93974CEG1
	02/01/2030	5.000	15,090,000	02/01/2019	100	93974CEH9
	02/01/2031	5.000	15,885,000	02/01/2019	100	93974CEJ5
	02/01/2032	5.000	16,715,000	02/01/2019	100	93974CEK2
	02/01/2033	5.000	17,635,000	02/01/2019	100	93974CEL0
	02/01/2034	5.000	18,605,000	02/01/2019	100	93974CEM8
Subtotal			199,075,000			
Various Purpose GO Bonds, Series 2009E, dated April 21, 2009						
Serials	02/01/2020	5.000	14,875,000	02/01/2019	100	93974CGC8
	02/01/2021	5.000	15,620,000	02/01/2019	100	93974CGD6
	02/01/2022	5.000	16,400,000	02/01/2019	100	93974CGE4
	02/01/2023	5.000	17,220,000	02/01/2019	100	93974CGF1
	02/01/2024	5.000	18,075,000	02/01/2019	100	93974CGG9
	02/01/2025	5.000	18,985,000	02/01/2019	100	93974CGH7
	02/01/2026	5.000	19,935,000	02/01/2019	100	93974CGJ3
	02/01/2027	5.000	20,930,000	02/01/2019	100	93974CGK0
	02/01/2028	5.000	21,975,000	02/01/2019	100	93974CGL8
	02/01/2029	5.000	23,075,000	02/01/2019	100	93974CGM6
Term	02/01/2031	5.000	49,670,000	02/01/2019	100	93974CGP9
Term	02/01/2034	5.000	84,200,000	02/01/2019	100	93974CGS3
Subtotal			320,960,000			
Total			583,170,000			

MOTOR VEHICLE FUEL TAX REFUNDED BOND CANDIDATES

Bonds	Maturity Dates	Interest Rates (%)	Par Amounts ($)	Call Dates	Call Price (%)	CUSIP Numbers
Motor Vehicle Fuel Tax GO Bonds, Series 2009B, dated July 23, 2008						
Serials	07/01/2032	5.000	16,700,000	07/01/2018	100	93974CAZ3
	07/01/2033	5.000	17,555,000	07/01/2018	100	93974CBA7
Subtotal			34,255,000			

Bonds	Maturity Dates	Interest Rates (%)	Par Amounts ($)	Call Dates	Call Price (%)	CUSIP Numbers
Motor Vehicle Fuel Tax GO Bonds, Series 2009D, dated January 22, 2009						
Serials	02/01/2020	5.000	4,365,000	02/01/2019	100	93974CEZ9
	02/01/2021	5.000	4,585,000	02/01/2019	100	93974CFA3
	02/01/2022	5.000	4,825,000	02/01/2019	100	93974CFB1
	02/01/2023	5.000	5,080,000	02/01/2019	100	93974CFC9
	02/01/2024	5.000	5,345,000	02/01/2019	100	93974CFD7
	02/01/2025	5.000	5,625,000	02/01/2019	100	93974CFE5
	02/01/2026	5.000	5,920,000	02/01/2019	100	93974CFF2
	02/01/2027	5.000	6,230,000	02/01/2019	100	93974CFG0
	02/01/2028	5.000	6,560,000	02/01/2019	100	93974CFH8
	02/01/2029	5.000	6,905,000	02/01/2019	100	93974CFJ4
	02/01/2030	5.000	7,265,000	02/01/2019	100	93974CFK1
	02/01/2031	5.000	7,645,000	02/01/2019	100	93974CFL9
	02/01/2032	5.000	8,050,000	02/01/2019	100	93974CFM7
	02/01/2033	5.000	8,490,000	02/01/2019	100	93974CFN5
	02/01/2034	5.000	8,960,000	02/01/2019	100	93974CFP0
Subtotal			95,850,000			
Motor Vehicle Fuel Tax GO Bonds, Series 2009F, dated April 21, 2009						
Serials	02/01/2020	3.625	1,290,000	02/01/2019	100	93974CHD5
	02/01/2021	3.750	1,350,000	02/01/2019	100	93974CHE3
	02/01/2022	4.000	1,420,000	02/01/2019	100	93974CHF0
	02/01/2023	4.000	1,490,000	02/01/2019	100	93974CHG8
	02/01/2024	4.250	1,565,000	02/01/2019	100	93974CHH6
	02/01/2025	4.500	1,645,000	02/01/2019	100	93974CHJ2
	02/01/2026	4.500	1,730,000	02/01/2019	100	93974CHK9
	02/01/2027	5.000	1,810,000	02/01/2019	100	93974CHL7
	02/01/2028	4.750	1,900,000	02/01/2019	100	93974CHM5
	02/01/2029	4.750	2,000,000	02/01/2019	100	93974CHN3
	02/01/2030	4.800	2,095,000	02/01/2019	100	93974CHP8
Term	02/01/2034	5.000	9,495,000	02/01/2019	100	93974CHT0
Subtotal			27,790,000			
Total			157,895,000			

SECURITY FOR THE BONDS

Pledge of Full Faith and Credit

The Bonds are general obligations of the State and, as provided in the Constitution and in each Bond Resolution, the full faith, credit and taxing power of the State are pledged irrevocably to the payment of general obligation bonds, including the Bonds. The Constitution requires the Legislature to provide by appropriation for the payment of the principal of and interest on the State's general obligation bonds as they become due and provides that in any event, any court of record may compel such payment. See Appendix A—"GENERAL AND ECONOMIC INFORMATION—GENERAL FUND" for a discussion of general State revenues that may be applied to pay general obligation bonds.

There is no express provision in the Constitution or in State law on the priority of payment of debt service on State debt as compared to the payment of other State obligations. The constitutional mandate regarding payment of State debt, however, does require that the Legislature appropriate sufficient funds to pay State debt when due, and provides expressly for judicial enforcement of the State's payment obligation on that debt. No other provision of the

Constitution contains comparable language providing the courts with authority to compel payment of other State obligations.

Pledge of Excise Tax on Motor Vehicle and Special Fuels

The principal of and interest on the Series R-2016C Bonds are first payable from the proceeds of the State excise taxes on motor vehicle and special fuels imposed by Chapters 82.36 and 82.38 RCW and required to be deposited in the Motor Vehicle Fund. In the Series R-2016C Bond Resolution, the Committee on behalf of the State pledges to the payment of the Series R-2016C Bonds and the interest thereon the proceeds of such excise taxes and provides that the charge on such excise taxes for payment of Series R-2016C Bonds shall be equal to the charge on such excise taxes for the payment of the principal of and interest on any other general obligation bonds of the State to which motor vehicle and special fuel taxes are pledged on an equal basis. In the legislation authorizing the issuance of the Series R-2016C Bonds, the Legislature has agreed to continue to impose those excise taxes on motor vehicle and special fuels in amounts sufficient to pay, when due, the principal of and interest on all bonds issued under the authority of such legislation, including the Series R-2016C Bonds.

The Constitution provides that the excise taxes on motor vehicle and special fuels are to be used only for highway purposes. The Legislature has established a statutory plan for the distribution and expenditure for highway purposes of specified percentages of such excise taxes received in the Motor Vehicle Fund. The Legislature also has provided that nothing in those provisions may be construed to violate the terms and conditions of any bond issues authorized by statute and whose payment is by such statute pledged to be paid from such excise taxes. See Appendix A-"GENERAL AND ECONOMIC INFORMATION—TRANSPORTATION-RELATED REVENUES AND EXPENDITURES" for a description of the permitted uses and distributions of funds on deposit in the Motor Vehicle Fund.

Payment of Bonds

The Committee is required, on or before June 30 of each year, to certify to the Treasurer the amount required to pay principal of and interest on the Bonds in the next Fiscal Year. The Treasurer, subject to the applicable provisions of the various State statutes authorizing the Bonds, is required to withdraw from any general State revenues received in the State treasury (or from any available funds in the Motor Vehicle Fund, as applicable), and to deposit in the appropriate bond fund on or before each interest or principal and interest payment date such amounts as are required to pay debt service on the Bonds.

Additional Information

Under current law, the State is not authorized to file for bankruptcy. For additional information, see Appendix A—"GENERAL AND ECONOMIC INFORMATION—INDEBTEDNESS AND OTHER OBLIGATIONS" and Appendix B—"BONDS OUTSTANDING."

FUTURE SALES OF OBLIGATIONS

The State anticipates it will issue approximately $325 million of various purpose general obligation bonds and approximately $205 million of motor vehicle fuel tax general obligation bonds on February 16, 2016. The State currently anticipates that it will issue approximately $600 million various purpose general obligation bonds in the summer of 2016 and $130 million motor vehicle fuel tax general obligation bonds in the fall of 2016. In addition, when and if market conditions allow, additional refunding of outstanding bonds will be considered.

FINANCIAL STATEMENTS

Audited financial statements for the State for the Fiscal Year ended June 30, 2015, are included as Appendix D. These statements have been audited by the Auditor, an independent elected 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 2015 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 in February 2016. 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 2015, 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 Bonds, or in any manner challenging the validity of the Bonds, the security for the Bonds or the proceedings or authority pursuant to which they are to be sold and issued or the collection of revenues pledged for the payment of the Bonds.

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 budget 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 2015 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 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 of the Bonds by the State are subject to the approving legal opinion of Foster Pepper PLLC, Bond Counsel to the State. The proposed forms of the opinions of such firm with respect to each Series of the Bonds are attached hereto as Appendix C. The opinions of Bond Counsel are given based on factual representations made to Bond Counsel and under existing law, as of the date of initial delivery of the Bonds, and Bond Counsel assumes no obligation to revise or supplement its 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 Bond Counsel are an expression of its professional judgment on the matters expressly addressed in its opinions and do not constitute a guarantee of result. Bond Counsel will be compensated only upon the issuance and sale of the Bonds.

TAX MATTERS

Exclusion From Gross Income. In the opinion of Bond Counsel, under existing federal law and assuming compliance with applicable requirements of the Code that must be satisfied subsequent to the issue date of the Bonds, interest on the Bonds is excluded from gross income for federal income tax purposes.

Continuing Requirements. The State is required to comply with certain requirements of the Code after the date of issuance of the Bonds in order to maintain the exclusion of the interest on the Bonds from gross income for federal income tax purposes, including, without limitation, requirements concerning the qualified use of Bond proceeds and the facilities financed or refinanced with Bond proceeds, limitations on investing gross proceeds of the Bonds in higher yielding investments in certain circumstances, and the requirement to comply with the arbitrage rebate requirement to the extent applicable to the Bonds. The State has covenanted in the Bond Resolutions for the Bonds to comply with those requirements, but if the State fails to comply with those requirements, interest on the Bonds could become taxable retroactive to the date of issuance of the Bonds. Bond 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 Bonds is not an item of tax preference for purposes of the alternative minimum tax applicable to corporations, under Section 55 of the Code, tax-exempt interest, including interest on the Bonds, received by corporations is taken into account in the computation of adjusted current earnings for purposes of the alternative minimum tax applicable to corporations (as defined for federal income tax purposes). Under the Code, alternative minimum taxable income of a corporation will be increased by 75 percent of the excess of the corporation's adjusted current earnings (including any tax-exempt interest) over the corporation's alternative minimum taxable income determined without regard to such increase. A corporation's alternative minimum taxable income, so computed, that is in excess of an exemption of $40,000, which exemption will be reduced (but not below zero) by 25 percent of the amount by which the corporation's alternative minimum taxable income exceeds $150,000, is then subject to a 20 percent minimum tax.

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

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

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

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 Bonds, 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. Bond Counsel cannot predict whether the IRS would commence an audit of the Bonds. Depending on all the facts and circumstances and the type of audit involved, it is possible that commencement of an audit of the Bonds could adversely affect the market value and liquidity of the Bonds until the audit is concluded, regardless of its ultimate outcome.

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

The State is a governmental unit that, together with all subordinate entities, has issued more than $10,000,000 of tax-exempt obligations during the current calendar year and has not designated the Bonds as "qualified tax-exempt obligations" for purposes of the 80 percent financial institution interest expense deduction. Therefore, no interest expense of a financial institution allocable to the Bonds is deductible for federal income tax purposes.

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

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

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

Potential Future Federal Tax Law Changes. From time to time, there are legislative proposals in Congress which, if enacted, could require changes in the description of federal tax matters relating to the Bonds set forth above or adversely affect the market value of the Bonds. It cannot be predicted whether future legislation may be proposed or enacted that would affect the federal tax treatment of interest received on the Bonds. Prospective purchasers of the Bonds should consult with their own tax advisors regarding any proposed or pending legislation that would change the federal tax treatment of interest on the Bonds.

CONTINUING DISCLOSURE UNDERTAKING

In accordance with paragraph (b)(5) of Securities and Exchange Commission (the "SEC") Rule 15c2-12 promulgated under the Securities Exchange Act of 1934, as amended (the "Rule"), the State has entered into a written undertaking to provide continuing disclosure for the benefit of the holders and beneficial owners of the Bonds (the "Undertaking").

Annual Disclosure Report. The State covenants and agrees that not later than seven months after the end of each Fiscal Year (the "Submission Date"), beginning for the Fiscal Year ended June 30, 2016, 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"), which will consist of the following:

(1) audited financial statements of the State prepared in accordance with generally accepted accounting principles as promulgated by the Governmental Accounting Standards Board (except as noted in the financial statements), 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.

The State regularly updates Appendix A, which may involve adding additional financial and operating data, displaying data in a different format, or eliminating data that are no longer material.

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 clearly identify each document so included by reference. The MSRB makes 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 Bonds (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 Bonds; (7) modifications to rights of owners of the Bonds, if material; (8) Bond calls (other than scheduled sinking fund redemptions for which notice is given pursuant to Exchange Act Release 34-23856), if material, and tender offers; (9) defeasances; (10) release, substitution or sale of property securing the repayment of any Bonds, 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 Bonds. The Undertaking, or any provision thereof, shall 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 Bonds; 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 Bond 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 to enforce the provisions of the Undertaking will be limited to a right to obtain specific enforcement of the State's obligations thereunder, and any failure by the State to comply with the provisions of the Undertaking will not be a default with respect to the Bonds.

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. Within the past five years, the State has complied in all material respects with all prior written undertakings under the Rule.

BOND RATINGS

Fitch Ratings, Moody's Investors Service Inc. and Standard & Poor's Ratings Services, a business unit within Standard & Poor's Financial Services LLC, have assigned ratings on the Bonds of AA+, Aa1 and AA+, respectively. The State furnished certain information and materials to the rating agencies regarding the Bonds and the State. Generally, rating agencies base their ratings on the information and materials furnished to them and on their own investigations, studies and assumptions. Such ratings will reflect only the respective views of such rating agencies and are not a recommendation to buy, sell or hold the Bonds. An explanation of the significance of such ratings may be obtained from any of the rating agencies furnishing the same.

There is no assurance that such ratings will be maintained for any given period of time or that they may not be raised, lowered, suspended, or withdrawn entirely by the rating agencies, or any of them, if in their or its judgment, circumstances warrant. Any such downward change in or suspension or withdrawal of such ratings may have an

adverse effect on the market price of the Bonds. The State undertakes no responsibility to oppose any such change or withdrawal.

FINANCIAL ADVISORS

Piper Jaffray & Co., Seattle-Northwest Division and Montague DeRose and Associates, LLC have served as financial advisors to the State relative to the preparation of the Bonds for sale and other matters relating to the Bonds. The financial advisors have not audited, authenticated or otherwise verified the information set forth in this Official Statement or other information relative to the Bonds. The financial advisors make no guaranty, warranty or other representation on any matter related to the information contained in this Official Statement. The financial advisors' compensation is not contingent upon the successful delivery of the Bonds.

UNDERWRITING

The Series R-2016B Bonds are being purchased by _____ at a price of $_____, and will be reoffered at a price of $_____, as reflected by the prices and yields set forth on page i of this Official Statement.

The Series R-2016C Bonds are being purchased by _____ at a price of $_____, and will be reoffered at a price of $_____, as reflected by the prices and yields set forth on page ii of this Official Statement.

The Underwriters may offer and sell the Bonds to certain dealers (including dealers depositing Bonds into investment trusts) and others at prices lower than the initial offering prices set forth on pages i and ii, and such initial offering prices may be changed from time to time by the Underwriters. After the initial public offering, the public offering prices may be varied from time to time.

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:_____

State Treasurer and Chairman,
State Finance Committee

51490658.5

APPENDIX A

GENERAL AND ECONOMIC INFORMATION

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TABLE OF CONTENTS

Page

INTRODUCTION 1
- State Overview 1
- State Government 1
- State Finance Committee 2

BUDGETING AND ACCOUNTING 2
- Budget and Appropriation Process 2
- Economic and Revenue Forecasting 3
- Fiscal Monitoring and Controls 4
- Accounting and Auditing 4

GENERAL FUND 5
- General Fund Revenue 5
- General Fund Expenditures 7
- Expenditure Limitations 11
- Budget Stabilization Account 11
- Cash Management and Liquidity 11
- Economic and Revenue Forecast 11
- Caseload Forecast 13
- State Budget Outlook 13
- General Fund-State Operating Budget 13
- Capital Budget 20

TRANSPORTATION-RELATED REVENUES AND EXPENDITURES 20
- Transportation Revenue 20
- Transportation Expenditures 22
- Transportation Revenues and Expenditures 24

INDEBTEDNESS AND OTHER OBLIGATIONS 27
- Debt Issuance Policy 27
- Debt Affordability Study 27
- General Obligation Debt 27
- Certificates of Participation/Financing Contracts for State and Local Agencies 33
- Other Debt 35
- School Bond Guarantee Program 35
- Washington Guaranteed Education Tuition Program 36

INVESTMENTS 36
- Treasury and Treasurer's Trust Funds 37
- Local Government Investment Pool Funds 37

RISK MANAGEMENT 38
- Insurance 38
- Workers' Compensation Program 39
- Washington State Unemployment Insurance Trust Fund 39
- Seismic Activity and Other Natural Disasters 41

RETIREMENT SYSTEMS 41
- Retirement Plans 41
- Funding Policies 43
- Contribution Rates 44
- State Contributions 45
- Investments 47
- Funded Status 48
- Benefits; Legislation; Litigation 53
- Bankruptcy of Participating Local Government 53
- Federal Benefits 53
- Other Post-Employment Benefits 54

LITIGATION 56
- Programs and Services 57
- Taxes 58
- Employment 58
- Other 59

DEMOGRAPHIC AND ECONOMIC INFORMATION 59
- Business in Washington 59
- Trade 60
- Aerospace 60
- Forest Products 61
- Agriculture and Food Processing 61
- Information and Communications Technology 61
- Global Health and Biotechnology 61
- Services/Tourism 61
- Military 61
- Construction 62
- Other Employment Information 63
- Income Characteristics 65

INDEX OF TABLES

Page

Table 1 State and Local Retail Sales and Use Tax Rates 5
Table 2 Summary of Economic Factors 12
Table 3 2015-17 General Fund-State, Education Legacy Trust, and Opportunity Pathways Accounts Adjustments November 2012 through November 2015 16
Table 4 Revenues and Resources General Fund, Education Legacy Trust Account and Opportunity Pathways Accounts 18
Table 5 Expenditures and Ending Fund Balance General Fund, Education Legacy Trust Account and Opportunity Pathways Account 19
Table 6 Capital Budgets 20
Table 7 Motor Vehicle Fuel Tax Rate History 21
Table 8 Transportation Revenues and Resources 25
Table 9 Transportation Expenditures and Ending Fund Balance 26
Table 10 Total Bond Debt Service Requirements by Pledge of Revenues 30
Table 11 History of Outstanding Bonds and Debt Service 31
Table 12 History of Outstanding Bonds Net of Reimbursed Debt 32
Table 13 Payments of Certificates of Participation for State and Local Agencies 34
Table 14 Payments Under Lease Revenue Bonds 35
Table 15 Treasury and Treasurer's Trust Funds Average Daily Balances by Security Class 37
Table 16 Local Government Investment Pool Funds Average Daily Balances by Security Class 38
Table 17 Average Combined Unemployment Tax Rates and Unemployment Compensation Fund Balances 40
Table 18 Overview of Retirement Plans 42
Table 19 Contribution Rates 45
Table 20 State's Contributions to Retirement Plans for State Employees 46
Table 21 Estimated State and Local Government Employer Contribution Ratios by Funding Source 47
Table 22 Historical Investment Returns on Retirement Funds 47
Table 23 Actuarial Value and Market Value of Defined Benefit Plans 48
Table 24 Funded Status on an Actuarial Value Basis 49
Table 25 Schedule of Contributions for all Employers 51
Table 26 State's Share of Net Pension Liabilities/Assets and Expenses 52
Table 27 Membership in PEBB Plan 54
Table 28 State's Annual OPEB Cost and Net OPEB Obligation 56
Table 29 Gross Business Income by Industry Sector (NAICS) 59
Table 30 Twenty-Five Largest Employers in Washington 60
Table 31 Housing Units Authorized by Building Permits in Washington and United States 62
Table 32 Resident Civilian Labor Force and Employment in Washington State 63
Table 33 Composition of Employment by Industry Sector 64
Table 34 State of Washington Population 65
Table 35 Personal Income Comparisons Washington and United States 65

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 April 1, 2015, the State had an estimated population of 7,061,410. 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, Boeing Commercial Airplanes, Costco, Expedia, Expeditors International of Washington, Microsoft, 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, World Vision, U.S., PATH and the Fred Hutchinson Cancer Research Center. According to the U.S. Bureau of Economic Analysis, Washington ranked 14th among the states in the United States in terms of real gross domestic product ("GDP") in 2014.

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 and hops 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.

The State's ferry system, the largest ferry system in the United States and the second-largest ferry system in the world for the number of vehicles carried, is owned and operated by the Washington State Department of Transportation ("WSDOT") and has 10 routes that connect 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 (beginning the second Monday in January) of 105 days in odd-numbered years and 60 days 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 in the budget, 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 Debt*" 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–Expenditure Limitations" below and "INTRODUCTION—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 the most recent economic and revenue forecast 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 the Legislature must pass a four-year budget that leaves a positive ending fund balance in the General Fund and related funds. With certain exceptions, estimated appropriations necessary to maintain the continuing cost of existing programs and services may not exceed the projected available fiscal resources for the next ensuing biennium.

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 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; proceeds of State bonds have funded approximately one half of 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. Forecasts of transportation revenues are prepared by the State's Transportation Revenue Forecast Council, and the State entitlement caseload forecasts are prepared by the State's Caseload Forecast Council. 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–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 through the next biennium. 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–State 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 and reverts to the fund of origin at the end of the fiscal period. 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 State Auditor's Office audits the State-wide combined financial statements for each Fiscal Year. The Auditor is an elected official. See Appendix D–"THE STATE'S 2015 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 excise taxes on motor vehicle and special fuels and then from the General Fund. Certain tax revenues are deposited into the Education Legacy Trust Account and Opportunity Pathways Account, and used for K-12 and higher education purposes. As described below and in Appendix D–"THE STATE'S 2015 AUDITED FINANCIAL STATEMENTS," the State also maintains a number of other funds and several hundred accounts.

General Fund Revenue

Most of the General Fund-State 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-State revenue. See "General Fund-State Operating Budget" and Table 4.

General Fund-State 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 Fund-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 Debt*" and "INDEBTEDNESS AND OTHER OBLIGATIONS–General Obligation Debt."

According to a 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 any limitations with respect to legislation that raises fees.

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 3.1	0.5 to 3.1

Source: Department of Revenue.

In November 2015, the voters approved an initiative that reduces the State's sales tax rate from 6.5 percent to 5.5 percent effective April 15, 2016, unless the Legislature refers to voters a constitutional amendment requiring

two-thirds legislative approval or voter approval to raise taxes and a majority legislative approval for fee increases. OFM has estimated that if the Legislature does not refer to the ballot a constitutional amendment, the initiative would decrease State revenues by an estimated $163.2 million in the 1.5 months of collections in Fiscal Year 2016 and by $1.43 billion in Fiscal Year 2017, the first full year of collection. A lawsuit was filed in November 2015 in King County Superior Court challenging the constitutionality of the initiative.

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 0.13 percent to 1.63 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 a total amount equal to 7.7 percent into three designated accounts. The balance is deposited to the General Fund. 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 all real property and tangible personal property located within the State, unless specifically exempted. Real property includes land, structures and certain equipment affixed to the structure. Taxable personal property includes machinery, equipment and supplies owned by businesses. Inventories are exempt from property tax. Most personal property owned by individuals is exempt from property taxation.

The assessed value of most property is determined by the county assessor. The State constitution requires the uniform assessment of property. The assessment standard is fair market value of the property according to its highest and best use (agricultural, open space, and timber land are eligible for valuation based on current use). For the purpose of allocating the State property tax across the counties, the county determined assessed value is equalized to 100 percent of market value as determined by the State Department of Revenue.

The State constitution limits the aggregate of all State and local taxing district property taxes to one percent of the true and fair value of the property ($10 per $1,000 of value). The limit does not apply to taxes necessary to prevent the impairment of a contract when ordered to do so by a court of last resort. Taxes imposed within the limit are called regular taxes and, generally, do not require voter approval. By statute, the State is allocated a rate of $3.60 per $1,000 of value. Local taxing districts are allocated the remainder of the limit. If tax rates cause the limit to be exceeded then certain local district rates are reduced as necessary to satisfy the limit. Local taxing districts may impose property taxes in excess of this limit for operating and capital purposes. These excess property taxes are subject to voter approval.

Growth in the amount of the State property tax is limited to the lesser of 101 percent, or 100 percent plus inflation of the highest property tax imposed in the three most recent years, plus an additional amount resulting from new construction and improvements to property in the preceding year. The average annual State property tax growth rate over the past 10 years has been 2.5 percent. When growth in assessed value exceeds the growth allowed by this limit the district's tax rate is reduced. Due to significant increases in property values since 1980, the State property tax rate declined from its $3.60 maximum rate to $2.14 per $1,000 of market value in calendar year 2015. For each individual local property taxing district, the annual growth in the amount of its regular property tax is subject to a similar limit.

By statute, the State's property tax is 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. A recent initiative legalizing marijuana approved a 37 percent excise tax on the retail sale of marijuana.

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 Year 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 Fund-State revenue. See "General Fund Expenditures–*Payment of General Obligation Debt*," "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 Fund-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 and Cannabis 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.

K-12 Education. The State constitution provides that "It is the paramount duty of the state to make ample provision for the education of all children residing within its borders" and "The legislature shall provide for a general and uniform system of public schools." As shown in Table 5, a significant portion of the General Fund budget supports public schools.

In 2007, a coalition of parents, students, school districts, teachers' unions and other nonprofit organizations filed a lawsuit, *McCleary v. State of Washington*, challenging the State's approach to funding local school districts. In 2012, the Supreme Court found that the State was not making ample provision for the basic education of Washington's K-12 public school students. The 2013-15 Biennium Budget adopted in June 2013 funded approximately $1 billion in reforms for K-12 public education. In January 2014, the Supreme Court issued an order that although meaningful steps were taken in the 2013-15 Biennium Budget, the State was not yet on target to meet its funding requirements by the 2017-18 school year and ordered the Legislature to submit a plan for implementing its school funding program for each year between now and the 2017-18 school year.

An April 29, 2014 report to the Supreme Court issued by a Joint Select Committee of the Legislature described legislative increases in funding provided in the 2013-15 Biennium and outlined statutorily enacted funding increases for the 2015-17 and 2017-19 Biennia for K-12 materials, supplies, and operating costs ("MSOC"), all-day kindergarten, and funding to reduce class sizes in grades K-3. Following its consideration of the Legislature's report and the plaintiffs' response, and finding that the Legislature did not comply with the Supreme Court's January 9, 2014 order to provide a complete plan and phase-in schedule for fully funding the basic education program, the Supreme Court on June 12, 2014, ordered the State to address why it should not be held in contempt and, if found in contempt, to address why certain relief requested by the plaintiffs should not be granted. A show cause hearing before the Supreme Court was held on September 3, 2014. On September 11, 2014, the Supreme Court issued an order finding the State in contempt for failing to submit a complete plan for fully implementing its program, but held in abeyance sanctions and other remedial measures to allow the Legislature the opportunity to comply with the order during the 2015 legislative session. As described under "General Fund—State Operating Budget—*2015-17*

Biennium Budget," the adopted 2015-2017 Biennium Budget funds an additional $2.9 billion in K-12 expenditures over the 2013-15 Biennium Budget. The increase includes $1.3 billion in enhancements to the State's program of basic education and $618 million in State-funded compensation increases. It also continues full funding for costs of prior basic education enhancements into the 2015-17 Biennium, provides inflationary increases, and funding for additional enrollment and other investments. See also the discussion of the *McCleary* case in "LITIGATION" for a description of the Supreme Court's orders regarding funding K-12 education.

School districts in the State do not have authority to collect regular, ongoing property taxes, but they do have authority to seek voter approval for excess property taxes to fund certain specified purposes, including general fund maintenance and operations levies. The Supreme Court has ruled that the Legislature's duty to make ample provision for funding basic education programs includes the requirement that funding be accomplished by means of dependable and regular tax sources and that relying on local excess levies is neither dependable nor regular. In the 2015 session, the Legislature did not reach consensus on legislation for further basic education reforms related to school staff compensation. The State could be required to increase State salary allocations to pay for some school district employee compensation costs that are currently funded from school district local levies.

In July 2015, the Joint Select Committee issued its fourth report to the Supreme Court, which states that the enacted 2015-17 Biennium Budget fulfills the funding commitments adopted in 2009 and 2010 legislation, including (1) fully funding the enhanced statutory formula for materials, supplies, and operating costs in the 2015-16 school year, (2) funding full implementation of all-day kindergarten in the 2016-17 school year, one year ahead of the statutory schedule, (3) making progress toward funding K-3 class size reductions with the remaining increment to be funded in the next biennial budget, (4) adding funding to other education programs, and (5) establishing a new school construction grant program to provide State assistance to construct classrooms for the implementation of K-3 class size reduction and all-day kindergarten. The report also acknowledges several bills that did not pass that, among other things, addressed reducing local school district reliance on local levies.

On August 13, 2015, the Supreme Court issued an order pursuant to its previous finding that held the State in contempt for failing to explain how it plans to fully fund all elements of basic education by 2018. In its order, the Supreme Court fined the State $100,000 per day until it adopts a complete compliance plan, payable into a segregated account for the benefit of basic education. OFM has been accounting for this fine. The order recognizes that the 2015-17 Biennium Budget makes significant progress in the areas of pupil transportation, establishing all-day kindergarten, and other per-student expenditure goals. The order, however, also notes that the State did not indicate how the Legislature intends to pay for facilities needed for all-day kindergarten and smaller class sizes, and to fund the actual cost of recruiting and retaining competent teachers, administrators, and staff needed to deliver a quality education. Another report to the Supreme Court will be due following the 2016 legislative session.

The plaintiffs in McCleary have suggested various actions the Supreme Court could take: (1) impose monetary or other contempt sanctions against the Legislature, (2) prohibit expenditures on certain other matters until the court's ruling is complied with, (3) order the Legislature to pass legislation to fund specific amounts or remedies, (4) prohibit the State from limiting an education program to less than all eligible students in a given grade, (5) order the sale of State property to fund constitutional compliance, (6) invalidate education funding cuts to the budget, and (7) prohibit any funding of an unconstitutional education system. The State has opposed these sanctions on the basis that they are unconstitutional and outside the Supreme Court's authority, beyond the scope of the case and therefore not properly available to the Supreme Court, or harmful and unlikely to promote legislative progress. The Supreme Court has not indicated its view as to any of the proposed sanctions, and the State cannot predict the Legislature's next steps or the Supreme Court's response. The Governor's proposed 2015-17 supplemental budget proposes modest increases in education funding. See "General Fund-State Operating Budget—Governor's Supplemental 2015-17 Budget." Legislators who participated in an informal work group established by the Governor have introduced bipartisan legislation to establish an education funding task force to review data and make recommendations to the Legislature prior to the 2017 legislative session.

State voters have also acted to increase school expenditures by passing I-732 to provide automatic cost of living adjustments for teachers and other school employees 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 again suspended I-732 through the end of the 2013-15 Biennium. The 2015-17 Biennium Budget fully funds the I-732 cost of living increases for teachers and other education employees, with small increases above

inflation. State funding will provide for a 3.0 percent salary increase in the 2015-16 school year and an additional 1.8 percent increase in the 2016-17 school year.

In November 2014, the voters approved I-1351, which directs the Legislature to allocate funds to reduce class sizes and increase staffing support for students in all K-12 grades over a four-year period, with additional class-size reductions and staffing increases in high-poverty schools. OFM projects that the fiscal impact of I-1351 would be an increase of State expenditures of $2 billion for the 2015-17 Biennium and $4.7 billion through 2019, based on changes in the statutory funding formulas for K-12 class sizes and staffing levels, and through increases in State levy equalization payments directed by current law. This estimate does not include costs of new facilities that may be necessary to accommodate smaller class sizes. In the 2015 session, the Legislature, by the required super-majority vote, statutorily deferred implementation of I-1351 for four years. In the adopted budget for the 2015-17 Biennium, the Legislature funded reduced class sizes in kindergarten through third grade only. See "General Fund—State Operating Budget—*2015-17 Biennium Budget*." See also "General Fund–State Operating Budget," and "BALLOT MEASURES–Initiatives" in the front portion of the Official Statement.

Higher Education. State-supported higher education institutions include two research universities, four regional universities, and 34 community and technical colleges servicing more than 245,000 full-time equivalent students for the 2014-15 academic year. The Legislature makes appropriations from the General Fund to support a portion of the core academic funds delivered by these institutions, including the cost of instruction, financial aid, State-sponsored research, and public service activities. In addition, the Legislature may authorize appropriations from the capital budget for instructional and research facilities at higher education institutions. The State Board of Community and Technical Colleges receives the appropriation and administers the budget for all community and technical colleges. The amount of the appropriations for higher education is not formulaic or determined by case loads. Unlike K-12 education, the Washington constitution and statutes do not require a level of State support of higher education. The two primary sources of funding at public institutions for the cost of instruction are tuition and State support.

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 "Washington 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. Apple Health provides health care coverage for more than 1.8 million Washington residents, including low-income seniors, pregnant women, persons with disabilities, and 50 percent of all children. Apple Health covers more than 534,000 newly eligible adult clients as a result of the Medicaid expansion, which raised Medicaid's income eligibility ceiling to 138 percent of the federal poverty level.

Although the Apple Health budget has grown significantly as a result of the Affordable Care Act, the State's cost of covering the expanded population is minimal because the federal government covers 100 percent of that expense through 2016. This influx of federal funding is estimated to have saved the State budget more than $300 million in the 2013-15 Biennium. Between 2017 and 2019, the State will gradually pick up a percentage of this cost, and in 2020 and beyond, the State will incur 10 percent of the costs. Over 2.1 million Washington residents receive their coverage through Medicaid and the Public Employee Benefits program, which is one-third of the State's non-Medicare population.

State law also directs the Health Care Authority 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. The Health Care Authority is the recent recipient of a four-year, $65 million grant under the State Innovation Models program to help implement the State's Healthier Washington initiative. As part of this initiative, the Public Employee Benefits program will offer a new plan option in 2016 to State employees under its Accountable Care Program, promising higher quality and lower costs to the beneficiary and the State. Also in 2016, Medicaid will implement fully integrated managed care for physical and behavioral health services in southwest Washington, which is to be implemented across the State by 2020.

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 (the "Exchange"), which began as a project within the Health Care Authority, is its own entity in a "public-private partnership" that is separate from the State, but works closely with several State agencies. The Exchange enrolls Apple Health applicants and subsidizes commercial insurance customers who qualify under income limits below 138 and 400 percent of the federal poverty level. As of September 2015, approximately 152,500 individuals had enrolled in qualified health plans through the Exchange. The third open enrollment period began on November 1, 2015 and is expected to run through January 31, 2016. Medicaid enrollments have no enrollment periods, and applicants can apply for and receive that coverage year-round.

Corrections. As of September 30, 2015, the Department of Corrections ("DOC") had 12 correctional institutions and 16 work release facilities and leased additional rental beds in-State. As of September 2015, the offender population was approximately 17,400 in the prison system; the prison confinement was 99.3 percent of operational capacity.

Employees and Employee Benefits. The State had 110,537 full-time equivalents ("FTEs") as of June 30, 2015 and 108,893 FTEs as of June 30, 2014. 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 pay for coverage beyond the State's contribution. The average monthly cost for the premiums was $1,052 in Fiscal Year 2015, with $910 paid by the State and $142 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 Debt. Statutes authorizing bonds and other general obligations of the State require the Treasurer to withdraw from "general State revenues" and deposit into the Bond Retirement Accounts the amounts required for payment of debt service. 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, some tuition fees charged by institutions of higher education are used to reimburse the General Fund for payment of debt service for a number of higher education construction bond issues. 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. Each November, the Expenditure Limit Committee adjusts the limit for the previous and current fiscal year, and projects a limit for the following two years. In November 2014, the committee projected the spending limit for the 2013-15 Biennium at $32.7 billion and for the 2015-17 Biennium at $35.4 billion.

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. 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.

Cash Management and Liquidity

As discussed under "INVESTMENTS—Treasury and Treasurer's Trust Funds," the Treasurer manages and invests State funds. Investments within the Treasury and Treasurer's Trust Funds are commingled for investment purposes. These funds historically have had sufficient liquidity to meet all cash flow demands.

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 18, 2015 (the "November 2015 Forecast"). The next forecast is expected to be released in February 2016. The forecasts are available on the Forecast Council's website (www.erfc.wa.gov).

November 2015 Forecast. The November 2015 Forecast was based on the IHS Global Insight Model of the U.S. Economy issued in November 2015, 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 2015 Forecast is similar to the September 2015 Forecast although with slightly weaker growth in personal income and employment. Downside uncertainty is attributable to a slowing global economy and U.S. GDP growth, the negative impact of the stronger dollar on exports, weaker manufacturing activity, and the impact of Federal Reserve actions.

The November 2015 Forecast increased General Fund Revenues for the 2015-17 Biennium by $113 million to $37.204 billion ($37.916 billion including the Education Legacy Trust Account and Opportunity Pathways Account), or 10.5 percent higher than the 2013-15 Biennium. Forecasted General Fund Revenues for the 2017-19 Biennium were increased by $29.6 million to $40.567 billion ($41.327 billion including the Education Legacy Trust Account and Opportunity Pathways Account), or 9.0 percent higher than the forecast for the 2015-17 Biennium.

The Washington economy continues to show solid growth, with employment rising in most sectors. Washington nonfarm employment grew 2.7 percent in October 2015 from a year earlier. Employment in construction grew by 7.0 percent over this period, followed by professional and business services at 4.2 percent, leisure and hospitability at 4.0 percent and retail trade at 3.8 percent. The State's seasonally adjusted unemployment rate was 5.2 percent in October 2015, unchanged from September 2015 and down from 6.3 percent in October 2014. The October 2015 seasonally adjusted unemployment rate in the Seattle metropolitan area declined to 3.8 percent from 4.6 percent in October 2014.

The most recent data show that Washington nominal personal income grew strongly at an annual rate of 8.3 percent in the second quarter of 2015 from the 5.8 percent pace in 2014. This high growth rate, however, was due to unusually strong stock option redemptions which are not expected to be repeated in the future. Personal income for all of 2015 is forecasted to grow at a 5.4 percent rate, slowing to 4.8 percent in 2016.

Washington exports reached an all-time high of $25.2 billion in the fourth quarter of 2014 and were 11.6 percent higher than in the fourth quarter of 2013. Exports, however, have slowed so far this year, down 5.8 percent in the third quarter of 2015 from a year ago, likely reflecting the impacts of a stronger dollar and a slowing Chinese economy. Data from January-October 2015 show that transportation equipment exports were up 6.5 percent and non-transportation exports declined 15.9 percent from the January-October 2014 period.

Both multi-family and single-family housing permits in the third quarter of 2015 exceeded forecasts and seasonally adjusted Seattle area home prices rose in September to 8.2 percent higher than the previous September or 4.7 percent below the May 2007 peak. Car and truck sales continue to trend upward, reaching a new post-recession high in October.

The following table summarizes some of the historical values and forecasts of the primary economic drivers upon which the November 2015 Forecast was based.

Table 2
Summary of Economic Factors
(% Annual Change, Calendar Year)

						Forecast	
	2010	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
Personal Income[(1)]	2.1	6.0	6.8	1.4	5.8	5.4	4.8
Nonfarm Payroll Employment	(0.9)	1.3	1.7	2.4	2.7	2.8	1.8
Housing Units[(2)]	21.6	0.8	34.8	17.2	2.8	21.1	(5.2)

(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 State Economic and Revenue Forecast: November 2015.

Alternative November 2015 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 the probability of risks on the downside exceed risks on the upside.

In the optimistic scenario, a pickup in total productivity growth and an increase in household formation, as well as stronger global growth, help the economy gain momentum. Residential construction picks up, equity markets recover, consumer spending grows, and labor market growth accelerates. In Washington, aerospace employment flattens out; software and construction employment growth is stronger; and the population grows.

In the pessimistic scenario, weak commodity prices and a slowing global economy trigger a sharp downturn in the U.S. stock market. As a result, consumer confidence declines and spending slows, housing starts weaken and demand waivers; businesses pull back on investment, and unemployment rises. In Washington, employment in aerospace declines faster than in the baseline; software and construction employment also decline. The softer labor market leads to slower growth in wages and personal income compared to the baseline.

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

State law requires the Forecast Council to oversee the preparation of and approve the state Budget Outlook. The Budget Outlook is prepared by a State Budget Outlook Work Group, consisting of staff from the Office of Financial Management, the legislative fiscal committees, the Caseload Forecast Council and the Economic and Revenue Forecast Council. The Budget Outlook and an overview of the methodology used to develop the outlook is available on the Forecast Council's website (www.erfc.wa.gov). See "General Fund–State Operating Budget."

November 2015 State Budget Outlook. In November 2015, the Work Group revised the Budget Outlook for the enacted budget adopted by the Forecast Council in July 2015. Revenues forecasts reflect the November 2015 Forecast of the Forecast Council. Projected fund transfers reflect those enacted in the 2015 legislative session. Projected expenditures reflect the continuing cost of existing programs and services called for in existing laws, taking into account revised caseload forecasts, revised per capita costs and other key assumptions. The November 2015 Budget Outlook projects an unrestricted ending balance in the General Fund, Education Legacy Trust Account and Opportunity Pathways Account of $359 million for the 2015-17 Biennium and negative $473 million for the 2017-19 Biennium. Major adjustments to projected expenditures include higher than expected rate and caseload increases for low-income health care ($197 million in the 2015-17 Biennium; $305 million in the 2017-19 Biennium), caseload and other cost increases in corrections and juvenile rehabilitation ($50 million in the 2015-17 Biennium; $55 million in the 2017-19 Biennium), and caseload, utilization and rate increases in mental health, long-term care and developmental disabilities ($36 million in the 2015-17 Biennium; $75 million in the 2017-19 Biennium).

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. During the 2009-11 Biennium, quarterly forecast updates of revenues declined while expenses increased due to the cost of providing certain services. 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. 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. 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 Budgets. The operating budget enacted in June 2013 for the 2013-15 Biennium was $33.5 billion in State general and related funds, including a total reserve of $632 million at the end of the biennium ($576 million of which is in the Budget Stabilization Account). 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.

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 included $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 added $119 million in new funding for higher education and assumed no tuition increases for the 2013-15 Biennium. The budget also made required contributions to the State's retirement systems and restored the 3.0 percent temporary pay reduction taken by all State employees for the 2011-13 Biennium.

Special Session and Supplemental 2013-15 Budgets. 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 to provide incentives to Boeing to assemble its new 777X jetliner in the State. Boeing subsequently announced that it will assemble the new 777X jetliner and build its new carbon fiber wing in the State.

In March 2014, the Legislature adopted a supplemental operating budget for the 2013-15 Biennium that made modest adjustments to the adopted 2013-15 Biennium budget, including increasing General Fund spending by $155 million. The supplemental budget included total expenditures of $32.731 billion and total resources of $32.869 billion (including the beginning fund balance), leaving a proposed General Fund-State fund balance of $316 million and Budget Stabilization Account balance of $582 million at the end of the 2013-15 Biennium.

In February 2015, the Legislature adopted an early supplemental operating budget to fund emergent costs for several agencies for the 2013-15 Biennium. In June 2015, the Legislature adopted the final supplemental budget that made modest adjustments to the adopted 2013-15 Biennium budget.

2015-17 Biennium Budget. The Legislature adopted an operating budget for the 2015-17 Biennium in June 2015 for the General Fund, the Education Legacy Trust and the Opportunity Pathways Account that includes expenditures of $38.082 billion and total resources (including the beginning fund balance of $910 million) of $38.425 billion. The

budget leaves total reserves of $1.237 billion, $343 million unrestricted fund balances and $894.1 million in the Budget Stabilization Account. The 2015-17 Biennium Budget represents a $4.4 billion increase from the 2013-15 Biennium Budget.

The K-12 budget is designed to fund legislative commitments to increase basic education funding and respond to the Supreme Court's orders in the McCleary case. The budget increases expenditures for K-12 education from the 2013-15 Biennium by $2.9 billion including funds to reduce class sizes for K-3 grades, implement full-day kindergarten statewide, and provide additional funding for school operating budgets, teacher compensation and basic education enhancements. See "GENERAL FUND—General Fund Expenditures—*K-12 Education*."

The budget increases expenditures for higher education by $293 million from the 2013-15 Biennium to expand financial aid, increase faculty and staff salaries, and to compensate colleges and universities for legislatively enacted tuition reductions. The budget includes an additional $134 million to expand early learning and related child care programs; an additional $98 million to expand mental health related programs; an additional $115 million for home care worker compensation, training and benefits; and an additional $173 million for modest pay raises of 3.0 percent effective July 1, 2015 and 1.8 percent effective July 1, 2016, for State employees.

The budget finances the increased expenditures with (1) the $3.17 billion forecasted increase in general State revenues from the 2013-15 Biennium, (2) forecasted net revenues of $216 million from increased taxes and the elimination of certain tax exemptions, (3) fund transfers to the General Fund of $178 million, (4) drawing down the beginning fund balance of $910 million, (5) assumed annual reversions (under-expenditures) of $86 million, and (6) shifting funding of approximately $46 million in expenditures from the General Fund to other funds.

Governor's Supplemental 2015-17 Budget. In December 2015, the Governor proposed a 2016 supplemental budget that proposes modest adjustments to the adopted budget primarily to pay for caseload increases, emergency responses to wildfires and mental health needs. The Governor noted that while the forecasted revenue for the current biennium has increased by approximately $245 million, the State's costs have grown by more than $700 million since June 2015. The Governor's proposed supplemental budget provides for total resources of $38.814 billion for the General Fund-State, Education Legacy Trust Account and Opportunity Pathways Account, total expenditures of $38.567 billion, and total reserves of $961.2 million, including $714.2 in the Budget Stabilization Account. In addition, the Governor proposed legislation to raise the minimum salary for beginning teachers, give all other teachers a 1.0 percent raise, and increase funding for teacher mentoring programs.

The following table summarizes the actions taken by the Legislature and other adjustments made to develop a budget for the 2015-17 Biennium.

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Table 3
2015-17 General Fund-State, Education Legacy Trust, and Opportunity Pathways Accounts Adjustments
November 2012 through November 2015
($ in millions)

	General Fund-State	Education Legacy Trust and Opportunity Pathways Accounts[2]	Total
Beginning Balance			
Unrestricted Funds	991	20	1,011
Budget Stabilization Account	513	-	513
Revenue			
November 2012 Forecast	35,355	479	35,834
March 2013 Forecast	(49)	(65)	(114)
June 2013 Forecast	51	78	129
September 2013 Forecast	342	145	487
November 2013 Forecast	(84)	(20)	(104)
February 2014 Forecast	82	10	92
June 2014 Forecast	238	8	246
September 2014 Forecast	143	(1)	142
November 2014 Forecast	247	31	278
February 2015 Forecast	124	11	135
June 2015 Forecast	309	17	326
September 2015 Forecast	140	4	144
November 2015 Forecast	113	(12)	101
Transfer to Budget Stabilization Account	(372)	-	(372)
Total Revenue	36,639	685	37,324
Other Resource Changes			
Enacted Revenue Transfers	178	-	178
Prior Period Adjustments	41	-	41
2015 Revenue Legislation	193	26	219
Total Other Resource Changes	412	26	438
Total Resources	38,042	731	38,773
Spending			
Enacted 2015-2017 Budget	37,507	711	38,218
Governor's Vetoes	-	-	-
Estimated Reversions[1]	(172)	-	(172)
Total Spending	37,335	711	38,046
Ending Balance and Reserves			
Unrestricted Ending Fund Balance	707	20	727
Budget Stabilization Account Ending Balance	891	-	891
Total Reserves	1,598	20	1,618

(1) Estimated spending authority that will not be used by the end of the biennium.
(2) Certain tax revenues are deposited into Education Legacy Trust Account and the Opportunity Pathways Account and used for K-12 and higher education purposes.
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 2011 through 2015 and forecasted expenditures for Fiscal Years 2016 and 2017. Table 4 is derived from the Forecast Council's forecast documents, which include forecasts of revenues through Fiscal Year 2017 (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 information in Tables 4 and 5 will not match the State's financial statements attached as Appendix D. The State budgets revenues on a cash basis and expenditures on a modified accrual basis. Revenues reported in the State's financial statement attached as Appendix D are on the modified accrual basis. Additionally, certain governmental activities are excluded from budgetary schedules because they are not appropriated. Examples include federal surplus food commodities, electronic food stamp benefits 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 Table 5 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
Revenues and Resources
General Fund, Education Legacy Trust Account and Opportunity Pathways Accounts
Fiscal Years ended June 30
(Cash Receipts) *($ in millions)*

	2011	2012	2013	2014	2015	Forecast 2016[6]	Forecast 2017[6]
Beginning Budget Stabilization Account Balance	95	1	130	270	415	513	695
Beginning General Fund Balance	(561)	(92)	(381)	168	373	991	1,008
General Fund State Revenues							
State Tax Revenues							
Retail Sales Tax	6,620	6,745	7,169	7,679	8,208	8,803	9,174
Business and Occupation Taxes	3,010	3,126	3,307	3,246	3,391	3,639	3,819
Use Taxes (General Fund portion)	534	480	518	558	585	625	638
Property Taxes	1,840	1,898	1,936	1,974	2,019	2,062	2,109
Real Estate Excise Taxes	373	399	535	616	741	770	722
Other Excise Taxes[1]	18	17	16	16	31	66	97
Other Taxes[2]	1,804	1,827	1,875	1,876	1,932	1,959	1,983
Subtotal State Tax Revenues	14,199	14,492	15,356	15,965	16,907	17,924	18,542
State Non-Tax Revenues							
Licenses, permits and other fees	87	99	105	128	137	139	142
Liquor profits and fees	117	49	141	124	82	72	85
Investment income	(12)	(10)	(10)	(3)	2	4	6
Lottery transfers	9	-	-	9	1	-	5
Other Non-Tax Revenue	248	244	191	160	155	144	144
Subtotal State Non-Tax Revenues	449	382	427	418	377	359	382
Adjustments and Transfers							
Enacted Transfers/Prior Period Adjustments	550	246	146	47	179	116	102
Adjustment to Working Capital	-	-	238	-	-	-	-
Transfers from Budget Stabilization Account	223	-	-	-	38	-	-
Transfers to Budget Stabilization Account[3]	(129)	(130)	(139)	(145)	(212)	(184)	(190)
Subtotal Adjustment and Transfers	644	116	245	(98)	5	(68)	(88)
Total General Fund-State Resources	14,731	14,898	15,647	16,453	17,662	19,206	19,844
General Fund-State Resources	14,731	14,898	15,647	16,453	17,662	19,206	19,844
General Fund-Federal Revenues[3][4]	7,975	7,114	7,037	8,556	10,059	11,013	11,988
General Fund-Private/Local Revenues[4]	250	273	260	254	214	256	329
Total General Fund Resources[4]	22,956	22,285	22,944	25,263	27,935	30,475	32,161
Total Education Legacy Trust and Opportunity Pathways Resources[5]	302	257	236	449	502	367	377
Total General Fund, Education Legacy Trust and Opportunity Pathways Resources	23,258	22,542	23,180	25,712	28,437	30,842	32,538

(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) Includes ARRA funding in 2011 of $1.9 billion.
(4) Federal revenues and private/local revenues are estimates.
(5) Certain tax revenues are deposited into the Education Legacy Trust Account and the Opportunity Pathways Account and used for K-12 and higher education purposes.
(6) Based on November 2015 Revenue Forecast and the 2015-17 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
Expenditures and Ending Fund Balance General Fund, Education Legacy Trust Account and Opportunity Pathways Account
Fiscal Years ended June 30 (Modified Accrual Basis) *($ in millions)*

	2011	2012	2013	2014	2015	Estimates 2016[6]	Estimates 2017[6]
General Fund							
Education							
Public School	6,334	6,789	6,735	7,220	7,668	8,700	9,275
Higher Education	1,355	1,185	1,164	1,342	1,328	1,504	1,600
Other Education	39	40	42	51	74	113	127
Total Education	7,728	8,014	7,941	8,613	9,070	10,317	11,002
Human Services							
Dept. Social and Health Services[1]	4,425	2,683	2,648	2,819	2,878	3,093	3,288
Health Care Authority	106	2,029	2,071	2,132	2,162	1,943	1,940
Dept. Corrections	792	812	788	839	856	918	940
Other Human Services[1]	127	147	143	104	107	106	106
Total Human Services	5,450	5,671	5,650	5,894	6,003	6,060	6,274
Natural Resources Recreation	160	138	161	137	133	154	155
Government Operations	212	204	216	266	231	260	250
Transportation	34	36	41	36	33	41	40
Transfers to Debt Service Funds[2]	907	941	1,203	856	976	1,085	1,148
Other Expenditures[3]	332	275	267	278	225	281	268
Total General Fund-State Expenditures	14,823	15,279	15,479	16,080	16,671	18,198	19,137
Expenditures from Federal Funds	7,975	7,114	7,037	8,556	10,059	11,013	11,988
Expenditures from Private/Local Funds[4]	250	273	260	254	214	256	329
Total General Fund Expenditures	23,048	22,666	22,776	24,890	26,944	29,467	31,454
Education Legacy Trust and Opportunity Pathways Accounts[5]							
Public School	68	25	1	153	246	91	91
Higher Education	163	175	208	218	197	210	212
Other Education	40	40	38	40	39	54	54
Total Education Legacy Trust and Opportunity Pathways Accounts	271	240	247	411	482	355	357
Total General Fund, Education Legacy Trust and Opportunity Pathways Expenditures	23,319	22,906	23,023	25,301	27,426	29,822	31,811
Total General Fund, Education Legacy Trust and Opportunity Pathways Revenues	23,258	22,542	23,180	25,712	28,437	30,842	32,538
Total General Fund, Education Legacy Trust and Opportunity Pathways Expenditures	(23,319)	(22,906)	(23,023)	(25,301)	(27,426)	(29,822)	(31,811)
Unrestricted General Fund Ending Balance	(92)	(381)	168	373	991	1,008	707
Education Legacy Trust and Opportunity Pathways Account Balance	31	17	(11)	38	20	12	20
Total General Fund, Education Legacy Trust, Opportunity Pathways Balance	(61)	(364)	157	411	1,011	1,020	727
Budget Stabilization Balance	1	130	270	415	513	695	894
Total General Fund, Education Legacy Trust, Opportunity Pathways and Budget Stabilization Ending Balance	(60)	(234)	427	826	1,524	1,715	1,621

(1) The Medical Assistance Program moved from DSHS to the Health Care Authority beginning in Fiscal Year 2012.
(2) Debt service payments net of reimbursements from non-General Fund-State revenues, such as tuition fees, admission taxes, parking taxes and certain King County sales and use taxes. See Table 11. Debt Service is transferred from the General Fund to debt service funds for payment.
(3) Includes legislative and judicial agencies and other special appropriations. Fiscal Years 2016 and 2017 also assume $86 million per year in State General Fund reversions.
(4) Includes spending from grants, contracts and other agreements from private/local sources.
(5) Certain tax revenues are deposited into the Education Legacy Trust Account and the Opportunity Pathways Account and used for K-12 and higher education purposes.
(6) Estimates based on the November 2015 Revenue Forecast and the 2015-17 enacted budget.
Totals may not add due to rounding.

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

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 2009-11, 2011-13, 2013-15 and 2015-17 Biennia.

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

	2009-2011 Enacted Budget	2011-13 Enacted Budget	2013-15 Enacted Budget	2015-17 Enacted Budget
Education				
Public Schools	1,190	1,080	950	1,245
Higher Education	1,305	897	888	1,037
Other Education	30	27	21	23
Total Education	2,525	2,004	1,859	2,305
Human Services				
Department of Social and Health Services	44	33	43	84
Other Human Services	259	263	220	178
Total Human Services	303	296	263	262
Natural Resources and Recreation	1,568	2,000	2,402	2,403
General Government	1,270	1,556	1,791	1,592
Transportation[(1)]	10	1	2	2
Total Capital Budget Expenditures	5,676	5,857	6,317	6,564

(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, 24 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 charged for gasoline are charged per gallon for diesel

and alternative fuels. In July 2015, the Legislature increased the excise tax on motor vehicle fuel to fund a list of transportation improvements referred to as Connecting Washington projects. The fuel tax increase will be phased in over two years with the first increase occurring on August 1, 2015 and the final increase on July 1, 2016.

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
8/1/2015	0.070	0.445
7/1/2016	0.049	0.494

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. 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 program and the imposition of the taxes dedicated to the Highway Trust Fund must be periodically reauthorized by Congress. Most recently in December 2015, the Fixing America's Surface Transportation ("FAST") Act extended highway-user taxes through September 30, 2022, with no change to the tax rates. The FAST Act transfers $51.9 billion into the Highway Account and $18.1 billion into the Mass Transit account to fund the full five years of program authorizations.

The sequestration of funds pursuant to the Balanced Budget and Emergency Deficit Control Act (BBEDCA) resulted in a loss of approximately $2.0 million in National Highway Performance Program Funds received by the State. The Build America Bonds (BABs) subsidy received by the State in calendar years 2013, 2014 and 2015 for certain motor vehicle fuel tax bonds was also reduced by approximately $5.3 million.

Tolls. Currently the State is collecting tolls on four facilities: the Tacoma Narrows Bridge, State Route ("SR") 167 High Occupancy Toll ("HOT") Lanes Pilot Project, I-405 Express Toll Lanes, and the SR 520 Corridor. The Legislature has extended the SR 167 HOT Lanes Pilot Project through June 2017. In September 2015 the State began express lane tolling on I-405 from Bellevue to Lynnwood. Toll rates on the Tacoma Narrows Bridge are fixed throughout the day, and tolls are collected only in the eastbound direction. Toll rates on the SR 520 Corridor are collected electronically and rates vary depending on the time of day. Express lane tolling for single occupant drivers in the carpool lanes of SR 167 and I-405 uses "dynamic" toll rates which are automatically adjusted based on traffic congestion. The Legislature designated the Alaskan Way Viaduct (the "Viaduct") as an "eligible toll facility," 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 10-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 2015, the Transportation Revenue Forecast Council projects that gross transportation revenues for the 2015-17 Biennium will total $5.71 billion, an increase of 22 percent from the prior biennium's total revenue of $4.67 billion. The next forecast is expected to be released in February 2016.

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 bond interest or principal 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 SR 520 toll revenue and excise taxes on motor vehicle and special fuels ("Triple Pledge Bonds"), (2) toll revenue bonds payable solely from SR 520

toll revenue, and (3) grant anticipation revenue vehicle ("GARVEE") bonds payable solely from Federal-Aid Highway Program funds. The State issued the first series of bonds for the SR 520 Corridor Program in October 2011, as Triple Pledge Bonds. Two series of GARVEE bonds for the SR 520 Corridor Program were issued in June 2012 and September 2013. The State also issued a Transportation Infrastructure Finance and Innovation Act Bond ("TIFIA Bond") in October 2012. The TIFIA Bond is a draw-down loan from the Federal Highway Administration payable solely from SR 520 toll revenues. As of January 2016, $195.199 million has been drawn on the TIFIA Bond. See "*The SR 520 Corridor Program*."

Transportation Capital Program. The State's transportation capital plan includes several mega-projects, including the SR 520 Corridor Program and the replacement of the Alaskan Way 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. Two 144-auto ferry vessels are being constructed. One will be placed in service mid-2017, the other in the 2017-19 Biennium. Federal funds made available under the American Recovery and Reinvestment Act of 2009 ("ARRA") Inter-City High-Speed Passenger Rail Program will finance capital improvements 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 SR 520 Corridor Program. The SR 520 floating bridge provides a major east-west link across Lake Washington. The corridor 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 for the Westside Project, which includes improvements at Portage Bay, Montlake Boulevard, and the connection with Interstate 5. The State issued $518.8 million Triple Pledge Bonds in October 2011, $500.4 million GARVEE bonds in June 2012, a $300 million TIFIA Bond in October 2012 and $285.9 million 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 not exceed $1.9 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 currently under construction. Construction is complete on all of the 77 pontoons needed for the new bridge. All 58 anchors for the Floating Bridge have been put in place on Lake Washington and crews are continuing to assemble the new floating bridge to the north of the existing bridge. The design and construction of the north half of the west approach bridge will use the design-bid-build delivery method. The contract was executed in August 2014. The new floating bridge is expected to open to drivers in April 2016. On September 15, 2014, the SR 520 program opened the new transit/HOV lanes on the Eastside to its final configuration.

Issues with spalling and end-wall cracking found in the first cycle of pontoons 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. In March 2014, WSDOT executed a $77.5 million change order with its floating bridge contractor to address time-related impacts of WSDOT-caused delay from late delivery of pontoons. As of April 2014, executed changes resulting from this error totaled nearly $208 million. Based on this issue, the execution of other project changes, and the need for an ongoing risk reserve, WSDOT determined that approximately $170 million in additional project funding is required. In April 2014, the Legislature authorized the additional funding for the SR 520 Floating Bridge and Eastside plus West Approach Bridge Project using existing State resources and previously authorized bonds.

In 2015, the Legislature funded the Westside Project, which includes the remaining components of the SR 520 Corridor Program as part of the Connecting Washington transportation revenue and bond package. Approximately

$1.64 billion was provided for the remaining SR 520 components, which will ultimately provide a new six-lane corridor from I-5 to the floating bridge, a new Portage Bay bridge, a complete West Approach Bridge, a reversible transit/HOV ramp to I-5, two neighborhood connecting lids, and other corridor improvements. Connecting Washington projects will be paid for with bond proceeds, increased vehicle related fees, and an increase in the State's motor fuel excise tax of 11.9 cents phased in over two years.

Annually, the State updates an investment-grade traffic and revenue study for the SR 520 Corridor Program, which forecasts 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, toll traffic has performed better than the updated forecasts from the 2012 and 2013 studies. Actual net toll revenues have been on target when compared to 2012 and 2013 forecasts.

The Alaskan Way Viaduct. The Viaduct was built in the 1950s and includes an elevated 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 $787 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 a large-diameter tunneling machine. Tunneling started in the summer of 2013. In December 2013, Seattle Tunnel Partners ("STP"), WSDOT's design-build contractor for the project, stopped tunneling approximately 1,000 feet into the tunnel drive after experiencing increased temperatures in the machine. While investigating the cause of the high temperatures, STP discovered damage to the machine's seal system and contamination within the main bearing. In December 2014, STP outlined a plan to repair the seal system and replace the main bearing, with the target to resume tunneling in the spring of 2015. On December 5, 2014, the project's settlement monitoring system detected approximately one inch of ground settlement near the pit area. On December 12, 2014, work was suspended to gather more survey data and to allow WSDOT to review STP's contingency plan for turning off the dewatering wells. Data showed the recently measured settlement had stabilized and work resumed on December 16, 2014. Tunneling resumed in December 2015 with the tunnel expected to open by April 2018. It is not known how damage to the tunneling machine will affect the project's budget. The responsibility for additional costs and delays associated with this work will be addressed in accordance with the SR 99 tunnel contract and may be subject to litigation. On October 9, 2015, WSDOT filed a complaint for damages and declaratory relief in King County Superior Court against STP.

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 and extended light rail to Vancouver, among other improvements. This project is no longer being pursued by Washington or Oregon.

Transportation Revenues and Expenditures

Table 8 summarizes transportation-related revenues and other funding for Fiscal Years 2010 through 2015 and forecasted transportation-related revenues and other funding for Fiscal Years 2016 and 2017. 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, assumed federal and local funds, and includes projections of the new revenues identified in the Connecting Washington transportation package. 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 2010 through 2015 and budgeted and projected expenditures for Fiscal Years 2016 and 2017. Expenditures reflected are for WSDOT programs only and do not include expenditures from accounts for agencies such as Department of Licensing and Washington State Patrol.

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

	2011	2012	2013	2014	2015	Forecast[5] 2016	Forecast[5] 2017
Beginning Balance	1,476	591	1,263	942	1,029	730	387
Gross Fuel Tax Collections	1,255	1,242	1,246	1,262	1,286	1,513	1,727
Refunds for Non-Highway Use	(62)	(81)	(66)	(67)	(71)	(92)	(98)
Adjusted Gross Fuel Tax Collections	1,193	1,161	1,180	1,195	1,216	1,420	1,630
WSDOT Portion of Licenses, Permits and Fees	294	302	336	338	371	379	517
Ferry Fares	147	155	161	167	176	181	185
Tacoma Narrows Bridge Tolls[1]	45	47	64	64	72	80	89
State Route 167 Hot Lane Tolls[1]	1	1	1	1	2	2	2
SR 520 Corridor Tolls[1]	-	33	68	68	77	80	91
Other Revenues and Adjustments[2]	123	83	84	131	107	113	106
Total State Sources[3]	1,804	1,782	1,895	1,964	2,021	2,256	2,620
Other Funding[4]							
Motor Vehicle Fuel Tax Bond Proceeds	48	568	633	600	240	381	269
Triple Pledge Bonds	-	566	-	-	-	-	112
GARVEE Bond Proceeds	-	602	-	324	-	-	-
TIFIA Bond	-	-	-	-	195	105	-
Federal Aid Highway Funds	-	-	18	31	39	100	100
Federal Stimulus Funds (ARRA)	129	37	36	-	-	-	-
Federal High Speed Rail Funds	2	3	27	103	144	181	181
Federal Highway Funds	385	555	625	614	407	476	476
Local Funds	54	25	40	12	135	93	93
Total Other Funding	618	2,355	1,379	1,683	1,150	1,337	1,232
Total Sources	3,898	4,727	4,537	4,590	4,200	4,323	4,239

(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 remaining Total State Sources includes 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 includes appropriated proceeds of bonds sold in each fiscal year and federal funds appropriated in the 2015 Enacted Transportation Budget.
(5) Based on November 2015 Transportation Revenue Forecast, which includes new revenues associated with gas tax increases and license, permits, and fees in the 2015 Connecting Washington Transportation Package.

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)

				2015 Enacted Supplemental Budget [2]		2015-17 Enacted Budget	
	2011	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
Distributions and Transfers							
Debt Service Transfers – Motor Fuel Tax[3]	409	416	481	525	548	586	615
Debt Service Transfers – Toll Revenue[3]	-	17	26	26	26	27	49
Debt Service Transfers – GO[3]	9	11	11	13	13	13	14
Debt Service Transfers – Federal Aid Highway Funds[4]	-	-	18	31	39	100	100
Fuel Tax Distribution to Cities and Counties[5]	238	231	235	240	242	257	259
Fuel Tax Distributions to Support Local Grant Programs[6]	130	126	128	130	132	133	134
Expenditures by Other Agencies[7]	47	57	57	53	53	84	84
Total Distributions and Transfers	833	858	957	1,018	1,053	1,200	1,255
WSDOT Operations							
Toll Maintenance and Operations	11	21	23	26	28	43	43
Highway Maintenance and Operations	214	211	219	223	235	242	242
Ferries Maintenance and Operations	225	231	227	237	236	242	242
Aviation, Public Transportation and Rail	82	65	74	64	80	117	117
Local Programs and Economic Partnerships	6	5	6	6	6	7	7
Operational Activities [8]	149	131	143	141	154	156	156
Compensation Adjustment	-	-	-	-	-	(22)	(22)
Operating Appropriations Placed in Unallotted Status	-	-	-	-	-	-	(10)
Total Operations	687	664	692	696	738	784	774
WSDOT Capital							
Highway Construction	1,553	1,809	1,703	1,566	1,354	1,526	1,526
Traffic Operations and Facilities	8	9	8	8	19	18	18
Ferry Capital Construction	158	83	151	135	124	152	152
Rail Program	35	22	55	129	164	198	198
Highways and Local Programs	33	18	29	19	18	57	57
Capital Appropriations (Unallotted/Unexpended)[9]	-	-	-	-	-	-	(283)
Total Capital	1,787	1,942	1,945	1,857	1,679	1,951	1,668
Total WSDOT Transportation Uses	3,307	3,464	3,594	3,571	3,470	3,936	3,698
Ending Fund Balance	591	1,263	942	1,019	730	349	474

(1) Revenue distributions are based on the November 2015 Transportation Revenue Forecast.
(2) Actual expenditure data provided for Fiscal Years 2011 through 2015.
(3) Funds are transferred to debt retirement 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 2013, 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) GARVEE bond debt service is reimbursed by the Federal Highway Administration's Federal-Aid Highway Program.
(5) Includes statutory transfers identified in new revenue legislation for cities and counties.
(6) Grant programs are administered to local users through the County Road Administration Board and the Transportation Improvement Board.
(7) Expenditures by Other Agencies include certain legislative committees and commissions, as well as certain executive branch agencies.
(8) Operational Activities include administrative services, facilities operations and maintenance, transportation planning, information technology, and insurance fees.
(9) Capital appropriations placed in unallotted status or bonds not expected to be issued or expended.

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

Annually, the Treasurer releases a 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.

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*."

Triple Pledge Bonds. 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. Additional Triple Pledge Bonds are expected to be issued for the SR 520 Corridor in 2016.

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 for which payments of principal and interest on the aggregate debt in any Fiscal Year would require the State to expend more than 8.5 percent of the arithmetic mean of "general State revenues" for the six 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) money received as gifts, grants, donations, aid, or assistance when the terms require the application of such money otherwise then for general purposes of the State; (3) retirement system money 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. In Fiscal Year 2016, the working limit begins to phase down, reaching 7.75 percent by Fiscal Year 2022. 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 16, 2016, will not exceed that amount for which payments of principal and interest in any Fiscal Year would require the State to expend more than 8.5 percent of the arithmetic mean of its "general State revenues" for the six immediately preceding Fiscal Years. The arithmetic mean of "general State revenues" for Fiscal Years 2010 through 2015 is $15,498,200,050. The debt service limitation, 8.5 percent of this mean, is $1,317,347,004. The State's maximum annual debt service expected as of February 16, 2016, on debt service subject to the constitutional debt limitation will be $1,138,414,503 (not including any refunding savings from the issuance of the Bonds), or $178,932,502 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 not issued certificates of indebtedness since 1983 and does not anticipate any short-term borrowing during the current biennium. See "GENERAL FUND—Cash Management and Liquidity" and "—Budget Stabilization Account."

Debt Service Requirements. 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	Issued as of 2/16/2016[1]										R-2016B Bonds[2]		R-2016C Bonds[2]		Total Debt Service Requirements [2][3][4][5]
	General Obligation										General Obligation				
	General State Revenues[3]		Motor Vehicle Fuel Tax Revenues		Triple Pledge		GARVEE Bonds		TIFIA Bond		General State Revenues		Motor Vehicle Fuel Tax Revenues		
June 30	Principal	Interest	Principal	Interest[4]	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	
2016[5]	630,707,077	547,661,208	266,034,493	328,468,633	-	26,024,975	62,600,000	37,544,175	-	-	-	-	-	-	1,899,040,561
2017	639,441,191	560,174,836	282,038,239	332,391,873	10,835,000	26,024,975	65,710,000	34,360,925	2,038,906	6,105,378	-	-	-	-	1,959,121,324
2018	625,974,950	529,096,810	286,869,188	322,554,802	11,375,000	25,483,225	68,975,000	31,026,150	2,092,210	6,052,074	-	-	-	-	1,909,499,408
2019	613,491,629	500,847,074	296,346,883	313,647,937	11,945,000	24,914,475	72,380,000	27,519,375	2,155,235	5,989,049	-	-	-	-	1,869,236,657
2020	607,893,868	476,324,974	303,793,119	303,633,132	12,540,000	24,317,225	75,985,000	23,819,250	2,212,465	5,931,819	-	-	-	-	1,836,450,850
2021	588,478,505	432,754,486	304,526,687	292,380,828	13,165,000	23,690,225	79,780,000	19,937,625	2,294,566	5,849,718	-	-	-	-	1,762,857,641
2022	586,055,000	381,517,657	313,117,106	283,230,617	13,825,000	23,031,975	83,750,000	15,869,938	2,355,926	5,788,358	-	-	-	-	1,708,541,577
2023	592,305,000	352,867,239	313,317,167	271,959,263	14,515,000	22,340,725	87,915,000	11,593,625	2,426,894	5,717,390	-	-	-	-	1,674,957,304
2024	595,825,000	323,780,645	320,959,322	261,600,104	15,240,000	21,614,975	92,305,000	7,092,125	2,492,694	5,651,590	-	-	-	-	1,646,561,455
2025	577,535,000	294,238,096	331,284,917	249,242,709	16,005,000	20,852,975	96,915,000	2,392,250	2,582,453	5,561,831	-	-	-	-	1,596,610,231
2026	571,750,000	265,572,288	342,480,654	234,871,583	16,805,000	20,052,725	-	-	2,652,882	5,491,402	-	-	-	-	1,459,676,534
2027	558,295,000	237,916,481	341,458,610	220,569,267	17,685,000	19,170,463	-	-	2,732,796	5,411,488	-	-	-	-	1,403,239,105
2028	541,840,000	213,269,169	330,701,468	208,858,930	18,615,000	18,242,000	-	-	2,808,246	5,336,038	-	-	-	-	1,339,670,851
2029	542,910,000	188,462,919	331,716,913	196,460,932	19,545,000	17,311,250	-	-	2,906,627	5,237,657	-	-	-	-	1,304,551,298
2030	525,975,000	164,171,463	328,470,835	182,868,940	20,525,000	16,334,000	-	-	2,987,270	5,157,014	-	-	-	-	1,246,489,522
2031	502,480,000	141,042,531	298,680,000	109,203,000	21,550,000	15,307,750	-	-	3,077,257	5,067,027	-	-	-	-	1,096,407,565
2032	490,290,000	117,977,456	280,265,000	95,751,423	22,625,000	14,230,250	-	-	3,163,572	4,980,712	-	-	-	-	1,029,283,413
2033	463,855,000	95,111,769	255,700,000	82,852,983	23,760,000	13,099,000	-	-	3,271,663	4,872,621	-	-	-	-	942,523,036
2034	395,030,000	74,180,331	217,840,000	71,358,705	24,945,000	11,911,000	-	-	3,363,806	4,780,478	-	-	-	-	803,409,320
2035	327,075,000	55,328,894	196,830,000	60,861,656	26,195,000	10,663,750	-	-	3,465,136	4,679,148	-	-	-	-	685,098,583
2036	266,430,000	40,078,503	176,485,000	51,681,856	27,505,000	9,354,000	-	-	3,563,687	4,580,597	-	-	-	-	579,678,643
2037	214,635,000	27,958,275	183,780,000	42,868,297	28,880,000	7,978,750	-	-	3,682,711	4,461,573	-	-	-	-	514,244,606
2038	171,105,000	18,440,200	191,210,000	33,838,622	30,325,000	6,534,750	-	-	3,787,805	4,356,479	-	-	-	-	459,597,856
2039	143,580,000	10,517,125	199,135,000	24,291,013	31,840,000	5,018,500	-	-	3,901,907	4,242,377	-	-	-	-	422,525,922
2040	78,580,000	4,310,156	168,695,000	14,806,637	33,430,000	3,426,500	-	-	4,014,236	4,130,048	-	-	-	-	311,392,578
2041	37,250,000	908,781	130,435,000	7,225,112	35,100,000	1,755,000	-	-	4,145,572	3,998,712	-	-	-	-	220,818,177
2042	-	-	55,245,000	2,957,081	-	-	-	-	10,550,938	4,064,895	-	-	-	-	72,817,914
2043	-	-	30,120,000	968,028	-	-	-	-	10,868,770	3,747,064	-	-	-	-	45,703,861
2044	-	-	-	-	-	-	-	-	11,192,323	3,423,510	-	-	-	-	14,615,833
2045	-	-	-	-	-	-	-	-	11,537,002	3,078,831	-	-	-	-	14,615,833
2046	-	-	-	-	-	-	-	-	11,880,862	2,734,971	-	-	-	-	14,615,833
2047	-	-	-	-	-	-	-	-	12,238,755	2,377,078	-	-	-	-	14,615,833
2048	-	-	-	-	-	-	-	-	12,605,525	2,010,309	-	-	-	-	14,615,833
2049	-	-	-	-	-	-	-	-	12,988,821	1,627,013	-	-	-	-	14,615,833
2050	-	-	-	-	-	-	-	-	13,378,420	1,237,413	-	-	-	-	14,615,833
2051	-	-	-	-	-	-	-	-	13,781,425	834,408	-	-	-	-	14,615,833
Total	11,888,787,220	6,054,509,367	7,077,535,603	4,601,403,962	518,775,000	428,685,438	786,315,000	211,155,438	195,199,364	154,566,069	-	-	-	-	31,916,932,460

(1) Preliminary, subject to change. Does not include the current offerings dated February 16, 2016 (Series R-2016B and R-2016C Bonds, together, the "Bonds"); does not include the defeasance of the Refunded Bonds. See "SOURCES AND USES OF FUNDS—Plan of Refunding" in the front portion of this Official Statement. Does not include the Series 2016C and 2016D Bonds expected to be sold on February 9, 2016, and expected to close on February 16, 2016. Includes the $195.199 million of a $300 million TIFIA loan, which has been drawn as of January 20, 2016. See "TRANSPORTATION RELATED REVENUES AND EXPENDITURES-Transportation Expenditures-Payment of Bonds Payable from Toll Revenue and Other Funds."

(2) Current offerings of the Bonds dated February 16, 2016.

(3) The State may be reimbursed for some of these debt service payments from sources that are not General Fund-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 federal subsidies applicable to bonds issued as Build America Bonds. See "TRANSPORTATION-RELATED REVENUES AND EXPENDITURES–Transportation Revenue–*Federal Funds*."

(5) Upon the issuance of the Bonds, estimated debt service requirements on outstanding bonds for Fiscal Year 2016 are: principal $53,478,003; interest $48,019,871; total debt service $101,497,874.

Totals may not add due to rounding.

Source: Office of the State Treasurer.

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

	6/30/2011	6/30/2012	6/30/2013	6/30/2014	6/30/2015	2/16/2016[2]
Outstanding by Source of Payment						
General Obligation Bonds						
General State Revenues[1]	10,763,996,170	10,980,895,035	10,980,397,783	11,433,123,784	11,357,937,220	11,291,690,143
Motor Vehicle Fuel Tax Revenue	6,004,454,495	6,353,055,881	6,712,006,137	7,010,288,596	6,889,515,603	6,831,369,114
Triple Pledge	-	518,775,000	518,775,000	518,775,000	518,775,000	518,775,000
	16,768,450,665	17,852,725,916	18,211,178,920	18,962,187,380	18,766,227,823	18,641,834,256
GARVEE Bonds	-	500,400,000	500,400,000	786,315,000	786,315,000	723,715,000
TIFIA Bond	-	-	-	-	195,199,364	195,199,364
	-	500,400,000	500,400,000	786,315,000	981,514,364	918,914,364
Total – Outstanding	16,768,450,665	18,353,125,916	18,711,578,920	19,748,502,380	19,747,742,187	19,560,748,620
Annual Debt Service Requirements by Fiscal Year						
General Obligation Bonds						
General State Revenues[1]	992,697,370	1,023,303,951	1,053,379,180	1,087,877,046	1,154,461,019	
Motor Vehicle Fuel Tax Revenue	421,626,119	422,943,501	465,751,897	544,219,739	570,937,831	
Triple Pledge	-	15,253,527	26,024,975	26,024,975	26,024,975	
GARVEE Bonds	-	-	18,282,056	30,817,141	39,095,675	
TIFIA Bond	-	-	-	-	-	
Total – Annual Debt Service by Fiscal Year	1,414,323,489	1,481,500,979	1,563,438,108	1,688,938,901	1,790,519,500	

(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.
(2) Preliminary, subject to change. Does not include current offerings dated February 16, 2016 (Series R-2016B and R-2016C); does not include the defeasance of the Refunded Bonds. See "SOURCES AND USES OF FUNDS—Plan of Refunding" in the front portion of this Official Statement. Does not include the Series 2016C and 2016D Bonds expected to be sold on February 9, 2016, and expected to close on February 16, 2016. Includes $195.199 million of a $300 million TIFIA loan which has been drawn as of January 20, 2016.
Totals may not add due to rounding.

Source: Office of the State Treasurer.

Table 12
History of Outstanding Bonds Net of Reimbursed Debt
(in dollars)

	6/30/2011	6/30/2012	6/30/2013	6/30/2014	6/30/2015	2/16/2016[2]
Outstanding by Source of Payment						
General Obligation Bonds						
General State Revenues	10,763,996,170	10,980,895,035	10,980,397,783	11,433,123,784	11,357,937,220	11,291,690,143
Reimbursements[1]	(928,324,790)	(856,446,914)	(822,853,819)	(747,384,718)	(671,024,718)	(601,233,820)
Subtotal	9,835,671,380	10,124,448,121	10,157,543,964	10,685,739,066	10,686,912,502	10,690,456,322
Motor Vehicle Fuel Tax Revenue	6,004,454,495	6,353,055,881	6,712,006,137	7,010,288,596	6,889,515,603	6,831,369,114
Reimbursements from Tacoma Narrows Bridge Tolls	(596,614,495)	(567,175,881)	(536,006,137)	(502,478,596)	(471,090,603)	(453,899,114)
Subtotal	5,407,840,000	5,785,880,000	6,176,000,000	6,507,810,000	6,418,425,000	6,377,470,000
Triple Pledge	-	518,775,000	518,775,000	518,775,000	518,775,000	518,775,000
Paid from Tolls on SR 520	-	(518,775,000)	(518,775,000)	(518,775,000)	(518,775,000)	(518,775,000)
Total GO Bonds – Net of Reimbursed Debt	15,243,511,380	15,910,328,121	16,333,543,964	17,193,549,066	17,105,337,502	17,067,926,322
GARVEE Bonds	-	500,400,000	500,400,000	786,315,000	786,315,000	723,715,000
TIFIA Bond	-	-	-	-	195,199,364	195,199,364
Total – Outstanding Net of Reimbursed Debt	15,243,511,380	16,410,728,121	16,833,943,964	17,979,864,066	18,086,851,866	17,986,840,686

(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.
(2) Preliminary, subject to change. Includes current offerings dated February 16, 2016 (Series R-2016B and R-2016C); does not include the defeasance of the Refunded Bonds. See "SOURCES AND USES OF FUNDS—Plan of Refunding" in the front portion of this Official Statement. Does not include the Series 2016C and 2016D Bonds expected to be sold on February 9, 2016, and expected to close on February 16, 2016. Includes $195.199 million of a $300 million TIFIA loan which has been drawn as of January 20, 2016.

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 (now known as "TOP"), 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"); these bonds were refunded for savings in June 2014. 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 "Wheeler Building"). The State began making lease payments for the Wheeler 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.

As of June 30, 2015, the State had approximately $13.6 million in capital leases outstanding for land, building and equipment, of which $4.4 million were obligations of the governmental funds. See Footnote 7(D) in Appendix D—"THE STATE'S 2015 AUDITED FINANCIAL STATEMENTS."

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.

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 for State and Local Agencies [1]
(Debt Issued through February 16, 2016)
(in dollars)

	State				Local				State and Local Real Estate & Equipment Total Payments[3]
	Real Estate		Equipment		Real Estate		Equipment		
Fiscal Year	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	
2016[2]	33,554,795	16,312,616	36,158,463	8,121,495	3,605,118	1,535,111	7,705,078	1,710,423	108,703,100
2017	27,305,000	20,205,854	41,904,292	12,368,757	3,711,682	1,423,614	8,132,027	1,853,477	116,904,703
2018	27,395,000	18,019,221	43,716,559	9,693,055	3,062,758	1,268,916	7,472,810	1,448,602	112,076,921
2019	29,250,000	16,860,495	42,087,839	7,848,804	2,905,027	1,142,305	6,531,315	1,138,920	107,764,706
2020	29,125,000	15,609,124	37,305,572	6,110,169	2,850,013	1,016,982	5,422,062	861,799	98,300,722
2021	29,265,000	14,336,029	31,836,469	4,590,051	2,645,000	895,508	3,400,064	654,503	87,622,625
2022	28,780,000	13,057,401	20,922,480	3,352,284	2,430,000	780,851	2,637,520	504,766	72,465,302
2023	29,035,000	11,764,940	17,906,674	2,360,056	2,525,000	667,025	2,278,326	378,419	66,915,440
2024	28,275,000	10,465,430	17,702,270	1,484,263	2,135,000	560,994	2,147,730	270,275	63,040,961
2025	26,380,000	9,233,489	7,094,851	885,126	2,120,000	465,149	1,660,149	189,512	48,028,276
2026	26,245,000	8,012,572	5,303,231	596,118	2,215,000	364,953	1,456,769	114,439	44,308,081
2027	26,435,000	6,768,054	4,065,000	342,950	2,165,000	264,088	865,000	51,944	40,957,035
2028	23,595,000	5,607,411	3,940,000	180,900	2,225,000	165,191	895,000	23,244	36,631,746
2029	23,225,000	4,562,443	4,060,000	60,900	1,135,000	65,069	95,000	1,900	33,205,311
2030	23,920,000	3,509,995	-	-	385,000	25,818	-	-	27,840,813
2031	17,075,000	2,618,963	-	-	205,000	14,300	-	-	19,913,263
2032	12,430,000	1,977,159	-	-	145,000	7,600	-	-	14,559,759
2033	12,105,000	1,519,316	-	-	90,000	1,800	-	-	13,716,116
2034	7,400,000	1,146,247	-	-	-	-	-	-	8,546,247
2035	7,350,000	893,313	-	-	-	-	-	-	8,243,313
2036	6,535,000	650,038	-	-	-	-	-	-	7,185,038
2037	4,820,000	393,400	-	-	-	-	-	-	5,213,400
2038	5,015,000	200,600	-	-	-	-	-	-	5,215,600
Total	484,514,795	183,724,109	314,003,700	57,994,928	36,554,599	10,665,272	50,698,851	9,202,222	1,147,358,475

(1) Excludes payments on State leases supporting "63-20" lease revenue bonds. See Table 14.
(2) As of February 16, 2016, remaining debt service payments on Certificates of Participation for Fiscal Year 2016 total $7,117,687.
(3) 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 Lease Revenue Bonds
(Debt Service by Fiscal Year)
(in dollars)

Fiscal Year	E.L. Goodrich Building		Wheeler Building		Total Lease Revenue Bonds[1]
	Principal	Interest	Principal	Interest	
2016	1,565,000	1,904,275	6,310,000	15,321,625	25,100,900
2017	1,795,000	1,820,275	6,630,000	15,006,125	25,251,400
2018	2,010,000	1,725,150	6,965,000	14,674,625	25,374,775
2019	2,235,000	1,652,550	7,310,000	14,326,375	25,523,925
2020	2,415,000	1,606,050	7,675,000	13,960,875	25,656,925
2021	2,600,000	1,516,900	8,060,000	13,577,125	25,754,025
2022	2,875,000	1,380,025	8,460,000	13,174,125	25,889,150
2023	3,155,000	1,229,275	8,885,000	12,751,125	26,020,400
2024	3,460,000	1,063,900	9,350,000	12,284,663	26,158,563
2025	3,790,000	882,650	9,845,000	11,793,788	26,311,438
2026	4,140,000	684,400	10,360,000	11,276,925	26,461,325
2027	4,510,000	468,150	10,905,000	10,733,025	26,616,175
2028	4,930,000	256,800	11,450,000	10,187,775	26,824,575
2029	3,955,000	79,100	12,035,000	9,600,963	25,670,063
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	43,435,000	16,269,500	287,315,000	231,944,613	578,964,113

(1) As of February 16, 2016, remaining debt service payments for Fiscal Year 2016 total $13,970,813.
Totals may not add due to rounding.
Source: Office of the State Treasurer.

Other Debt

See Appendix D—"THE STATE'S 2015 AUDITED FINANCIAL STATEMENTS–Note 7A" for a description of revenue bonds issued by certain colleges and universities; tobacco securitization debt; and certain other conduit debt issued by State agencies, none of which is debt of the State.

School Bond Guarantee Program

The School Bond Guarantee Program is a credit enhancement program that provides 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.

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, 2016, the aggregate total principal amount outstanding on 473 voter-approved bond issues guaranteed under the program was $9.80 billion. The bonds were issued by 177 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. The June 30, 2014, actuarial report prepared by OSA showed program assets of $2.928 billion, or 105.8 percent of the "best estimate" of the actuarially determined present value of obligations for future payments of $2.767 billion. The June 30, 2015 actuarial report prepared by OSA showed program assets of $2.862 billion, or 140.1 percent of the "best estimate" of the actuarially determined present value of obligations for future payments of $2.042 billion. OSA has stated that the GET program's funded status is highly sensitive to short-term changes in tuition growth.

As described under "THE GENERAL FUND—Operating Budget—2015-17 Biennium Budget," the budget enacted by the Legislature for the 2015-17 Biennium reduced tuition for State colleges and universities. The budget continues the payout value in effect prior to the tuition reduction for GET units redeemed during the 2015-16 and 2016-17 academic years. For academic years after 2016-17, the GET Committee is authorized to make program adjustments it deems necessary to ensure that the total payout value of each account is not decreased or diluted as a result of the tuition changes. By December 1, 2016, the GET Committee must report to the Legislature regarding: (1) the impact of decreasing tuition rates on the funded status of the GET program; (2) the future price of GET tuition units; and (3) possibly establishing a college savings program that is not linked to tuition rates. The GET Committee recently authorized the refund of an amortization fee paid by certain GET participants that was charged to ensure the program's funded status recovered after the impacts of the recession, and voted to allow account owners to request a refund of their contributions or the payout value, whichever is greater, without penalty through December 15, 2016. As of December 1, 2015, refunds of approximately $62.9 million had been received. The GET Committee also suspended new program enrollments and the purchase of any new GET unit sales outside of custom monthly plans for a period not to exceed two years. The GET Committee is exploring establishing a direct-fund 529 college savings plan.

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.

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

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 for various funds including pension funds and the Treasury and Treasurer's Trust Fund and how investments are valued and investments as of June 30, 2015, for the LGIP,

Treasurer's Trust Funds, State pension plans and Workers' Compensation Funds, see Note 3 in Appendix D—"THE STATE'S 2015 AUDITED FINANCIAL STATEMENTS."

Treasury and Treasurer's Trust Funds

The Treasury and Treasurer's Trust Funds are managed within the Office of the State Treasurer in three sub-portfolios: a Liquidity Portfolio, Intermediate Portfolio and a Core Portfolio. The Liquidity Portfolio is a short-term investment fund managed to meet daily cash requirements of all Treasury and Treasurer's Trust Funds (which include State operating and capital accounts). 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. The Intermediate Portfolio has a target duration of 0.75 years and a maximum maturity of two years. Funds not anticipated to be needed in the near-term are invested in the Core Portfolio, which has a target duration of approximately 2.1 years and a maximum maturity of 10 years. The performance benchmark of the Core Portfolio is a weighted total return of the Merrill Lynch 0-1 Year Treasury Index (20 percent); the Merrill Lynch 1-3 Year Treasury/Agency Index (50 percent); and the Merrill Lynch 3-5 Year Treasury/Agency Index (30 percent).

Earnings on all sub-portfolios are calculated and distributed to individual funds on an accrued basis.

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

	December 2015		January 2015-December 2015[1]	
	$	%	$	%
U.S. Agency	2,113,995	38.4	2,136,493	48.1
U.S. Treasury	1,404,605	25.5	1,178,535	26.5
Repurchase Agreements	-	-	-	-
Bank Deposits	729	0.0	44,659	1.0
LGIP Deposit[2]	1,833,748	33.3	934,346	21.0
Certificates of Deposit	149,787	2.7	148,914	3.4
	5,502,864	100.0	4,442,947	100.0
Weighted Average Maturity:	521 days			

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

The monthly ending balances in the Treasury and Treasurer's Trust Funds vary widely and have generally ranged from $3 billion to $6 billion from Fiscal Year 2006 to Fiscal Year 2015, with some monthly balances between $1.9 billion and $3 billion during the economic downturn in Fiscal Years 2009 through 2012.

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 offers its participants safety of principal, 100 percent liquidity on a daily basis and the economies of scale inherent in pooling. More than 540 local governments participate in the LGIP. 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. 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.

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

	December 2015		January 2015-December 2015[1]	
	$	%	$	%
U.S. Agency	4,935,993	47.0	5,125,741	52.5
U.S. Treasury	1,325,038	12.6	1,035,799	10.6
Repurchase Agreements	3,192,449	30.4	2,656,172	27.2
Interest Bearing Bank Accounts	981,556	9.3	886,173	9.1
Certificates of Deposit	69,424	0.7	65,696	0.7
	10,504,460	100.0	9,769,581	100.0
Weighted Average Maturity:	35 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 ($16.5 million), DOC ($15.5 million) and WSDOT ($12.5 million). Insurance is procured annually, and the SIR may change. The SILP is administered by the Department of Enterprise Services ("DES") 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 six 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 DES, 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 DES from the Liability Account. As of June 30, 2015, the Liability Account held $50.69 million designated for payment of tortious liability and certain federal due process claims. As of June 30, 2015, outstanding and actuarially determined claims against the State and its agencies (except for the University of Washington and the Department of Transportation Ferries Division), including projected defense costs, that were payable from the Liability Account were estimated at $564.29 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 2015 AUDITED FINANCIAL STATEMENTS."

The Ferries Division of WSDOT does not participate in the self-insurance liability program, so the State purchases a marine policy that covers the vessels and operations of the Washington State Ferry System and the WSDOT ferry on the Keller ferry route (SR 21 crossing of Columbia River/Lake Roosevelt). The policy combines general liability, pollution liability, vessel hull and machinery and property in a master policy. It provides coverage up to $250 million per occurrence for liability, $250 million for pollution, 50 percent of the estimated replacement cost for damage to vessels ($1.1 billion), and all terminals, docks and shore-side facilities are insured at 100% of the replacement cost ($501 million). For general liability there is a $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 marine policy also provides protection and indemnity (general liability) only coverage for: (i) five passenger-only vessels and three tug boats owned by the Department of Corrections to transport individuals and equipment and supplies to the McNeil Island Corrections Center and (ii) three patrol vessels and a medivac vessel owned by the Department of Social and Health Services.

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, 2015, was estimated to be approximately $25.07 billion, including $11.83 billion for supplemental pension COLA described in the next paragraph. As of June 30, 2015, there were $14.6 billion of invested assets, mainly long-term fixed income securities, to help fund these accrued benefits. See Note 3(c) in Appendix D—"THE STATE'S 2015 AUDITED FINANCIAL STATEMENTS."

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, 2015, was estimated to be approximately $11.83 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, State-wide 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 employers to receive a wage subsidy and certain reimbursements for employing an injured worker at light duty or transitional work.

See Note 3(C) for investments in the Workers Compensation Fund and Note 7(E) in Appendix D—"THE STATE'S 2015 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 and unemployment compensation balances for Fiscal Years 2011 to 2015 are shown in the following table.

Table 17
Average Combined Unemployment Tax Rates and Unemployment Compensation Fund Balances
(Fiscal Year ended June 30)

Year	Average Tax Rate (in percents)[1]	Balance ($ in millions)[2]
2011	2.25	2,545
2012	2.23	2,626
2013	1.76	2,824
2014	1.84	3,171
2015	1.69	3,633

(1) Average Tax Rate on taxable wages as of the second quarter of the year.
(2) The State trust fund is held in an account for the State in the national unemployment trust fund of the U.S. Treasury.
Source: U.S. Department of Labor-Unemployment Insurance Data Summary and TreasuryDirect®.

The trust fund balance as of November 30, 2015, was $3.9 billion, which is estimated to be enough coverage to provide 16.5 months of benefits.

In November 2015, approximately 68,000 unemployed workers received unemployment insurance benefits. Beginning July 5, 2015, 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 $17,264 (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. The State currently does not qualify for any federal extended benefits programs.

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 giant 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, which is being replaced; 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, tsunamis, mudslides, floods, wind storms, drought, and avalanches are possible. Much of the State experienced drought conditions in 2015. 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*."

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, 2014, the plans covered an estimated 530,000 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 in the following table.

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Table 18
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	5,960	51,070	1977
PERS 2/3		Defined Benefit/Hybrid[3]	178,217	37,776	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	2,147	35,639	1977
TRS 2/3		Defined Benefit/Hybrid[3]	75,481	9,988	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]	66,102	10,621	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	122	7,605	1977
LEOFF 2		Defined Benefit	17,522	3,235	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	733	996	2002
WSPRS 2		Defined Benefit	450	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	5,033	62	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	0	108	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	16,185	4,208	Open

(1) In addition, the State makes contributions to the Higher Education Retirement Plans that are sponsored by two-year colleges and individual universities. Eligible higher education State employees may participate in the Higher Education Retirement Plans or the State-administered plans. See Note 11(A) and (J) in Appendix D—"THE STATE'S 2015 AUDITED FINANCIAL STATEMENTS."
(2) Member data as of June 30, 2014.
(3) Hybrid = defined benefit/defined contribution.
Source: Department of Retirement Systems and Office of the State Actuary.

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 September 2015 for the year ended June 30, 2014.

The Legislature has adopted the following goals for the State retirement systems: (1) to provide a dependable and systematic process for funding the benefits provided to members and retirees; (2) to fully fund the various Plans 2 and 3 as provided by law; (3) to fully amortize the total cost of LEOFF Plan 1 not later than June 30, 2024; (4) to fully amortize the unfunded actuarial accrued liability in PERS Plan 1 and TRS Plan 1 within a rolling 10-year period, using methods and assumptions that balance needs for increased benefit security, decreased contribution rate volatility, and affordability of contribution rates; (5) to establish long-term employer contribution rates which will remain a relatively predictable proportion of future state budgets; and (6) to fund, to the extent feasible, all benefits for Plans 2 and 3 members over the working lives of those members.

Actuarial Methodology 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 June 30, 2013 valuation was used to determine the contribution rates for the 2015-17 Biennium.

The Legislature adopted the following economic assumptions for contribution rates beginning July 1, 2015 (1) rate of investment return: 7.8 percent per annum (7.5 percent for LEOFF Plan 2 in each biennium); (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 assumed long-term investment return used as the discount rate for determining the liabilities for each plan decreased from 7.9 percent to 7.8 percent for 2015-17 contribution rates and will decline further to 7.7 percent for the calculation of contribution rates for the 2017-19 Biennium.

As required by State law, OSA periodically prepares an experience study which compares demographic assumptions with actual experience to determine if any adjustments are required to ensure that OSA's assumptions remain reasonable. The most recent Experience Study Report was prepared in November 2014 using data from the 2007-2012 period. Updated demographic assumptions incorporating experience regarding mortality, retirement, disability, termination rates and other assumptions were included in the determination of contribution rates for the 2015-17 Biennium and the actuarial report for the year ended June 30, 2013, that was released in September 2014. The most significant assumption change from this study was adopting the Society of Actuaries' Scale BB to project future mortality improvements. In August 2015, OSA prepared a Report on Financial Condition and Economic Experience Study, which discusses the health of the pension system and compares actual economic experience with the assumptions made. These studies are available on OSA's website (osa.leg.wa.gov).

Actuarial cost methods allocate costs (or benefits) of a plan to different time periods. Costs are allocated using two components: (1) Normal Cost, or the cost of benefits that have not yet been earned and will be spread over the future working lives of current members, and (2) the Unfunded Actuarial Accrued Liability ("UAAL") which represents past benefit costs (already earned or allocated under the actuarial cost method) that are not covered by plan assets. The shortfall or UAAL must be amortized over a set period of time.

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 at each valuation date. The present value of future normal costs assumes employers pay the Aggregate Normal Cost rate for Plans 2 and 3 and

active members contribute a fixed 6.0 percent. 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.

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 actuarial accrued liability equals the actuarial value of assets and all remaining costs are amortized over the future payroll of the active group. As a result of this method, the entire contribution is considered Normal Cost and no UAAL is identified outside the Normal Cost.

The allocation of the Normal Cost between employers and employees varies by plan. Plan 2 members pay 50 percent of the Normal Cost with certain exceptions. Maximum employee contribution rates are set for TRS Plan 2 and WSPRS in accordance with statute.

Plans 3 have a defined benefit and a defined contribution component. Plan 3 members do not contribute to the defined benefit plan and can select from a variety of contribution rates for the defined contribution component.

Currently, LEOFF Plan 1 has assets that exceed its accrued liability and no contributions have been required since 2001.

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 SCPP may make recommendations to the Pension Funding Council ("PFC"). The Pension Funding Council is 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 PFC reviews recommendations from the OSA, the SCPP, and the outside actuarial auditors. 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 effective July 1, 2015. The rates are expressed as a percentage of current year covered payroll (members' reportable salary, which generally is gross pay).

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Table 19
Contribution Rates
(in percentage)

	Contribution Rates Starting July 1, 2015[1][2]	
	Employer Rate[3]	**Employee Rate [4]**
PERS Plan 1	11.18	6.00
PERS Plan 1 elected State officials[4][5]	16.68	7.50
PERS Plan 2/3[6]	11.18	6.12
TRS Plan 1[7]	13.13	6.00
TRS Plan 1 elected State officials[5][7]	13.13	7.50
TRS Plan 2/3[7]	13.13	5.95
SERS Plan 2/3[7]	11.58	5.63
PSERS Plan 2	11.54	6.59
LEOFF Plan 1	0.18	0.00
LEOFF Plan 2	8.59	8.41
WSPRS Plan 1[8]	8.34	6.84
WSPRS Plan 2[8]	8.34	6.84

(1) TRS and SERS rates are effective September 1 through August 31 for each year; all other plans are effective July 1. Member rates for PERS Plan 1 and TRS Plan 1 are set by statute.
(2) Contribution rates are subject to change by the Legislature.
(3) Includes 0.18 percent (as of September 1, 2013) Department of Retirement Systems administrative expense rate.
(4) Employee contribution rates for Plans 1 and 2 only. Plan 3 members do not contribute to the defined benefit portion of Plan 3.
(5) Rates are calculated based on a statutory formula and are not adopted by the PFC.
(6) Includes elected State officials.
(7) As of September 1, 2015.
(8) Changed as of October 1, 2015 to include supplemental contribution rates from recent legislation.

Source: Department of Retirement Systems.

In July 2014, the PFC adopted contribution rate increases to be phased-in over three biennia, beginning with the 2015-17 Biennium. The rate increase is largely due to projected improvements in future rates of mortality. See "Funding Policies" for information on the demographic and economic experience studies. Effective July 1, 2015, employer contribution rates increased by 21 percent for all PERS plans and by 26 percent for all TRS Plans. The LEOFF 2 Board did not adopt a rate increase for the 2015-2017 Biennium since currently adopted contribution rates already exceed the contribution rates reflecting the updated assumption for projected mortality improvements. During its 2015 legislative session, the Legislature did not revise the rates adopted by the PFC and LEOFF 2 Board.

State Contributions

State Contributions. The State's total contributions to the retirement plans for State employees paid 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 the 2013-2015 Biennium.

Table 20
State's Contributions to Retirement Plans for State Employees[1]
($ in millions)

	State Contributions				
	2011	**2012**	**2013**	**2014**	**2015**
PERS Plan 1	72.3	124.0	125.6	208.1	192.1
PERS Plan 2/3	158.0	182.8	182.9	203.7	219.1
TRS Plan 1	4.4	3.1	3.7	6.3	1.9
TRS Plan 2/3	0.7	1.1	1.2	1.1	1.9
PSERS Plan 2	8.0	7.4	7.5	8.2	9.0
LEOFF Plan 2[2]	52.9	52.8	54.2	55.6	59.9
VFFRPF	5.7	5.6	6.0	6.4	5.9
WSPRS Plan 1/2	5.3	6.5	6.5	6.6	6.7
JRS	10.9	8.1	10.1	10.6	10.6
Total	318.2	391.4	397.7	506.6	507.1

(1) Does not include State contributions for K-12 employees. Fiscal Year 2011-2014 figures and Fiscal Year 2015 VFFRPF represent actual contributions. The other Fiscal Year 2015 figures represent the State's proportionate share of plan contributions. The State concluded that the difference between actual and proportionate share of plan contributions is negligible.
(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").

In the adopted 2015-17 Biennium Budget, total State pension contributions for State employees, for the LEOFF Plan and towards higher education administered plans is estimated to be $1.45 billion, an estimated $162 million higher than in the 2013-15 Biennium. In addition, the State has budgeted approximately $1.22 billion in the 2015-17 Biennium for K-12 employees, an increase of approximately $345 million from the 2013-15 Biennium. Approximately half of the State's contributions for pensions are paid out of the General Fund.

State and Local Government Contributions. In addition to the State's 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.

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

Table 21
Estimated State and Local Government
Employer Contribution Ratios by Funding Source[1]
(in percents)

System	General Fund-State	Non-General Fund-State	Local Government[3]
PERS	18.7	28.1	53.2
TRS[2]	71.0	0.0	29.0
SERS[2]	44.6	0.0	55.4
PSERS	42.2	5.8	52.0
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, 2014, actuarial valuation.
(2) The State has only a few employees in TRS and no employees in SERS.
(3) Includes school districts.

Source: Office of the State Actuary.

Investments

Most of the 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 or his/her delegate 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 September 30, 2015, there was $77.9 billion invested in the various retirement plans, including the defined benefit plans, defined contribution plans and certain deferred compensation funds, of which 23.04 percent was in fixed income securities, 35.95 percent in public equity, 22.78 percent in private equity, 15.15 percent in real estate, 2.51 percent in tangible assets and 0.57 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 as of September 30, 2015, was 6.73 percent.

Table 22
Historical Investment Returns on Retirement Funds
(in percents)

Fiscal Year	1 Year Annualized Return
2006	16.69
2007	21.33
2008	-1.24
2009	-22.84
2010	13.22
2011	21.14
2012	1.40
2013	12.36
2014	17.06
2015	4.93

Source: Washington State Investment Board.

Notes 3 and 11 of Appendix D–"THE STATE'S 2015 AUDITED FINANCIAL STATEMENTS" describe the Board's policy regarding permitted investments, how investments are valued, and a breakdown of investments as of June 30, 2015, 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, 2015.

Funded Status

Actuarial Methods Used in Reporting the Funded Status. Historically, the State has represented the funded status by comparing liabilities estimated using the Projected Unit Credit ("PUC") cost method to assets valued according to the Actuarial Value of Assets ("AVA"). 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. The liability estimate has also relied on the statutorily set discount rate, currently at 7.8 percent. The AVA smoothes the effect of annual changes in the Market Value of Assets ("MVA") over a period of up to eight years. Additionally, the AVA is capped at 130 percent of the MVA and a floor is set at 70 percent of the MVA. This helps to limit fluctuations in contribution rates and funded status that would otherwise arise from short-term changes in the MVA.

Table 23 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 23
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
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
2013	65,458	62,213	105
2014	68,777	72,553	95

Source: Office of the State Actuary.

Table 24 displays the funded status for the PERS, TRS, SERS, PSERS, LEOFF and WSPRS plans by comparing the PUC liabilities calculated using the statutory discount rate to the AVA on the valuation date. As of June 30, 2014, two closed plans – PERS Plan 1 and TRS Plan 1 – were underfunded by approximately $7.9 billion. In the remainder of the plans, valuation assets exceeded liabilities. Assets from one plan may not be used to fund benefits for another plan. The funded status of all of the State administered plans combined declined to 93 percent from 94 percent as of June 30, 2013. The drop in funded status from 101 percent as of June 30, 2012 to 94 percent as of June 30, 2013 was primarily due to revised demographic assumptions, including projected improvements in mortality rates, and the statutory requirement to reduce the assumed rate of return from 7.9 percent to 7.8 percent (except LEOFF Plan 2 which remains at 7.5 percent). See "Funding Policies" for more information on the demographic and economic experience studies.

Table 24
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]	12,727	26,172	9,266	8,843	3,598	225	4,323	7,629	1,011	73,793
Valuation Assets[3]	7,761	26,386	6,353	9,193	3,624	278	5,499	8,638	1,044	68,777
Unfunded Liability[3]	4,965	(214)	2,913	(350)	(26)	(54)	(1,176)	(1,009)	(33)	5,016
Funded Ratio (%)										
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	69	111	79	114	110	134	135	119	114	101
2013[4]	63	102	71	105	102	124	125	115	105	94
2014	61	101	69	104	101	124	127	113	103	93

(1) Liabilities have been valued using the Projected Unit Credit ("PUC") cost method at an interest rate of 7.8 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, 2014.
(4) Actuarial assumptions changed.
(5) LEOFF Plan 2 values for 2010 were updated after the 2010 Actuarial Valuation Report was published.
Totals may not add due to rounding.

Source: Office of the State Actuary.

Revised Methodology for Reporting the Funded Status. In September 2015, OSA revised the methodology used to estimate pension liabilities for the purposes of reporting funded status and released figures as of June 30 2014 using this methodology. The revised methodology reports the funded status of the pension plans by comparing liabilities estimated using the Entry Age Normal ("EAN") cost method to assets valued according to the Actuarial Value of Assets ("AVA"). The EAN method represents each plan member's benefits as a constant share of payroll throughout the member's career. The liability estimate also incorporates the statutorily set discount rate, currently at 7.8 percent. Using the revised methodology, the funded status of all of the State-administered plans combined is 87 percent, with PERS Plan 1 at 61 percent, PERS Plans 2 and 3 at 90 percent, TRS Plan 1 at 69 percent, TRS Plans 2 and 3 at 94 percent, SERS Plans 2 and 3 at 91 percent, PSERS Plan 2 at 96 percent, LEOFF Plan 1 at 127 percent, LEOFF Plan 2 at 107 percent and WSPRS at 100 percent.

Beginning in July 2016, OSA will discontinue funded status reports based on liabilities estimated using the PUC method and instead estimate pension liabilities using the EAN method.

Risk and Sensitivity Analysis. OSA has prepared an interactive report that permits recalculations of funded status based on different asset valuation methods and discount rates. The interactive report is available at http://fiscal.wa.gov/actuarydata.aspx.

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. In addition, OSA has prepared various other sensitivity analysis of funded status and contributions rates.

Actuarially Determined Contributions. The following table shows the actuarially determined contributions, contributions in relation to the actuarially determined contributions, and the contribution deficiency or excess for each plan for the Fiscal Years ending June 30, 2014 and 2015. For information on prior years, see the Comprehensive Annual Financial Report for the Fiscal Year ended June 30, 2015, prepared by the State Department of Retirement Systems ("DRS") and available on DRS's website (www.drs.wa.gov).

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Table 25
Schedule of Contributions for all Employers
(For the Fiscal Years ending June 30, 2014 and 2015)
(dollars in thousands)

	2014	2015
PERS PLAN 1		
Actuarially Determined Contributions	439,067	454,010
Contributions in Relation to the Actuarially Determined Contributions	448,895	462,100
Contribution Deficiency (Excess)	(9,828)	(8,090)
PERS PLANS 2/3		
Actuarially Determined Contributions	441,677	462,098
Contributions in Relation to the Actuarially Determined Contributions	430,345	446,127
Contribution Deficiency (Excess)	11,332	15,971
TRS PLAN 1		
Actuarially Determined Contributions	208,119	218,542
Contributions in Relation to the Actuarially Determined Contributions	200,674	223,886
Contribution Deficiency (Excess)	7,445	(5,344)
TRS PLANS 2/3		
Actuarially Determined Contributions	255,277	269,160
Contributions in Relation to the Actuarially Determined Contributions	249,341	267,038
Contribution Deficiency (Excess)	5,936	2,122
SERS PLANS 2/3		
Actuarially Determined Contributions	90,064	94,736
Contributions in Relation to the Actuarially Determined Contributions	88,783	97,386
Contribution Deficiency (Excess)	1,281	(2,650)
LEOFF Plan 1[(1)]		
Actuarially Determined Contributions	-	-
Contributions in Relation to the Actuarially Determined Contributions	98	60
Contribution Deficiency (Excess)	(98)	(60)
LEOFF Plan 2[(2)]		
Actuarially Determined Contributions	141,696	147,438
Contributions in Relation to the Actuarially Determined Contributions	141,082	147,461
Contribution Deficiency (Excess)	614	(23)
WSPRS		
Actuarially Determined Contributions	6,677	6,810
Contributions in Relation to the Actuarially Determined Contributions	6,587	6,679
Contribution Deficiency (Excess)	90	131
PSERS PLAN 2		
Actuarially Determined Contributions	17,053	18,545
Contributions in Relation to the Actuarially Determined Contributions	17,124	18,704
Contribution Deficiency (Excess)	(71)	(159)
JRS		
Actuarially Determined Contributions	9,205	9,132
Contributions in Relation to the Actuarially Determined Contributions	10,600	10,600
Contribution Deficiency (Excess)	(1,395)	(1,468)
Judges[(1)]		
Actuarially Determined Contributions	425	539
Contributions in Relation to the Actuarially Determined Contributions	-	-
Contribution Deficiency (Excess)	425	539
VFFRPF[(2)]		
Actuarially Determined Contributions	6,421	6,653
Contributions in Relation to the Actuarially Determined Contributions	7,336	6,816
Contribution Deficiency (Excess)	(915)	(163)

(1) No contributions were made for Judges' Pension Plan and almost no payments for the LEOFF Plan 1.
(2) For VFFRPF and LEOFF Plan 2, the State is not an employer but makes payments directly to the retirement plans.

Source: Department of Retirement Systems Comprehensive Annual Financial Reports ("CAFR") for Fiscal Year Ended June 30, 2015 and the Washington State Comprehensive Annual Financial Reports ("CAFR") for Fiscal Year Ended June 30, 2015.

GASB Information. GASB has adopted new pension accounting standards effective for the June 30, 2014 plan level financial reporting, which differ from methodologies used by the State for funding purposes and those used to represent funded status. Among the changes in the new GASB standards are the inclusion of unfunded pension liabilities on a government's balance sheet; a market value of assets is relied on to determine unfunded pension liabilities; lower actuarial discount rates are required to be used for underfunded plans in certain cases; and differences between expected and actual demographic and investment experience each year will be recognized incrementally over a closed period when reporting annual employer pension expense. The new accounting standards will affect financial reporting but do not require changes in funding policies.

Under the new standards, an asset sufficiency test is required to determine if plan assets are projected to be sufficient to pay all future benefits for current members. The plan's market value of assets is projected to earn the assumed long-term rate of investment return (for GASB purposes, this is 7.50 percent for all PERS, TRS, SERS, PSERS, LEOFF, and WSPRS plans), increased each year by expected contributions to be collected for current member benefits, and reduced by expected benefit payments and expenses; the assumed salary inflation is 3.75 percent; and the assumed economic inflation is 3.0 percent. If the plan assets reach zero before the last benefit payment is expected to be made, then the plan liabilities must be valued at a lower, blended discount rate which takes into account a municipal bond rate for the years in which the plan is projected to have insufficient assets to make benefit payments. Based on the asset sufficiency test as of June 30, 2014 and 2015, all PERS, TRS, SERS, PSERS, LEOFF, and WSPRS plans are projected to have sufficient assets to pay current plan member benefits, so no lower, blended discount rate is required to value plan liabilities. This test will be performed each year.

The following table shows the State's proportionate share of the collective net pension liability for the various retirement plans based on the State's contributions to a plan relative to the contributions of all participating employers and the State's share of pension expenses for each plan. These shares are based on the new GASB reporting requirements. Net pension liability equals the total pension liability (a measure of the total cost of future pension benefit payments already earned, stated in current dollars) minus the value of the assets in the pension trust that can be used to make benefit payments. Contributions from plan members and employers are assumed to continue to be made at contractually required rates. The annual pension expense is the amount by which the reported net pension liability increased or decreased during the year. This expense does not require the use of current financial resources and, therefore, was not recognized on the operating statement for the General Fund, but it is in the State-wide operating statement in Appendix D–"THE STATE'S 2015 AUDITED FINANCIAL STATEMENTS."

Table 26
State's Share of Net Pension Liabilities/Assets and Expenses
(For the Fiscal Year Ended June 30, 2015)
(in millions)

	State's Share (%)	State's Share of Net Liability/(Asset)($)	State's Share of Pension Expense($)
PERS Plan 1	42.37	2,134.2	127.2
PERS Plans 2/3	49.27	995.9	165.7
TRS Plan 1	0.78	22.9	1.9
TRS Plans 2/3	0.59	1.9	1.6
PSERS Plans 2	48.26	(7.0)	9.2
LEOFF Plan 1	87.12	(1,056.6)	(134.6)
LEOFF Plan 2	40.36	(535.6)	(26.5)
WSPRS Plans 1/2	100.00	(26.0)	(5.4)
TOTAL		1,529.70	139.1

Source: Washington State Comprehensive Annual Financial Reports ("CAFR") for Fiscal Year Ended June 30, 2015. In the financial statements, the accounting results are measured as of June 30, 2014.

The new GASB reporting requirements are reflected in Appendix D–"THE STATE'S 2015 AUDITED FINANCIAL STATEMENTS," which includes sensitivity of the net pension liability to changes in the discount

rate. See also the Comprehensive Annual Financial Report for the Fiscal Year ended June 30, 2015, prepared by DRS and available on DRS's website (www.drs.wa.gov).

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 2015 AUDITED FINANCIAL STATEMENTS." Note 3 in Appendix D–"THE STATE'S 2015 AUDITED FINANCIAL STATEMENTS" describes eligible investments for the State's pension plans.

Notes J and K of Appendix D–"THE STATE'S 2015 AUDITED FINANCIAL STATEMENTS," include actuarial valuations and contributions to the Higher Education Retirement Supplemental defined benefit plan.

Benefits; Legislation; Litigation

Benefits under the retirement plans are established by the Legislature. See Notes 11.B in Appendix D–"THE STATE'S 2015 AUDITED FINANCIAL STATEMENTS" 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 flexible and maintaining its integrity."

Legislation adopted in 2007 repealed a benefit that the Legislature had granted certain members in 1998 known as "gain sharing," which was a pension enhancement provided in years of extraordinary investment return.

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 ("UCOLA"). 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 eligible for subsidized early retirement will have their benefits reduced by 5.0 percent per year (instead of 3.0 percent) for each year the employee retires before age 65.

Litigation was filed challenging the legislation described in the second and third paragraphs of this subsection. On August 14, 2014, the Supreme Court issued two unanimous opinions upholding the constitutionality of the legislation repealing the gain sharing benefits and the UCOLA.

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 past and future pension obligations under a 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 2015 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, 2015)

	Active Employees	Retirees[1]	Total
State	108,899	30,640	139,539
K-12 Schools and ESDs[2]	2,561	32,993	35,554
Political Subdivision	12,571	1,687	14,258
Total	124,031	65,320	189,351

(1) Retirees include retired employees, surviving spouses, and terminated members entitled to a benefit.
(2) In Fiscal Year 2015, there were 106,879 full-time equivalent active employees in the 245 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, 2015.

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, up to a maximum set by the Legislature. For 2015 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. For 2014, the implicit subsidy was estimated at $291 per person. For calendar year 2015, the implicit subsidy was estimated to be $308 per person.

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 July 2015, determined the plan's liabilities as of January 1, 2015 ("2015 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 2015 OPEB Report are based on methods selected by the Office of Financial Management and on assumptions detailed in the 2015 OPEB Report and summarized below. The actuarial method chosen to allocate costs and the AAL for the 2015 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, which 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) were long-term assumptions selected in consultation with the Office of the State Treasurer to represent an average of short-term investment rates, and annual inflation is assumed to be 3.0 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 4.5–8.4 percent in 2015 to 4.9–5.1 percent through 2100) 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 through June 30, 2015. OSA performs a full valuation every two years. In 2012 and 2014, 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, 2015, the AAL and UAAL of the PEBB Plan that is attributed to the State was $5.274 billion. UAAL was 84.8 percent of covered State payroll. Because the plan is pay-as-you-go, it has no assets. The 2015 valuation reflected updated assumptions, most notably an updated assumption for projected improvements in future rates of mortality, similar to the defined benefit plans. The mortality assumption change increased the liability by approximately 20 percent.

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

	2011	2012	2013	2014	2015
a. Beginning Net OPEB Obligation (NOO)[1]	777,872	1,027,767	1,279,381	1,613,775	1,894,567
b. Annual Required Contribution (ARC)[2]	320,991	320,991	342,283	353,842	498,399
c. Interest on the NOO	35,004	46,250	53,434	64,551	75,783
d. Amortization of the NOO	(27,427)	(36,954)	(48,684)	(59,951)	(71,806)
e. Annual OPEB Cost (b+c+d)	328,568	330,286	347,033	358,442	502,376
f. 2012 Adjustment	-	-	56,476	-	-
g. Contributions for Fiscal Year[3]	(78,673)	(78,673)	(69,114)	(77,650)	(74,055)
h. Ending NOO [1] (a+e+f+g)	1,027,767	1,279,381	1,613,775	1,894,567	2,322,888

(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 through June 30, 2015.

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 certain claims, and self-insurance and excess insurance is available for claims involving injury and damages. See "RISK MANAGEMENT–Insurance." There has been a trend in recent years of higher jury verdicts for 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. Claims include funding inadequacies and inequity in basic education; inadequate funding for care of the disabled and elderly; and denial of health care benefits to certain State workers and reimbursement rates to certain health care providers. 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. 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 what State or federal legislative responses could be taken to mitigate such impacts.

The State is a defendant in a number of lawsuits related to habitat restoration and environment remediation arising out of highway/roadway construction and maintenance.

See Note 14 in Appendix D–"THE STATE'S 2015 AUDITED FINANCIAL STATEMENTS" for a description of certain litigation and estimates of the potential magnitude of certain litigation.

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

In *McCleary v. State of Washington*, in February 2010, the King County Superior Court found that the State was 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. The State appealed the superior court decision to the Supreme Court and the Supreme Court issued its opinion on January 5, 2012, affirming the trial judgment that the State is not making ample provisions for the basic education of Washington's K-12 public school students. The Supreme Court agreed, however, 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. This result preserves the Legislature's constitutional prerogative to reform, define and provide full funding for K-12 education.

In July 2012, the Supreme Court issued an order 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. This ruling calls for annual reports by the Legislature to the Supreme 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. The Legislature submitted its first report in August 2012. After receiving comments from the plaintiffs, the Supreme Court issued an order in December 2012 requiring the report at the conclusion of the 2013 legislative session to 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 approximately $1 billion dollars in State funding to K-12 schools during the 2013-15 Biennium. The Legislature filed its 2013 post-budget report in August 2013. After considering comments from the plaintiffs, the Supreme Court issued its next order on January 9, 2014, crediting the State with making additional investments but expressing concern that the pace of implementation was too slow. The Court again directed the Legislature to submit a phase-in plan. The Legislature submitted its 2014 post-budget report on April 30, 2014. The plaintiffs' post-budget comments were submitted in May 2014. Following its consideration of the Legislature's report and the plaintiffs' response, and finding that the Legislature's report did not comply with the Supreme Court's January 9, 2014, order to provide a complete plan and phase-in schedule for fully funding the basic education program, the Supreme Court on June 12, 2014, ordered the State to address why it should not be held in contempt and, if found in contempt, to address why certain relief requested by the plaintiffs should not be granted. A show cause hearing before the Supreme Court was held on September 3, 2014. On September 11, 2014, the Supreme Court issued an order finding the State in contempt for failing to submit a complete plan for fully implementing its program, but held in abeyance sanctions and other remedial measures to allow the Legislature the opportunity to comply with the order during the 2015 legislative session. On August 13, 2015, the Supreme Court issued an order finding the State in contempt for failing to explain how it plans to fully fund all elements of basic education by 2018. See "GENERAL FUND–General Fund Expenditures–*K-12 Education*" and "General Fund–State Operating Budget–*2013-15 Biennium Budgets*" and "*-Special Session and Supplemental 2013-15 Budgets*."

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 U.S. 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. The Ninth Circuit issued its opinion on April 8, 2014, granting the USDOL's petition, effectively overruling the district court's prior discovery ruling compelling USDOL to answer interrogatories that the USDOL argues violate the government informant's privilege. The State filed a petition for panel rehearing and a petition for en banc rehearing. USDOL filed a response brief on June 25, 2014. If plaintiff prevails on all issues, the estimated potential liability for the State is $60 million, with liquidated damages doubling that amount. The State's Petition for Rehearing was denied. The case was then remanded back to the Western District Court for further proceedings. A trial date has been set for October 4, 2016.

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 Supreme Court, which accepted direct review of the case. Oral argument occurred on May 14, 2013. The Supreme Court affirmed the trial court's $57 million jury verdict, but reversed the $39 million prejudgment interest award. The State's motion for reconsideration was denied in June 2014. The Thurston County Superior Court reached a decision as to how the award is to be distributed and determined that post judgment interest should be calculated from the date of the original jury verdict. The State has satisfied the entire judgment, having deposited approximately $86 million into an escrow account. The first distribution of $60.6 million has been paid to over 19,000 providers. The second and final distribution will occur in approximately two years.

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 alleged 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 Constitution. Plaintiff contended that the amounts transferred exceed $100 million and asked that the money be restored to the Education Legacy Trust Account and the defendants be enjoined from any further unconstitutional diversions. On October 2, 2013, the trial court ruled that the transfer of funds from the Education Legacy Trust Account to the General Fund did not violate the Constitution and granted summary judgment to the State defendants. In August 2015, the State Court of Appeals held that the Legislature's transfer of the funds did not violate the Constitution. Plaintiffs have filed a petition for discretionary review with the Washington Supreme Court. The Department or Revenue filed an answer to the petition, and the parties are awaiting the court's placement of the petition on its docket for consideration as to whether to accept the case for further review.

In *Tulalip Tribes and the Consolidated Borough of Quil Ceda Village* the plaintiffs challenge the State's authority to collect sales tax and other taxes on the sale of goods and services at Quil Ceda Village, a premium outlets mall located on the Tulalip reservation near I-5 in Snohomish County. The tribe argues federal preemption and violations of the Indian Commerce Clause and the Supremacy Clause. The lawsuit was filed in Federal District Court for Western Washington on June 12, 2015, naming the State Department of Revenue and Snohomish County officials as defendants. The Department of Justice filed an intervention on August 4, 2015.

Employment

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 a breach of statute claim. Following those rulings, the State appealed the trial court's rejection of the State's proposed measure of damages, which was that the class members' damages must be measured by actual damages. Plaintiffs moved for direct review by the Supreme Court and that motion was granted. In August 2014, the Supreme Court

issued a decision affirming the trial court. The parties mediated the cases in November 2015. Following those negotiations, the parties agreed to settle all aspects of the cases. However, the parties' agreement must still receive approval by the trial court and the Legislature. A hearing on the settlement was held on January 7, 2016, at which the trial court preliminarily approved the settlement.

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 U.S. District Court 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 WSDOT to provide remediation within 17 years of the date of the injunction. The State appealed the decision to the U.S. Court of Appeals for the Ninth Circuit. The Tribes filed a cross-appeal, which they subsequently voluntarily dismissed. A three-judge panel of the Ninth Circuit heard oral argument on October 16, 2015. The State's notice of appeal was filed May 28, 2013, and a decision is likely to be issued in 2016. See "TRANSPORTATION-RELATED REVENUES AND EXPENDITURES—Transportation Expenditures—*Transportation Capital Program*."

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, Boeing Commercial Airplanes, Costco, Expedia, Expeditors International of Washington, Microsoft, 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 2014)
(in dollars)

	Gross Business Income	Percent of Total
Wholesale Trade	155,000,318,932	21.1
Business, Personal and Other Services	135,916,192,373	18.5
Retail Trade	126,332,704,490	17.2
Manufacturing–General	113,134,505,679	15.4
Manufacturing–Aerospace	68,811,902,170	9.4
Construction	45,060,518,654	6.1
Finance, Insurance, Real Estate	38,833,605,416	5.3
Information	20,855,974,620	2.8
Utilities	13,750,767,622	1.9
Transportation	12,628,873,337	1.7
Agriculture, Forestry, Fishing	3,898,857,331	0.5
Warehousing & Storage	869,142,022	0.1
Mining	550,650,857	0.1

(1) North American Industry Classification System.

Source: Washington State Department of Revenue, "Quarterly Business Review Calendar Year 2014" Table 1.

Table 30
Twenty-Five Largest Employers in Washington
(as of July 2015)

		Full Time Washington Employees			Full Time Washington Employees
1	The Boeing Co.	80,066	14	Swedish Medical Center	11,640
2	Joint Base Lewis-McChord	60,000	15	MultiCare Health System	10,863
3	Microsoft Corp.	41,728	16	Nordstrom Inc.	10,565
4	Navy Region Northwest	37,682	17	United States Postal Service	10,255
5	University of Washington	34,700	18	City of Seattle	9,994
6	Amazon.com Inc.	24,000	19	PeaceHealth	9,579
7	Wal-Mart Stores Inc.	18,147(1)	20	Fairchild Air Force Base	9,110
8	Providence Health & Services	17,553	21	Group Health Cooperative	8,392
9	Fred Meyer Stores	15,915	22	Alaska Air Group Inc.	7,403
10	Costco Wholesale Corp.	14,921	23	Seattle Public Schools	6,436
11	Starbucks Corp.	12,385(1)	24	Washington State University	5,700
12	King County Government	12,095	25	Target	5,512(1)
13	CHI Franciscan Health	11,847			

(1) Reflects full and part-time team members.

Source: Puget Sound Business Journal, July 31, 2015.

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. Canada, China and Japan were the State's largest export trading partners in 2014. In 2014, Washington had $93.9 billion in exports, and based on U.S. Department of Commerce Census Bureau statistics through July 2014, Washington was the 3rd 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 10th and the port of Seattle nationally ranked 13th in 2013 when measured by total dollar value of foreign imports and exports. In 2015, the ports of Seattle and Tacoma created the Northwest Seaport Alliance, unifying the management of the two ports' marine cargo terminals and related functions.

Airport. Seattle-Tacoma International Airport is Washington's primary airport and, measured by total passengers, was the 13th busiest airport in the country based on 2014 information according to the Federal Aviation Administration Air Carrier Activity Information System database. The airport also ranks as the 18th busiest cargo airport in the United States based on all-cargo landed weight.

Aerospace

There are approximately 1,350 aerospace-related companies in the State employing over 132,500, with Boeing being the largest aerospace employer in the State with 80,191 employees as of June 25, 2015. Washington aerospace companies produce more than 1,400 aircraft annually. In 2014, aerospace and related industry employment was 3.0 percent of state non-farm employment and wages were 6.6 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 and recently announced it will assemble the 787-10 solely in South Carolina. Boeing will assemble the 737 MAX, the 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 160,000 jobs. Nearly 300 agricultural commodities are produced commercially in Washington, and in 2014 the State's top 10 agricultural commodities (in commodities value) were apples, milk, cattle, potatoes, wheat, hay, cherries, grapes, pears and hops. In 2012, Washington ranked first in United States production of 11 commodities, including apples and hops. The agricultural and food processing sector is export-oriented.

Information and Communications Technology

The State has approximately 14,000 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 34,000 workers are directly employed in the over 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, the Fred Hutchinson Cancer Research Center and the Allen Institute. 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 contracts 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**
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
2013	18,396	14,566	32,962	990,822
2014	17,905	15,993	33,898	1,046,363

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]

	2010	2011	2012	2013	2014
Resident Civilian Labor Force	3,511.3	3,459.2	3,417.2	3,460.0	3,488.2
Unemployment	350.8	319.2	281.2	243.1	217.8
WA Unemployment Rate (Percent)[2]	9.9	9.2	8.1	7.0	6.3
U.S. Unemployment Rate (Percent)[2]	9.6	8.9	8.1	7.4	6.2
Nonagricultural Wage and Salary Workers Employed in Washington					
Nonfarm Employment	2,839.1	2,875.6	2,924.0	2,992.8	3,075.7
Durable Manufacturing	184.2	193.4	204.6	209.6	210.0
Aerospace	80.8	86.6	94.2	96.1	93.8
Computer and Electronic Products	19.1	19.7	20.2	20.2	20.1
Nondurable Manufacturing	73.9	75.3	75.7	77.1	79.1
Mining and Logging	5.9	6.0	5.9	6.1	6.2
Construction	140.7	136.4	139.1	149.0	159.5
Trade, Transportation and Utilities	517.0	525.1	536.1	551.1	569.7
Information	103.0	104.2	104.7	106.3	109.5
Software Publishers	50.9	51.7	52.4	53.9	55.4
Financial	141.2	141.5	144.9	150.6	153.7
Professional and Business Services	326.4	339.5	350.0	361.1	372.1
Education and Health Services	424.8	431.4	433.8	440.1	453.6
Leisure and Hospitality	266.5	270.8	277.2	287.3	296.5
Other Services	105.5	108.5	110.9	111.3	114.5
Government	550.0	543.5	541.2	543.3	551.5

(1) Averages of monthly data (not seasonally adjusted).
(2) Seasonally adjusted. As reported by Washington Department of Employment Security in January 2016, the November 2015 unemployment rate (seasonally adjusted) was 5.3 percent in Washington and 5.0 percent in the U.S. as a whole.

Source: Department of Employment Security and U.S. Bureau of Labor Statistics as of June 18, 2015.

Table 33
Composition of Employment by Industry Sector[1]
(percentages)

	State of Washington		United States	
	2004	**2014**	**2004**	**2014**
Manufacturing				
Nondurable Manufacturing				
Food Manufacturing	1.2	1.2	1.1	1.1
Pulp and Paper	0.5	0.3	0.4	0.3
Other	1.3	1.1	2.6	1.9
Subtotal	2.9	2.6	4.1	3.2
Durable Manufacturing				
Lumber and Wood	0.7	0.4	0.4	0.3
Primary and Fabricated Metals	0.8	0.8	1.5	1.3
Machinery	0.6	0.7	1.2	1.1
Computers	0.9	0.7	1.1	0.8
Transportation Equipment	2.7	3.4	1.3	1.1
Other	1.0	0.9	1.3	1.0
Subtotal	6.7	6.8	6.9	5.5
Total Manufacturing	9.6	9.4	11.0	8.8
Nonmanufacturing				
Natural Resources and Mining	0.3	0.2	0.4	0.6
Construction	5.9	5.1	5.3	4.4
Trade, Transportation and Utilities	19.1	18.5	19.3	19.0
Information	3.6	3.6	2.5	2.0
Financial	5.8	5.0	6.1	5.7
Professional and Business Services	11.4	12.1	12.8	13.7
Education and Health Services	11.8	14.7	12.8	15.4
Leisure and Hospitality	9.1	9.7	9.3	10.6
Other Services	3.7	3.7	4.0	4.0
Government	19.6	18.0	16.4	15.7
Total Nonmanufacturing	90.4	90.6	89.0	91.2
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 10.0 percent since 2006. Based upon the 2010 Census, the State is the thirteenth most populous in the nation. The following table summarizes the State's population for 2006-2015.

Table 34
State of Washington Population

April 1	Population
2006	6,420,300
2007	6,525,100
2008	6,608,300
2009	6,672,200
2010	6,724,500
2011	6,767,900
2012	6,817,770
2013	6,882,400
2014	6,968,170
2015	7,061,410

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 31.7 percent since 2005. 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 ($44,504 in 2014) has consistently been higher than the average per capita disposable personal income in the United States as a whole ($40,670 in 2014).

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
2005	235.5	--	10,605.6	--	37,638	35,888
2006	255.6	8.5	11,376.4	7.3	40,127	38,127
2007	276.7	8.3	11,990.1	5.4	42,829	39,804
2008	289.7	4.7	12,429.2	3.7	44,143	40,873
2009	280.9	-3.0	12,080.2	-2.8	42,137	39,379
2010	286.9	2.1	12,417.7	2.8	42,547	40,144
2011	304.0	6.0	13,189.9	6.2	44,565	42,332
2012	324.5	6.7	13,873.2	5.2	47,055	44,200
2013	332.7	2.5	14,151.4	2.0	47,717	44,765
2014	350.1	5.3	14,708.6	3.9	49,583	46,129

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

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APPENDIX B

BONDS OUTSTANDING

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Debt Authorization and Outstanding Debt
Various Purpose General Obligation Bonds
As of February 16, 2015

Subject to Constitutional Debt Limitation

Chapter and Laws	Bonds Authorized	Issued [1]	Bonds Outstanding [1]	Unissued [2]
Ch. 138 -- Laws of 1965 (R-2007A).....	321,050,000	321,050,000	168,600,000	-
Ch. 138 -- Laws of 1965 (R-2007C).....	295,790,000	295,790,000	65,735,000	-
Ch. 138 -- Laws of 1965 (R-2010A).....	386,380,000	386,380,000	230,520,000	-
Ch. 138 -- Laws of 1965 (R-2010B).....	215,500,000	215,500,000	157,860,000	-
Ch. 138 -- Laws of 1965 (R-2011A).....	365,605,000	365,605,000	240,370,000	-
Ch. 138 -- Laws of 1965 (R-2011B).....	401,435,000	401,435,000	348,485,000	-
Ch. 138 -- Laws of 1965 (R-2012A).....	461,380,000	461,380,000	307,130,000	-
Ch. 138 -- Laws of 1965 (R-2012C).....	733,705,000	733,705,000	710,925,000	-
Ch. 138 -- Laws of 1965 (R-2013A).....	352,220,000	352,220,000	350,365,000	-
Ch. 138 -- Laws of 1965 (R-2013C).....	666,680,000	666,680,000	639,290,000	-
Ch. 138 -- Laws of 1965 (R-2014A).....	117,905,000	117,905,000	88,025,000	-
Ch. 138 -- Laws of 1965 (R-2015A).....	420,085,000	420,085,000	420,085,000	-
Ch. 138 -- Laws of 1965 (R-2015C).....	615,975,000	615,975,000	593,520,000	-
Ch. 138 -- Laws of 1965 (R-2015E).....	451,045,000	451,045,000	450,585,000	-
Ch. 138 -- Laws of 1965 (R-2015G).....	113,315,000	113,315,000	112,830,000	-
Ch. 138 -- Laws of 1965 (R-2016A).....	188,305,000	188,305,000	187,875,000	-
Ch. 34 -- Laws of 1982 as amended.....	19,771,750	19,771,750	-	-
Ch. 14 -- Laws of 1989, 1st Ex. Sess., as amended.....	578,439,431	547,270,000	37,240,000	31,169,431
Ch. 31 -- Laws of 1991, 1st Sp. Sess., as amended.....	608,542,302	608,542,302	53,145,000	-
Ch. 12 -- Laws of 1993, 1st Sp. Sess.....	330,344,716	330,344,716	2,499,196	-
Ch. 17 -- Laws of 1995, 2nd Sp. Sess., as amended....	424,401,667	424,401,667	108,092,126	-
Ch. 456 -- Laws of 1997, Regular Sess.....	18,340,000	18,340,000	4,275,000	-
Ch. 3 -- Laws of 2003, 1st Sp. Sess.....	191,800,000	191,800,000	7,405,000	-
Ch. 18 -- Laws of 2003, 1st Sp. Sess.....	253,825,000	195,285,000	79,925,000	58,540,000
Ch. 147 -- Laws of 2003, Regular Sess.....	203,590,000	165,540,000	139,280,000	38,050,000
Ch. 487 -- Laws of 2005, Regular Sess.....	341,920,000	341,920,000	129,160,000	-
Ch. 167 -- Laws of 2006, Regular Sess.....	217,615,000	157,565,000	130,755,000	60,050,000
Ch. 521 -- Laws of 2007, Regular Sess.....	1,253,040,000	1,253,040,000	908,725,000	-
Ch. 179 -- Laws of 2008, Regular Sess.....	50,000,000	48,210,000	47,330,000	1,790,000
Ch. 6 -- Laws of 2009, Regular Sess.....	133,000,000	124,325,000	101,880,000	8,675,000
Ch. 498 -- Laws of 2009, Regular Sess.....	2,219,000,000	2,029,230,000	1,757,165,000	189,770,000
Ch. 49 -- Laws of 2011, 1st Sp. Sess.....	1,122,000,000	991,985,000	950,865,000	130,015,000
Ch. 1 -- Laws of 2012, 1st Sp. Sess.....	505,466,000	456,215,000	441,770,000	49,251,000
Ch. 20 -- Laws of 2013, 2nd Sp. Sess.....	2,036,000,000	1,007,485,000	967,190,000	1,028,515,000
Ch. 37 -- Laws of 2015, 3rd Sp. Sess.....	2,332,456,000	177,440,000	177,440,000	2,155,016,000
Subtotal.....	18,945,926,865	15,195,085,434	11,116,341,322	3,750,841,431

(1) Preliminary, subject to change. Does not include current offerings dated February 16, 2016 (Series R-2016B Bonds); does not include the defeasance of the Refunded Bonds. See "SOURCES AND USES OF FUNDS--Plan of Refunding" in the front portion of this Official Statement. Does not include Series 2016C Bonds expected to be sold on February 9, 2016, and expected to close on February 16, 2016.

(2) Does not include bonds authorized under a bond act which are unissuable because all required deposits or transfers under that act have been completed.

Excluded From Constitutional Debt Limitation

Chapter and Laws	Bonds Authorized	Issued	Bonds Outstanding	Unissued
Ch. 138 -- Laws of 1965 (R-2015E).....	7,715,000	7,715,000	7,705,000	-
Ch. 220 -- Laws of 1997, Regular Sess.....	217,074,718	217,074,718	90,028,820	-
Ch. 179 -- Laws of 2008, Regular Sess.....	91,725,000	87,095,000	77,615,000	4,630,000
Subtotal.....	316,514,718	311,884,718	175,348,820	4,630,000
Total.....	19,262,441,582	15,506,970,151	11,291,690,143	3,755,471,431

Debt Authorization and Outstanding Debt
Motor Vehicle Fuel Tax General Obligation Bonds
and Limited Obligation Bonds
As of February 16, 2015

Motor Vehicle Fuel Tax Revenue

Chapter and Laws	Bonds Authorized	Issued [1]	Bonds Outstanding [1]	Unissued
Ch. 138 -- Laws of 1965 (R-2007B)	63,810,000	63,810,000	30,240,000	-
Ch. 138 -- Laws of 1965 (R-2007D)	73,030,000	73,030,000	41,975,000	-
Ch. 138 -- Laws of 1965 (R-2010C)	121,235,000	121,235,000	89,670,000	-
Ch. 138 -- Laws of 1965 (R-2011C)	393,950,000	393,950,000	318,105,000	-
Ch. 138 -- Laws of 1965 (R-2012B)	42,330,000	42,330,000	39,715,000	-
Ch. 138 -- Laws of 1965 (R-2012D)	271,055,000	271,055,000	259,535,000	-
Ch. 138 -- Laws of 1965 (R-2013B)	380,390,000	380,390,000	363,770,000	-
Ch. 138 -- Laws of 1965 (R-2013D)	159,405,000	159,405,000	159,405,000	-
Ch. 138 -- Laws of 1965 (R-2014B)	105,975,000	105,975,000	78,975,000	-
Ch. 138 -- Laws of 1965 (R-2015B)	420,545,000	420,545,000	420,545,000	-
Ch. 138 -- Laws of 1965 (R-2015D)	301,755,000	301,755,000	294,225,000	-
Ch. 138 -- Laws of 1965 (R-2015F)	147,325,000	147,325,000	146,550,000	-
Ch. 138 -- Laws of 1965 (R-2015H)	132,745,000	132,745,000	132,745,000	-
Ch. 83 -- Laws of 1967, 1st Ex. Sess	103,890,000	61,320,000	6,385,000	42,570,000
Ch. 180 -- Laws of 1979, 1st Ex. Sess	28,480,000	28,480,000	795,000	-
Ch. 315 -- Laws of 1981	36,860,000	36,860,000	1,480,000	-
Ch. 316 -- Laws of 1981	148,375,000	148,375,000	2,195,000	-
Ch. 293 -- Laws of 1990	15,000,000	13,400,000	1,985,000	1,600,000
Ch. 431 -- Laws of 1993, as amended	354,010,000	128,177,709	35,973,771	225,832,291
Ch. 432 -- Laws of 1993	81,280,000	6,085,000		75,195,000
Ch. 440 -- Laws of 1993	31,660,000	24,150,000	230,000	7,510,000
Ch. 15 -- Laws of 1995, 2nd Sp. Sess	11,200,000	4,990,000		6,210,000
Ch. 321 -- Laws of 1998	1,180,805,000	1,107,371,712	628,806,861	73,433,288
Ch. 147 -- Laws of 2003	2,028,745,000	1,685,018,877	1,232,951,904	343,726,123
Ch. 315 -- Laws of 2005	4,907,335,000	2,870,053,336	2,545,111,578	2,037,281,664
Ch. 498 -- Laws of 2009 (2)	863,685,000	518,775,000	518,775,000	344,910,000
Total	12,404,875,000	9,246,606,634	7,350,144,114	3,158,268,366

Motor Vehicle Fuel Tax Revenue and Vehicle-related Fees (License Fees)

Chapter and Laws	Bonds Authorized	Issued	Bonds Outstanding	Unissued
Ch. 45 -- Laws of 2015	5,300,000,000	-	-	5,300,000,000
Subtotal	5,300,000,000	-	-	5,300,000,000

Pledged Federal Aid (GARVEE)

Chapter and Laws	Bonds Authorized	Issued	Bonds Outstanding	Unissued
Ch. 498 -- Laws of 2009 (2)	786,315,000	786,315,000	723,715,000	-
Subtotal	786,315,000	786,315,000	723,715,000	-

TIFIA Bonds

Chapter and Laws	Bonds Authorized	Issued	Bonds Outstanding	Unissued
Ch. 498 -- Laws of 2009 (2)(3)	300,000,000	300,000,000	195,199,364	-
Subtotal	300,000,000	300,000,000	195,199,364	-
Total	18,791,190,000	10,332,921,634	8,269,058,478	8,458,268,366

(1) Preliminary, subject to change. Does not include current offerings dated February 16, 2016 (Series R-2016C Bonds); does not include the defeasance of the Refunded Bonds. See "SOURCES AND USES OF FUNDS--Plan of Refunding" in the front portion of this Official Statement. Does not include Series 2016D Bonds expected to be sold on February 9, 2016, and expected to close on February 16, 2016.

(2) Pursuant to the Chaper 498, Laws of 2009, the Legislature authorized the issuance and sale of $1,950,000,000 of general obligation bonds of the state first payable from toll revenue and then state excise taxes on motor vehicle and special fuels. Chaper 498, Laws of 2009 also authorizes the State Finance Committee to issue the authorized bonds as toll revenue bonds payable solely from toll revenue and not as general obligation bonds.

(3) $195.2 million of the $300 million TIFIA Bond has been drawn as of January 20, 2016. See "TRANSPORTATION RELATED REVENUES AND EXPENDITURES--Transportation Expenditures--Payment of Bonds Payable from Toll Revenue and Other Funds."

Grand Total.....	38,053,631,582	25,839,891,785	19,560,748,620	12,213,739,797

APPENDIX C

PROPOSED FORMS OF LEGAL OPINIONS

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FOSTER PEPPER PLLC

[FORM OF APPROVING LEGAL OPINION]

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

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

$_____
STATE OF WASHINGTON
VARIOUS PURPOSE GENERAL OBLIGATION REFUNDING BONDS, SERIES R-2016B
DATED _____, 2016

The Bonds are issued pursuant to Chapters 39.42 and 39.53 RCW (collectively, the "Refunding Bond Act"), Resolution No. 1172 of the State Finance Committee (the "Committee") of the State adopted on August 17, 2015, and Resolution No. _____ of the Committee acting by and through the State Treasurer adopted on [January 20], 2016 (collectively, the "Bond Resolution"), and other proceedings duly had and taken in conformity therewith. The Bonds are issued for the purpose of providing funds with which to pay the cost of refunding certain outstanding various purpose general obligation bonds of the State to provide a debt service savings to the State and to pay the administrative costs of such refunding and the costs of issuance and sale of the Bonds. Capitalized terms used in this opinion which are not otherwise defined shall have the meanings given to such terms in the Bond Resolution.

As to questions of fact material to our opinion, we have relied upon representations of the State contained in the Bond Resolution and in the certified proceedings and other certifications of public officials and others furnished to us without undertaking to verify the same by independent investigation.

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

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

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

2. The Bonds have been legally issued and constitute valid general obligations of the State, except to the extent that the enforcement of the rights and remedies of the holders and owners of the Bonds may be limited by

laws relating to bankruptcy, insolvency, moratorium, reorganization or other similar laws of general application affecting the rights of creditors, by the application of equitable principles and the exercise of judicial discretion.

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

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

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

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

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

Respectfully submitted,

FOSTER PEPPER PLLC

[FORM OF APPROVING LEGAL OPINION]

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

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

$_____
STATE OF WASHINGTON
MOTOR VEHICLE FUEL TAX GENERAL OBLIGATION REFUNDING BONDS, SERIES R-2016C
DATED _____, 2016

The Bonds are issued pursuant to Chapters 39.42 and 39.53 RCW (collectively, the "Refunding Bond Act"), Resolution No. 1172 of the State Finance Committee (the "Committee") of the State adopted on August 17, 2015, and Resolution No. _____ of the Committee acting by and through the State Treasurer adopted on [January 20], 2016 (collectively, the "Bond Resolution"), and other proceedings duly had and taken in conformity therewith. The Bonds are issued for the purpose of providing funds with which to pay the cost of refunding certain outstanding motor vehicle fuel tax general obligation bonds of the State to provide a debt service savings to the State and to pay the administrative costs of such refunding and the costs of issuance and sale of the Bonds. Capitalized terms used in this opinion which are not otherwise defined shall have the meanings given to such terms in the Bond Resolution.

As to questions of fact material to our opinion, we have relied upon representations of the State contained in the Bond Resolution and in the certified proceedings and other certifications of public officials and others furnished to us without undertaking to verify the same by independent investigation.

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

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

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

2. The Bonds have been legally issued and constitute valid general obligations of the State, except to the extent that the enforcement of the rights and remedies of the holders and owners of the Bonds may be limited by

laws relating to bankruptcy, insolvency, moratorium, reorganization or other similar laws of general application affecting the rights of creditors, by the application of equitable principles and the exercise of judicial discretion.

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

4. The Bonds are first payable from state excise taxes on motor vehicle and special fuels and are secured by charges on such taxes as set forth in the Bonds and the Bond Resolution. The State has covenanted that it will continue to levy such taxes in amounts sufficient to pay when due the principal of and interest on the Bonds.

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

Respectfully submitted,

APPENDIX D

THE STATE'S 2015 AUDITED FINANCIAL STATEMENTS

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Washington State Auditor's Office

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

October 30, 2015

The Honorable Jay Inslee
Governor, State of Washington

REPORT ON THE 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, 2015, 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	13.6%	26.1%	8.3%
Business-Type Activities	75.0%	100.0%	28.8%
Higher Education Special Revenue Fund	55.5%	57.7%	51.5%
Higher Education Endowment Fund	96.7%	96.7%	100.0%
Higher Education Student Services Fund	77.0%	92.3%	84.6%
Workers' Compensation Fund	94.7%	100.0%	8.2%
Guaranteed Education Tuition Program Fund	88.8%	100.0%	28.3%
Aggregate Discretely Presented Component Units and Remaining Fund Information	92.6%	94.4%	64.3%

Those statements were audited by other auditors, whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the above mentioned entities and funds, is based solely on the reports of the 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. 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 were not audited in accordance with *Government Auditing Standards*.

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 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, 2015, 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 $32.06 billion, which comprise 28.2 percent of total assets and 30.6 percent 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 was not modified with respect to this matter.

As described in Note 2, during the year ended June 30, 2015, the State has implemented the Governmental Accounting Standards Board *Statement No. 68, Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. 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, budgetary comparison schedules and information, pension plan information, other postemployment benefits information and infrastructure assets reported using the modified approach 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 the 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 individual fund schedules 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 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 October 30, 2015, 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,

JAN M. JUTTE, CPA, CGFM

ACTING STATE AUDITOR

OLYMPIA, WA

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, 2015. 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 and deferred inflows by $20.60 billion (reported as net position). Of this amount, $(12.89) 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 $14.70 billion, an increase of 2.4 percent compared with the prior year as restated.

- The state implemented Statement No. 68 of the Governmental Accounting Standards Board (GASB) *Accounting and Financial Reporting for Pensions* for fiscal year 2015 financial reporting which resulted in a decrease in the beginning balance of net position of $3.04 billion in Governmental Activities and a decrease of $474.2 million for Business-Type Activities.

- The state's capital assets increased by $1.39 billion, total bond debt increased by $670.1 million, and the state's net investment in capital assets is $20.93 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 (GET), and various higher education student services such as housing and dining.

The government-wide financial statements can be found on pages 36-39 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 42-45 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 46-55 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 56-57 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 four major component units, the Valley Medical Center, Northwest Hospital, the Washington State Public Stadium Authority and the Health Benefit Exchange, as well as four nonmajor component units. Refer to Note 1 on pages 67-68 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 58-63 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 65-164 of this report.

OTHER INFORMATION

In addition to this discussion and analysis, this report also presents required supplementary information on budgetary comparisons, pension plans and other postemployment benefits information, and infrastructure assets reported using the modified approach.

Required supplementary information can be found on pages 167-190 of this report.

The combining statements referred to earlier are presented immediately following the required supplementary information. Combining financial statements and individual fund schedules can be found on pages 193-257 of this report.

STATE OF WASHINGTON
Statement of Net Position
(in millions of dollars)

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
ASSETS						
Current and other assets	$ 23,812	$ 21,468	$ 24,557	$ 24,394	$ 48,369	$ 45,862
Capital assets	37,783	36,375	2,925	2,850	40,708	39,225
Total assets	61,595	57,843	27,482	27,244	89,077	85,087
DEFERRED OUTFLOWS OF RESOURCES	481	-	83	15	564	15
LIABILITIES						
Current and other liabilities	5,339	5,043	1,035	1,190	6,374	6,233
Long-term liabilities outstanding	30,459	25,994	30,104	29,947	60,563	55,941
Total liabilities	35,798	31,037	31,139	31,137	66,937	62,174
DEFERRED INFLOWS OF RESOURCES	1,944	2	158	-	2,102	2
NET POSITION						
Net investment in capital assets	19,958	19,816	973	625	20,931	20,441
Restricted	8,320	6,589	4,240	3,815	12,560	10,404
Unrestricted	(3,944)	399	(8,945)	(8,318)	(12,889)	(7,919)
Total net position	$ 24,334	$ 26,804	$ (3,732)	$ (3,878)	$ 20,602	$ 22,926

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 and deferred inflows of resources by $20.60 billion at June 30, 2015, as compared to $22.93 billion as reported at June 30, 2014.

The largest portion of the state's net position (101.6 percent for fiscal year 2015 as compared to 89.2 percent for fiscal year 2014) 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 (61.0 percent for fiscal year 2015 as compared to 45.4 percent for fiscal year 2014) represents resources that are subject to external restrictions on how they may be used. The remaining balance of $(12.89) billion represents unrestricted net position. The state's overall negative balance in unrestricted net position is largely due to deficits in business-type activities.

In governmental activities, net position decreased from $26.80 billion in fiscal year 2014 to $24.33 billion in fiscal year 2015. Beginning balance adjustments accounted for $2.14 billion of the decrease in net position. These include the implementation of GASB Statement No. 68 and offsetting adjustments to correct prior accounting practices. The remaining decrease of $327.9 million reflects increases in expenses that outpaced the increases in revenues.

In business-type activities, 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	
	2015	2014	2015	2014	2015	2014
REVENUES						
Program revenues:						
Charges for services	$ 5,985	$ 5,850	$ 6,631	$ 6,416	$ 12,616	$ 12,266
Operating grants and contributions	15,158	13,240	77	326	15,235	13,566
Capital grants and contributions	867	1,066	-	-	867	1,066
General revenues:						
Taxes	18,132	17,849	20	22	18,152	17,871
Interest and investment earnings (loss)	307	621	377	1,618	684	2,239
Total revenues	40,449	38,626	7,105	8,382	47,554	47,008
EXPENSES						
General government	(1,987)	(1,607)	-	-	(1,987)	(1,607)
Education - K-12	(9,426)	(8,914)	-	-	(9,426)	(8,914)
Education - Higher education	(7,095)	(6,910)	-	-	(7,095)	(6,910)
Human services	(16,890)	(15,052)	-	-	(16,890)	(15,052)
Adult corrections	(956)	(911)	-	-	(956)	(911)
Natural resources and recreation	(1,335)	(1,137)	-	-	(1,335)	(1,137)
Transportation	(2,309)	(2,400)	-	-	(2,309)	(2,400)
Interest on long-term debt	(981)	(938)	-	-	(981)	(938)
Workers' compensation	-	-	(3,018)	(3,142)	(3,018)	(3,142)
Unemployment compensation	-	-	(968)	(1,380)	(968)	(1,380)
Higher education student services	-	-	(2,314)	(2,080)	(2,314)	(2,080)
Washington's lottery	-	-	(466)	(463)	(466)	(463)
Guaranteed education tuition program	-	-	585	(185)	585	(185)
Other business-type activities	-	-	(158)	(133)	(158)	(133)
Total expenses	(40,979)	(37,869)	(6,339)	(7,383)	(47,318)	(45,252)
Excess (deficiency) of revenues over expenses before contributions to endowments and transfers	(530)	757	766	999	236	1,756
Contributions to endowments	66	66	-	-	66	66
Transfers	136	94	(136)	(94)	-	-
Increase (decrease) in net position	(328)	917	630	905	302	1,822
Net position - July 1, as restated	24,662	25,887	(4,362)	(4,783)	20,300	21,104
Net position - June 30	$ 24,334	$ 26,804	$ (3,732)	$ (3,878)	$ 20,602	$ 22,926

Governmental Activities. Governmental activities resulted in a decrease in the state of Washington's net position of $327.9 million. A number of factors were in play including increases in both spending on K-12 education and tax revenues.

- Expenses grew by $511.9 million for K-12 education in 2015 as compared to fiscal year 2014. The state is working to meet the requirements of the state Supreme Court's 2012 McCleary ruling to meet its constitutional duty to fund basic education.

- Tax revenues increased by $282.7 million in fiscal year 2015 as compared to fiscal year 2014 reflecting positive growth in the economy. Sales and use taxes reported an increase of $636.1 million. Sales and use taxes are the main tax revenue for governmental activities. Real estate excise tax revenue increased by $209.9 million. Real estate excise taxes are levied on the sale of real estate. These tax revenue increases reflect the rebounding economy, recovering housing markets, and improving employment picture in Washington.

- Sales of recreational marijuana generated $64.9 million in new excise tax in 2015.

- Tuition and fee revenues at higher education institutions held steady in fiscal year 2015 compared with fiscal year 2014.

- Operating grants and contributions grew by $1.92 billion in fiscal year 2015 compared with 2014 and was matched with an increase in human services expenses. The increases in both grant revenue and human services expenditures are largely due to the state expansion of its Medicaid program under the Affordable Care Act providing coverage to 534,000 newly eligible adults.

Business-Type Activities. Business-type activities increased the state of Washington's net position by $629.6 million. Workers' compensation, unemployment compensation, and guaranteed education tuition activities contributed to the increase. Key factors contributing to the operating results of business-type activities are:

- The workers' compensation activity decrease in net position in fiscal year 2015 was $400.9 million compared to an increase of $240.4 million in fiscal year 2014. Premium revenue increased by $137.1 million as a result of an increase in the number of hours reported by employers, a mid-year premium rate increase, and an increase in the number of hours reported by businesses in higher rate classes. Claim costs decreased by $144.2 million in fiscal year 2015 compared with fiscal year 2014 reflecting a reduction in the number of time-loss claims. Nonoperating investment income decreased by $902.6 million due predominately to a net decrease in realized and unrealized gains on debt securities. The workers' compensation portfolio is 86.1 percent debt securities.

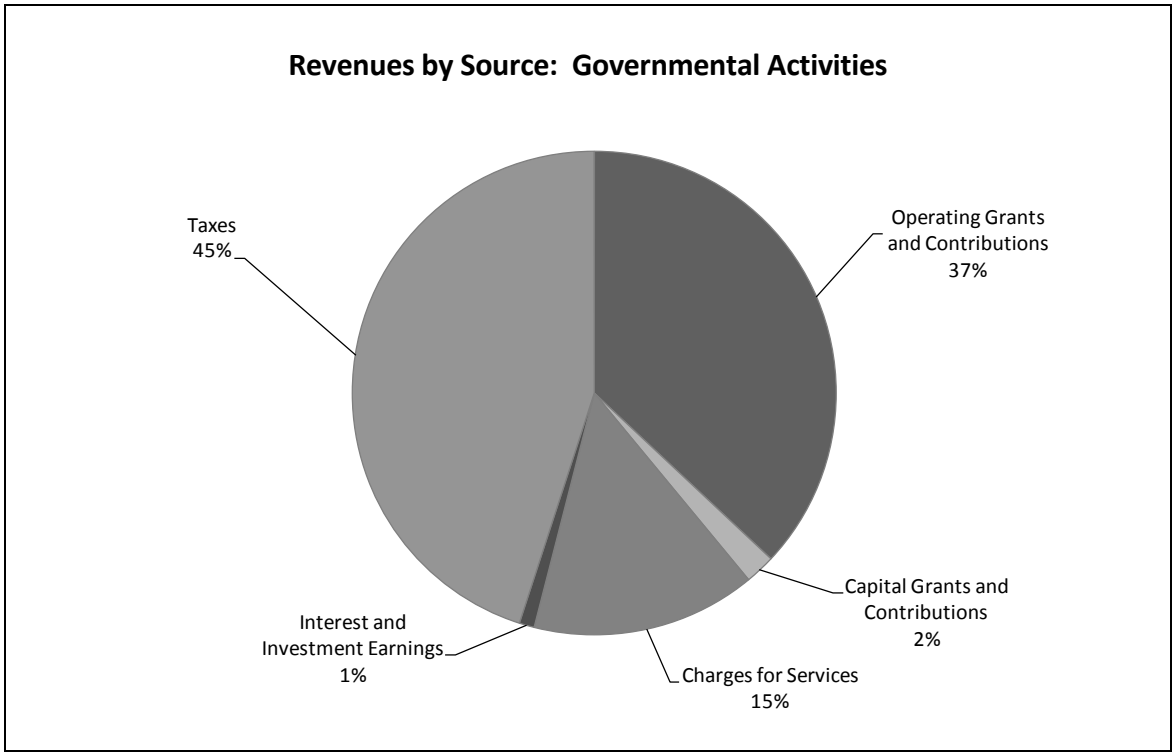
- The unemployment compensation activity reported an operating income in fiscal year 2015 of $344.9 million, compared to $272.6 million in fiscal year 2014. Washington's unemployment insurance program is an experience-based system with the largest part of an individual employer's tax rate being based on the employer's layoff experience over the past four years. The economic recovery in the state has stabilized employment and resulted in a decline in unemployment insurance benefits of $411.7 million in fiscal year 2015 over fiscal year 2014. The decrease in benefit costs was the result of a decline in both the number of claims and the duration of the claims. The unemployment rate for the state for June 2015 was 5.3 percent, down from 5.4 percent in June 2014, and the insured rate declined to 1.5 percent in fiscal year 2015 from 1.8 percent in fiscal year 2014. The state's unemployment insurance premiums are experience based and the unemployment rate is declining, which resulted in premium revenue decreasing by 6.8 percent. The $247.0 million decline in federal aid also reflects the decrease in the unemployment rate.

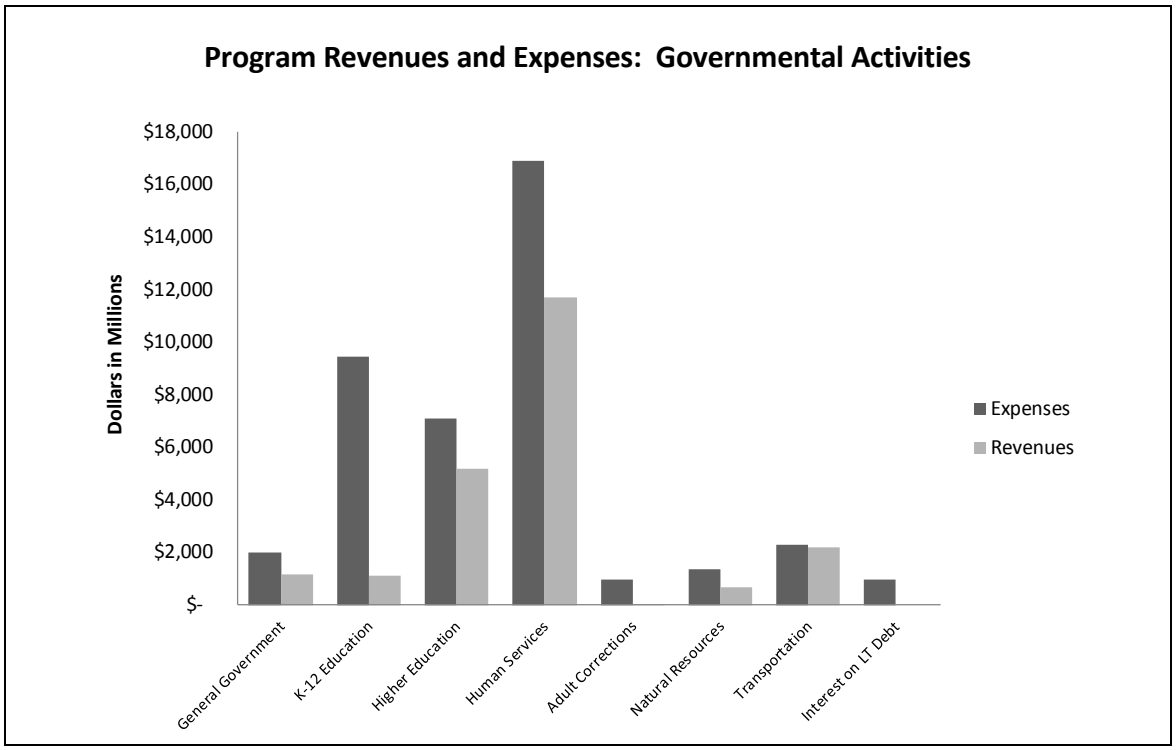
- The Guaranteed Education Tuition (GET) Program reported an increase in net position of $658.7 million increasing its funded status to 140.1 percent, up from 105.8 percent the previous year, in spite of the fact that the number of tuition units sold dropped for the fourth straight year and investment returns were down.

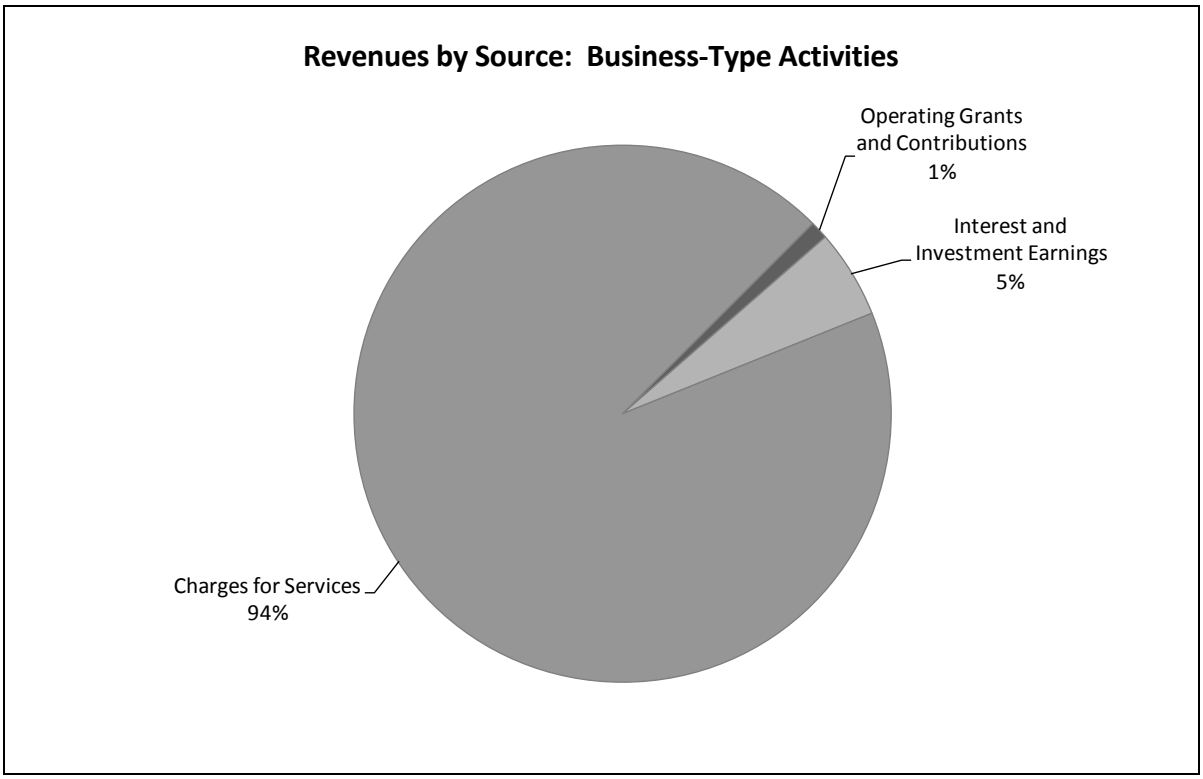
  Investment returns declined to 0.8 percent in fiscal year 2015 compared to 16.4 percent in fiscal year 2014. The GET investment portfolio was rebalanced during fiscal year 2015 to diversify the portfolio across various investment types as well as broadly within asset classes in order to reduce the aggregate volatility of the total portfolio.

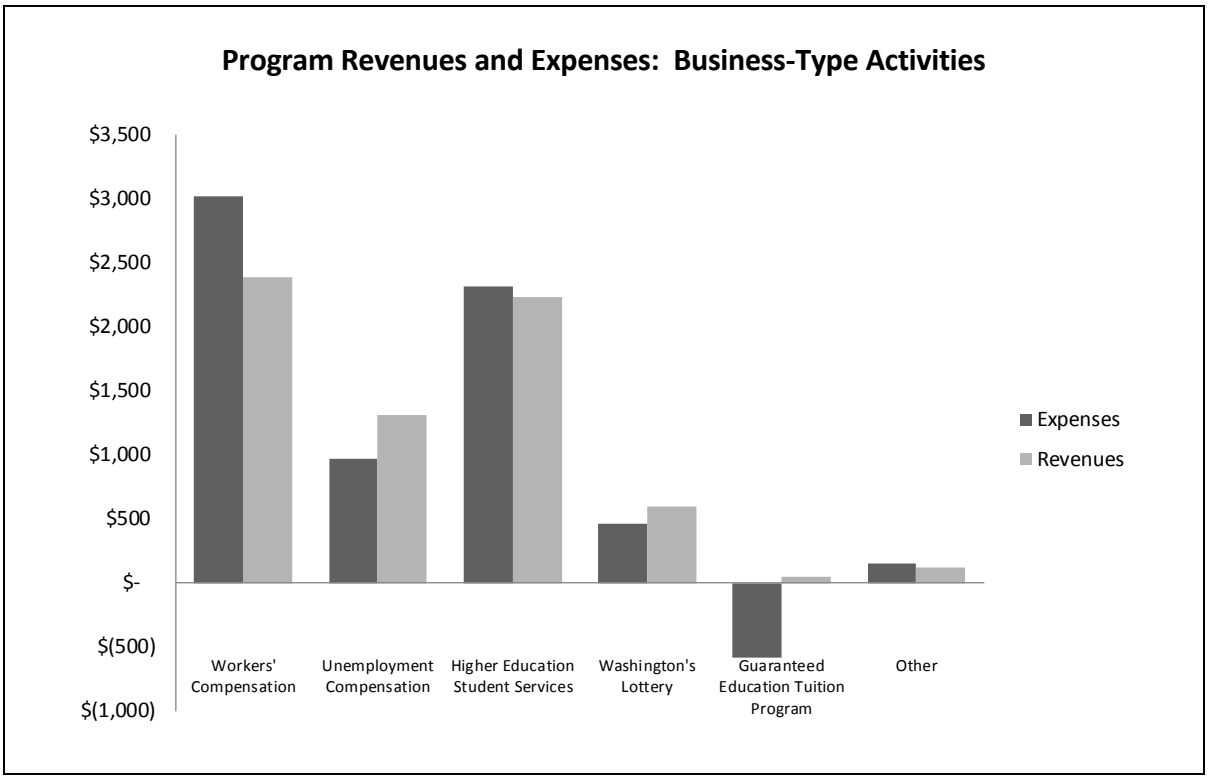
  While current year investment returns were down, the actuarial valuation of the obligation for future tuition benefits assumed a higher rate of investment return based on a recent experience study. The valuation also assumed a lower rate of tuition growth in response to recently enacted legislation. Overall the tuition benefit obligation decreased by 29.8 percent.

- The remaining business-type activities reported relatively proportional increases in both operating revenues and expenses when compared to the prior year.


Revenues by Source: Governmental Activities
Taxes 45%
Operating Grants and Contributions 37%
Capital Grants and Contributions 2%
Charges for Services 15%
Interest and Investment Earnings 1%


Program Revenues and Expenses: Governmental Activities
Dollars in Millions
$18,000
$16,000
$14,000
$12,000
$10,000
$8,000
$6,000
$4,000
$2,000
$-
General Government
K-12 Education
Higher Education
Human Services
Adult Corrections
Natural Resources
Transportation
Interest on LT Debt
Expenses
Revenues


Revenues by Source: Business-Type Activities
Operating Grants and Contributions 1%
Interest and Investment Earnings 5%
Charges for Services 94%


Program Revenues and Expenses: Business-Type Activities
$3,500
$3,000
$2,500
$2,000
$1,500
$1,000
$500
$-
$(500)
$(1,000)
Workers' Compensation
Unemployment Compensation
Higher Education Student Services
Washington's Lottery
Guaranteed Education Tuition Program
Other
Expenses
Revenues

Financial Analysis of the State'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 79 and 80, beginning fund balances of governmental funds were adjusted to correct prior period activity.

Fund Balances. At June 30, 2015, the state's governmental funds reported combined ending fund balances of $14.70 billion. Of this amount, $2.53 billion or 17.3 percent is nonspendable, either due to its form or legal constraints, and $4.37 billion or 29.7 percent is restricted for specific programs by external constraints, constitutional provisions or contractual obligations. An additional $5.97 billion or 40.6 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 $1.03 billion or 7.0 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 $854.3 million in fiscal year 2015, as compared to a $443.5 million gain in fiscal year 2014. Increased revenues from taxes and federal grants-in-aid and targeted spending increases in K-12 education and social and health services combined with a concerted effort to hold the line on other spending were the key contributing factors. Assigned fund balance of $1.01 billion is reported for fiscal year 2015 and relates to certain accrued and non-cash revenues which are not considered by management to be available for budgetary purposes.

STATE OF WASHINGTON
General Fund
(in millions of dollars)

	Fiscal Year 2015	Fiscal Year 2014	Difference Increase (Decrease)
REVENUES			
Taxes	$ 17,025	$ 16,008	$ 1,017
Federal grants	12,053	10,226	1,827
Investment revenue (loss)	8	7	1
Other	698	614	84
Total	29,784	26,855	2,929
EXPENDITURES			
Human services	16,794	14,920	1,874
Education	10,177	9,754	423
Other	1,505	1,460	45
Total	28,476	26,134	2,342
Net transfers in (out)	(653)	(447)	(206)
Other financing sources	199	170	29
Net increase (decrease) in fund balance	$ 854	$ 444	$ 410

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 change in net position of the Higher Education Special Revenue Fund in fiscal year 2015 was $126.1 million compared to $140.6 million in fiscal year 2014. The decline in fiscal year 2015 was largely due to a 6.8 percent increase in expenditures outpacing revenue growth. Revenues showed only a slight gain of 2.7 percent reflecting the state's decision to hold tuition steady.

- The fund balance for the Higher Education Endowment Fund increased by $80.8 million in fiscal year 2015. Fiscal year 2015 reported a decrease of $283.6 million in investment earnings due to a downturn in the market.

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 $400.9 million in fiscal year 2015. Operating revenues increased by $138.1 million and operating expenses decreased by $123.5 million as compared to fiscal year 2014. As previously reported, operating revenues increased due to an increase in reported hours in higher rate classes and claims expense decreased due to a reduction in the number of time-loss claims. Investment income decreased $902.6 million over fiscal year 2014 due to a decrease in net realized and unrealized capital gains.

- Washington's Unemployment Compensation Fund reported an increase in net position of $425.4 million. As reported previously, premium revenue increased reflecting a growing workforce and higher taxable wage base. Unemployment benefit claims expense decreased by $411.7 million in fiscal year 2015 as compared to 2014 and federal aid decreased by $247.0 million over the same period. The decreases in both benefit claims and federal aid are consistent with the decline in the state's unemployment rate.

- The Guaranteed Education Tuition (GET) Program Fund reported an increase in net position of $658.7 million in fiscal year 2015. As previously reported, the increase is due primarily to a reduction in the assumed rate of tuition growth and a higher assumed rate of investment return.

- The Higher Education Student Services Fund and the nonmajor enterprise funds reported activity fairly consistent with the prior year.

General Fund Budgetary Highlights

Differences between the original budget of the General Fund and the final amended budget reflect increases in mandatory costs driven by rising caseloads and school enrollment as well as other high priority needs. Changes to estimates are summarized as follows:

- Estimated biennial resources increased by $2.63 billion over the course of the biennium. The major increase in estimated resources is reported in federal grants-in-aid reflecting the state expansion of its Medicaid program under the Affordable Care Act.

- Appropriated expenditure authority increased by $1.97 billion over the biennium to address increases in mandatory and high priority programs. The major increases in appropriation authority were in human services. The availability of additional federal funding allowed the state to provide coverage to more than 534,000 newly eligible adults under the Affordable Care Act.

The state did not overspend its legal spending authority for the 2013-15 biennium. Actual General Fund revenues and expenditures were 97.8 and 97.0 percent of final budgeted resources and appropriations, respectively, for the 2013-15 biennium.

Capital Assets, Infrastructure, and Bond Debt Administration

Capital Assets. The state of Washington's investment in capital assets for its governmental and business-type activities as of June 30, 2015, totaled $40.71 billion (net of accumulated depreciation). This investment in capital assets includes land, infrastructure, museum and historical collections, buildings and other improvements, furnishings, equipment, and intangible assets, as well as construction in progress.

Washington's fiscal year 2015 investment in capital assets, net of current year depreciation, increased $1.39 billion over fiscal year 2014, including increases to the state's transportation infrastructure of $818.2 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 $2.42 billion.

Additional information on the state of Washington's capital assets can be found in Note 6 beginning on page 110 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 20,732 lane miles of pavement, 3,288 bridges, and 48 highway safety rest areas. Infrastructure asset categories are assessed on a two year cycle, either on a calendar year or fiscal year basis.

STATE OF WASHINGTON

Capital Assets - Net of Depreciation

(in millions of dollars)

	Governmental Activities		Business-Type Activities		Total	
	2015	2014*	2015	2014	2015	2014
Land	$ 2,625	$ 2,571	$ 58	$ 61	$ 2,683	$ 2,632
Transportation infrastructure and other assets not depreciated	23,376	22,554	5	5	23,381	22,559
Buildings	7,826	7,702	2,312	2,410	10,138	10,112
Furnishings, equipment, and intangible assets	1,829	1,513	183	189	2,012	1,702
Other improvements and infrastructure	1,236	1,223	75	81	1,311	1,304
Construction in progress	891	906	293	104	1,184	1,010
Total	$ 37,783	$ 36,469	$ 2,926	$ 2,850	$ 40,709	$ 39,319

* Prior year balances restated for comparability

The state's goal is to maintain 85 percent of pavements and 90 percent of bridges at a condition level of fair or better. The condition of these assets, along with the rating scales, and additional detail comparing planned to actual preservation and maintenance spending are available in the required supplementary information beginning on page 187.

The most recent pavements condition assessment indicates that 92.8 percent of pavements were in fair or better condition. The condition of pavements has remained steady in the last three assessment periods, averaging 92.2 percent in fair or better condition. For fiscal year 2015, actual maintenance and preservation expenditures were 17.8 percent lower than planned, and over the past five fiscal years, the actual expenditures were 6.2 percent lower than planned.

The most recent bridge condition assessment indicates that 92.1 percent of bridges were in good or fair condition. The condition of bridges has remained steady over the last three assessment periods, averaging 93 percent in good or fair condition. For fiscal year 2015, the actual maintenance and preservation expenditures were 9.9 percent lower than planned, and over the past five fiscal years, the actual expenditures were 8.4 percent lower than planned.

Bond Debt. At the end of fiscal year 2015, the state of Washington had general obligation bond debt outstanding including accreted interest and issuance premuims of $19.87 billion, an increase of 2.4 percent from fiscal year 2014. This debt is secured by a pledge of the full faith and credit of the state. Additionally, the state had authorized $5.61 billion general obligation debt that remains unissued.

General obligation debt is subject to the limitation prescribed by the State Constitution. The aggregate debt contracted by the state as of June 30, 2015, does not exceed that amount for which payments of principal and interest in any fiscal year would require the state to expend more than 8.5 percent of the arithmetic mean of its general state revenues for the six immediately preceding fiscal years. The arithmetic mean of its general state revenues for fiscal years 2009 - 2014 is $14.79 billion. The debt service limitation, 8.5 percent of this mean, is $1.26 billion. The state's maximum annual debt service as of June 30, 2015, subject to the constitutional debt limitation is $1.13 billion, or $128.3 million less than the debt service limitation.

For further information on the debt limit, refer to the statistical section on page 282 of this report or 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_cdl2015.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, 2015, 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	
	2015	2014*	2015	2014*	2015	2014
General obligation (GO) bonds	$ 19,396	$ 18,954	$ 4	$ 8	$ 19,400	$ 18,962
Accreted interest on zero interest rate GO bonds	472	416	-	-	472	416
Revenue bonds	2,316	2,021	1,991	2,109	4,307	4,130
Total	$ 22,184	$ 21,391	$ 1,995	$ 2,117	$ 24,179	$ 23,508

* Prior year balances restated for comparability

The state had revenue debt outstanding at June 30, 2015, of $4.31 billion, an increase of $177.1 million over fiscal year 2014. The increase is primarily related to grant anticipation revenue bonds issued by the Washington State Department of Transportation and 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 and Washington State University which issue general revenue bonds that are payable from general revenues of each university.

General obligation and revenue bonds totaling $3.19 billion were refunded during the year. Washington's refunding activity produced $449.4 million in gross debt service savings.

Additional information on the state's bond debt obligations is presented in Note 7 beginning on page 114 of this report.

Conditions with Expected Future Impact

Economic Outlook. Washington is well positioned for economic and population expansion. The state has a diverse industrial and environmental base that supports trade with Pacific Rim countries as well as knowledge-based industries including information, health, business, and financial services.

Washington's expanding economy, accelerated gains in hiring, and recovering housing markets have had a positive effect on revenue growth. Further economic growth and a continued expansion in the housing and commercial building markets should keep revenues growing at a sound pace.

That said, in the coming year, legislative leaders and management will be facing a number of challenges including:

- The slowing Chinese economy, the negative impact of a stronger dollar on exports, and the volatility in the stock markets pose threats to the U.S. and Washington economies.

- Under legislation approved in 2012, and beginning with the 2013-15 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.

- The courts have also made it clear that in addressing budget shortfalls the past six years, the state sometimes went too far in cutting services, such as for at-risk children and individuals with mental illness. Washington continues to address the requirements of the state Supreme Court 2012 McCleary ruling that found that the state has failed to meet its constitutional requirement to amply fund basic education. Although funding progress was made during the 2013-15 biennium, it was insufficient to satisfy the court.

General Election. There is a measure on the state's November 3, 2015, general election ballot that addresses state taxes. This measure would reduce the state retail sales tax by 1 percent unless the Legislature refers to voters a constitutional amendment requiring two-thirds legislative approval or voter approval to raise taxes and legislative approval for fee increases. If passed, the measure could impact the state fiscally.

Election results are not final or official until certified. By law December 3, 2015, is the last day for the Office of the Secretary of State to certify General Election returns. Information is posted as available on the Secretary of State's website at: http://www.sos.wa.gov.

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 30, 2015, $211.9 million was transferred to the BSA from the General Fund in accordance with the provisions of the Constitution. During fiscal year 2015, by three-fifths vote of each house, the Legislature appropriated $77.2 million from the BSA solely for emergency fire service mobilization, fire suppression, and fire damage recovery costs. Additionally, the Legislature, also by three-fifths vote of each house, authorized the transfer from the BSA to the General Fund the amount attributable to extraordinary revenue growth, not to exceed $50.0 million. The BSA had a fund balance of $513.1 million as of June 30, 2015.

The Guaranteed Education Tuition (GET) Program. The funded status of the GET Program increased during fiscal year 2015 reflecting lower assumed tuition growth in response to Engrossed Second Substitute Bill (E2SSB) 5954 which was signed into law by the Governor on July 6, 2015. E2SSB 5954 reduces tuition at all public institutions of higher learning during the fiscal years 2016 and 2017 and limits tuition growth in future years. In response to E2SSB 5954, the GET Program Committee authorized refunds of approximately $75.0 million in amortization fees to account holders which was recognized as of June 30, 2015. The Committee also permitted account holders, upon request, to receive a refund of their contributions or a fixed payout value, whichever is greater, without the usual penalties, fees, or waiting period. The full extent of E2SSB 5954's impact on the Program cannot reasonably be estimated as of the date of these financial statements.

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 43127, Olympia, WA 98504-3127.

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Basic Financial Statements

Government-wide Financial Statements

Statement of Net Position

June 30, 2015

(expressed in thousands)

Continued

	Primary Government			
	Governmental Activities	Business-Type Activities	Total	Component Units
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES				
ASSETS				
Cash and pooled investments	$ 6,208,919	$ 4,788,138	$ 10,997,057	$ 201,985
Taxes receivable (net of allowance for uncollectibles)	3,566,252	-	3,566,252	-
Other receivables (net of allowance for uncollectibles)	2,133,349	1,694,183	3,827,532	156,261
Internal balances	128,004	(128,004)	-	-
Due from other governments	3,870,500	118,451	3,988,951	-
Inventories and prepaids	110,639	60,884	171,523	23,632
Restricted cash and investments	375,987	7,613	383,600	5,770
Restricted receivables, current	22,094	3,172	25,266	-
Investments, noncurrent	5,768,557	17,602,903	23,371,460	151,347
Restricted investments, noncurrent	-	63,277	63,277	21,842
Restricted receivables, noncurrent	2,262	-	2,262	-
Restricted net pension asset	1,624,791	379	1,625,170	-
Other assets	-	345,082	345,082	137,739
Capital assets:				
Non-depreciable assets	26,892,627	354,954	27,247,581	71,321
Depreciable assets (net of accumulated depreciation)	10,890,596	2,570,573	13,461,169	720,039
Total capital assets	37,783,223	2,925,527	40,708,750	791,360
Total Assets	61,594,577	27,481,605	89,076,182	1,489,936
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows on hedging derivatives	5,008	-	5,008	422
Deferred outflows on refundings	4,776	30,263	35,039	6,435
Deferred outflows on pensions	471,489	52,523	524,012	60
Total Deferred Outflows of Resources	481,273	82,786	564,059	6,917
Total Assets and Deferred Outflows of Resources	$ 62,075,850	$ 27,564,391	$ 89,640,241	$ 1,496,853

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

Statement of Net Position

June 30, 2015

(expressed in thousands)

Concluded

	Primary Government			
	Governmental Activities	Business-Type Activities	Total	Component Units
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION				
LIABILITIES				
Accounts payable	$ 1,386,564	$ 171,495	$ 1,558,059	$ 88,156
Contracts and retainage payable	186,343	26,406	212,749	-
Accrued liabilities	1,867,539	522,338	2,389,877	115,980
Obligations under security lending agreements	143,201	144,305	287,506	-
Due to other governments	1,333,526	108,986	1,442,512	-
Unearned revenues	422,226	62,105	484,331	13,622
Long-term liabilities:				
Due within one year	1,533,506	2,350,163	3,883,669	18,379
Due in more than one year	28,925,118	27,752,827	56,677,945	428,207
Total Liabilities	35,798,023	31,138,625	66,936,648	664,344
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows on refundings	173	248	421	-
Deferred inflows on pensions	1,943,983	157,369	2,101,352	1,566
Total Deferred Inflows of Resources	1,944,156	157,617	2,101,773	1,566
NET POSITION				
Net investment in capital assets	19,957,567	972,671	20,930,238	378,736
Restricted for:				
Unemployment compensation	-	4,240,486	4,240,486	-
Nonexpendable permanent endowments	2,326,331	-	2,326,331	-
Expendable endowment funds	1,250,545	-	1,250,545	-
Pensions	1,624,791	379	1,625,170	-
Wildlife and natural resources	932,384	-	932,384	-
Transportation	725,319	-	725,319	-
Budget stabilization	513,079	-	513,079	-
Higher education	226,187	-	226,187	-
Capital projects	1,883	-	1,883	-
Other purposes	719,862	-	719,862	19,779
Unrestricted	(3,944,277)	(8,945,387)	(12,889,664)	432,428
Total Net Position	24,333,671	(3,731,851)	20,601,820	830,943
Total Liabilities, Deferred Inflows of Resources, and Net Position	$ 62,075,850	$ 27,564,391	$ 89,640,241	$ 1,496,853

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

Statement of Activities

For the Fiscal Year Ended June 30, 2015

(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	$ 1,986,904	$ 886,577	$ 249,961	$ 5,984
Education - elementary and secondary (K-12)	9,426,361	21,434	1,076,055	-
Education - higher education	7,094,929	2,815,368	2,318,744	28,204
Human services	16,889,699	659,425	11,052,429	-
Adult corrections	955,748	7,847	1,605	-
Natural resources and recreation	1,334,991	455,311	194,809	25,231
Transportation	2,308,967	1,139,177	264,028	807,353
Interest on long-term debt	980,630	-	-	-
Total Governmental Activities	40,978,229	5,985,139	15,157,631	866,772
Business-Type Activities:				
Workers' compensation	3,018,472	2,375,268	7,905	-
Unemployment compensation	968,381	1,256,593	56,669	-
Higher education student services	2,313,539	2,216,414	11,807	104
Washington's lottery	466,120	603,200	-	-
Guaranteed education tuition program	(584,590)	53,100	-	-
Other	156,569	125,977	343	-
Total Business-Type Activities	6,338,491	6,630,552	76,724	104
Total Primary Government	$ 47,316,720	$ 12,615,691	$ 15,234,355	$ 866,876
COMPONENT UNITS	$ 1,080,079	$ 944,899	$ 125,833	$ -
Total Component Units	$ 1,080,079	$ 944,899	$ 125,833	$ -

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 Position - 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
$ (844,382)	$ -	$ (844,382)	
(8,328,872)	-	(8,328,872)	
(1,932,613)	-	(1,932,613)	
(5,177,845)	-	(5,177,845)	
(946,296)	-	(946,296)	
(659,640)	-	(659,640)	
(98,409)	-	(98,409)	
(980,630)	-	(980,630)	
(18,968,687)	-	(18,968,687)	
-	(635,299)	(635,299)	
-	344,881	344,881	
-	(85,214)	(85,214)	
-	137,080	137,080	
-	637,690	637,690	
-	(30,249)	(30,249)	
-	368,889	368,889	
(18,968,687)	368,889	(18,599,798)	
			$ (9,347)
			(9,347)
9,000,790	-	9,000,790	-
3,393,679	-	3,393,679	-
2,018,393	-	2,018,393	18,132
1,253,179	-	1,253,179	-
926,550	19,847	946,397	-
474,183	-	474,183	-
455,112	-	455,112	-
555,976	-	555,976	-
54,483	-	54,483	-
306,705	377,238	683,943	5,257
18,439,050	397,085	18,836,135	23,389
(529,637)	765,974	236,337	14,042
65,419	-	65,419	-
136,364	(136,364)	-	-
(327,854)	629,610	301,756	14,042
24,661,525	(4,361,461)	20,300,064	816,901
$ 24,333,671	$ (3,731,851)	$ 20,601,820	$ 830,943

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Basic Financial Statements

Fund Financial Statements

Balance Sheet
GOVERNMENTAL FUNDS
June 30, 2015
(expressed in thousands)

	General	Higher Education Special Revenue	Higher Education Endowment	Nonmajor Governmental Funds	Total
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES					
ASSETS					
Cash and pooled investments	$ 1,669,615	$ 194,762	$ 476,023	$ 3,075,518	$ 5,415,918
Investments	34,736	1,810,135	3,677,830	248,107	5,770,808
Taxes receivable (net of allowance)	3,393,471	10,879	-	161,902	3,566,252
Other receivables (net of allowance)	174,954	1,047,060	45,952	845,160	2,113,126
Due from other funds	254,788	269,825	61	320,655	845,329
Due from other governments	1,028,195	248,541	-	2,459,842	3,736,578
Inventories and prepaids	13,644	15,122	-	52,748	81,514
Restricted cash and investments	51,362	1,207	-	240,786	293,355
Restricted receivables	509	4,780	-	5,385	10,674
Total Assets	6,621,274	3,602,311	4,199,866	7,410,103	21,833,554
DEFERRED OUTFLOWS OF RESOURCES					
Deferred outflows on hedging derivatives	-	-	-	5,008	5,008
Total Deferred Outflows of Resources	-	-	-	5,008	5,008
Total Assets and Deferred Outflows of Resources	$ 6,621,274	$ 3,602,311	$ 4,199,866	$ 7,415,111	$ 21,838,562
RESOURCES, AND FUND BALANCES					
LIABILITIES					
Accounts payable	$ 807,023	$ 75,748	$ 34,074	$ 421,549	$ 1,338,394
Contracts and retainages payable	50,576	4,513	3,293	126,359	184,741
Accrued liabilities	241,105	417,117	673,370	77,309	1,408,901
Obligations under security lending agreements	77,442	829	225	58,053	136,549
Due to other funds	183,462	52,551	4,524	501,832	742,369
Due to other governments	993,345	11,103	-	208,793	1,213,241
Unearned revenue	142,414	202,079	-	75,167	419,660
Claims and judgments payable	29,303	-	-	58,070	87,373
Total Liabilities	2,524,670	763,940	715,486	1,527,132	5,531,228
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue	1,431,185	9,631	17,962	150,554	1,609,332
Total Deferred Inflows of Resources	1,431,185	9,631	17,962	150,554	1,609,332
FUND BALANCES					
Nonspendable fund balance	47,353	46,258	2,194,618	246,697	2,534,926
Restricted fund balance	533,279	606	1,271,800	2,563,574	4,369,259
Committed fund balance	105,667	2,765,816	-	3,094,510	5,965,993
Assigned fund balance	1,014,952	16,060	-	-	1,031,012
Unassigned fund balance	964,168	-	-	(167,356)	796,812
Total Fund Balances	2,665,419	2,828,740	3,466,418	5,737,425	14,698,002
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	$ 6,621,274	$ 3,602,311	$ 4,199,866	$ 7,415,111	$ 21,838,562

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, 2015

(expressed in thousands)

Total Fund Balances for Governmental Funds		$ 14,698,002
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	$ 26,855,466	
Depreciable assets	18,957,753	
Less: Accumulated depreciation	(8,805,938)	
Total capital assets		37,007,281
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.		1,624,791
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.		1,609,332
Deferred outflows of resources represent a consumption of fund equity that will be reported as an outflow of resources in a future period and therefore are not reported in the funds.		457,090
Deferred inflows of resources represent an acquisition of fund equity that will be recognized as an inflow of resources in a future period and therefore are not reported in the funds.		(1,883,765)
Unmatured interest on general obligation bonds is not recognized in the funds until due.		(391,301)
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.		(260,750)
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	$ (21,736,515)	
Accreted interest on bonds	(471,951)	
Compensated absences	(517,444)	
Other postemployment benefits obligations	(2,002,153)	
Net pension liability	(2,907,783)	
Pollution remediation obligations	(169,698)	
Unclaimed property	(130,656)	
Claims and judgments	(41,020)	
Other obligations	(549,789)	
Total long-term liabilities		(28,527,009)
Net Position of Governmental Activities		$ 24,333,671

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, 2015

(expressed in thousands)

	General	Higher Education Special Revenue	Higher Education Endowment	Nonmajor Governmental Funds	Total
REVENUES					
Retail sales and use taxes	$ 8,903,396	$ -	$ -	$ 97,394	$ 9,000,790
Business and occupation taxes	3,388,542	-	-	5,137	3,393,679
Property taxes	2,018,393	-	-	-	2,018,393
Excise taxes	787,226	32,994	-	106,330	926,550
Motor vehicle and fuel taxes	-	-	-	1,253,179	1,253,179
Other taxes	1,928,356	171,801	-	276,798	2,376,955
Licenses, permits, and fees	115,400	937	-	1,543,323	1,659,660
Other contracts and grants	181,802	865,920	-	264,915	1,312,637
Timber sales	1,654	-	24,830	101,323	127,807
Federal grants-in-aid	12,052,763	1,448,517	-	1,210,486	14,711,766
Charges for services	55,822	2,587,387	1	625,627	3,268,837
Investment income (loss)	7,665	39,308	195,535	64,197	306,705
Miscellaneous revenue	287,529	99,759	3,128	530,033	920,449
Contributions and donations	-	-	65,419	-	65,419
Unclaimed property	55,885	-	-	-	55,885
Total Revenues	29,784,433	5,246,623	288,913	6,078,742	41,398,711
EXPENDITURES					
Current:					
General government	845,562	-	125	484,435	1,330,122
Human services	16,794,009	-	-	772,392	17,566,401
Natural resources and recreation	444,989	-	-	794,131	1,239,120
Transportation	37,362	-	-	1,845,512	1,882,874
Education	10,176,508	5,154,442	4,285	579,556	15,914,791
Intergovernmental	116,841	-	-	348,423	465,264
Capital outlays	52,223	203,603	18,884	1,972,779	2,247,489
Debt service:					
Principal	7,676	21,417	-	915,208	944,301
Interest	1,359	12,645	-	968,130	982,134
Total Expenditures	28,476,529	5,392,107	23,294	8,680,566	42,572,496
Excess of Revenues Over (Under) Expenditures	1,307,904	(145,484)	265,619	(2,601,824)	(1,173,785)
OTHER FINANCING SOURCES (USES)					
Bonds issued	186,887	85,851	-	939,352	1,212,090
Refunding bonds issued	-	-	-	2,610,505	2,610,505
Payments to escrow agents for refunded bond debt	-	-	-	(3,127,361)	(3,127,361)
Issuance premiums	5,351	2,281	-	664,665	672,297
Other debt issued	7,129	20,553	-	3,642	31,324
Transfers in	465,587	1,308,765	499,976	2,787,616	5,061,944
Transfers out	(1,118,524)	(1,145,904)	(684,820)	(1,988,019)	(4,937,267)
Total Other Financing Sources (Uses)	(453,570)	271,546	(184,844)	1,890,400	1,523,532
Net Change in Fund Balances	854,334	126,062	80,775	(711,424)	349,747
Fund Balances - Beginning, as restated	1,811,085	2,702,678	3,385,643	6,448,849	14,348,255
Fund Balances - Ending	$ 2,665,419	$ 2,828,740	$ 3,466,418	$ 5,737,425	$ 14,698,002

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, 2015

(expressed in thousands)

Net Change in Fund Balances - Total Governmental Funds		$ 349,747
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	$ 1,884,932	
Less: Depreciation expense	(597,939)	1,286,993
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.		(849,012)
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.		(339,539)
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	$ (4,479,476)	
Principal payments on bonds and other financing contracts	3,745,918	
Accreted interest on bonds	(56,015)	(789,573)
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	$ (3,693)	
Other postemployment benefits	(369,673)	
Pensions	514,041	
Pollution remediation	(4,859)	
Claims and judgments	(2,011)	
Accrued interest	11,011	
Unclaimed property	(29,878)	
Other obligations	(101,408)	13,530
Change in Net Position of Governmental Activities		$ (327,854)

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

Statement of Net Position
PROPRIETARY FUNDS
June 30, 2015
(expressed in thousands)

	Business-Type Activities Enterprise Funds			
	Workers' Compensation	Unemployment Compensation	Higher Education Student Services	Guaranteed Education Tuition Program
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES				
ASSETS				
Current Assets:				
Cash and pooled investments	$ 74,518	$ 3,675,155	$ 744,379	$ 11,109
Investments	68,487	-	20,430	75,818
Other receivables (net of allowance)	788,643	601,276	230,789	53,639
Due from other funds	106	18,044	18,519	2
Due from other governments	1,085	33,698	64,125	-
Inventories	233	-	39,506	-
Prepaid expenses	2,071	-	10,160	-
Restricted cash and investments	738	-	6,875	-
Restricted receivables	-	-	3,172	-
Total Current Assets	935,881	4,328,173	1,137,955	140,568
Noncurrent Assets:				
Investments, noncurrent	14,634,116	-	185,750	2,653,039
Restricted investments, noncurrent	1,938	-	61,339	-
Restricted receivables, noncurrent	-	-	-	-
Restricted net pension asset	-	-	379	-
Other noncurrent assets	3,284	-	133,036	208,757
Capital assets:				
Land and other non-depreciable assets	3,240	-	57,424	-
Buildings	65,134	-	3,186,276	-
Other improvements	1,289	-	94,643	-
Furnishings, equipment, and intangibles	98,924	-	582,740	106
Infrastructure	-	-	42,646	-
Accumulated depreciation	(108,124)	-	(1,415,745)	(91)
Construction in progress	11,183	-	281,567	-
Total Noncurrent Assets	14,710,984	-	3,210,055	2,861,811
Total Assets	15,646,865	4,328,173	4,348,010	3,002,379
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows on refundings	-	-	30,263	-
Deferred outflows on pensions	14,868	-	33,297	151
Total Deferred Outflows of Resources	14,868	-	63,560	151
Total Assets and Deferred Outflows of Resources	$ 15,661,733	$ 4,328,173	$ 4,411,570	$ 3,002,530

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

Continued

Nonmajor Enterprise Funds	Total	Governmental Activities Internal Service Funds
$ 94,850	$ 4,600,011	$ 742,273
23,392	188,127	12,827
19,836	1,694,183	19,432
13,376	50,047	77,344
5,116	104,024	28,379
8,500	48,239	17,645
414	12,645	11,481
-	7,613	82,632
-	3,172	11,420
165,484	6,708,061	1,003,433
129,998	17,602,903	35,649
-	63,277	-
-	-	2,262
-	379	-
5	345,082	791
1,540	62,204	6,212
12,828	3,264,238	507,594
2,557	98,489	16,215
32,337	714,107	903,123
-	42,646	1,968
(24,947)	(1,548,907)	(690,119)
-	292,750	30,949
154,318	20,937,168	814,644
319,802	27,645,229	1,818,077
-	30,263	-
4,207	52,523	19,175
4,207	82,786	19,175
$ 324,009	$ 27,728,015	$ 1,837,252

Statement of Net Position
PROPRIETARY FUNDS
June 30, 2015
(expressed in thousands)

	Business-Type Activities Enterprise Funds			
	Workers' Compensation	Unemployment Compensation	Higher Education Student Services	Guaranteed Education Tuition Program
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION				
LIABILITIES				
Current Liabilities:				
Accounts payable	$ 8,851	$ -	$ 148,554	$ 408
Contracts and retainages payable	9,377	56	16,475	220,000
Accrued liabilities	212,913	-	249,760	63,651
Obligations under security lending agreements	68,487	-	-	75,818
Bonds and notes payable	4,050	-	95,483	-
Due to other funds	6,769	2,989	154,519	318
Due to other governments	4	84,642	4	-
Unearned revenue	7,022	-	55,079	-
Claims and judgments payable	1,959,663	-	-	-
Total Current Liabilities	2,277,136	87,687	719,874	360,195
Noncurrent Liabilities:				
Claims and judgments payable	23,106,486	-	-	-
Bonds and notes payable	-	-	1,945,135	-
Net pension liability	102,264	-	227,675	956
Other long-term liabilities	52,033	-	318,215	1,822,487
Total Noncurrent Liabilities	23,260,783	-	2,491,025	1,823,443
Total Liabilities	25,537,919	87,687	3,210,899	2,183,638
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows on refundings	-	-	248	-
Deferred inflows on pensions	43,615	-	99,470	424
Total Deferred Inflows of Resources	43,615	-	99,718	424
NET POSITION				
Net investment in capital assets	67,595	-	886,269	15
Restricted for:				
Unemployment compensation	-	4,240,486	-	-
Pensions	-	-	379	-
Unrestricted	(9,987,396)	-	214,305	818,453
Total Net Position	(9,919,801)	4,240,486	1,100,953	818,468
Total Liabilities, Deferred Inflows of Resources, and Net Position	$ 15,661,733	$ 4,328,173	$ 4,411,570	$ 3,002,530

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

Concluded

Nonmajor Enterprise Funds	Total	Governmental Activities Internal Service Funds
$ 13,682	$ 171,495	$ 48,170
497	246,405	1,601
61,953	588,277	77,509
-	144,305	6,652
460	99,993	92,295
17,129	181,724	48,545
6,234	90,884	18,538
4	62,105	2,566
4,571	1,964,234	204,807
104,530	3,549,422	500,683
9,784	23,116,270	530,929
5,065	1,950,200	468,688
32,081	362,976	389,519
130,646	2,323,381	147,792
177,576	27,752,827	1,536,928
282,106	31,302,249	2,037,611
-	248	173
13,860	157,369	60,218
13,860	157,617	60,391
18,792	972,671	266,879
-	4,240,486	-
-	379	-
9,251	(8,945,387)	(527,629)
28,043	(3,731,851)	(260,750)
$ 324,009	$ 27,728,015	$ 1,837,252

Statement of Revenues, Expenses, and Changes in Net Position
PROPRIETARY FUNDS

For the Fiscal Year Ended June 30, 2015

(expressed in thousands)

	Business-Type Activities Enterprise Funds			
	Workers' Compensation	Unemployment Compensation	Higher Education Student Services	Guaranteed Education Tuition Program
OPERATING REVENUES				
Sales	$ -	$ -	$ 98,484	$ -
Less: Cost of goods sold	-	-	(63,467)	-
Gross profit	-	-	35,017	-
Charges for services	9	-	1,949,525	52,804
Premiums and assessments	2,337,483	1,240,601	-	-
Lottery ticket proceeds	-	-	-	-
Federal aid for unemployment insurance benefits	-	56,669	-	-
Miscellaneous revenue	37,944	15,992	168,441	296
Total Operating Revenues	2,375,436	1,313,262	2,152,983	53,100
OPERATING EXPENSES				
Salaries and wages	150,278	-	776,563	2,799
Employee benefits	55,397	-	195,130	634
Personal services	11,304	-	4,125	1,134
Goods and services	82,416	-	953,679	888
Travel	4,145	-	26,138	56
Premiums and claims	2,666,452	968,381	-	-
Guaranteed education tuition program expense	-	-	-	(590,103)
Lottery prize payments	-	-	-	-
Depreciation and amortization	7,184	-	154,028	2
Miscellaneous expenses	41,041	-	21,958	-
Total Operating Expenses	3,018,217	968,381	2,131,621	(584,590)
Operating Income (Loss)	(642,781)	344,881	21,362	637,690
NONOPERATING REVENUES (EXPENSES)				
Earnings (loss) on investments	234,324	80,566	36,294	20,997
Interest expense	(255)	-	(118,451)	-
Tax and license revenue	104	-	-	-
Other revenues (expenses)	7,737	-	11,771	-
Total Nonoperating Revenues (Expenses)	241,910	80,566	(70,386)	20,997
Income (Loss) Before Contributions and Transfers	(400,871)	425,447	(49,024)	658,687
Capital contributions	-	-	104	-
Transfers in	-	-	400,955	-
Transfers out	-	-	(393,563)	-
Net Contributions and Transfers	-	-	7,496	-
Change in Net Position	(400,871)	425,447	(41,528)	658,687
Net Position - Beginning, as restated	(9,518,930)	3,815,039	1,142,481	159,781
Net Position - Ending	$ (9,919,801)	$ 4,240,486	$ 1,100,953	$ 818,468

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

Nonmajor Enterprise Funds	Total	Governmental Activities Internal Service Funds
$ 89,331	$ 187,815	$ 45,481
(61,547)	(125,014)	(39,763)
27,784	62,801	5,718
35,071	2,037,409	622,304
739	3,578,823	1,206,815
600,348	600,348	-
-	56,669	-
3,776	226,449	156,197
667,718	6,562,499	1,991,034
51,929	981,569	299,838
18,666	269,827	139,818
18,596	35,159	27,686
94,600	1,131,583	329,136
1,795	32,134	4,547
-	3,634,833	1,441,912
-	(590,103)	-
365,930	365,930	-
1,355	162,569	97,150
417	63,416	855
553,288	6,086,917	2,340,942
114,430	475,582	(349,908)
5,057	377,238	16,747
(7,854)	(126,560)	(27,389)
19,743	19,847	25
255	19,763	1,047
17,201	290,288	(9,570)
131,631	765,870	(359,478)
-	104	8,252
12,804	413,759	55,977
(156,560)	(550,123)	(44,290)
(143,756)	(136,260)	19,939
(12,125)	629,610	(339,539)
40,168	(4,361,461)	78,789
$ 28,043	$ (3,731,851)	$ (260,750)

Statement of Cash Flows
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2015
(expressed in thousands)

	Business-Type Activities Enterprise Funds			
	Workers' Compensation	Unemployment Compensation	Higher Education Student Services	Guaranteed Education Tuition Program
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	$ 2,103,172	$ 1,264,467	$ 2,031,089	$ 67,805
Payments to suppliers	(1,942,454)	(982,641)	(1,494,612)	(77,615)
Payments to employees	(198,922)	-	(931,482)	(3,265)
Other receipts	37,945	105,647	168,441	296
Net Cash Provided (Used) by Operating Activities	(259)	387,473	(226,564)	(12,779)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers in	-	-	400,955	-
Transfers out	-	-	(393,563)	-
Operating grants and donations received	7,733	-	6,261	-
Taxes and license fees collected	104	-	-	-
Net Cash Provided (Used) by Noncapital Financing Activities	7,837	-	13,653	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Interest paid	(325)	-	(71,168)	-
Principal payments on long-term capital financing	(3,820)	-	(386,423)	-
Proceeds from long-term capital financing	-	-	409,553	-
Proceeds from sale of capital assets	3	-	18,330	-
Acquisitions of capital assets	(12,348)	-	(240,397)	(16)
Net Cash Provided (Used) by Capital and Related Financing Activities	(16,490)	-	(270,105)	(16)
CASH FLOWS FROM INVESTING ACTIVITIES				
Receipt of interest	563,851	80,566	38,730	129,076
Proceeds from sale of investment securities	5,208,230	-	19,333	726,024
Purchases of investment securities	(5,770,404)	-	(8,663)	(832,244)
Net Cash Provided (Used) by Investing Activities	1,677	80,566	49,400	22,856
Net Increase (Decrease) in Cash and Pooled Investments	(7,235)	468,039	(433,616)	10,061
Cash and Pooled Investments, July 1, as restated	82,491	3,207,116	1,184,870	1,048
Cash and Pooled Investments, June 30	$ 75,256	$ 3,675,155	$ 751,254	$ 11,109
CASH FLOWS FROM OPERATING ACTIVITIES				
Operating Income (Loss)	$ (642,781)	$ 344,881	$ 21,362	$ 637,690
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operations:				
Depreciation	7,184	-	154,028	2
Revenue reduced for uncollectible accounts	37,132	-	1,268	-
Change in Assets: Decrease (Increase)				
Receivables	(234,621)	56,852	(15,803)	15,002
Inventories	71	-	1,918	-
Prepaid expenses	(1,836)	-	4,269	-
Change in Deferred Outflows of Resources: Increase (Decrease)	(1,670)	-	(3,595)	(26)
Change in Liabilities: Increase (Decrease)				
Payables	792,647	(14,260)	(489,481)	(665,871)
Change in Deferred Inflows of Resources: Decrease (Increase)	43,615	-	99,470	424
Net Cash or Cash Equivalents Provided by (Used in) Operating Activities	$ (259)	$ 387,473	$ (226,564)	$ (12,779)

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

Continued

Nonmajor Enterprise Funds	Total	Governmental Activities: Internal Service Funds
$ 723,383	$ 6,189,916	$ 2,112,342
(562,665)	(5,059,987)	(1,864,171)
(68,337)	(1,202,006)	(415,681)
3,794	316,123	163,453
96,175	244,046	(4,057)
12,804	413,759	55,977
(156,560)	(550,123)	(44,290)
342	14,336	715
19,743	19,847	25
(123,671)	(102,181)	12,427
(248)	(71,741)	(22,985)
(442)	(390,685)	(42,051)
-	409,553	38,602
115	18,448	8,598
(3,824)	(256,585)	(123,888)
(4,399)	(291,010)	(141,724)
49	812,272	15,768
28,406	5,981,993	4,014
(4,969)	(6,616,280)	(16,640)
23,486	177,985	3,142
(8,409)	28,840	(130,212)
103,259	4,578,784	955,117
$ 94,850	$ 4,607,624	$ 824,905
$ 114,430	$ 475,582	$ (349,908)
1,355	162,569	97,150
28	38,428	115
(1,500)	(180,070)	3,041
(1,129)	860	1,951
(199)	2,234	(6,493)
(45)	(5,336)	(953)
(30,625)	(407,590)	190,822
13,860	157,369	60,218
$ 96,175	$ 244,046	$ (4,057)

Statement of Cash Flows
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2015
(expressed in thousands)

	Business-Type Activities Enterprise Funds			
	Workers' Compensation	Unemployment Compensation	Higher Education Student Services	Guaranteed Education Tuition Program
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES				
Contributions of capital assets	$ -	$ -	$ 104	$ -
Amortization of annuity prize liability	-	-	-	-
Increase (decrease) in fair value of investments	(334,987)	-	791	(106,493)
Debt refunding deposited with escrow agent	-	-	369,655	-
Amortization of debt premium/discount	-	-	48,721	-
Increase in ownership of joint venture	-	-	5,019	-

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

Concluded

Nonmajor Enterprise Funds	Total	Governmental Activities Internal Service Funds
$ -	$ 104	$ 8,252
7,606	7,606	-
5,008	(435,681)	523
-	369,655	-
-	48,721	-
-	5,019	-

Statement of Net Position
FIDUCIARY FUNDS
June 30, 2015
(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	$ 1,885	$ 4,393,750	$ 45,636	$ 73,387
Investments	-	4,152,692	-	2,521
Receivables, pension and other employee benefit plans:				
Employers	-	-	175,763	-
Members (net of allowance)	-	-	3,755	-
Interest and dividends	-	-	230,144	-
Investment trades pending	-	-	2,183,841	-
Due from other pension and other employee benefit funds	-	-	51,091	-
Other receivables, all other funds	-	699	137	8,679
Due from other governments	-	-	-	18,057
Total Current Assets	1,885	8,547,141	2,690,367	102,644
Noncurrent Assets:				
Investments, noncurrent, pension and other employee benefit plans:				
Public equity	-	-	37,594,459	-
Fixed income	-	-	17,858,971	-
Private equity	-	-	18,457,130	-
Real estate	-	-	11,967,076	-
Security lending	-	-	843,059	-
Liquidity	-	-	2,121,885	-
Tangible assets	-	-	1,631,483	-
Investments, noncurrent, all other funds	1,210	791,433	-	212
Other noncurrent assets	-	-	-	58,957
Capital assets:				
Furnishings, equipment, and intangibles	37	-	-	-
Accumulated depreciation	(23)	-	-	-
Total Noncurrent Assets	1,224	791,433	90,474,063	59,169
Total Assets	3,109	9,338,574	93,164,430	$ 161,813
LIABILITIES				
Accounts payable	99	-	-	$ 7,518
Contracts and retainages payable	-	-	-	29,893
Accrued liabilities	95	648,147	2,599,629	44,935
Obligations under security lending agreements	-	-	845,247	2,521
Due to other funds	-	82	-	-
Due to other pension and other employee benefit funds	-	-	51,091	-
Due to other governments	-	34,236	-	17,989
Unearned revenue	-	-	1,026	-
Other long-term liabilities	-	-	-	58,957
Total Liabilities	194	682,465	3,496,993	$ 161,813
NET POSITION				
Net position restricted for:				
Pensions	-	-	86,055,159	
Deferred compensation participants	-	-	3,612,278	
Local government pool participants	-	8,656,109	-	
Individuals, organizations, and other governments	2,915	-	-	
Total Net Position	$ 2,915	$ 8,656,109	$ 89,667,437	

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, 2015
(expressed in thousands)

	Private-Purpose Trust	Local Government Investment Pool	Pension and Other Employee Benefit Plans
ADDITIONS			
Contributions:			
Employers	$ -	$ -	$ 1,612,035
Members	-	-	1,146,532
State	-	-	74,842
Participants	-	13,328,959	208,424
Total Contributions	-	13,328,959	3,041,833
Investment Income:			
Net appreciation (depreciation) in fair value	-	-	2,221,532
Interest and dividends	-	10,820	1,831,285
Earnings on investments	-	124	-
Less: Investment expenses	-	-	(317,747)
Net Investment Income (Loss)	-	10,944	3,735,070
Other Additions:			
Unclaimed property	67,940	-	-
Transfers from other plans	-	-	4,754
Miscellaneous revenue	5	-	13
Total Other Additions	67,945	-	4,767
Total Additions	67,945	13,339,903	6,781,670
DEDUCTIONS			
Pension benefits	-	-	3,662,210
Pension refunds	-	-	506,393
Transfers to other plans	-	-	4,754
Administrative expenses	4,277	940	2,431
Distributions to participants	-	13,343,861	225,333
Payments to or on behalf of individuals, organizations and other governments in accordance with state unclaimed property laws	63,139	-	-
Total Deductions	67,416	13,344,801	4,401,121
Net Increase (Decrease)	529	(4,898)	2,380,549
Net Position - Beginning	2,386	8,661,007	87,286,888
Net Position - Ending	$ 2,915	$ 8,656,109	$ 89,667,437

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

Statement of Net Position
COMPONENT UNITS
June 30, 2015
(expressed in thousands)

	Public Stadium	Health Benefit Exchange	Valley Medical Center	Northwest Hospital
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES				
ASSETS				
Current Assets:				
Cash and pooled investments	$ 7,747	$ 8,171	$ 53,431	$ 12,783
Investments	-	-	22,526	1,029
Investments, restricted	4,848	-	-	922
Other receivables (net of allowance)	872	21,749	74,242	53,796
Inventories	-	-	4,781	5,346
Prepaid expenses	23	1,055	6,399	5,746
Total Current Assets	13,490	30,975	161,379	79,622
Noncurrent Assets:				
Investments, noncurrent	-	-	106,580	44,767
Restricted investments, noncurrent	2,590	-	17,384	1,868
Other noncurrent assets	-	-	-	3,682
Capital assets:				
Land	34,677	-	13,414	10,817
Buildings	460,637	-	423,194	132,851
Other improvements	-	637	18,490	26,801
Furnishings, equipment and intangible assets	19,423	45,400	231,453	207,110
Accumulated depreciation	(218,134)	(23,195)	(341,794)	(262,986)
Construction in progress	-	-	9,271	3,142
Total Noncurrent Assets	299,193	22,842	477,992	168,052
Total Assets	312,683	53,817	639,371	247,674
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows on hedging derivatives	-	-	-	-
Deferred outflows on refundings	-	-	-	6,435
Deferred outflows on pensions	23	-	-	-
Total Deferred Outflows of Resources	23	-	-	6,435
Total Assets and Deferred Outflows of Resources	$ 312,706	$ 53,817	$ 639,371	$ 254,109

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

Continued

Nonmajor Component Units	Total
$ 38,762	$ 120,894
57,536	81,091
-	5,770
5,602	156,261
-	10,127
282	13,505
102,182	387,648
-	151,347
-	21,842
134,057	137,739
-	58,908
-	1,016,682
-	45,928
1,783	505,169
(1,631)	(847,740)
-	12,413
134,209	1,102,288
236,391	1,489,936
422	422
-	6,435
37	60
459	6,917
$ 236,850	$ 1,496,853

Statement of Net Position
COMPONENT UNITS
June 30, 2015
(expressed in thousands)

	Public Stadium	Health Benefit Exchange	Valley Medical Center	Northwest Hospital
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION				
LIABILITIES				
Current Liabilities:				
Accounts payable	$ 30	$ 20,966	$ 16,800	$ 11,473
Contracts and retainages payable	592	2,348	-	407
Accrued liabilities	4,275	7,661	80,163	37,988
Unearned revenue	-	-	-	-
Total Current Liabilities	4,897	30,975	96,963	49,868
Noncurrent Liabilities:				
Net pension liability	61	-	-	-
Other long-term liabilities	3,700	-	312,398	108,691
Total Noncurrent Liabilities	3,761	-	312,398	108,691
Total Liabilities	8,658	30,975	409,361	158,559
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows on pensions	64	-	-	-
Total Deferred Inflows of Resources	64	-	-	-
NET POSITION				
Net investment in capital assets	288,709	22,842	33,169	33,864
Restricted for deferred sales tax	8,282	-	-	-
Restricted for other purposes	-	-	8,012	2,402
Unrestricted	6,993	-	188,829	59,284
Total Net Position	303,984	22,842	230,010	95,550
Total Liabilities, Deferred Inflows of Resources, and Net Position	$ 312,706	$ 53,817	$ 639,371	$ 254,109

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

Concluded

Nonmajor Component Units	Total
$ 38,718	$ 87,987
-	3,347
1,094	131,181
13,622	13,622
53,434	236,137
3,357	3,418
-	424,789
3,357	428,207
56,791	664,344
1,502	1,566
1,502	1,566
152	378,736
-	8,282
1,083	11,497
177,322	432,428
178,557	830,943
$ 236,850	$ 1,496,853

Statement of Revenues, Expenses, and Changes in Net Position
COMPONENT UNITS

For the Fiscal Year Ended June 30, 2015

(expressed in thousands)

	Public Stadium	Health Benefit Exchange	Valley Medical Center	Northwest Hospital
EXPENSES	$ 16,384	$ 129,734	$ 531,206	$ 379,269
PROGRAM REVENUES				
Charges for services	3,517	7,167	525,288	359,488
Operating grants and contributions	-	108,180	-	11,947
Total Program Revenues	3,517	115,347	525,288	371,435
Net Program Revenues (Expense)	(12,867)	(14,387)	(5,918)	(7,834)
GENERAL REVENUES				
Earnings (loss) on investments	129	-	3,403	986
Property taxes	-	-	18,132	-
Total General Revenues	129	-	21,535	986
Change in Net Position	(12,738)	(14,387)	15,617	(6,848)
Net Position - Beginning, as restated	316,722	37,229	214,393	102,398
Net Position - Ending	$ 303,984	$ 22,842	$ 230,010	$ 95,550

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

Nonmajor Component Units	Total
$ 23,486	$ 1,080,079
49,439	944,899
5,706	125,833
55,145	1,070,732
31,659	(9,347)
739	5,257
-	18,132
739	23,389
32,398	14,042
146,159	816,901
$ 178,557	$ 830,943

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Index

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2015

Note 1: Summary of Significant Accounting Policies 66

Note 2: Accounting, Reporting, and Entity Changes 79

Note 3: Deposits and Investments 81

Note 4: Receivables, Unearned and Unavailable Revenues 103

Note 5: Interfund Balances and Transfers 106

Note 6: Capital Assets 110

Note 7: Long-Term Liabilities 114

Note 8: No Commitment Debt 125

Note 9: Governmental Fund Balances 126

Note 10: Deficit Net Position 127

Note 11: Retirement Plans 130

Note 12: Other Postemployment Benefits 157

Note 13: Derivative Instruments 159

Note 14: Commitments and Contingencies 161

Note 15: Subsequent Events 163

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 nationally accepted as the standard-setting body for establishing governmental accounting and financial reporting principles. 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 that are financially accountable to the state. 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 (UW) and Washington State University issue general revenue bonds that are payable from general revenues, including student tuition, 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 State Board for Volunteer Fire Fighters and Reserve Officers, 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. Financial information for the state's blended component units may be obtained from the Office of Financial Management, Accounting Division, P.O. Box 43127, Olympia, WA, 98504-3127. 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.

Association of University Physicians. The University of Washington Physicians (UWP) was established for the exclusive benefit of the University of Washington School of Medicine (UWSOM). UWP employs UWSOM faculty and bills and collects for their clinical services as an agent for UWSOM.

UW Medicine Neighborhood Clinics. The UW Medicine Neighborhood Clinics (Neighborhood Clinics) were established for the exclusive benefit of the University's School of Medicine, UWP and its affiliated medical centers, Harborview Medical Center, and the University of Washington Medical Center. The Neighborhood Clinics were organized to coordinate and develop patient care in a community clinical setting. They enhance the academic environment of UWSOM by providing additional sites of primary care practice and training for faculty, residents, and students.

Washington Biomedical Research Properties I and II, and Washington Biomedical Research Facilities 3 were formed to acquire, construct, or renovate certain real properties for the benefit of the University of Washington in fulfilling its educational, medical, or scientific research missions.

Tumwater Office Properties and FYI Properties were formed to design and construct office facilities to house state employees. The facilities were financed with tax-exempt obligations that meet the requirements of Revenue Ruling 63-20 and Revenue Procedure 82-26 issued by the Internal Revenue Service.

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 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.

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 $296.6 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 financed the Exchange design, development, and implementation phases as well as the first full year of operation during 2014. Beginning in 2015, the Exchange is to be self-sustaining through Medicaid program cost reimbursements, premium tax assessments, and other assessments.

Financial reports of the Exchange may be obtained at the following address:

Washington Health Benefit Exchange
810 Jefferson Street SE
Olympia, WA 98501

Northwest Hospital was created January 1, 2010, under an affiliation agreement between UW Medicine and Northwest Hospital and Medical Center (Northwest Hospital). UW Medicine is an academic medical center comprised of UW School of Medicine, UW Neighborhood Clinics, UW Medical Center, Harborview Medical Center, Association of University Physicians, as well as the University's membership in the Seattle Cancer Care Alliance and the Children's University Medical Group.

Northwest Hospital is a 281-bed full service acute care hospital. The University is the sole corporate member of Northwest Hospital. Financial reports of Northwest Hospital may be obtained at the following address:

Northwest Hospital
1550 N. 115th Street
Seattle, WA 98133-9733

Valley Medical Center was created July 1, 2011, through a strategic alliance between UW Medicine and Public Hospital District No. 1 of King County. Valley Medical Center owns and operates a 321-bed full service acute care hospital and 45 clinics located throughout southeast King County. Financial reports of Valley Medical Center may be obtained at the following address:

Valley Medical Center
400 S. 43rd Street
Renton, WA 98055

Joint Ventures

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 $5.0 million was recorded in fiscal year 2015, bringing the total equity investment to $107.7 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

The University of Washington and Seattle Children's Hospital established **Children's University Medical Group (CUMG)** to assist the organizations in carrying out their pediatric patient care, charitable, educational, and scientific missions.

Separate financial statements for CUMG may be obtained from:

Children's University Medical Group
4500 Sand Point Way NE, Suite 100
Seattle, WA 98105

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 642 accounts that are combined into 51 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 educational and research 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 income earned on investments.

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 are 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 spendable 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, liabilities, 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.

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, online at: http://www.tre.wa.gov/documents/lgipCafr/lgipCafrFY15.pdf, or phone number (360) 902-9000. TTY users dial 711 to be connected to the state TTY operator.

In the absence of readily ascertainable fair values, certain pension trust fund investments, including real estate and private equity, are reported at fair value based on the individual investment's capital account balance at the closest available reporting period, adjusted for subsequent activity. At June 30, 2015, these alternative investments are valued at $32.06 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 at an inventory control point is estimated to be $50,000 or more. Consumable inventories are valued at cost using either the first-in, first-out or weighted average methods. Donated consumable inventories are recorded at fair market value.

All merchandise inventories are considered reportable for financial statement purposes. Merchandise inventories are 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 $7.0 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 debt 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 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 assets' fair market value meets the state's capitalization thresholds 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 2015, $86.9 million in interest costs were incurred, and $7.7 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 category of deferred outflow of resources reported in the government-wide and proprietary fund statements of net position relates to debt refunding, pensions, and hedging derivative instruments.

Deferred outflows on debt refunding result when the net carrying value of refunded debt exceeds its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

Deferred outflows on pensions are recorded when actual earnings on pension plan investments exceed projected earnings and are amortized to pension expense using a systematic and rational method over a closed five-year period. Deferred outflows on pensions also include the difference between expected and actual experience with regard to economic or demographic factors; changes of assumptions about future economic, demographic, or other input factors; or changes in the state's proportionate share of net pension liability. These are amortized over the average expected remaining service lives of all employees that are provided with pensions through each pension plan. State contributions to pension plans made subsequent to the measurement date are also deferred and reduce net pension liability in the subsequent year.

Deferred outflows on hedging derivative instruments represent the unrealized loss in fair value of the contract at fiscal year end.

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. Deferred inflows of resources reported by the state relate to unavailable revenue, debt refunding, pensions, and hedging derivative instruments.

Unavailable revenue arises only under the modified accrual basis of accounting, and so is reported only on the governmental funds balance sheet. Governmental funds report deferred inflows for 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.

Deferred inflows on refunding result when the reacquisition price of the refunding debt exceeds the net carrying value of the refunded debt. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

Deferred inflows on pensions are recorded when projected earnings on pension plan investments exceed actual earnings and are amortized to pension expense using a systematic and rational method over a closed five-year period. Deferred inflows on pensions also include the difference between expected and actual experience with regard to economic or demographic factors; changes of assumptions about future economic, demographic, or other input factors; or changes in the state's proportionate share of net pension liability. These are amortized over the average expected remaining service lives of all employees that are provided with pensions through each pension plan.

Deferred inflows on hedging derivative instruments represent the unrealized gain in fair value of the contract at fiscal year end.

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 its compensated absences obligation with future resources rather than advance funding it with available spendable 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 and discounts 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 state 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 state law as adopted by the state Legislature. The commitment remains in place until the Legislature changes or eliminates the state law.

- **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 the 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.

In fiduciary funds, net assets are held in trust for individuals and external organizations.

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.

The Department of Labor and Industries prepares a stand-alone financial report for its Workers' Compensation Program. Copies of the report that include financial statements and required supplementary information may be obtained by writing to Washington State Department of Labor and Industries, PO Box 44833, Olympia, Washington 98504-4833 or by visiting their website at: http://www.lni.wa.gov/ClaimsIns/Insurance/Learn/StateFund/Reports/Default.asp.

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 2015. 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 $577.6 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 2015 reporting, the state adopted the following new standards issued by the Governmental Accounting Standards Board (GASB):

Statement No. 68 *Accounting and Financial Reporting for Pensions*. GASB Statement No. 68 requires governmental employers with employees participating in defined benefit pension plans that are administered through trusts or equivalent arrangements to report their proportionate share of the net pension liability (or net assets, if the plan net position exceeds the total pension liability) on the face of their accrual based financial statements.

Statement No. 71 *Pension Transition for Contributions Made subsequent to the Measurement Date*. GASB Statement No. 71 addresses an issue regarding application of the transition provisions of Statement No. 68. The issue relates to amounts associated with contributions, if any, made by a state or local government employer to a defined benefit pension plan after the measurement date of the government's beginning net pension liability.

Fund Reclassification. During fiscal year 2015, it was determined that an account should be reclassified to a capital projects type fund because bond proceeds now comprise the majority of its resources. Accordingly, the beginning fund balance in the General Fund was reduced by $14.4 million and the beginning fund balance of the State Facilities Fund, a nonmajor capital projects fund, was increased by $14.4 million. Additionally an account was reclassified to a special revenue fund type as it now has a dedicated revenue source. This resulted in a beginning fund balance reduction of $672 thousand in the General Fund and an increase of $672 thousand in the Human Services Fund, a nonmajor special revenue fund.

Also during fiscal year 2015, an agency was abolished and its accounts receivable were transferred to another agency that recorded the accounts receivables in a different fund. As a result the beginning fund balance of the Central Administrative and Regulatory Fund, a nonmajor special revenue fund, was reduced by $19 thousand, and fund balance of the Higher Education Facilities Fund, a nonmajor capital projects fund, was increased by $19 thousand.

Prior Period Adjustment. The state recorded a reduction to the beginning net position balance in the following funds as a result of implementing GASB Statement No. 68:

- Major Proprietary Funds: Worker's Compensation $134.5 million, Higher Education Student Services $295.5 million, and Guaranteed Education Tuition Program $1.2 million;
- Nonmajor Proprietary Funds: Lottery $7.0 million, Institutional $10.4 million, and Other Activities $25.6 million;
- Internal Service Funds: General Services $115.0 million, Data Processing Revolving $41.6 million, and Higher Education Revolving $31.7 million.
- Component Units: Public Stadium Authority, a major component unit, $129 thousand; and the Washington State Housing Finance Commission and the Washington State Health Care Facilities Authority, both nonmajor component units, $3.7 million and $311 thousand, respectively.

The University of Washington (UW) posted a beginning balance adjustment to correct for both over accruing and incorrectly allocating employee benefits. The adjustment increased fund balance in the Higher Education Special Revenue Fund, a major governmental fund, by $74.4 million ($63.7 million to correct the over accrual and $10.7 million to correct the under allocation to other funds); decreased fund balance in the Higher Education Student Services Fund, a major proprietary fund, by $9.2 million, and decreased fund balance in the Higher Education Revolving Fund, an internal service fund, by $1.5 million.

The Department of Commerce recorded a prior period adjustment in order to properly offset long-term loans receivables with non-spendable fund balance rather than unavailable revenue. This resulted in increases to fund balance in the following nonmajor special revenue funds: $82.7 million in the Central Administrative and Regulatory Fund, $517.1 million in the Human Services Fund, and $259.7 million in the Local Construction and Loan Fund.

The Department of Natural Resources recorded a prior period adjustment to record three previously unrecorded local bank accounts which increased fund balance in the Central Administrative and Regulatory Fund, nonmajor special revenue fund, by $3.2 million.

The beginning net position of Valley Medical Center, a major component unit, was increased by $2.5 million to record a component unit that was previously not reported.

The beginning net position of Northwest Hospital, a major component unit, was increased by $2.7 million to record a component unit that was previously not reported.

Governmental Capital Assets and Long-term Obligations. The state recorded a beginning balance adjustment to long-term obligations associated with governmental funds of $2.85 billion as a result of the implementation of GASB Statement No. 68.

The Department of Transportation recorded a prior period adjustment of $94.3 million to governmental capital assets, and $9.4 million to governmental long-term obligations to record previously unrecorded capital assets and long-term obligations.

The UW posted a beginning balance adjustment of $127.0 million to governmental long-term obligations to properly reflect outstanding debt.

Fund equity at July 1, 2014, has been restated as follows (expressed in thousands):

	Fund equity (deficit) at June 30, 2014, as previously reported	Fund Reclassification	Prior Period Adjustment	Fund equity (deficit) as restated, July 1, 2014
Governmental Funds:				
General	$ 1,826,141	$ (15,056)	$ -	$ 1,811,085
Higher Education Special Revenue	2,628,295	-	74,383	2,702,678
Higher Education Endowment	3,385,643	-	-	3,385,643
Nonmajor Governmental	5,571,060	15,056	862,733	6,448,849
Proprietary Funds:				
Enterprise Funds:				
Workers' Compensation	(9,384,408)	-	(134,522)	(9,518,930)
Unemployment Compensation	3,815,039	-	-	3,815,039
Higher Education Student Services	1,447,141	-	(304,660)	1,142,481
Guaranteed Education Tuition Program	160,990	-	(1,209)	159,781
Nonmajor Enterprise	83,235	-	(43,067)	40,168
Internal Service Funds	268,649	-	(189,860)	78,789
Fiduciary Funds:				
Private Purpose Trust	2,386	-	-	2,386
Local Government Investment Pool	8,661,007	-	-	8,661,007
Pension and Other Employee Benefit Plans	87,286,888	-	-	87,286,888
Component Units:				
Public Stadium	316,851	-	(129)	316,722
Health Benefit Exchange	37,229	-	-	37,229
Valley Medical Center	211,893	-	2,500	214,393
Northwest Hospital	99,707	-	2,691	102,398
Nonmajor Component Units	150,177	-	(4,018)	146,159

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, 2015, $1.21 billion of the state's deposits with financial institutions were insured or collateralized, with the remaining $9.0 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 trust 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 2015.

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, 2, and 3, Teachers' Retirement System (TRS) Plans 1, 2, and 3, School Employees' Retirement System (SERS) Plans 2 and 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 Fund. 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 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 consistent with prudent risk management and the desire for downside protection, with passive equity strategies as the default whenever strategies with better risk/return profiles cannot be identified; 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 appropriately. 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 80 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 are generally divided into 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 is 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, 2015, the pension trust funds had unfunded commitments of $11.26 billion, $7.39 billion, $1.97 billion, and $22.0 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, 2015, was approximately $1.4 billion. The pension trust funds report securities on loan in their respective categories in the Statement of Net Position. At June 30, 2015, cash collateral received totaling $843.1 million is reported as securities lending obligation, and the fair value of the reinvested cash collateral totaling $843.1 million 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. Total securities received as collateral at June 30, 2015, was $638.4 million.

During the fiscal year, debt and equity securities were loaned and collateralized by the pension trust funds' agent with cash, U.S. government or U.S. agency securities

including U.S. agency mortgage-backed securities (exclusive of 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.

The following table summarizes the securities held by the pension trust funds from reinvestment of cash collateral and securities received as collateral at June 30, 2015 (in millions):

Treasuries	$358.2
Mortgage-backed	342.0
Repurchase agreements	293.2
Cash equivalents and other	291.7
Yankee CD	196.4
Total collateral held	$1,481.5

During fiscal year 2015, securities lending transactions could be terminated on demand by either the pension trust funds or the borrower. As of June 30, 2015, the cash collateral held had an average duration of 22.5 days and an average weighted final maturity of 79.7 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. Collateral investment guidelines specifically prohibit European domiciled holdings. 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 2015, 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 2015 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 fixed income 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, 2015, the duration of the pension trust funds' fixed income investments was within the duration target of this index.

The two schedules below provide information about the interest rate risks associated with the pension trust funds' investments as of June 30, 2015. The schedules display various asset classes held by maturity in years, effective duration, and credit ratings. All debt 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.

Pension Trust Funds
Schedule of Maturities and Effective Duration
June 30, 2015
(expressed in thousands)

Investment Type	Fair Value	Maturity: Less than 1 Year	Maturity: 1-5 Years	Maturity: 6-10 Years	Maturity: More than 10 Years	Effective Duration (in years)
Mortgage and other asset-backed securities	$ 1,585,736	$ 537,516	$ 1,013,488	$ 19,968	$ 14,764	2.42
Corporate bonds	9,127,577	450,265	4,102,531	3,126,281	1,448,500	5.97
U.S. government and agency securities	6,061,063	560,577	4,430,546	764,764	305,176	4.09
Foreign government and agency securities	1,084,595	-	478,760	399,336	206,499	5.76
Total investments categorized	17,858,971	$ 1,548,358	$ 10,025,325	$ 4,310,349	$ 1,974,939	5.01*
Investments not required to be categorized:						
Cash and cash equivalents	2,152,831					
Equity securities	29,776,692					
Alternative investments	32,055,690					
Total investments not categorized	63,985,213					
Total Investments	$ 81,844,184					

** Excludes cash and cash equivalents*

Credit ratings of investments are presented using the Moody's rating scale as follows:

Pension Trust Funds
Investment Credit Ratings
June 30, 2015
(expressed in thousands)

Moody's Credit Rating	Investment Type: Mortgage and Other Asset-Backed Securities	Investment Type: Corporate Bonds	Investment Type: Foreign Government and Agency Securities	Total Fair Value
Aaa	$ 1,576,671	$ 448,883	$ 154,624	$ 2,180,178
Aa1	-	17,690	58,243	75,933
Aa2	-	108,170	53,744	161,914
Aa3	-	685,548	161,701	847,249
A1	765	549,410	-	550,175
A2	-	683,167	-	683,167
A3	-	835,879	79,636	915,515
Baa1	-	1,189,824	45,837	1,235,661
Baa2	7,205	1,328,324	304,354	1,639,883
Baa3	-	2,274,568	169,859	2,444,427
Ba1 or lower	1,095	1,006,114	56,597	1,063,806
Total	$ 1,585,736	$ 9,127,577	$ 1,084,595	$ 11,797,908

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, 2015, 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, 2015.

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, 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 WSIB manages their exposure to fair value loss by requiring their international securities investment managers to maintain diversified portfolios by sector and by issuer to limit foreign currency and security risk.

The following schedule presents the exposure of the pension trust funds' 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. In addition, the CTF has foreign currency exposure at June 30, 2015, of $822.6 million invested in various international commingled equity index funds.

Pension Trust Funds
Foreign Currency Exposure by Country
June 30, 2015
(expressed in thousands)

	Investment Type in U.S. Dollar Equivalent					
Foreign Currency Denomination	**Cash and Cash Equivalents**	**Debt Securities**	**Equity Securities**	**Alternative Assets**	**Open Foreign Exchange Contracts-Net**	**Total**
Australia-Dollar	$ 7,133	$ 292,665	$ 470,618	$ 26,129	$ 253	$ 796,798
Brazil-Real	233	242,801	130,843	-	-	373,877
Canada-Dollar	11,495	-	725,668	-	(1,405)	735,758
Chile-Peso	-	63,980	5,329	-	-	69,309
China-Yuan	278	57,614	-	-	-	57,892
Columbia-Peso	-	102,035	-	-	-	102,035
Denmark-Krone	287	-	206,437	-	(629)	206,095
E.M.U.-Euro	1,821	-	3,104,461	2,379,773	4,138	5,490,193
Hong Kong-Dollar	1,985	-	662,835	-	-	664,820
India-Rupee	250	109,523	147,604	-	-	257,377
Indonesia-Rupiah	137	50,618	62,726	-	-	113,481
Japan-Yen	16,097	-	2,342,284	-	(2,769)	2,355,612
Malaysia-Ringgit	7	56,526	62,924	-	-	119,457
Mexico-Peso	65	102,866	64,422	-	(18)	167,335
New Israel-Sheqel	219	-	43,715	-	(153)	43,781
New Taiwan-Dollar	1,272	-	166,792	-	-	168,064
New Zealand-Dollar	120	-	12,842	-	14	12,976
Norway-Krone	1,042	-	64,357	-	128	65,527
Philippines-Peso	4	38,989	24,615	-	-	63,608
Singapore-Dollar	1,241	-	171,501	-	(5)	172,737
South Africa-Rand	507	-	121,421	-	13	121,941
South Korea-Won	289	-	223,738	-	-	224,027
Sweden-Krona	800	-	440,279	-	(371)	440,708
Switzerland-Franc	(25)	-	942,733	-	187	942,895
Thailand-Baht	(1)	45,837	53,360	-	-	99,196
Turkey-Lira	-	51,599	73,003	-	-	124,602
United Kingdom-Pound	12,274	-	2,283,906	-	5,754	2,301,934
Other	127	77,178	54,315	-	(3)	131,617
Total	$ 57,657	$ 1,292,231	$ 12,662,728	$ 2,405,902	$ 5,134	$ 16,423,652

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. At June 30, 2015, 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 investment derivatives and not hedging derivatives.

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, 2015, 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 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 a counterparty. 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, 2015, the pension trust funds had outstanding forward currency contracts with a net unrealized gain of $5.1 million. The aggregate forward currency exchange contracts receivable and payable were $1.96 billion and $1.96 billion, respectively. The contracts have varying maturity dates ranging from August 12, 2015, to September 16, 2015.

At June 30, 2015, the pension trust funds' fixed income portfolio held derivative securities consisting of collateralized mortgage obligations with a fair value of $91.9 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 counterparty credit ratings for forward currency contracts that are subject to credit risk outstanding at June 30, 2015, had a credit rating of no less than A3 using Moody's rating scale.

The following schedule presents the significant terms for derivatives held as investments by the pension trust funds:

Pension Trust Funds
Derivative Investments
June 30, 2015
(expressed in thousands)

	Changes in Fair Value - Included in Investment Income (Loss) Amount	Fair Value - Investment Derivative Amount	Notional
Futures Contracts:			
Bond index futures	$ 25,674	$ (3,555)	$ 841,300
Equity index futures	(3,766)	(8,476)	18,048
Total	$ 21,908	$ (12,031)	$ 859,348
Forward Currency Contracts	$ 55,941	$ 5,146	$ 1,960,628

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 Washington State Investment Board (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.
- 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. 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.

- 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 80 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 market value of below investment grade mortgage-backed, asset-backed, and commercial mortgage-backed securities shall not exceed 5 percent of total market value of the funds.

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, 2015, was approximately $102.6 million. The Workers' Compensation Fund reports securities on loan in the Statement of Net Position in their respective categories. At June 30, 2015, cash collateral received totaling $68.2 million is reported as a securities lending obligation, and the fair value of the reinvested cash collateral totaling $68.2 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. Total securities received as collateral at June 30, 2015, was $38.3 million.

During fiscal year 2015, debt securities were loaned and collateralized by the Workers' Compensation Fund's agent with cash and U.S. government or U.S. agency securities including U.S. agency mortgage-backed securities (exclusive of 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.

The following table summarizes the securities held from reinvestment of cash collateral and securities received as collateral at June 30, 2015 (in millions):

Mortgage-backed	$38.3
Cash equivalents and other	28.6
Repurchase agreements	23.7
Yankee CD	15.9
Total collateral held	$106.5

During fiscal year 2015, securities lending transactions could be terminated on demand by either the Workers' Compensation Fund or the borrower. As of June 30, 2015, the cash collateral held had an average duration of 22.5

days and an average weighted final maturity of 79.7 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. Collateral investment guidelines specifically prohibit European domiciled holdings. 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 2015, 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 2015 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 fixed income investments. As of June 30, 2015, the Workers' Compensation Fund portfolio durations were within the prescribed duration targets.

The two schedules below provide information about the interest rate risks associated with the Workers' Compensation Fund investments as of June 30, 2015. The schedules display various asset classes held by maturity in years, effective duration, and credit ratings. All debt 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.

Workers' Compensation Fund
Schedule of Maturities and Effective Duration
June 30, 2015
(expressed in thousands)

		Maturity				
Investment Type	**Fair Value**	**Less than 1 Year**	**1-5 Years**	**6-10 Years**	**More than 10 Years**	**Effective Duration (in years)**
Mortgage and other asset-backed securities	$ 1,893,746	$ 295,992	$ 1,405,828	$ 117,915	$ 74,011	3.02
Corporate bonds	8,969,474	468,390	3,350,231	1,885,623	3,265,230	7.46
U.S. government and agency securities	1,210,817	7,005	891,546	25,133	287,133	7.05
Foreign government and agencies	529,299	38,280	282,285	152,755	55,979	4.91
Total investments categorized	12,603,336	$ 809,667	$ 5,929,890	$ 2,181,426	$ 3,682,353	6.65*
Investments not required to be categorized:						
Commingled investment trusts	1,895,746					
Cash and cash equivalents	135,026					
Total investments not categorized	2,030,772					
Total Investments	$ 14,634,108					

* *Excludes cash and cash equivalents*

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

Workers' Compensation Fund
Investment Credit Ratings
June 30, 2015
(expressed in thousands)

Moody's Equivalent Credit Rating	Investment Type: Mortgage and Other Asset-Backed Securities	Investment Type: Corporate Bonds	Investment Type: Foreign Government and Agencies	Total Fair Value
Aaa	$ 1,845,424	$ 480,823	$ 150,888	$ 2,477,135
Aa2	48,322	83,699	51,950	183,971
Aa3	-	1,240,437	197,778	1,438,215
A1	-	896,830	37,408	934,238
A2	-	1,276,296	-	1,276,296
A3	-	1,410,431	-	1,410,431
Baa1	-	1,274,530	14,453	1,288,983
Baa2	-	916,326	50,164	966,490
Ba1 or lower	-	1,390,102	26,658	1,416,760
Total	$ 1,893,746	$ 8,969,474	$ 529,299	$ 11,392,519

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, 2015, 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, 2015.

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, 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, 2015, the only securities held by the Workers' Compensation Fund with potential foreign currency exposure were $695.0 million invested in an international commingled equity index fund.

The following schedule presents the exposure of the Workers' Compensation Fund to foreign currency risk. The schedule is stated in U.S. dollars.

Workers' Compensation Fund
Foreign Currency Exposure by Country
June 30, 2015
(expressed in thousands)

Foreign Currency Denomination	Equity Securities
Australia-Dollar	$ 33,301
Brazil-Real	10,714
Canada-Dollar	47,376
Denmark-Krone	8,477
E.M.U.-Euro	145,065
Hong Kong-Dollar	53,555
India-Rupee	12,703
Japan-Yen	119,409
Mexico-Peso	6,555
New Taiwan-Dollar	20,695
Singapore-Dollar	7,590
South Africa-Rand	11,765
South Korea-Won	23,356
Sweden-Krona	15,350
Switzerland-Franc	43,557
United Kingdom-Pound	102,342
Miscellaneous Foreign Currencies	33,158
Total	$ 694,968

6. Derivatives

To manage its exposure to fluctuations in interest and currency rates while increasing portfolio returns, 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. 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, 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, 2015, the only derivative securities held directly by the Workers' Compensation Fund were collateralized mortgage obligations of $1.3 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 State Treasurer 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 Rule 2a-7 money market funds, as currently 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 are stated at amortized cost, which approximates 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 designated 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. government 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 market 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 has contracted with Citibank, N.A. as a lending agent and receives a share of income earned from 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 market 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 2015, the LGIP lent U.S. agency and treasury securities. Cash collateral was reinvested in repurchase agreements and interest bearing bank deposits. 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 2015, 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, contracts require the lending agent to indemnify the LGIP if the borrowers fail to return 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 fiscal 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. To mitigate the effect of interest rate risk, the LGIP portfolio is invested in high quality, highly liquid obligations with limited maximum and average maturities.

The LGIP's policy establishes weighted average maturity and weighted average life limits not to exceed 60 and 120 days, respectively. As of June 30, 2015, the LGIP had a weighted average maturity of 36 days and a weighted average life of 86 days.

The following schedule presents the LGIP investments and related maturities, and provides information about the associated interest rate risks as of June 30, 2015:

Local Government Investment Pool (LGIP)
June 30, 2015
(expressed in thousands)

		Maturity	
Investment Type	**Amortized Cost**	**Less than 1 Year**	**1-5 Years**
U.S. agency obligations	$ 6,742,020	$ 5,950,587	$ 791,433
U.S. government obligations	849,632	849,632	-
Repurchase agreements	2,968,200	2,968,200	-
Interest bearing bank accounts	820,277	820,277	-
Certificates of deposit and other	64,121	64,121	-
Total	$ 11,444,250	$ 10,652,817	$ 791,433

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 NRSROs 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 a depository institution or counterparty fails, the LGIP will not be able to recover the value of its deposits, investments, 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 market 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 25.9 percent of the total portfolio as of June 30, 2015. 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, 2015, U.S. treasury securities comprised 7.4 percent of the total portfolio. U.S. agency securities comprised 58.9 percent of the total portfolio, including Federal Home Loan Bank (44.9 percent), Federal Home Loan Mortgage Corporation (2 percent), Federal Farm Credit Bank (10.1 percent), and Federal National Mortgage Association (1.9 percent).

5. Foreign Currency Risk - None.

6. Derivatives - None.

7. Repurchase and Reverse Repurchase Agreements

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 all other securities utilized in 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, 2015, repurchase agreements totaled $2.97 billion.

State law also permits the LGIP to enter into reverse repurchase agreements which are, by contract, sales of securities with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest. The market 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 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 market value plus accrued interest of the underlying securities and the agreement obligation, including accrued interest. During fiscal year 2015, the LGIP did not enter into any reverse repurchase agreements.

E. INVESTMENTS – HIGHER EDUCATION SPECIAL REVENUE, ENDOWMENT, AND STUDENT SERVICES FUNDS

1. Summary of Investment Policies

The investments of the University of Washington represent 74 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, 2015, the Invested Funds Pool totaled $1.53 billion. The fund also owns units in the Consolidated Endowment Fund valued at $806.2 million on June 30, 2015.

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 2015. Endowment operating and gift accounts received 3 percent in fiscal year 2015 with the distributions directed to the University. 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 total return expenditure 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. Of the endowments that are recorded at current market value, the net deficiency from the original gift value is $3.0 million at June 30, 2015.

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 $111.4 million at June 30, 2015. Income received from these trusts, which is included in investment income, was $6.2 million for the year ended June 30, 2015.

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 $71.5 million in fiscal year 2015 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, 2015, was $151.2 million.

The following schedule presents the fair value of the University's investments by type at June 30, 2015:

University of Washington
June 30, 2015
(expressed in thousands)

Investment Type	Carrying Value
Cash equivalents	$ 403,978
Fixed income	1,726,481
Equity	1,733,102
Non-marketable alternatives	353,053
Absolute return	561,999
Real assets	189,447
Miscellaneous	8,602
Total	$ 4,976,662

2. Funding Commitments

The University enters into contracts with investment managers to fund alternative investments. As of June 30, 2015, the University had outstanding commitments to fund alternative investments in the amount of $329.9 million. The University believes it has adequate liquidity and funding sources to meet these obligations.

3. Securities Lending

The University's investment policies permit it to lend its securities to broker dealers and other entities. As of June 30, 2015, 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 1.81 years at June 30, 2015.

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 that negative perceptions of the issuer's ability to make these payments will cause prices to decline.

The University's investment policies limit fixed income exposure to investment grade assets. The investment policy for the Invested Funds' cash pool requires each manager to maintain an average quality rating of AA as issued by a nationally recognized rating organization. The investment policy for the Invested Funds' liquidity pool requires each manager to maintain an average quality rating of A and to hold at least 25 percent of their portfolios in government and government agency issues.

The investment policy for the CEF reflects its long-term nature by specifying average quality rating levels by individual manager, but still restricting investments to investment grade credits.

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

However, all University 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, 2015, along with credit quality and effective duration measures is summarized below. The schedule excludes $36.0 million of fixed income securities held outside the CEF and the Invested Funds Pool, which makes up 1.69 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, 2015
(expressed in thousands)

Investment Type	U.S. Government	Investment Grade*	Non-Invest-ment Grade	Not Rated	Total	Effective Duration (in years)
U.S. treasuries	$ 842,525	$ -	$ -	$ -	$ 842,525	1.43
U.S. government agency	644,721	-	-	-	644,721	2.46
Mortgage-backed	-	107,070	75,060	22,415	204,545	2.01
Asset-backed	-	195,968	6,998	24,111	227,077	1.73
Corporate and other	-	175,364	-	200	175,564	1.14
Total	$ 1,487,246	$ 478,402	$ 82,058	$ 46,726	$ 2,094,432	1.81

* Investment grade securities are those that are rated BBB and higher by Standard and Poor's or Baa and higher by Moody's.

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, 2015, of $1.20 billion.

The following schedule, stated in U.S. dollars, details the market value of foreign denominated securities by currency type:

University of Washington
Consolidated Endowment Fund
Foreign Currency Risk
June 30, 2015
(expressed in thousands)

Foreign Currency	Amount
China-Yuan	$ 211,184
E.M.U.-Euro	174,487
India-Rupee	112,679
Japan-Yen	110,617
Hong Kong-Dollar	60,046
South Korea-Won	56,835
Britain-Pound	54,880
Brazil-Real	54,225
Switzerland-Franc	39,061
Russia-Ruble	36,218
Canada-Dollar	35,385
Philippines-Peso	29,100
Taiwan-Dollar	27,055
Mexico-Peso	23,898
Remaining currencies	169,400
Total	$ 1,195,070

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, 2015. The University had no hedging derivatives, only derivatives for investment purposes.

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, 2015
(expressed in thousands)

Category	Changes in Fair Value - Included in Investment Income (Loss) Amount	Fair Value - Investment Derivative Amount	Notional
Futures contracts	$ (461)	$ 100,286	$ 100,747

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. Investment income earned is allocated based on average daily cash balance. Pursuant to state law, all earnings on investments of Treasury/Trust funds are credited to the General Fund except as specifically provided in RCW 43.79A.040 and RCW 43.84.092. In fiscal year 2015, all of the investment income reported by the General Fund was earned by other funds.

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 (chapters 39.58, 39.59, 43.250, 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 enterprises 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 has contracted with Citibank, N.A. as a lending agent and receives a share of income earned from 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 market 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, 2015, cash collateral totaled $148.3 million, all of which was invested in the LGIP.

Contracts require the lending agent to indemnify the OST if the borrowers fail to return 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, 2015, the fair value of securities on loan totaled $144.8 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 2015, 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 of debt instruments will adversely affect the fair value of an 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 OST investments and related maturities, and provides information about the associated interest rate risks as of June 30, 2015:

Office of the State Treasurer (OST)
Cash Management Account
June 30, 2015
(expressed in thousands)

		Maturity	
Investment Type	**Fair Value**	**Less than 1 Year**	**1-5 Years**
U.S. agency obligations	$ 2,122,497	$ 418,406	$ 1,704,091
U.S. government obligations	1,202,418	186,679	1,015,739
Certificates of deposit	149,071	149,071	-
Investments with LGIP	1,786,267	1,786,267	-
Interest bearing bank accounts	71,140	71,140	-
Total	$ 5,331,393	$ 2,611,563	$ 2,719,830

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 2015, 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

Repurchase agreements and securities accepted for repurchase agreements are subject to the following additional restrictions.

Transactions will be conducted only with primary dealers, the Federal Reserve Bank of New York, the state's bank of record, or master custodial bank, and under the terms of a written master repurchase agreement.

Repurchase agreements with any single primary dealer or financial institution will not exceed 20 percent of the portfolio or $600 million, whichever is greater. The maximum term of repurchase agreements will be 180 days. The share of the portfolio allocated to repurchase agreements with maturities beyond 30 days will not exceed 30 percent of the total portfolio.

Securities utilized in repurchase agreements with a maturity date longer than seven days are priced at least weekly and are held by the Treasury/Trust custodian in the state's name.

Treasury, agency, and money market securities will be priced at 102 percent of market value plus accrued income, except where the counterparty is the Federal Reserve Bank of New York, in which case they will be priced at 100 percent of market value plus accrued income.

Mortgage-backed repurchase agreements with a maturity date longer than seven days will be priced at 105 percent of market value plus accrued income.

Collateralized mortgage obligation securities 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.
Only securities authorized in statute for the investment of public funds are utilized in repurchase agreements. There were no repurchase agreements as of June 30, 2015.

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 market 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 market 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 market 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 2015.

Note 4
Receivables, Unearned and Unavailable Revenues

A. GOVERNMENTAL FUNDS

Taxes Receivable
Taxes receivable at June 30, 2015, consisted of the following (expressed in thousands):

Taxes Receivable	General	Higher Education Special Revenue	Higher Education Endowment	Nonmajor Governmental Funds	Total
Property	$ 1,017,320	$ -	$ -	$ -	$ 1,017,320
Sales	1,778,527	-	-	-	1,778,527
Business and occupation	628,465	-	-	-	628,465
Estate	2,222	10,730	-	-	12,952
Fuel	-	-	-	144,602	144,602
Liquor	-	-	-	5,560	5,560
Marijuana	-	-	-	11,949	11,949
Other	4,625	149	-	380	5,154
Subtotals	3,431,159	10,879	-	162,491	3,604,529
Less: Allowance for uncollectible receivables	37,688	-	-	589	38,277
Total Taxes Receivable	$ 3,393,471	$ 10,879	$ -	$ 161,902	$ 3,566,252

Other Receivables
Other receivables at June 30, 2015, consisted of the following (expressed in thousands):

Other Receivables	General	Higher Education Special Revenue	Higher Education Endowment	Nonmajor Governmental Funds	Total
Public assistance [1]	$ 686,501	$ -	$ -	$ -	$ 686,501
Accounts receivable	128,936	859,647	23,492	313,569	1,325,644
Interest	4,358	6,581	4,546	6,327	21,812
Investment trades pending	14,835	-	-	9,080	23,915
Loans [2]	5,918	131,257	-	463,593	600,768
Long-term contracts [3]	3,546	-	17,962	97,842	119,350
Miscellaneous	15,684	78,671	-	39,972	134,327
Subtotals	859,778	1,076,156	46,000	930,383	2,912,317
Less: Allowance for uncollectible receivables	684,824	29,096	48	85,223	799,191
Total Other Receivables	$ 174,954	$ 1,047,060	$ 45,952	$ 845,160	$ 2,113,126

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 $112.5 million in the Higher Education Special Revenue Fund for student loans and $451.9 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, 2015, consisted of the following (expressed in thousands):

Unearned Revenue	General	Higher Education Special Revenue	Higher Education Endowment	Nonmajor Governmental Funds	Total
Other taxes	$ 1,224	$ -	$ -	$ 24	$ 1,248
Charges for services	105,729	185,499	-	35,291	326,519
Child support	20,135	-	-	-	20,135
Donable goods	7	-	-	6,881	6,888
Grants and donations	3,671	1,584	-	8,832	14,087
Prepaid tolls	-	-	-	14,518	14,518
Seizure of forfeited assets	-	-	-	2,035	2,035
Miscellaneous	11,648	14,996	-	7,586	34,230
Total Unearned Revenue	$ 142,414	$ 202,079	$ -	$ 75,167	$ 419,660

Unavailable Revenue

Unavailable revenue at June 30, 2015, consisted of the following (expressed in thousands):

Unavailable Revenue	General	Higher Education Special Revenue	Higher Education Endowment	Nonmajor Governmental Funds	Total
Property taxes	$ 996,751	$ -	$ -	$ -	$ 996,751
Other taxes	425,888	9,631	-	254	435,773
Timber sales	3,546	-	17,962	97,842	119,350
Charges for services	-	-	-	51,835	51,835
Miscellaneous	5,000	-	-	623	5,623
Total Unavailable Revenue	$ 1,431,185	$ 9,631	$ 17,962	$ 150,554	$ 1,609,332

B. PROPRIETARY FUNDS

Other Receivables

Other receivables at June 30, 2015, 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	$ 816,544	$ 717,075	$ 291,545	$ 47,243	$ 19,910	$ 1,892,317	$ 17,817
Interest	112,356	-	935	4,741	-	118,032	418
Investment trades pending	5	-	-	1,655	-	1,660	1,398
Miscellaneous	12,184	-	16,617	-	8	28,809	269
Subtotals	941,089	717,075	309,097	53,639	19,918	2,040,818	19,902
Less: Allowance for uncollectible receivables	152,446	115,799	78,308	-	82	346,635	470
Total Other Receivables	$ 788,643	$ 601,276	$ 230,789	$ 53,639	$ 19,836	$ 1,694,183	$ 19,432

Unearned Revenue

Unearned revenue at June 30, 2015, 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	$ -	$ -	$ 52,479	$ -	$ -	$ 52,479	$ 2,566
Grants and donations	5,961	-	-	-	-	5,961	-
Other taxes	552	-	-	-	-	552	-
Miscellaneous	509	-	2,600	-	4	3,113	-
Total Unearned Revenue	$ 7,022	$ -	$ 55,079	$ -	$ 4	$ 62,105	$ 2,566

C. FIDUCIARY FUNDS

Other Receivables

Other receivables at June 30, 2015, consisted of $9.5 million for interest and other miscellaneous amounts.

Unearned Revenue

Unearned revenue at June 30, 2015, consisted of $1.0 million 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, 2015, 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	$ -	$ 34,835	$ -	$ 194,420	$ 517
Higher Education Special Revenue	58,032	-	17	44,050	823
Higher Education Endowment	-	-	-	52	-
Nonmajor Governmental Funds	89,193	1,681	4,507	210,355	814
Workers' Compensation	11	-	-	90	-
Unemployment Compensation	1,174	1,677	-	14,810	15
Higher Education Student Services	407	2,963	-	11,637	244
Guaranteed Education Tuition Program	-	-	-	-	-
Nonmajor Enterprise Funds	8,793	514	-	2,658	113
Internal Service Funds	25,852	10,881	-	23,760	4,243
Fiduciary Funds	-	-	-	-	-
Totals	$ 183,462	$ 52,551	$ 4,524	$ 501,832	$ 6,769

Except as noted below, 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 $19.8 million loan from a nonmajor governmental fund to the General Fund which is expected to be paid over the next five years; (2) a $7.3 million loan between nonmajor governmental funds which is expected to be paid over the next seven years, and (3) a $126.4 million revolving loan from the Higher Education Special Revenue Fund to the Higher Education Student Services Fund.

In addition to the interfund balances noted in the schedule above, there are interfund balances of $51.1 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
$ 2	$ 8	$ 137	$ 15,299	$ 9,570	$ -	$ 254,788
-	154,355	161	43	12,344	-	269,825
-	-	-	-	-	9	61
2,986	6	4	49	11,060	-	320,655
-	-	-	-	-	5	106
-	35	-	232	87	14	18,044
-	-	-	-	3,220	48	18,519
-	-	-	-	-	2	2
1	75	8	977	233	4	13,376
-	40	8	529	12,031	-	77,344
-	-	-	-	-	-	-
$ 2,989	$ 154,519	$ 318	$ 17,129	$ 48,545	$ 82	$ 972,720

B. INTERFUND TRANSFERS

Interfund transfers as reported in the financial statements for the year ended June 30, 2015, 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	$ -	$ -	$ 222	$ 1,103,708	$ -
Higher Education Special Revenue	28,041	-	499,126	206,591	-
Higher Education Endowment	-	649,887	-	34,933	-
Nonmajor Governmental Funds	309,173	246,851	628	1,427,287	-
Workers' Compensation	-	-	-	-	-
Unemployment Compensation	-	-	-	-	-
Higher Education Student Services	-	391,306	-	2,225	-
Guaranteed Education Tuition Program	-	-	-	-	-
Nonmajor Enterprise Funds	126,163	6,050	-	11,543	-
Internal Service Funds	2,210	14,671	-	1,329	-
Totals	$ 465,587	$ 1,308,765	$ 499,976	$ 2,787,616	$ -

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 30, 2015, $211.9 million was transferred from the General Fund Basic Account to the Budget Stabilization Account (BSA) in accordance with the provisions of the Constitution. Additionally, the Legislature authorized the transfer from the BSA to the General Fund the amount attributable to extraordinary revenue growth of $37.9 million. 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. The BSA is reported as an Administrative Account within the General Fund.

In addition to the transfers noted in the schedule above, there were transfers of $4.8 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
$ -	$ -	$ -	$ -	$ 14,594	$ 1,118,524
-	400,955	-	-	11,191	1,145,904
-	-	-	-	-	684,820
-	-	-	-	4,080	1,988,019
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	32	393,563
-	-	-	-	-	-
-	-	-	12,804	-	156,560
-	-	-	-	26,080	44,290
$ -	$ 400,955	$ -	$ 12,804	$ 55,977	$ 5,531,680

Note 6
Capital Assets

Capital assets at June 30, 2015, 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, 2015 (expressed in thousands):

Capital Assets	Balances July 1, 2014 *	Additions	Deletions/ Adjustments	Balances June 30, 2015
Capital assets, not being depreciated:				
Land	$ 2,571,351	$ 76,226	$ (22,200)	$ 2,625,377
Transportation infrastructure	22,416,792	818,243	-	23,235,035
Intangible assets - indefinite lives	12,914	2,024	-	14,938
Art collections, library reserves, and museum and historical collections	124,447	3,410	(1,562)	126,295
Construction in progress	906,261	541,820	(557,099)	890,982
Total capital assets, not being depreciated	26,031,765			26,892,627
Capital assets, being depreciated:				
Buildings	12,331,158	475,415	(18,189)	12,788,384
Accumulated depreciation	(4,629,158)	(336,125)	3,052	(4,962,231)
Net buildings	7,702,000			7,826,153
Other improvements	1,426,011	43,960	(6,159)	1,463,812
Accumulated depreciation	(682,463)	(50,606)	5,594	(727,475)
Net other improvements	743,548			736,337
Furnishings, equipment, and intangible assets	4,705,174	625,135	(206,574)	5,123,735
Accumulated depreciation	(3,191,916)	(278,214)	174,976	(3,295,154)
Net furnishings, equipment, and intangible assets	1,513,258			1,828,581
Infrastructure	962,088	56,688	(8,055)	1,010,721
Accumulated depreciation	(483,168)	(30,144)	2,116	(511,196)
Net infrastructure	478,920			499,525
Total capital assets, being depreciated, net	10,437,726			10,890,596
Governmental Activities Capital Assets, Net	$ 36,469,491			$ 37,783,223

* Beginning balances reflect the prior period adjustments by the Department of Transportation for assets not previously placed into inventory, which resulted in an increase in capital assets of $98.4 million and an increase in accumulated depreciation of $4.1 million.

B. BUSINESS-TYPE CAPITAL ASSETS

The following is a summary of business-type capital asset activity for the year ended June 30, 2015 (expressed in thousands):

Capital Assets	Balances July 1, 2014	Additions	Deletions/ Adjustments	Balances June 30, 2015
Capital assets, not being depreciated:				
Land	$ 60,752	$ -	$ (3,203)	$ 57,549
Intangible assets - indefinite lives	4,580	-	-	4,580
Art collections	35	40	-	75
Construction in progress	103,825	212,917	(23,992)	292,750
Total capital assets, not being depreciated	169,192			354,954
Capital assets, being depreciated:				
Buildings	3,263,882	18,730	(18,374)	3,264,238
Accumulated depreciation	(854,176)	(98,909)	967	(952,118)
Net buildings	2,409,706			2,312,120
Other improvements	97,959	693	(163)	98,489
Accumulated depreciation	(39,602)	(6,177)	42	(45,737)
Net other improvements	58,357			52,752
Furnishings, equipment, and intangible assets	675,028	51,207	(12,128)	714,107
Accumulated depreciation	(485,413)	(56,076)	11,091	(530,398)
Net furnishings, equipment, and intangible assets	189,615			183,709
Infrastructure	42,331	315	-	42,646
Accumulated depreciation	(19,055)	(1,407)	(192)	(20,654)
Net infrastructure	23,276			21,992
Total capital assets, being depreciated, net	2,680,954			2,570,573
Business-Type Activities Capital Assets, Net	$ 2,850,146			$ 2,925,527

C. DEPRECIATION

Depreciation expense for the year ended June 30, 2015, was charged by the primary government as follows (expressed in thousands):

		Amount
Governmental Activities:		
General government	$	79,798
Education - elementary and secondary (K-12)		6,276
Education - higher education		382,701
Human services		37,752
Adult corrections		44,653
Natural resources and recreation		34,716
Transportation		109,193
Total Depreciation Expense - Governmental Activities *	$	695,089
Business-Type Activities:		
Workers' compensation	$	7,184
Unemployment compensation		-
Higher education student services		154,028
Guaranteed education tuition program		2
Other		1,355
Total Depreciation Expense - Business-Type Activities	$	162,569

* Includes $97.2 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, 2015, are as follows (expressed in thousands):

Agency / Project Commitments	Construction In Progress June 30, 2015	Remaining Project Commitments
Department of Commerce:		
Pacific Tower renovations	$ 11,704	$ -
Consolidated Technology Services:		
State Data Center buildout	11,053	1,808
Employment Security Department		
Unemployment Tax & Benefit system and other projects	6,107	18,339
Department of Enterprise Services:		
1063 Building project	5,459	77,017
Various projects	25,380	30,002
Military Department		
Pierce County readiness center and other projects	13,178	25,670
Department of Social and Health Services:		
Residential housing unit renovations and other projects	33,141	4,947
Department of Veterans Affairs:		
Walla Walla Veterans Home, Eastern Washington State Cemetery, and other projects	11,319	43,034
Department of Corrections:		
Correctional center units security and safety improvements, and other projects	15,907	16,045
Department of Transportation:		
State ferry vessels and terminals, locomotives, and other projects	120,480	104,688
Transportation infrastructure	-	1,382,028
Department of Fish and Wildlife:		
Voights Creek hatchery, Soos Creek, Fir Island farm restoration, and other projects	19,100	57,971
University of Washington:		
Hec Ed student services and Graves renovation projects	2,132	1,031
UW Medical Center expansion and renovation projects	101,993	20,252
Maple and Terry Hall renovations, Lander Hall replacement,	108,578	12,775
NanaEngineering & Sciences building, animal research and care facility, UW police department, and other projects	156,133	119,646
Burke Gilman trail and other parking projects	3,542	3,330
Washington State University:		
Clean technology laboratory, animal health research facility, digital classroom, Spokane teaching health center, and other facility projects	65,079	126,541
Baily-Brayton field clubhouse and indoor practice facility projects	66	10,057
Cultural house, Tri Cities student union and other projects	577	17,215
Chief Joseph Village renovation, global scholars, and other housing projects	48,324	50,882
Police station, smart grid, Vancouver parking lot, and other projects	4,943	8,864
Eastern Washington University:		
Pence union building renovation, science center, water system upgrade, and other projects	3,756	14,055
Central Washington University:		
Getz-Short renovation, Samuel communication & technology center, and other projects	5,229	6,055
Science hall phase two project	32,921	30,741
The Evergreen State College:		
Science center lab 1 & 2, and other projects	6,455	1,925
Western Washington University:		
Carver Hall renovation, housing and dining, and other projects	21,995	12,586
Community and Technical Colleges:		
ctcLink project	66,744	33,256
Green River Trades & Industry, Auburn center, and student center replacement projects	52,938	17,458
Lower Columbia Health and Science building, and fitness center project	44,067	2,471
Grays Harbor Schermer project	41,195	1,617
Edmonds SET building project	1,838	47,841
Tacoma health careers center and health & wellness center projects	33,800	14,500
Other miscellaneous community college projects	87,498	92,362
Other Agency Projects	21,101	17,556
Total Construction in Progress	$ 1,183,732	$ 2,424,565

Note 7
Long-Term Liabilities

A. BONDS PAYABLE

Bonds payable at June 30, 2015, 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. In November 2012, voters passed a constitutional amendment specifying that maximum annual payments of principal and interest on all debt subject to the limit may not exceed a percentage of the average of the prior six years' general state revenues; this percentage currently stands at 8.5 percent and will decline to 8 percent by July 1, 2034. 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 requires 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 2015 is $1.26 billion.

This computation excludes specific bond issues and types, which are not secured by general state revenues. Of the $18.77 billion general obligation bond debt principal outstanding at June 30, 2015, $11.16 billion is subject to the limitation.

Based on the debt limitation calculation, the debt service requirements as of June 30, 2015, 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_cd2015.pdf
or to Schedule 11 in the Statistical Section of this report.

Authorized But Unissued

The state had a total of $5.61 billion in general obligation bonds authorized but unissued as of June 30, 2015, for the purpose of capital construction, higher education, transportation, and various other projects throughout the state.

Interest Rates

Interest rates on fixed rate general obligation bonds range from 0.2 to 6.4 percent. Interest rates on revenue bonds range from 0.5 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 2015. 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, 2015, are as follows (expressed in thousands):

	Governmental Activities		Business-Type Activities		Totals	
General Obligation Bonds	Principal	Interest	Principal	Interest	Principal	Interest
By Fiscal Year:						
2016	$ 892,262	$ 894,477	$ 4,050	$ 110	$ 896,312	$ 894,587
2017	917,539	885,722	-	-	917,539	885,722
2018	909,284	844,404	-	-	909,284	844,404
2019	906,459	807,091	-	-	906,459	807,091
2020	908,437	772,419	-	-	908,437	772,419
2021-2025	4,506,094	3,104,095	-	-	4,506,094	3,104,095
2026-2030	4,376,413	2,079,821	-	-	4,376,413	2,079,821
2031-2035	3,378,305	881,025	-	-	3,378,305	881,025
2036-2040	1,729,340	260,724	-	-	1,729,340	260,724
2041-2045	238,045	12,584	-	-	238,045	12,584
Total Debt Service Requirements	$ 18,762,178	$ 10,542,362	$ 4,050	$ 110	$ 18,766,228	$ 10,542,472

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.

General Revenue.
The University of Washington and Washington State University issue general revenue bonds that are payable from general revenues, including student tuition, grant indirect cost recovery, sales and services revenue, and investment income. General revenue bonds outstanding as of June 30, 2015, include $698.4 million in governmental activities and $1.36 billion in business-type activities.

Pledged Revenue.
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, 2015, are as follows (expressed in thousands):

	Governmental Activities		Business-Type Activities		Totals	
Revenue Bonds	Principal	Interest	Principal	Interest	Principal	Interest
By Fiscal Year:						
2016	$ 113,487	$ 100,646	$ 89,178	$ 87,632	$ 202,665	$ 188,278
2017	114,078	101,272	53,005	85,757	167,083	187,029
2018	113,030	95,803	55,603	83,706	168,633	179,509
2019	118,468	90,359	57,293	81,310	175,761	171,669
2020	122,443	84,654	58,823	78,805	181,266	163,459
2021-2025	686,194	327,376	316,349	349,651	1,002,543	677,027
2026-2030	312,165	205,446	336,844	270,002	649,009	475,448
2031-2035	281,417	129,472	328,421	186,768	609,838	316,240
2036-2040	238,159	66,019	362,778	100,360	600,937	166,379
2041-2045	113,635	23,070	195,529	17,546	309,164	40,616
2046-2050	62,669	9,469	-	-	62,669	9,469
2051-2055	13,689	736	-	-	13,689	736
Total Debt Service Requirements	$ 2,289,434	$ 1,234,322	$ 1,853,823	$ 1,341,537	$ 4,143,257	$ 2,575,859

Governmental activities include revenue bonds outstanding at June 30, 2015, of $273.2 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 $407.2 million, payable through 2033. For the current year, both pledged revenue and debt service were $47.4 million.

Governmental activities include grant anticipation revenue bonds outstanding at June 30, 2015, of $786.3 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. The bonds are payable solely from Federal-Aid Highway Program funds, including federal reimbursements of debt service on the bonds and federal reimbursements to the state for projects or portions of projects not financed with bond proceeds. Total principal and interest remaining on the bonds is $997.5 million, payable through 2024. For the current year both pledged revenue and debt service were $39.1 million.

Governmental activities include the Transportation Infrastructure Finance and Innovation Act Bond (TIFIA Bond) outstanding at June 30, 2015, of $195.2 million. The bonds were issued to finance a portion of the State Route 520 Corridor Program.

The TIFIA Bond is payable solely from toll revenues and does 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 this bond. Total principal and interest remaining on the bond is $347.2 million, payable through 2051.

Governmental activities include revenue bonds outstanding at June 30, 2015, of $43.4 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 $59.7 million, payable through 2029. For the current year, both pledged revenue and debt service were $999 thousand.

Governmental activities include revenue bonds outstanding at June 30, 2015, of $286.8 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 $517.5 million, payable through 2039. For the current year, both pledged revenue and debt service were $21.6 million.

Additionally, governmental activities include revenue bonds outstanding at June 30, 2015, of $6.1 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 $7.0 million, payable through 2022. For the current year, both pledged revenue and debt service were $1.6 million.

The state's colleges and universities may also 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, 2015, 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	Bookstore Revenues
Current revenue pledged	$ 27,812	$ 27,727	$ 82
Current year debt service	18,930	11,547	202
Total future revenues pledged *	349,838	190,956	3,842
Description of debt	Housing and dining bonds issued in 1998-2015	Student facilities bonds issued in 2006-2015	Student union and recreation center bonds issued in 2004
Purpose of debt	Construction and renovation of student housing and dining	Construction and renovation of student activity and sports facilities	Construct new bookstore as part of new student union and recreation center building
Term of commitment	2026-2042	2031-2039	2034
Percentage of debt service to pledged revenues (current year)	68.1%	41.7%	246.4%

* Total future principal and interest payments.

B. CERTIFICATES OF PARTICIPATION

Certificates of participation at June 30, 2015, 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, 2015, are as follows (expressed in thousands):

	Governmental Activities		Business-Type Activities		Totals	
Certificates of Participation	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**
By Fiscal Year:						
2016	$ 121,143	$ 34,652	$ 4,302	$ 1,230	$ 125,445	$ 35,882
2017	55,050	19,271	4,306	1,507	59,356	20,778
2018	52,161	17,065	4,080	1,335	56,241	18,400
2019	46,956	14,941	3,673	1,169	50,629	16,110
2020	42,078	13,024	3,291	1,019	45,369	14,043
2021-2025	144,951	42,856	11,337	3,352	156,288	46,208
2026-2030	95,996	14,035	7,509	1,098	103,505	15,133
2031-2035	17,288	1,055	1,352	83	18,640	1,138
Total Debt Service Requirements	$ 575,623	$ 156,899	$ 39,850	$ 10,793	$ 615,473	$ 167,692

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 9, 2014, the state issued $420.5 million of motor vehicle fuel tax general obligation refunding bonds with an average interest rate of 4.9 percent to refund $443.5 million of motor vehicle fuel tax general obligation bonds with an average interest rate of 4.8 percent. The refunding resulted in a $37.8 million gross debt service savings over the next 12 years and a net present value savings of $29.8 million.

Also on July 9, 2014, the state issued $420.1 million of various purpose general obligation refunding bonds with an average interest rate of 4.8 percent to refund $438.5 million of various purpose general obligation bonds with an average interest rate of 5 percent. The refunding resulted in a $38.0 million gross debt service savings over the next 12 years and a net present value savings of $30.5 million.

On November 6, 2014, the state issued $301.8 million of motor vehicle fuel tax general obligation refunding bonds with an average interest rate of 5 percent to refund $328.0 million of motor vehicle fuel tax general obligation bonds with an average interest rate of 5 percent. The refunding resulted in a $53.0 million gross debt service savings over the next 18 years and a net present value savings of $40.9 million.

Also on November 6, 2014, the state issued $616.0 million of various purpose general obligation refunding bonds with an average interest rate of 5 percent to refund $675.8 million of various purpose general obligation bonds with an average interest rate of 5 percent. The refunding resulted in a $119.6 million gross debt service savings over the next 18 years and a net present value savings of $95.7 million.

On February 4, 2015, the state issued $458.8 million in various purpose general obligation refunding bonds with an average interest rate of 5 percent to refund $492.3 million of various purpose general obligation bonds with an average interest rate of 5 percent. The refunding resulted in a $54.8 million gross debt service savings over the next 18 years and a net present value savings of $45.3 million.

On March 4, 2015, the state issued $147.3 million of motor vehicle fuel tax general obligation refunding bonds with an average interest rate of 5 percent to refund $155.7 million of motor vehicle fuel tax general obligation bonds with an average interest rate of 5 percent. The refunding resulted in a $14.8 million gross debt service savings over the next 16 years and a net present value savings of $12.0 million.

Also on March 4, 2015, the state issued $132.7 million of motor vehicle fuel tax general obligation refunding bonds with an average interest rate of 4.8 percent to refund $144.2 million of motor vehicle fuel tax general obligation bonds with an average interest rate of 4.5 percent. The refunding resulted in a $17.8 million gross

debt service savings over the next 16 years and a net present value savings of $11.4 million.

Also on March 4, 2015, the state issued $113.3 million of various purpose general obligation refunding bonds with an average interest rate of 4.6 percent to refund $120.6 million of various purpose general obligation bonds with an average interest rate of 4.5 percent. The refunding resulted in a $10.7 million gross debt service savings over the next 13 years and a net present value savings of $9.1 million.

Business-Type Activities.
On August 21, 2014, the Washington Biomedical Research Properties II, a blended component unit of the University of Washington, issued $115.7 million in lease revenue refunding bonds with an average interest rate of 4.5 percent to refund $118.9 million of lease revenue bonds with an average interest rate of 5 percent. The refunding resulted in a $15.0 million gross debt service savings over the next 12 years and an economic gain of $12.6 million.

On March 4, 2015, the University of Washington issued $176.1 million in general revenue refunding bonds with an average interest rate of 4.4 percent to refund $190.2 million of business-type activity lease revenue bonds with an average interest rate of 5 percent. The refunding resulted in a $75.0 million gross debt service savings over the next 15 years and an economic gain of $38.1 million.

On March 4, 2015, Western Washington University issued $13.4 million in housing and dining refunding bonds with an average interest rate of 4 percent to refund $15.2 million of housing and dining revenue bonds with an average interest rate of 6 percent. The refunding resulted in a $1.9 million gross debt service savings over the next 12 years and an economic gain of $1.6 million.

On March 11, 2015, Washington State University issued $64.5 million in general revenue refunding bonds with an average interest rate of 5% to refund $13.0 million in housing and dining revenue bonds with an average interest rate of 4.3%, $5.7 million in parking revenue bonds with an average interest rate of 4.3%, and $53.4 million in student fees revenue bonds with an average interest rate of 5%. The refunding resulted in an $11.0 million gross debt service savings over the next 9 to 24 years and an economic gain of $8.5 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, 2015, $3.82 billion of general obligation bonded debt outstanding is considered defeased.

Revenue Bond Debt

On June 30, 2015, $306.4 million of revenue bonded debt outstanding is considered defeased.

Certificates of Participation Debt

On June 30, 2015, $44.8 million of certificates of participation debt outstanding is considered defeased.

D. LEASES

Leases at June 30, 2015, 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, 2015, include the following (expressed in thousands):

	Governmental Activities	Business-Type Activities
Buildings	$ 1,705	$ 4,512
Equipment	8,468	14,840
Less: Accumulated Depreciation	(5,750)	(10,174)
Totals	$ 4,423	$ 9,178

The following schedule presents future minimum payments for capital and operating leases as of June 30, 2015 (expressed in thousands):

	Capital Leases		Operating Leases	
Capital and Operating Leases	**Governmental Activities**	**Business-Type Activities**	**Governmental Activities**	**Business-Type Activities**
By Fiscal Year:				
2016	$ 1,553	$ 2,850	$ 178,497	$ 28,513
2017	1,134	2,794	140,827	26,155
2018	520	2,002	112,507	21,250
2019	514	1,516	86,455	11,190
2020	498	1,383	46,581	10,452
2021-2025	1,608	3,814	115,095	34,517
2026-2030	-	-	29,543	22,487
2031-2035	-	-	15,878	22,175
2036-2040	-	-	12,817	24,505
2041-2045	-	-	8,991	24,783
Total Future Minimum Payments	5,827	14,359	747,191	226,027
Less: Executory Costs and Interest Costs	(386)	(1,409)	-	-
Net Present Value of Future Minimum Lease Payments	$ 5,441	$ 12,950	$ 747,191	$ 226,027

The total operating lease rental expense for fiscal year 2015 for governmental activities was $354.7 million, of which $231 thousand was for contingent rentals. The total operating lease rental expense for fiscal year 2015 for business-type activities was $35.8 million.

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, 2015, $36.12 billion of unpaid claims and claim adjustment expenses are presented at their net present and settlement value of $25.07 billion. These claims are discounted at assumed interest rates of 1.5 percent (non-pension and cost of living adjustments), 4.5 to 6.4 percent (pensions not yet granted), and 6.4 percent (granted pensions) to arrive at a settlement value.

The claims and claim adjustment liabilities of $25.07 billion as of June 30, 2015, include $11.83 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 $13.23 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 2014 and 2015 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
2014	$ 23,627,560	2,953,508	(2,143,534)	$ 24,437,534
2015	$ 24,437,534	2,814,134	(2,185,519)	$ 25,066,149

Risk Management

The Risk Management Fund administers tort and sundry claims filed against Washington state agencies, except the University of Washington. 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, 2015, outstanding and actuarially determined claims against the state and its agencies, with the exception of the University of Washington and the Department of Transportation Ferries Division, including actuarially projected defense costs were $579.9 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, 2015, the Risk Management Fund held $60.8 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 2014 and 2015 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
2014	$ 542,709	74,760	(48,488)	(18,993)	$ 549,988
2015	$ 549,988	110,648	(59,621)	(21,087)	$ 579,928

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, 2015, health insurance claims liabilities totaling $73.6 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 2014 and 2015 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
2014	$ 59,873	856,230	(845,854)	$ 70,249
2015	$ 70,249	934,082	(930,724)	$ 73,607

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 27 projects in progress for which the state has recorded a liability of $70.7 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, 2015, the state has recorded a liability of $99.0 million for remaining project commitments.

Overall, the state has recorded a pollution remediation liability of $169.7 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, 2015, 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 2015 is as follows (expressed in thousands):

Governmental Activities:	Beginning Balance July 1, 2014 *	Additions	Reductions	Ending Balance June 30, 2015	Amounts Due Within One Year
Long-Term Debt:					
GO Bonds Payable:					
General obligation (GO) bonds	$ 18,397,375	$ 3,464,175	$ 3,618,030	$ 18,243,520	$ 845,260
GO - zero coupon bonds (principal)	556,942	-	38,284	518,658	47,002
Subtotal - GO bonds payable	18,954,317	3,464,175	3,656,314	18,762,178	892,262
Accreted interest - GO - zero coupon bonds	415,936	56,015	-	471,951	46,372
Revenue bonds payable	1,987,810	358,420	56,796	2,289,434	113,487
Plus: Unamortized issuance premiums	33,284	652,415	25,688	660,011	-
Total Bonds Payable	21,391,347	4,531,025	3,738,798	22,183,574	1,052,121
Other Liabilities:					
Certificates of participation	569,885	69,672	63,934	575,623	121,143
Plus: Deferred issuance premiums	-	5,645	833	4,812	-
Claims and judgments	762,934	168,471	67,276	864,129	295,105
Installment contracts	2,185	-	2,185	-	-
Leases	8,526	172	3,257	5,441	1,490
Compensated absences	549,417	351,998	348,478	552,937	63,647
Net pension liability	4,557,121	553,718	1,813,537	3,297,302	-
Other postemployment benefits obligations	1,720,545	384,249	-	2,104,794	-
Pollution remediation obligations	164,839	26,327	21,468	169,698	-
Unclaimed property refunds	100,779	29,878	1	130,656	-
Other	461,594	143,727	35,663	569,658	-
Total Other Liabilities	8,897,825	1,733,857	2,356,632	8,275,050	481,385
Total Long-Term Debt	$ 30,289,172	$ 6,264,882	$ 6,095,430	$ 30,458,624	$ 1,533,506

* Beginning balances have been adjusted as follows: a $4.16 billion increase to net pension liability as a result of implementing GASB Statement No. 68; a $127.0 million increase to properly reclassify outstanding revenue bonds payable from business type activities to governmental activities; and a $9.4 million increase to other long-term obligations to record previously unrecorded obligations.

For governmental activities, certificates of participation are being repaid approximately 18 percent from the General Fund, 35 percent from the Higher Education Special Revenue Fund, 18 percent from the Wildlife and Natural Resources (a nonmajor special revenue fund), 17 percent from the Motor Vehicle (a nonmajor special revenue fund), and the balance from various governmental funds. The compensated absences liability will be liquidated approximately 42 percent by the General Fund, 35 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 67 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 45 percent by the General Fund, 31 percent by the Higher Education Special Revenue Fund, and the balance by various other governmental funds. The pollution remediation liability will be liquidated approximately 58 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 2015 is as follows (expressed in thousands):

Business-Type Activities	Beginning Balance July 1, 2014 *	Additions	Reductions	Ending Balance June 30, 2015	Amounts Due Within One Year
Long-Term Debt:					
General obligation bonds payable	$ 7,870	$ -	$ 3,820	$ 4,050	$ 4,050
Revenue bonds payable	2,009,431	658,671	814,279	1,853,823	89,178
Plus: Unamortized issuance premiums	100,203	53,300	16,021	137,482	-
Less: Deferred issuance discounts	(149)	54	-	(95)	-
Total Bonds Payable	2,117,355	712,025	834,120	1,995,260	93,228
Other Liabilities:					
Certificates of participation	35,328	10,386	5,864	39,850	4,302
Plus: Deferred issuance premiums	2,414	-	281	2,133	-
Claims and judgments	24,447,479	1,147,338	514,313	25,080,504	1,964,234
Lottery prize annuities payable	149,840	89,536	109,470	129,906	20,129
Tuition benefits payable	2,767,000	47,000	772,000	2,042,000	220,000
Leases	15,335	-	2,385	12,950	2,463
Compensated absences	68,671	32,773	23,942	77,502	45,807
Net pension liability	521,589	45,701	204,314	362,976	-
Other postemployment benefits obligations	174,022	44,072	-	218,094	-
Other	41,849	125,037	25,071	141,815	-
Total Other Liabilities	28,223,527	1,541,843	1,657,640	28,107,730	2,256,935
Total Long-Term Debt	$ 30,340,882	$ 2,253,868	$ 2,491,760	$ 30,102,990	$ 2,350,163

* Beginning balances have been adjusted as follows: a $521.6 million increase to net pension liability as a result of implementing GASB Statement No. 68 and a $127.0 million decrease to properly reclassify outstanding revenue bonds payable from business type activities to governmental activities.

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, 2015, balances for the "No Commitment" debt of the state's financing authorities (expressed in thousands):

Financing Authorities	Principal Balance
Washington State Housing Finance Commission	$ 3,419,567
Washington Higher Education Facilities Authority	759,833
Washington Health Care Facilities Authority	5,609,000
Washington Economic Development Finance Authority	682,472
Total No Commitment Debt	$ 10,470,872

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. 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, 2015, is as follows (expressed in thousands):

Fund Balances	General	Higher Education Special Revenue	Higher Education Endowment	Nonmajor Governmental Funds	Total
Nonspendable:					
Permanent funds	$ -	$ -	$ 2,123,387	$ 202,944	$ 2,326,331
Consumable inventories	13,550	10,919	-	43,637	68,106
Investments	-	35,339	71,231	116	106,686
Other receivables – long-term	33,803	-	-	-	33,803
Total Nonspendable Fund Balance	$ 47,353	$ 46,258	$ 2,194,618	$ 246,697	$ 2,534,926
Restricted for: *					
Higher education	$ -	$ 606	$ 1,266,076	$ 210,050	$ 1,476,732
Education	-	-	5,349	23,987	29,336
Transportation	-	-	-	711,931	711,931
Other purposes	683	-	-	6,054	6,737
Human services	-	-	375	468,375	468,750
Wildlife and natural resources	18,890	-	-	913,494	932,384
Local grants and loans	-	-	-	260	260
School construction	627	-	-	47,867	48,494
State facilities	-	-	-	1,883	1,883
Budget stabilization	513,079	-	-	-	513,079
Debt service	-	-	-	66,726	66,726
Pollution remediation	-	-	-	99,559	99,559
Operations and maintenance	-	-	-	7,799	7,799
Repair and replacement	-	-	-	3,403	3,403
Third tier debt service	-	-	-	2,186	2,186
Total Restricted Fund Balance	$ 533,279	$ 606	$ 1,271,800	$ 2,563,574	$ 4,369,259
Committed for:					
Higher education	$ 73,261	$ 2,765,816	$ -	$ 37,770	$ 2,876,847
Education	23	-	-	2,242	2,265
Transportation	-	-	-	212,881	212,881
Other purposes	10,494	-	-	279,137	289,631
Human services	9,429	-	-	753,341	762,770
Wildlife and natural resources	12,460	-	-	395,521	407,981
Local grants and loans	-	-	-	1,098,693	1,098,693
State facilities	-	-	-	528	528
Debt service	-	-	-	314,397	314,397
Total Committed Fund Balance	$ 105,667	$ 2,765,816	$ -	$ 3,094,510	$ 5,965,993
Assigned for:					
Working capital	$ 1,014,952	$ 16,060	$ -	$ -	$ 1,031,012
Total Assigned Fund Balance	$ 1,014,952	$ 16,060	$ -	$ -	$ 1,031,012

*Net position restricted as a result of enabling legislation totaled $8.5 million.

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 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, 2015, the Budget Stabilization Account had restricted fund balance of $513.1 million.

Note 10
Deficit Net Position

Data Processing Revolving Fund

The Data Processing Revolving Fund, an internal service fund, had a deficit net position of $71.8 million at June 30, 2015. The Data Processing Revolving Fund is primarily used to account for and report activities such as data processing and communication services to other state agencies.

The Data Processing Revolving Fund is supported by user charges. Due to budgetary considerations, user rates are designed to cover cash outflows including debt service as opposed to the full cost of services which includes depreciation. Since the Data Processing Revolving Fund reports a debt-financed building, this funding approach has an impact on net position. Debt service allocates principal retirement on a straight line basis while depreciation on the fund's building is componentized which accelerates expense in the early years of the building's life. As a result, the fund reports both an operating loss and a negative net investment in capital assets.

The following schedule details the change in net position for the Data Processing Revolving Fund during the fiscal year ended June 30, 2015 (expressed in thousands):

Data Processing Revolving Fund	Net Position
Balance, July 1, 2014 *	$ (39,963)
Fiscal year 2015 activity	(31,853)
Balance, June 30, 2015	$ (71,816)

* Beginning balance reflects the prior period adjustment of $41.6 million related to the implementation of GASB Statement No. 68.

Higher Education Revolving Fund

The Higher Education Revolving Fund, an internal service fund, had a deficit net position of $2.5 million at June 30, 2015. The Higher Education Revolving Fund is used to manage college and university support service activities such as stores, data processing, and motor pool. Additionally, beginning in fiscal year 2015, the University of Washington is using the Higher Education Revolving Fund to allocate costs associated with its higher education supplemental retirement plan.

The Higher Education Revolving Fund is primarily supported by user charges and interest earnings. During fiscal year 2015, the University of Washington's supplemental retirement plan obligation exceeded the associated revenue, resulting in a deficit net position.

The following schedule details the change in net position for the Higher Education Revolving Fund during the fiscal year ended June 30, 2015 (expressed in thousands):

Higher Education Revolving Fund	Net Position
Balance, July 1, 2014 *	$ 38,158
Fiscal year 2015 activity	(40,615)
Balance, June 30, 2015	$ (2,457)

* Beginning balance reflects the prior period adjustment of $31.7 million related to the implementation of GASB Statement No. 68, and a $1.5 million adjustment to properly record employee benefits of the University of Washington.

Risk Management Fund

The Risk Management Fund, an internal service fund, had a deficit net position of $523.2 million at June 30, 2015. 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 following schedule details the change in net position for the Risk Management Fund during the fiscal year ended June 30, 2015 (expressed in thousands):

Risk Management Fund	Net Position
Balance, July 1, 2014	$ (486,165)
Fiscal year 2015 activity	(37,046)
Balance, June 30, 2015	$ (523,211)

State Facilities Fund

The State Facilities Fund, a capital projects fund, had a deficit fund balance of $165.5 million at June 30, 2015. The State Facilities Fund is used to pay for various capital projects throughout the state.

The State Facilities Fund is primarily supported by bond proceeds, income from property, and sales of property. Costs were incurred during fiscal year 2015 but the bonds to support these projects were not issued until after June 30, 2015, 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, 2015 (expressed in thousands):

State Facilities Fund	Net Position
Balance, July 1, 2014 *	$ 210,592
Fiscal year 2015 activity	(376,065)
Balance, June 30, 2015	$ (165,473)

* Beginning balance reflects the prior period adjustment of $14.4 million due to a fund reclassification.

Note 11
Retirement Plans

A. GENERAL

The state implemented Statement No. 68 of the Governmental Accounting Standards Board (GASB) *Accounting and Financial Reporting for Pensions* for the fiscal year 2015 financial reporting. Washington's pension plans were created by statutes rather than through trust documents. With the exception of the supplemental defined benefit component of the higher education retirement plan, they are administered in a way equivalent to pension trust arrangements as defined by the GASB.

In accordance with Statement No. 68, the state has elected to use the prior fiscal year end as the measurement date for reporting net pension liabilities.

The state Legislature establishes and amends laws pertaining to the creation and administration of all state public retirement systems. Additionally the state Legislature authorizes state agency participation in plans other than those administered by the state.

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. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of all plans and additions to/deductions from all plan fiduciary net position have been determined in all material respects on the same basis as they are reported by the plans.

The following table represents the aggregate pension amounts for all plans subject to the requirements of GASB Statement No. 68 for the state as an employer, for fiscal year 2015, expressed in thousands:

Aggregate Pension Amounts - All Plans		
Pension liabilities	$	3,252,383
Pension assets	$	(1,625,168)
Deferred outflows of resources related to pensions	$	524,011
Deferred inflows of resources related to pensions	$	2,101,352
Pension expense/expenditures	$	143,218

Investments. The Washington State Investment Board (WSIB) has been authorized by statute as having investment management responsibility for the pension funds. The WSIB manages retirement fund assets to maximize return at a prudent level of risk.

Retirement funds are invested in the Commingled Trust Fund (CTF). Established on July 1, 1992, the CTF is a diversified pool of investments that invests in fixed income, public equity, private equity, real estate, and tangible assets. Investment decisions are made within the framework of a Strategic Asset Allocation Policy and a series of written WSIB-adopted investment policies for the various asset classes in which the WSIB invests.

Further information about the investment of pension funds by the WSIB, their valuation, classifications, concentrations, and maturities can be found in Note 3B.

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 covering eligible employees of the state and local governments. The Governor appoints the director of the DRS.

The DRS administered systems are comprised of 12 defined benefit pension plans and three 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

- Public Safety Employees' Retirement System (PSERS)
  Plan 2 - defined benefit

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

- Judicial Retirement System (JRS)
  Defined benefit plan

- Judges' Retirement Fund (Judges)
  Defined benefit plan

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

Administration of the PERS, TRS, SERS, LEOFF, PSERS, and WSPRS, systems and plans was funded by an employer rate of 0.18 percent of employee salaries. Administration of the JRS and Judges plans is funded by means of legislative appropriations.

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 DRS.

The DRS prepares a stand-alone financial report that is compliant with the requirements of Statement 67 of the GASB. Copies of the report may be obtained by contacting the Washington State Department of Retirement Systems, PO Box 48380, Olympia, Washington 98504-8380 or online at http://www.drs.wa.gov/administration/annual-report/.

State Board for Volunteer Fire Fighters and Reserve Officers. As established in chapter 41.24 RCW, the State Board for Volunteer Fire Fighters and Reserve Officers 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 include a defined contribution plan administered by a third party with a supplemental defined benefit component (on a pay as you go basis) which is administered by the state.

B. STATE PARTICIPATION IN PLANS ADMINISTERED BY DRS

1. DRS Plans – Employer Disclosures

The state is not an employer in SERS Plan 2/3 nor LEOFF Plan 1.

Public Employees' Retirement System

Plan Description. The Legislature established the Public Employees' Retirement System (PERS) in 1947. PERS retirement benefit provisions are established in chapters 41.34 and 41.40 RCW and may be amended only by the Legislature. 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.

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. 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 a single defined benefit plan for reporting purposes. Plan

3 accounts for the defined contribution portion of benefits for Plan 3 members.

PERS members who joined the system by September 30, 1977, are Plan 1 members. Plan 1 is closed to new entrants. 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 PERS 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.

Refer to section E of this note for a description of the defined contribution component of PERS Plan 3.

Benefits Provided. PERS plans provide retirement, disability, and death benefits to eligible members.

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. The AFC is the average of the member's 24 highest consecutive service months.

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 cost of living allowance (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.

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. This is 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. 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. 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. The AFC is the average of the member's 60 highest paid consecutive months.

PERS Plan 2 members have the option to retire early with reduced benefits.

The defined benefit portion of PERS Plan 3 provides members a monthly benefit that is 1 percent of the AFC per year of service. There is no cap on years of service credit. Plan 3 provides the same COLA as Plan 2. The AFC is the average of the member's 60 highest paid consecutive months.

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.

PERS Plan 3 members have the option to retire early with reduced benefits.

PERS members meeting specific eligibility requirements have options available to enhance their retirement benefits. Some of these options are available to their survivors, with reduced benefits.

The Judicial Benefit Multiplier (JBM) Program began January 1, 2007. This program gave eligible justices and judges an option to increase the benefit multiplier used in their retirement benefit calculation for their judicial service periods of employement. Beginning January 1, 2007, any justice or judge who was in a judicial position at that time could chose to join JBM. Any justice or judge elected or appointed to office on or after January 1, 2007, who elects to join DRS membership will also be mandated into JBM. If they have already established memebership in PERS or TRS Plan 1 they will rejoin that plan, but if they have never had membership they will be enrolled as a member of both PERS Plan 2 and JBM.

Contributions. PERS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions.

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 contribution requirements are established under state statute.

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 JBM members and employers pay increased contributions that, along with investment earnings, fund the increased retirement benefits of those justices and judges who participate in the program.

Required contribution rates for fiscal year 2015 are presented in the table in section B.3 of this note.

Actuarial Assumptions. The total pension liability was determined by an actuarial valuation as of June 30, 2013 with the results rolled forward to the June 30, 2014 measurement date using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00%
Salary increases	3.75%
Investment rate of return	7.50%

Mortality rates were based on the RP-2000 Combined Healthy Table and Combined Disabled Table published by the Society of Actuaries. The Office of the State Actuary applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis, meaning members are assumed to receive additional mortality improvements in each future year, throughout their lifetime.

The actuarial assumptions used in the June 30, 2013, valuation were based on the results of the 2007-2012 Experience Studies. Additional assumptions for subsequent events and law changes are current as of the 2013 actuarial valuation report.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which a best estimate of expected future rates of return (expected returns, net of pension plan investment expense, but including inflation) are developed for each major asset class by the WSIB. Those expected returns make up one component of WSIB's Capital Market Assumptions (CMAs). The CMAs contain the following three pieces of information for each class of assets the WSIB currently invests in:

- Expected annual return.
- Standard deviation of the annual return.
- Correlations between the annual returns of each asset class with every other asset class.

WSIB uses the CMAs and their target asset allocation to simulate future investment returns over various time horizons.

The long-term expected rate of return of 7.5 percent approximately equals the median of the simulated investment returns over a fifty-year time horizon, increased slightly to remove WSIB's implicit and small short-term downward adjustment due to assumed mean reversion. WSIB's implicit short-term adjustment, while small and appropriate over a ten to fifteen year period, becomes amplified over a fifty-year measurement period.

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2014, are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Fixed Income	20%	0.80%
Tangible Assets	5%	4.10%
Real Estate	15%	5.30%
Global Equity	37%	6.05%
Private Equity	23%	9.05%
Total	100%	

The inflation component used to create the above table is 2.7 percent, and represents WSIB's most recent long-term estimate of broad economic inflation.

There were no material changes in assumptions, benefit terms or method changes for the reporting period.

Discount rate. The discount rate used to measure the total pension liability was 7.5 percent, the same as the prior measurement date. To determine the discount rate, an asset sufficiency test was completed to test whether the pension plan's fiduciary net position was sufficient to make all projected future benefit payments of current plan members. Consistent with current law, the completed asset sufficiency test included an assumed 7.7 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. Consistent with the

long-term expected rate of return, a 7.5 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue to be made at contractually required rates (including PERS Plan 2/3, PSERS Plan 2, and SERS Plan 2/3 employers whose rates include a component for the PERS Plan 1 liability). Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.5 percent on pension plan investments was applied to determine the total pension liability.

Collective Net Pension Liability/(Asset). At June 30, 2015, the state reported $2.13 billion for its proportionate share of the collective net pension liability for PERS Plan 1 and $995.9 million for PERS Plan 2/3. The state's proportion for PERS Plan 1 was 42.37 percent, an increase of 0.2 percent since the prior reporting period, and 49.27 percent for PERS Plan 2/3, an increase of 0.62 percent. The proportions are based on the state's contributions to the pension plan relative to the contributions of all participating employers.

Sensitivity of the Net Pension Liability/(Asset) to Changes in the Discount Rate. The following presents the net pension liability/(asset) of the state as an employer, calculated using the discount rate of 7.5 percent, as well as what the net pension liability/(asset) would be if it were calculated using a discount rate that is 1 percentage point lower (6.5 percent) or 1 percentage point higher (8.5 percent) than the current rate (expressed in thousands).

PERS Plan 1 Employer's proportionate share of Net Pension Liability (Asset)		
1% Decrease	$	2,630,597
Current Discount Rate	$	2,134,189
1% Increase	$	1,708,072

PERS Plan 2/3 Employer's proportionate share of Net Pension Liability (Asset)		
1% Decrease	$	4,153,930
Current Discount Rate	$	995,856
1% Increase	$	(1,416,324)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. For the year ended June 30, 2015, the state recognized a PERS Plan 1 pension expense of $127.2 million, and recognized a PERS Plan 2/3 pension expense of $165.7 million. At June 30, 2015, PERS Plan 1 and PERS Plan 2/3 reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (expressed in thousands):

PERS Plan 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ -	$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	266,868
Change in proportion	-	-
State contributions subsequent to the measurement date	192,106	-
Total	$ 192,106	$ 266,868

PERS Plan 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ -	$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	1,055,617
Change in proportion	20,488	-
State contributions subsequent to the measurement date	219,054	-
Total	$ 239,542	$ 1,055,617

For PERS Plan 1, $192.1 million, and for PERS Plan 2/3, $219.1 million, reported as deferred outflows of resources related to pensions resulting from state contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016.

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in the fiscal years ended June 30 (expressed in thousands):

PERS Plan 1		
2016	$	(66,717)
2017	$	(66,717)
2018	$	(66,717)
2019	$	(66,717)
2020	$	-
Thereafter	$	-

PERS Plan 2/3		
2016	$	(258,050)
2017	$	(258,050)
2018	$	(258,050)
2019	$	(260,979)
2020	$	-
Thereafter	$	-

Teachers' Retirement System

Plan Description. The Legislature established the Teachers' Retirement System (TRS) in 1938. TRS retirement benefit provisions are established in chapters 41.32 and 41.34 RCW and may be amended only by the Legislature. 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 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. 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 a single defined benefit plan for reporting purposes. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members.

TRS members who joined the system by September 30, 1977, are a Plan 1 member. Plan 1 is closed to new entrants. 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, 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.

Refer to section E of this note for a description of the defined contribution component of TRS Plan 3.

Benefits Provided. TRS plans provide retirement, disability, and death benefits to eligible members.

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. The 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 cost of living allowance (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 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. A COLA is granted based on the Consumer Price Index, capped at 3 percent annually. The AFC is the average of the member's 60 highest paid consecutive months.

TRS Plan 2 members have the option to retire early with reduced benefits.

The defined benefit portion of TRS Plan 3 provides members a monthly benefit that is 1 percent of the AFC per year of service. Plan 3 provides the same COLA as Plan 2. The AFC is the average of the member's 60 highest paid consecutive months.

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.

TRS Plan 3 members have the option to retire early with reduced benefits.

TRS members meeting specific eligibility requirements, have options available to enhance their retirement benefits. Some of these options are available to their survivors, with reduced benefits.

The Judicial Benefit Multiplier (JBM) Program began January 1, 2007. This program gave eligible justices and judges an option to increase the benefit multiplier used in their retirement benefit calculation for their judicial service periods of employement. Beginning January 1, 2007, any justice or judge who was in a judicial position at that time could chose to join JBM. Any justice or judge elected or appointed to office on or after January 1, 2007, who elects to join DRS membership will also be mandated into JBM. If they have already established memebership in PERS or TRS Plan 1 they will rejoin that plan, but if they have never had membership they will be enrolled as a member of both PERS Plan 2 and JBM.

Contributions. TRS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions.

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 contribution requirements are established under state statute.

Members in TRS Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest thereon, in lieu of any retirement benefit, upon separation from TRS-covered employment.

TRS JBM members and employers pay increased contributions that, along with investment earnings, fund the increased retirement benefits of those justices and judges who participate in the program.

Required contribution rates for fiscal year 2015 are presented in the table in section B.3 of this note.

Actuarial Assumptions. The total pension liability was determined by an actuarial valuation as of June 30, 2013, with the results rolled forward to the June 30, 2014, measurement date using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00%
Salary increases	3.75%
Investment rate of return	7.50%

Mortality rates were based on the RP-2000 Combined Healthy Table and Combined Disabled Table published by the Society of Actuaries. The Office of the State Actuary applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis, meaning members are assumed to receive additional mortality improvements in each future year, throughout their lifetime.

The actuarial assumptions used in the June 30, 2013, valuation were based on the results of the 2007-2012 Experience Studies. Additional assumptions for subsequent events and law changes are current as of the 2013 actuarial valuation report.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which a best estimate of expected future rates of return (expected returns, net of pension plan investment expense, but including inflation) are developed for each major asset class by the WSIB. Those expected returns make up one component of WSIB's Capital Market Assumptions (CMAs). The CMAs contain the following three pieces of information for each class of assets the WSIB currently invests in:

- Expected annual return.
- Standard deviation of the annual return.
- Correlations between the annual returns of each asset class with every other asset class.

WSIB uses the CMAs and their target asset allocation to simulate future investment returns over various time horizons.

The long-term expected rate of return of 7.5 percent approximately equals the median of the simulated investment returns over a fifty-year time horizon, increased slightly to remove WSIB's implicit and small short-term downward adjustment due to assumed mean reversion. WSIB's implicit short-term adjustment, while small and appropriate over a ten to fifteen year period, becomes amplified over a fifty-year measurement period.

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2014, are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Fixed Income	20%	0.80%
Tangible Assets	5%	4.10%
Real Estate	15%	5.30%
Global Equity	37%	6.05%
Private Equity	23%	9.05%
Total	100%	

The inflation component used to create the above table is 2.7 percent, and represents WSIB's most recent long-term estimate of broad economic inflation.

There were no material changes in assumptions, benefit terms or method changes for the reporting period.

Discount Rate. The discount rate used to measure the total pension liability was 7.5 percent, the same as the prior measurement date. To determine the discount rate, an asset sufficiency test was completed to test whether the pension plan's fiduciary net position was sufficient to make all projected future benefit payments of current plan members. Consistent with current law, the completed asset sufficiency test included an assumed 7.7 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. Consistent with the long-term expected rate of return, a 7.5 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue to be made at contractually required rates (including TRS Plan 2/3, whose rates include a component for the TRS Plan 1 liability). Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.5 percent on pension plan investments was applied to determine the total pension liability.

Collective Net Pension Liability/(Asset). At June 30, 2015, the state reported a liability of $22.9 million for its proportionate share of the collective net pension liability for TRS Plan 1 and $1.9 million for TRS Plan 2/3. The state's proportion for TRS Plan 1 was 0.78 percent, an increase of 0.02 percent since the prior reporting period, and 0.59 percent for TRS Plan 2/3, an increase of 0.16 percent. The proportions are based on the state's contributions to the pension plan relative to the contributions of all participating employers.

Sensitivity of the Net Pension Liability/(Asset) to Changes in the Discount Rate. The following presents the net pension liability/(asset) of the state as an employer, calculated using the discount rate of 7.5 percent, as well as what the net pension liability/(asset) would be if it were calculated using a discount rate that is 1 percentage point lower (6.5 percent) or 1 percentage point higher (8.5 percent) than the current rate (expressed in thousands).

TRS Plan 1 Employer's proportionate share of Net Pension Liability (Asset)		
1% Decrease	$	29,499
Current Discount Rate	$	22,924
1% Increase	$	17,279

TRS Plan 2/3 Employer's proportionate share of Net Pension Liability (Asset)		
1% Decrease	$	16,631
Current Discount Rate	$	1,913
1% Increase	$	(9,026)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. For the year ended June 30, 2015, the state recognized a TRS Plan 1 pension expense of $1.9 million, and recognized a TRS Plan 2/3 pension expense of $1.6 million. At June 30, 2015, TRS Plan 1 and TRS Plan 2/3 reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (expressed in thousands):

TRS Plan 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ -	$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	4,020
Change in proportion	-	-
State contributions subsequent to the measurement date	1,921	-
Total	$ 1,921	$ 4,020

TRS Plan 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ -	$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	4,391
Change in proportion	1,410	-
State contributions subsequent to the measurement date	1,933	-
Total	$ 3,343	$ 4,391

For TRS Plan 1, $1.9 million, and for TRS Plan 2/3, $1.9 million reported as deferred outflows of resources related to pensions resulting from state contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016.

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in the fiscal years ended June 30 (expressed in thousands):

TRS Plan 1		
2016	$	(1,005)
2017	$	(1,005)
2018	$	(1,005)
2019	$	(1,005)
2020	$	-
Thereafter	$	-

TRS Plan 2/3		
2016	$	(791)
2017	$	(791)
2018	$	(791)
2019	$	(791)
2020	$	183
Thereafter	$	-

Law Enforcement Officers' and Fire Fighters' Retirement System

Plan Description. The Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) was established in 1970 by the Legislature. LEOFF retirement benefit provisions are established in chapter 41.26 RCW and may be amended only 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 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. Plan 1 is closed to new entrants. 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.

Benefits Provided. LEOFF plans provide retirement, disability, and death benefits to eligible members.

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:

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

A cost of living allowance (COLA) is granted based on the Consumer Price Index.

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. A COLA is granted based on the Consumer Price Index, capped at 3 percent annually.

LEOFF members have the option to retire early with reduced benefits.

LEOFF members meeting specific eligibility requirements have options available to enhance their retirement benefits. Some of these options are available to their survivors, generally with reduced benefits.

Contributions. 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.

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 are not required to contribute 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 methods used to determine contribution requirements are established under state statute.

Members in LEOFF Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest thereon, in lieu of any retirement benefit, upon separation from LEOFF-covered employment.

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. For fiscal year 2014, the state contributed $55.6 million to LEOFF Plan 2.

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. 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.

Required contribution rates for fiscal year 2015 are presented in the table in section B.3 of this note.

The state is not an employer in LEOFF Plan 1 plan; however, the state is a nonemployer contributing entity for LEOFF Plan 1. For LEOFF Plan 2 the state is both an employer and a nonemployer contributing entity. Refer to Section B.2 of this note for nonemployer contributing entity disclosures.

The following information applies to the state as a LEOFF Plan 2 employer.

Actuarial Assumptions. The total net pension asset was determined by an actuarial valuation as of June 30, 2013, with the results rolled forward to the June 30, 2014, measurement date using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00%
Salary increases	3.75%
Investment rate of return	7.50%

Mortality rates were based on the RP-2000 Combined Healthy Table and Combined Disabled Table published by the Society of Actuaries. The Office of the State Actuary applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis, meaning members are assumed to receive additional mortality improvements in each future year, throughout their lifetime.

The actuarial assumptions used in the June 30, 2013, valuation were based on the results of the 2007-2012 Experience Studies. Additional assumptions for subsequent events and law changes are current as of the 2013 actuarial valuation report.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which a best estimate of expected future rates of return (expected returns, net of pension plan investment expense, but including inflation) are developed for each major asset class by the WSIB. Those expected returns make up one component of WSIB's Capital Market Assumptions (CMAs). The CMAs contain the following three pieces of information for each class of assets the WSIB currently invests in:

- Expected annual return.
- Standard deviation of the annual return.
- Correlations between the annual returns of each asset class with every other asset class.

WSIB uses the CMAs and their target asset allocation to simulate future investment returns over various time horizons.

The long-term expected rate of return of 7.5 percent approximately equals the median of the simulated investment returns over a fifty-year time horizon, increased slightly to remove WSIB's implicit and small short-term downward adjustment due to assumed mean reversion. WSIB's implicit short-term adjustment, while small and appropriate over a ten to

fifteen year period, becomes amplified over a fifty-year measurement period.

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2014, are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Fixed Income	20%	0.80%
Tangible Assets	5%	4.10%
Real Estate	15%	5.30%
Global Equity	37%	6.05%
Private Equity	23%	9.05%
Total	100%	

The inflation component used to create the above table is 2.7 percent, and represents WSIB's most recent long-term estimate of broad economic inflation.

There were no material changes in assumptions, benefit terms or method changes for the reporting period.

Discount Rate. The discount rate used to measure the total pension liability was 7.5 percent, the same as the prior measurement date. To determine the discount rate, an asset sufficiency test was completed to test whether the pension plan's fiduciary net position was sufficient to make all projected future benefit payments of current plan members. Consistent with current law, the completed asset sufficiency test included an assumed 7.7 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. Consistent with the long-term expected rate of return, a 7.5 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue to be made at contractually required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.5 percent on pension plan investments was applied to determine the total pension liability.

Collective Net Pension Liability/(Asset). At June 30, 2015, the state reported an asset of $11.2 million for its proportionate share of the collective net pension asset for LEOFF Plan 2. The state's proportion for LEOFF Plan 2 was 0.84 percent, a decrease of 0.01 percent since the prior reporting period. The proportions are based on the state's contributions to the pension plan relative to the contributions of all participating employers and the nonemployer contributing entity.

Sensitivity of the Net Pension Liability/(Asset) to Changes in the Discount Rate. The following presents the net pension liability/(asset) of the state as an employer, calculated using the discount rate of 7.5 percent, as well as what the employers' net pension liability/(asset) would be if it were calculated using a discount rate that is 1 percentage point lower (6.5 percent) or 1 percentage point higher (8.5 percent) than the current rate (expressed in thousands).

LEOFF Plan 2 Employer's proportionate share of Net Pension Liability (Asset)		
1% Decrease	$	4,782
Current Discount Rate	$	(11,175)
1% Increase	$	(23,151)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. For the year ended June 30, 2015, the state recognized a LEOFF Plan 2 pension expense of $(554) thousand. At June 30, 2015, LEOFF Plan 2 reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (expressed in thousands):

LEOFF Plan 2	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ -	$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	5,913
Change in proportion	15	-
State contributions subsequent to the measurement date	1,250	-
Total	$ 1,265	$ 5,913

For LEOFF Plan 2, $1.3 million reported as deferred outflows of resources related to pensions resulting from state contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016.

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in the fiscal years ended June 30 (expressed in thousands):

LEOFF Plan 2		
2016	$	(1,475)
2017	$	(1,475)
2018	$	(1,475)
2019	$	(1,475)
2020	$	2
Thereafter	$	-

Public Safety Employees' Retirement System

Plan Description. 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 in chapter 41.37 RCW and may be amended only by the Legislature. PSERS membership includes full-time employees meeting specific eligibility criteria that are employed by Department of Corrections, Department of Natural Resources, Gambling Commission, Liquor Control Board, Parks and Recreation Commission, Washington State Patrol, Washington state counties, corrections departments of Washington state cities except for Seattle, Tacoma, and Spokane, or correctional entities formed by PSERS employers under the Interlocal Cooperation Act.

PSERS is a cost-sharing, multiple-employer retirement system comprised of a single defined benefit plan, PSERS Plan 2.

Benefits Provided. PSERS provides retirement, disability, and death benefits to eligible members.

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 of 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. A cost of living allowance (COLA) is granted based on the Consumer Price Index, capped at 3 percent annually. The AFC is the average of the member's 60 highest paid consecutive months.

PSERS members have the option to retire early with reduced benefits.

PSERS members meeting specific eligibility requirements have options available to enhance their retirement benefits. Some of these options are available to their survivors, generally with reduced benefits.

Contributions. PSERS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions.

Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates. The employer and employee contribution rates for Plan 2 are developed by the Office of the State Actuary to fully fund Plan 2. The methods used to determine contribution requirements are established under state statute.

Members in PSERS Plan 2 can elect to withdraw total employee contributions and interest thereon, in lieu of any retirement benefit, upon separation from PSERS-covered employment.

Required contribution rates for fiscal year 2015 are presented in the table in section B.3 of this note.

Actuarial Assumptions. The total net pension asset was determined by an actuarial valuation as of June 30, 2013, with the results rolled forward to the June 30, 2014, measurement date using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00%
Salary increases	3.75%
Investment rate of return	7.50%

Mortality rates were based on the RP-2000 Combined Healthy Table and Combined Disabled Table published by the Society of Actuaries. The Office of the State Actuary applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis, meaning members are assumed to receive additional mortality improvements in each future year, throughout their lifetime.

The actuarial assumptions used in the June 30, 2013, valuation were based on the results of the 2007-2012 Experience Studies. Additional assumptions for subsequent events and law changes are current as of the 2013 actuarial valuation report.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which a best estimate of expected future rates of return (expected returns, net of pension plan investment expense, but including inflation) are developed for each major asset class by the WSIB. Those expected returns make up one component of WSIB's Capital Market Assumptions (CMAs). The CMAs contain the following three pieces of

information for each class of assets the WSIB currently invests in:

- Expected annual return.
- Standard deviation of the annual return.
- Correlations between the annual returns of each asset class with every other asset class.

WSIB uses the CMAs and their target asset allocation to simulate future investment returns over various time horizons.

The long-term expected rate of return of 7.5 percent approximately equals the median of the simulated investment returns over a fifty-year time horizon, increased slightly to remove WSIB's implicit and small short-term downward adjustment due to assumed mean reversion. WSIB's implicit short-term adjustment, while small and appropriate over a ten to fifteen year period, becomes amplified over a fifty-year measurement period.

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2014, are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Fixed Income	20%	0.80%
Tangible Assets	5%	4.10%
Real Estate	15%	5.30%
Global Equity	37%	6.05%
Private Equity	23%	9.05%
Total	100%	

The inflation component used to create the above table is 2.7 percent, and represents WSIB's most recent long-term estimate of broad economic inflation.

There were no material changes in assumptions, benefit terms or method changes for the reporting period.

Discount Rate. The discount rate used to measure the total pension liability was 7.5 percent, the same as the prior measurement date. To determine the discount rate, an asset sufficiency test was completed to test whether the pension plan's fiduciary net position was sufficient to make all projected future benefit payments of current plan members. Consistent with current law, the completed asset sufficiency test included an assumed 7.7 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. Consistent with the long-term expected rate of return, a 7.5 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue to be made at contractually required rates (including PERS Plan 2/3, PSERS Plan 2, and SERS Plan 2/3 employers whose rates include a component for the PERS Plan 1 liability). Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.5 percent on pension plan investments was applied to determine the total pension liability.

Collective Net Pension Liability/(Asset). At June 30, 2015, the state reported an asset of $7.0 million for its proportionate share of the collective net pension asset for PSERS Plan 2. The state's proportion for PSERS Plan 2 was 48.26 percent, an increase of 0.36 percent since the prior reporting period. The proportions are based on the state's contributions to the pension plan relative to the contributions of all participating employers.

Sensitivity of the Net Pension Liability/(Asset) to Changes in the Discount Rate. The following presents the net pension liability/(asset) of the state as an employer, calculated using the discount rate of 7.5 percent, as well as what the employers' net pension liability/(asset) would be if it were calculated using a discount rate that is 1 percentage point lower (6.5 percent) or 1 percentage point higher (8.5 percent) than the current rate (expressed in thousands).

PSERS Plan 2 Employer's proportionate share of Net Pension Liability (Asset)		
1% Decrease	$	39,052
Current Discount Rate	$	(6,988)
1% Increase	$	(39,678)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. For the year ended June 30, 2015, the state recognized a PSERS Plan 2 pension expense of $9.2 million. At June 30, 2015, PSERS Plan 2 reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (expressed in thousands):

PSERS Plan 2	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ -	$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	10,425
Change in proportion	16	-
State contributions subsequent to the measurement date	8,965	-
Total	$ 8,981	$ 10,425

For PSERS Plan 2, $9.0 million reported as deferred outflows of resources related to pensions resulting from state contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016.

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in the fiscal years ended June 30 (expressed in thousands):

PSERS Plan 2	
2016	$ (2,603)
2017	$ (2,603)
2018	$ (2,603)
2019	$ (2,603)
2020	$ 3
Thereafter	$ -

Washington State Patrol Retirement System

Plan Description. The Washington State Patrol Retirement System (WSPRS) was established by the Legislature in 1947. WSPRS benefits are established in chapter 43.43 RCW and may be amended only by the Legislature. Any commissioned employee of the Washington State Patrol is eligible to participate.

WSPRS is a single-employer, defined benefit retirement system. WSPRS members who joined the system by December 31, 2002, are Plan 1 members. Plan 1 is closed to new entrants. 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.

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.

At retirement, these members also have the option of selecting an actuarially reduced benefit in order to provide for post-retirement survivor benefits.

For membership information refer to the table presented in Section B.3 of this note.

Benefits Provided. WSPRS plans provide retirement and death benefits to eligible members.

There is no vesting requirement for active WSPRS members. Inactive WSPRS members are vested after the completion of five years of eligible service. Active members are eligible for retirement at the age of 55 with no minimum required service credit, or at any age with 25 years of service credit, and must retire at age 65. This mandatory requirement does not apply to the Chief of the Washington State Patrol.

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.

WSPRS members meeting specific eligibility requirements have options available to enhance their retirement benefits. Some of these options are available to their survivors, generally with reduced benefits.

Contributions. WSPRS retirement benefits are financed from a combination of investment earnings and employer and employee contributions.

Each biennium, the state Pension Funding Council adopts the employee and the state contribution rates, subject to revision by the Legislature. The preliminary employee and the state contribution rates are developed by the Office of the State Actuary to fully fund the plan. The methods used to determine contribution requirements are established under state statute.

Members in WSPRS Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest thereon, in lieu of any retirement benefit, upon separation from WSPRS-covered employment.

Required contribution rates for fiscal year 2015 are presented in the table in section B.3 of this note.

Actuarial Assumptions. The total net pension asset was determined by an actuarial valuation as of June 30, 2013, with the results rolled forward to the June 30, 2014, measurement date using the following actuarial

assumptions, applied to all periods included in the measurement:

Inflation	3.00%
Salary increases	3.75%
Investment rate of return	7.50%

Mortality rates were based on the RP-2000 Combined Healthy Table and Combined Disabled Table published by the Society of Actuaries. The Office of the State Actuary applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis, meaning members are assumed to receive additional mortality improvements in each future year, throughout their lifetime.

The actuarial assumptions used in the June 30, 2013, valuation were based on the results of the 2007-2012 Experience Studies. Additional assumptions for subsequent events and law changes are current as of the 2013 actuarial valuation report.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which a best estimate of expected future rates of return (expected returns, net of pension plan investment expense, but including inflation) are developed for each major asset class by the WSIB. Those expected returns make up one component of WSIB's Capital Market Assumptions (CMAs). The CMAs contain the following three pieces of information for each class of assets the WSIB currently invests in:

- Expected annual return.
- Standard deviation of the annual return.
- Correlations between the annual returns of each asset class with every other asset class.

WSIB uses the CMAs and their target asset allocation to simulate future investment returns over various time horizons.

The long-term expected rate of return of 7.5 percent approximately equals the median of the simulated investment returns over a fifty-year time horizon, increased slightly to remove WSIB's implicit and small short-term downward adjustment due to assumed mean reversion. WSIB's implicit short-term adjustment, while small and appropriate over a ten to fifteen year period, becomes amplified over a fifty-year measurement period.

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2014, are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Fixed Income	20%	0.80%
Tangible Assets	5%	4.10%
Real Estate	15%	5.30%
Global Equity	37%	6.05%
Private Equity	23%	9.05%
Total	100%	

The inflation component used to create the above table is 2.7 percent, and represents WSIB's most recent long-term estimate of broad economic inflation.

There were no material changes in assumptions, benefit terms or method changes for the reporting period.

Discount Rate. The discount rate used to measure the total pension liability was 7.5 percent, the same as the prior measurement date. To determine the discount rate, an asset sufficiency test was completed to test whether the pension plan's fiduciary net position was sufficient to make all projected future benefit payments of current plan members. Consistent with current law, the completed asset sufficiency test included an assumed 7.7 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. Consistent with the long-term expected rate of return, a 7.5 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue to be made at contractually required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.5 percent on pension plan investments was applied to determine the total pension liability.

Refer to the table in section B.3 of this note for the change in net pension liability.

Net Pension Liability/(Asset). At June 30, 2015, the state reported a net pension asset of $26.0 million.

Sensitivity of the Net Pension Liability/(Asset) to Changes in the Discount Rate. The following presents the net pension liability/(asset) of the state as an employer, calculated using the discount rate of 7.5 percent, as well as what the employers' net pension

liability/(asset) would be if it were calculated using a discount rate that is 1 percentage point lower (6.5 percent) or 1 percentage point higher (8.5 percent) than the current rate (expressed in thousands).

WSPRS Plan 1/2 Net Pension Liability (Asset)		
1% Decrease	$	156,101
Current Discount Rate	$	(26,003)
1% Increase	$	(168,669)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. For the year ended June 30, 2015, the state recognized a WSPRS pension expense of $(5.4) million. At June 30, 2015, the WSPRS reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (expressed in thousands):

WSPRS Plan 1/2	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ -	$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	85,154
Change in proportion	-	-
State contributions subsequent to the measurement date	6,680	-
Total	$ 6,680	$ 85,154

For WSPRS 1/2, $6.7 million reported as deferred outflows of resources related to pensions resulting from state contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016.

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in the fiscal years ended June 30 (expressed in thousands):

WSPRS Plan 1/2		
2016	$	(21,288)
2017	$	(21,288)
2018	$	(21,288)
2019	$	(21,290)
2020	$	-
Thereafter	$	-

Judges' Retirement Fund

Plan Description. The Judges' Retirement Fund was created by the Legislature on March 22, 1937 to provide retirement benefits to judges elected or appointed to the Supreme Court, Court of Appeals, and Superior Courts of the state of Washington. 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. For membership information refer to the table presented in Section B.3 of this note.

Benefits Provided. Judges' Retirement Fund provides 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.

Contributions. There are no active members remaining in the Judges' Retirement Fund. Past contributions were made based on rates set in statute. By statute, employees were required to contribute 6.5 percent of covered payroll with an equal amount contributed by the state.

Retirement benefits are financed on a pay-as-you-go basis from a combination of investment earnings and employer contributions. Each biennium, the Legislature, through appropriations from the state General Fund, contributes amounts sufficient to meet benefit payment requirements. For fiscal year 2014, no such appropriations or contributions were made.

Actuarial Assumptions. The total pension liability was determined by an actuarial valuation as of June 30, 2013 with the results rolled forward to the June 30, 2014 measurement date using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00%
Salary increases	N/A
Investment rate of return	4.00%

Mortality rates were based on the RP-2000 Combined Healthy Table and Combined Disabled Table published by the Society of Actuaries. The Office of the State Actuary applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis, meaning members are assumed to receive additional

mortality improvements in each future year, throughout their lifetime.

The actuarial assumptions used in the June 30, 2013, valuation were based on the results of the 2007-2012 Experience Studies. Additional assumptions for subsequent events and law changes are current as of the 2013 actuarial valuation report.

There were no material changes in assumptions, benefit terms or method changes for the reporting period.

Discount Rate. Contributions are made to the Judges' Retirement Fund to ensure cash is available to make benefit payments. Since this plan is operated on a pay-as-you-go basis, the discount rate used to measure the total pension liability was set equal to the Bond Buyer General Obligation 20-Bond Municipal Bond Index, or 4.29 percent for the June 30, 2014 measurement date. Refer to the table in section B.3 of this note for the change in net pension liability.

Net Pension Liability/(Asset). At June 30, 2015, the state reported a net pension liability of $2.2 million.

Sensitivity of the Net Pension Liability/(Asset) to Changes in the Discount Rate. The following presents the net pension liability/(asset) of the state as an employer, calculated using the discount rate of 4.29 percent, as well as what the employers' net pension liability/(asset) would be if it were calculated using a discount rate that is 1 percentage point lower (3.29 percent) or 1 percentage point higher (5.29 percent) than the current rate (expressed in thousands).

Judges' Net Pension Liability (Asset)		
1% Decrease	$	2,358
Current Discount Rate	$	2,191
1% Increase	$	2,075

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. For the year ended June 30, 2015, the state recognized a Judges' Retirement Fund pension expense of $98 thousand. At June 30, 2015, the Judges' Retirement Fund reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (expressed in thousands):

Judges'	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ -	$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	32	-
Change in proportion	-	-
State contributions subsequent to the measurement date	-	-
Total	$ 32	$ -

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in the fiscal years ended June 30 (expressed in thousands):

Judges'		
2016	$	8
2017	$	8
2018	$	8
2019	$	8
2020	$	-
Thereafter	$	-

Judicial Retirement System

Plan Description. The Judicial Retirement System (JRS) was established by the Legislature in 1971. JRS retirement benefit provisions are established in chapter 2.10 RCW and may be amended only by the Legislature. Membership includes judges elected or appointed to the Supreme Court, Court of Appeals, and Superior Courts on or after August 9, 1971.

JRS is a single-employer, defined benefit retirement system. There are no active members remaining in the Judicial Retirement System. For membership information refer to the table presented in Section B.3 of this note.

Benefits Provided. JRS provides retirement, disability, and death benefits to eligible members.

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 system was closed to new entrants on July 1, 1988, with new judges joining PERS.

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.

Years of Service	Percent of FAS
15+	3.5%
10-14	3.0%

Contributions. JRS retirement benefits are financed on a pay-as-you-go basis from a combination of investment earnings, employer contributions, and employee contributions.

Past contributions were made based on rates set in statute. By statute, employees were required to contribute 7.5 percent of covered payroll with an equal amount contributed by the state.

JRS member contributions to the plan are not refundable.

The state guarantees the solvency of JRS 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 2014, the state contributed $10.6 million.

Actuarial Assumptions. The total pension liability was determined by an actuarial valuation as of June 30, 2013, with the results rolled forward to the June 30, 2014, measurement date using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00%
Salary increases	N/A
Investment rate of return	4.00%

Mortality rates were based on the RP-2000 Combined Healthy Table and Combined Disabled Table published by the Society of Actuaries. The Office of the State Actuary applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis, meaning members are assumed to receive additional mortality improvements in each future year, throughout their lifetime.

The actuarial assumptions used in the June 30, 2013, valuation were based on the results of the 2007-2012 Experience Studies. Additional assumptions for subsequent events and law changes are current as of the 2013 actuarial valuation report.

There were no material changes in assumptions, benefit terms or method changes for the reporting period.

Discount Rate. Contributions are made to JRS to ensure cash is available to make benefit payments. Since this plan is operated on a pay-as-you-go basis, the discount rate used to measure the total pension liability was set equal to the Bond Buyer General Obligation 20-Bond Municipal Bond Index, or 4.29 percent for the June 30, 2014, measurement date.

Refer to the table in section B.3 of this note for the change in net pension liability.

Net Pension Liability/(Asset). At June 30, 2015, the state reported a net pension liability of $95.3 million.

Sensitivity of the Net Pension Liability/(Asset) to Changes in the Discount Rate. The following presents the net pension liability/(asset) of the state as an employer, calculated using the discount rate of 4.29 percent, as well as what the employers' net pension liability/(asset) would be if it were calculated using a discount rate that is 1 percentage point lower (3.29 percent) or 1 percentage point higher (5.29 percent) than the current rate (expressed in thousands).

JRS Net Pension Liability (Asset)		
1% Decrease	$	104,668
Current Discount Rate	$	95,310
1% Increase	$	87,377

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. For the year ended June 30, 2015, the state recognized a JRS pension expense of $4.2 million. At June 30, 2015, JRS reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (expressed in thousands):

JRS	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ -	$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	-
Change in proportion	122	-
State contributions subsequent to the measurement date	10,600	-
Total	$ 10,722	$ -

For JRS, $10.6 million reported as deferred outflows of resources related to pensions resulting from state contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016.

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in the fiscal years ended June 30 (expressed in thousands):

JRS	
2016	$ 31
2017	$ 31
2018	$ 30
2019	$ 30
2020	$ -
Thereafter	$ -

2. DRS Plans – Nonemployer Contributing Entity Disclosures

For fiscal year 2015, the state was considered a nonemployer contributing entity in special funding situations for two DRS-administered pension plans, LEOFF Plan 1 and LEOFF Plan 2. State contributions are required by statute to be made directly to these plans to fund pensions. Section B.1 of this note provides the detailed descriptions of these plans, their benefit terms, contribution requirements, significant assumptions used to measure pension liability and mortality, and the discount rate.

Basis for Nonemployer Contributing Entity Contributions. LEOFF Plan 1 has a net pension asset as of the June 30, 2014 measurement date. If needed, RCW 41.26.080 would require employer and employee contributions of 6 percent, and the remaining liabilities funded by the state pursuant to chapter 41.45 RCW. For fiscal year 2014, the nonemployer contributing entity's proportionate share of the net pension asset was considered substantial at 87.12 percent based on historical contributions to the plan.

LEOFF Plan 2 has a net pension asset as of the June 30, 2014, measurement date. In this plan, the state is an employer and also a nonemployer contributing entity. RCW 41.26.725 limits the employee contributions to 50 percent, employer contributions to 30 percent, and the state contribution to 20 percent of the cost of benefits. In no instance shall the state contribution exceed 4 percent of payroll. For fiscal year 2014, the nonemployer contributing entity's proportionate share of the net pension asset was considered substantial at 39.52 percent based on total plan contributions received in fiscal year 2014.

Collective Net Pension Liability/(Asset). At June 30, 2015, the state as nonemployer contributing entity reported a net pension asset of $1.06 billion and $524.4 million for its proportionate share of the collective net pension asset for LEOFF Plan 1 and LEOFF Plan 2 respectively. The nonemployer contributing entity's proportion for LEOFF Plan 1 was 87.12 percent, the same as the prior reporting period, and 39.52 percent for LEOFF Plan 2, a decrease of 0.20 percent. The proportion of the state nonemployer contributions related to LEOFF Plan 1 was based on historical contributions from the state and employers plus fiscal year 2014 retirement benefit payments. The proportion of the state nonemployer contributions related to LEOFF Plan 2 was based on the state's contributions to the pension plan relative to the total state contributions and all participating employers.

Sensitivity of the Net Pension Liability/(Asset) to Changes in the Discount Rate. The following presents the net pension liability/(asset) of the nonemployer contributing entity calculated using the discount rate of 7.5 percent, as well as what the nonemployer contributing entity's net pension liability/(asset) would be if it were calculated using a discount rate that is 1 percentage point lower (6.5 percent) or 1 percentage point higher (8.5 percent) than the current rate (expressed in thousands).

LEOFF Plan 1 Nonemployer contributing entity proportionate share of Net Pension Liability (Asset)	
1% Decrease	$ (661,311)
Current Discount Rate	$ (1,056,583)
1% Increase	$ (1,392,526)

LEOFF Plan 2 Nonemployer contributing entity proportionate share of Net Pension Liability (Asset)		
1% Decrease	$	224,422
Current Discount Rate	$	(524,419)
1% Increase	$	(1,086,375)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. For the year ended June 30, 2015, the state as nonemployer contributing entity recognized $(134.6) million pension expense for LEOFF Plan 1 and $(25.9) million pension expense for LEOFF Plan 2.

At June 30, 2015, the state as nonemployer contributing entity reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (expressed in thousands):

LEOFF Plan 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ -	$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	391,493
Change in proportion	-	-
State contributions subsequent to the measurement date	52	-
Total	$ 52	$ 391,493

LEOFF Plan 2	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ -	$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	277,471
Change in proportion and difference between state contributions and proportionate share of contributions	693	-
State contributions subsequent to the measurement date	58,674	-
Total	$ 59,367	$ 277,471

For LEOFF Plan 1, $52 thousand, and for LEOFF Plan 2, $58.7 million, reported as deferred outflows of resources related to pensions resulting from state contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016.

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in the fiscal years ended June 30 (expressed in thousands):

LEOFF Plan 1		
2016	$	(97,873)
2017	$	(97,873)
2018	$	(97,873)
2019	$	(97,874)
2020	$	-
Thereafter	$	-

LEOFF Plan 2		
2016	$	(69,239)
2017	$	(69,239)
2018	$	(69,239)
2019	$	(69,239)
2020	$	128
Thereafter	$	50

3. Tables for Plans Administered by the Department of Retirement Services

TABLE 1: Single Employer Plan Membership

Membership of the single employer plans administered by the Department of Retirement Systems consisted of the following at June 30, 2013, the date of the latest actuarial valuation for all plans:

	Number of Participating Members			
Plans	Inactive Members (Or Beneficiaries) Currently Receiving Benefits	Inactive Members Entitled To But Not Yet Receiving Benefits	Active Members	Total Members
WSPRS 1	964	119	657	1,740
WSPRS 2	-	10	409	419
JRS	114	-	-	114
Judges	12	-	-	12
Total	1,090	129	1,066	2,285

TABLE 2: Change in Net Pension Liability/(Asset)

The following table presents the change in net pension liability/(asset) of the single employer plans administered by the Department of Retirement Systems at June 30, 2013, the date of the latest actuarial valuation for all plans (expressed in thousands):

Change in Net Pension Liability/(Asset)	WSPRS	JRS	Judges
TOTAL PENSION LIABILITY			
Service cost	$ 18,041	$ -	$ -
Interest	75,249	4,319	137
Changes of benefit terms	-	-	-
Differences between expected and actual experience	-	-	-
Changes of assumptions	-	-	-
Benefit payments, including refunds of member contributions	(47,510)	(9,480)	(444)
Net Change in Total Pension Liability	45,780	(5,161)	(307)
Total Pension Liability--Beginning	1,026,644	105,502	3,453
Total Pension Liability --Ending (a)	$ 1,072,424	$ 100,341	$ 3,146
PLAN FIDUCIARY NET POSITION			
Contributions--employer	$ 6,587	$ 10,600	$ -
Contributions--employee	6,555	-	-
Net investment income	176,856	25	7
Benefit payments, including refunds of member contributions	(47,510)	(9,480)	(444)
Administrative expense	(84)	-	-
Other	509	-	-
Net Change in Plan Fiduciary Net Position	142,913	1,145	(437)
Plan Fiduciary Net Position--Beginning	955,514	3,886	1,392
Plan Fiduciary Net Position--Ending (b)	$ 1,098,427	$ 5,031	$ 955
Plan's Net Pension Liability (Asset)--Beginning	$ 71,130	$ 101,616	$ 2,061
Plan's Net Pension Liability (Asset)--Ending (a) - (b)	$ (26,003)	$ 95,310	$ 2,191

TABLE 3: Required Contribution Rates

Required contribution rates (expressed as a percentage of current year covered payroll) for all retirement plans administered by the Department of Retirement Systems at the close of the fiscal year 2015, were as follows:

Required Contribution Rates	Employer				Employee		
	Plan 1	Plan 2	Plan 3		Plan 1	Plan 2	Plan 3
PERS							
Employees Not Participating in JBM							
State agencies, local governmental units	5.03%	5.03%	5.03%		6.00%	4.92%	**
Administrative fee	0.18%	0.18%	0.18%				
PERS Plan 1 UAAL	4.00%	4.00%	4.00%				
Total	9.21%	9.21%	9.21%	*			
State govt elected officials	9.55%	5.03%	5.03%		7.50%	4.92%	**
Administrative fee	0.18%	0.18%	0.18%				
PERS Plan 1 UAAL	4.00%	4.00%	4.00%				
Total	13.73%	9.21%	9.21%	*			
Employees Participating in JBM							
State agencies	7.53%	7.53%	7.53%		9.76%	9.80%	7.50%***
Administrative fee	0.18%	0.18%	0.18%				
PERS Plan 1 UAAL	4.00%	4.00%	4.00%				
Total	11.71%	11.71%	11.71%	*			
Local governmental units	5.03%	5.03%	5.03%		12.26%	12.30%	7.50%***
Administrative fee	0.18%	0.18%	0.18%				
PERS Plan 1 UAAL	4.00%	4.00%	4.00%				
Total	9.21%	9.21%	9.21%	*			
TRS							
Employees Not Participating in JBM							
State agencies, local governmental units	5.73%	5.73%	5.73%		6.00%	4.96%	**
Administrative fee	0.18%	0.18%	0.18%				
TRS Plan 1 UAAL	4.48%	4.48%	4.48%				
Total	10.39%	10.39%	10.39%	*			
State govt elected officials	5.73%	5.73%	5.73%		7.50%	4.96%	**
Administrative fee	0.18%	0.18%	0.18%				
TRS Plan 1 UAAL	4.48%	4.48%	4.48%				
Total	10.39%	10.39%	10.39%	*			
Employees Participating in JBM							
State agencies	10.21%	N/A	N/A		9.76%	N/A	N/A
Administrative fee	0.18%	N/A	N/A				
Total	10.39%						
LEOFF							
Ports and universities	N/A	8.41%	N/A		N/A	8.41%	N/A
Administrative fee	N/A	0.18%	N/A				
Total		8.59%					
Local governmental units	N/A	5.05%	N/A		N/A	8.41%	N/A
Administrative fee	0.18%	0.18%	N/A				
Total	0.18%	5.23%					
State of Washington	N/A	3.36%	N/A		N/A	N/A	N/A
WSPRS							
State agencies	7.91%	7.91%	N/A		6.59%	6.59%	N/A
Administrative fee	0.18%	0.18%	N/A				
Total	8.09%	8.09%					
PSERS							
State agencies, local governmental units	N/A	6.36%	N/A		N/A	6.36%	N/A
Administrative fee	N/A	0.18%	N/A				
PSERS Plan 1 UAAL	N/A	4.00%	N/A				
Total		10.54%					

* 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.

C. PLAN ADMINISTERED BY THE STATE BOARD FOR VOLUNTEER FIRE FIGHTERS' AND RESERVE OFFICERS

Volunteer Fire Fighters' and Reserve Officers' Relief and Pension Fund

Plan Description. The Volunteer Fire Fighters' Relief Act was created by the Legislature in 1935 and the pension portion of the act was added in 1945. As established in chapter 41.24 RCW, the Volunteer Fire Fighters' and Reserve Officers' Relief and Pension Fund (VFFRPF) is a cost-sharing, multiple-employer defined benefit plan and is administered by the State Board for Volunteer Fire Fighters and Reserve Officers. The board is appointed by the Governor and is comprised of five members of fire departments covered by chapter 41.24 RCW. Administration costs of the VFFRPF are funded through legislative appropriation.

As of June 30, 2015, there were approximately 500 municipalities contributing to the plan. Additionally, the state, a nonemployer contributing entity, contributes 40 percent of the fire insurance premium tax.

Plan Members. Membership in the VFFRPF 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.

At June 30, 2015 (the date of the latest valuation), VFFRPF membership consisted of the following:

Plan Membership	
Inactive plan members or beneficiaries currently receiving benefits	4,208
Inactive plan members entitled to but not yet receiving benefits	6,092
Active plan members	10,093
Total membership	20,393

Benefits Provided. VFFRPF provides retirement, disability, and death benefits to eligible members. Benefits are established in chapter 41.24 RCW which may be amended only by the Legislature.

Since retirement benefits cover volunteer service, benefits are paid based on years of service not salary. Municipalities consist of fire departments, emergency medical service districts and law enforcement agencies. 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.

Members are vested after ten years of service. VFFRPF members earn no interest on contributions and may elect to withdraw their contributions upon termination.

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 thousand. Funeral and burial expenses are also paid in a lump sum of $2 thousand for members on active duty. Members receiving disability benefits at the time of death shall be paid $500.

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 contribute to the system equal to the actuarial value of the resulting benefit increase.

There were no material changes in VFFRPF benefit provisions for the fiscal year ended June 30, 2015.

Contributions. VFFRPF retirement benefits are financed from a combination of investment earnings, member contributions, municipality contributions, and state contributions. In accordance with chapter 41.24 RCW, the state contribution is set at 40 percent of the fire insurance premium tax. The state is considered a nonemployer contributing entity; however, this is not considered a special funding situation. For fiscal year 2015, the fire insurance premium tax contribution was $5.9 million.

The municipality rate for emergency medical service districts (EMSD) and law enforcement agencies is set each year by the State Board for Volunteer Fire Fighters and Reserve Officers, based on the actual cost of participation as determined by the Office of the State Actuary (OSA). All other contribution rates are set by the Legislature. Municipalities may opt to pay the member's fee on their behalf.

The contribution rates set for 2015 were the following:

	Firefighters	EMSD & Reserve Officers
Member fee	$ 30	$ 30
Municipality fee	30	105
Total fee	$ 60	$ 135

Investments. The Washington State Investment Board (WSIB) has been authorized by statute as having investment management responsibility for the pension funds. The WSIB manages retirement fund assets to maximize return at a prudent level of risk.

Retirement funds are invested in the Commingled Trust Fund (CTF). Established on July 1, 1992, the CTF is a diversified pool of investments that invests in fixed income, public equity, private equity, real estate, and tangible assets. Investment decisions are made within the framework of a Strategic Asset Allocation Policy and a series of written WSIB-adopted investment policies for the various asset classes in which the WSIB invests.

Further information about the investment of pension funds by the WSIB, their valuation, classifications, concentrations, and maturities can be found in Note 3B.

The Office of the State Treasurer (OST) manages a small portion of the assets for the VFFRPF. By statute, balances in the accounts in the state treasury and in the custody of the treasurer may be pooled for banking and investment purposes.

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. Eligible investments are only those securities and deposits authorized by statute.

Further information about the investment of pension funds by the OST, their valuation, classifications, concentrations, and maturities can be found in Note 3F.

Rate of Return. For the year ended June 30, 2015, the annual money-weighted rate of return on VFFRPF investments, net of pension plan investment expense, was 4.05 percent. This money-weighted rate of return expresses investment performance, net of pension plan investment expense, and reflects both the size and timing of external cash flows.

Pension Liability/(Asset). The components of the net pension liability of the participating VFFRPF municipalities at June 30, 2015, were as follows (dollars expressed in thousands):

Pension Liability	
Total pension liability	$ 188,584
Plan fiduciary net position	(207,855)
Participating municipality net pension liability (asset)	$ (19,271)
Plan fiduciary net position as a percentage of the total pension liability	110.22%

Actuarial Assumptions. The total pension liability was determined by an actuarial valuation as of June 30, 2014, and rolled forward to June 30, 2015, using the following actuarial assumptions, applied to all prior periods included in the measurement:

Inflation	3.00%
Salary increases	N/A
Investment rate of return	7.00%

Mortality rates were based on the RP-2000 Combined Healthy Table and Combined Disabled Table published by the Society of Actuaries. The Office of the State Actuary applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis, meaning members are assumed to receive additional mortality improvements in each future year, throughout their lifetime.

The actuarial assumptions used in the June 30, 2014, valuation were based on the results of the 2007-2012 Experience Studies. Additional assumptions for subsequent events and law changes are current as of the 2014 actuarial valuation report.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which a best estimate of expected future rates of return (expected returns, net of pension plan investment expense, but including inflation) are developed for each major asset class by the WSIB. Those expected returns make up one component of WSIB's Capital Market Assumptions (CMAs). The CMAs contain the following three pieces of information for each class of assets the WSIB currently invests in:

- Expected annual return.
- Standard deviation of the annual return.
- Correlations between the annual returns of each asset class with every other asset class.

WSIB uses the CMAs and their target asset allocation to simulate future investment returns over various time horizons.

WSIB's long-term expected rate of return of 7.5 percent approximately equals the median of the simulated investment returns over a fifty-year time horizon, adjusted to remove (or dampen) any short-term changes to WSIB's CMAs that we don't expect over the entire fifty-year measurement period.

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2015, are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Fixed Income	20%	1.70%
Tangible Assets	5%	4.40%
Real Estate	15%	5.80%
Global Equity	37%	6.60%
Private Equity	23%	9.60%
Total	100%	

The inflation component used to create the above table is 2.2 percent, and represents WSIB's most recent long-term estimate of broad economic inflation.

In consultation with OST, OSA selected a 4 percent long-term investment rate of return on assets managed by OST. Based upon the investment portfolio, this assumption was calculated as 100 basis points above OSA's current assumption for total inflation of 3 percent.

As the VFFRPF has assets managed by both WSIB and OST, the long-term expected rate of return of 7 percent represents an approximate weighted-average of the assets managed by WSIB (7.5 percent expected return) and the assets managed by OST (4 percent expected return).

Discount Rate. The discount rate used to measure the total pension liability was 7 percent. To determine the discount rate, an asset sufficiency test was completed to test whether the pension plan's fiduciary net position was sufficient to make all projected future benefit payments of current plan members. Consistent with current law, the completed asset sufficiency test included an assumed 7 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. Consistent with the long-term expected rate of return, a 7 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members, municipalities, and the state will be made at the current contribution rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members.

Sensitivity of the Net Pension Liability/(Asset) to Changes in the Discount Rate. The following presents the net pension liability/(asset) of the municipalities calculated using the discount rate of 7 percent, as well as what the municipalities' net pension liability/(asset) would be if it were calculated using a discount rate that is 1 percentage point lower (6 percent) or 1 percentage point higher (8 percent) than the current rate (expressed in thousands):

Municipalities' Net Pension Liability (Asset)		
1% Decrease	$	6,577
Current Discount Rate	$	(19,271)
1% Increase	$	(40,137)

D. HIGHER EDUCATION RETIREMENT PLAN SUPPLEMENTAL DEFINED BENEFIT PLANS

The Higher Education Defined Contribution Retirement Plans, described in Note 11.E, 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, which was closed to new entrants as of July 1, 2011, 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 2015. The previous valuation was performed in 2013.

The Unfunded Actuarial Accrued Liability (UAL) calculated as of June 30, 2015, and 2013, was $596.7 million and $460.8 million, respectively, and is amortized over an 10 year period. The Annual Required Contribution (ARC) of $85.8 million includes amortization of the UAL ($60.3 million) and normal cost or current cost ($23.8 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 percent and projected salary increases of 3.75 percent. Approximately $1.81 billion and $1.76 billion of payroll were covered under these plans during the valuation periods 2015 and 2013, respectively.

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

Net Pension Obligation	2015	2014	2013
Annual required contribution	$ 85.8	$ 63.8	$ 63.8
Payments to beneficiaries	(6.5)	(5.6)	(4.9)
Increase (decrease) in NPO	79.3	58.2	58.9
NPO at beginning of year	328.6	270.3	211.4
NPO at end of year	$ 407.9	$ 328.5	$ 270.3

E. 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 percent 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 PERS Plan 3.

PERS Plan 3 defined contribution retirement benefits are dependent on employee contributions and investment earnings on those contributions. 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.

Members in PERS Plan 3 are immediately vested in the defined contribution portion of their plan, and can elect to withdraw total employee contributions, adjusted by earnings and losses from investments of those contributions, upon separation from PERS-covered employment.

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 percent 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 on employee contributions and investment earnings on those contributions. 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 contributions are invested in the retirement strategy fund that assumes the member will retire at age 65.

Members in TRS Plan 3 are immediately vested in the defined contribution portion of their plan, and can elect to withdraw total employee contributions, adjusted by earnings and losses from investments of those contributions, upon separation from TRS-covered employment.

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, 2015, there were five active members and 147 inactive members in JRA. The state, through the AOC, is the sole participating employer.

Beginning January 1, 2007, any justice or judge who was in a judicial position at that time and who chose to join the Judicial Benefit Multiplier (JBM) Program could no longer participate in JRA. Any justice or judge elected or appointed to office on or after January 1, 2007 who elects to join DRS membership will also be mandated into JBM. If they have already established membership in PERS or TRS Plan 1 they will rejoin that plan, but if they have never had membership, they will be enrolled as a member of both PERS Plan 2 and JBM.

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 2015 the state recognized pension expense for contributions of $20 thousand made to employee accounts. No plan refunds were made.

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 percent to 10 percent of salary. The employers match the employee contributions. The employer and employee obligations to contribute are established per chapter 28B.10 RCW.

For fiscal year 2015 employer and employee contributions were $194.0 and $193.8 million respectively, for a total of $387.8 million.

Note 12
Other Postemployment Benefits

In addition to pension benefits as described in Note 11, the state, through the Health Care Authority (HCA), administers an agent multiple-employer defined benefit other postemployment benefit (OPEB) plan.

Plan Description and Contributions Information

Per RCW 41.05.065, the Public Employees' Benefits Board (PEBB) created within the HCA, is authorized to design benefits and determine the terms and conditions of employee and retired employee participation and coverage. PEBB establishes eligibility criteria for both active employees and retirees. Benefits purchased by PEBB include medical, dental, life and long-term disability.

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.

Employers participating in the PEBB plan include the state (which includes general government agencies and higher education institutions), 66 of the state's K-12 schools and educational service districts (ESDs), and 227 political subdivisions and tribal governments. Additionally, the PEBB plan is available to the retirees of the remaining 245 K-12 schools and ESDs. As of June 2015, membership in the PEBB plan consisted of the following:

	Active Employees	Retirees [1]	Total
State	108,899	30,640	139,539
K-12 schools and ESDs [2]	2,561	32,993	35,554
Political subdivisions	12,571	1,687	14,258
Total	124,031	65,320	189,351

[1] Retirees include retired employees, surviving spouses, and terminated members entitled to a benefit.

[2] In fiscal year 2015, there were 106,879 full-time equivalent active employees in the 245 K-12 schools and ESDs that elected to limit participation in PEBB only to their retirees.

For calendar year 2015, the estimated monthly cost for PEBB benefits for active employees (average across all plans and tiers) is as follows (expressed in dollars):

Required Premium [3]		
Medical	$	965
Dental		81
Life		4
Long-term disability		2
Total	$	1,052
Employer contribution	$	910
Employee contribution		142
Total	$	1,052

[3] Per 2015 Index Rate Model 7.5.

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 the PEBB plan 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 2014, the average weighted implicit subsidy was valued at $291 per member per month, and in calendar year 2015, the average weighted implicit subsidy is projected to be $308 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. The final amount is approved by the state legislature. In calendar year 2014, the explicit subsidy was up to $150 per member per month, and it remained up to $150 per member per month in calendar year 2015.

Administrative costs as well as implicit and explicit subsidies are funded by required contributions from participating employers. The subsidies provide monetary assistance for medical benefits.

Contributions are set each biennium as part of the budget process. In calendar year 2015, 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.

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.

Summary of Significant Accounting Policies

The PEBB OPEB plan is funded on a pay-as-you-go basis and is reported by the state as an agency fund using the accrual basis. It has no assets. The PEBB OPEB plan does not issue a publically available financial report.

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 2015 and changes in the state's Net OPEB Obligation (NOO) (expressed in thousands). All contributions required by the funding method were paid.

Annual required contribution	$	498,399
Interest on net OPEB obligation		75,783
Amortization of net OPEB obligation		(71,806)
Annual OPEB cost (expense)		502,376
Contribuitons made*		(74,055)
Increase in net OPEB obligatoin		428,321
Net OPEB obligation - beginning of year		1,894,567
Net OPEB obligation - end of year*	$	2,322,888

*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 2015, 2014, and 2013 were as follows (dollars expressed in thousands):

	2015	2014	2013
Annual OPEB cost	$ 502,376	$ 358,442	$ 347,033
% of annual OPEB cost contributed	14.70%	21.70%	19.90%
Net OPEB obligation	$ 2,322,888	$ 1,894,567	$ 1,613,775

Funded Status and Funding Progress

The funded status of the plan as of January 1, 2015, the latest date for which information is available, was as follows (expressed in thousands):

Actuarial accrued liability (AAL)	$	5,273,530
Actuarial value of plan assets		-
Unfunded actuarial accrued liabliity (UAAL)	$	5,273,530
Funded ratio (actuarial value of plan assets/AAL)		0.00%
Covered payroll (active plan members)	$	6,218,744
UAAL as a percentage of covered payroll		84.80%

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, 2015
Actuarial cost method	Projected Unit Credit (PUC)
Amortization method	Closed, level percentage of projected payroll amortization method
Remaining amortization period	30 years for each new layer of NOO
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, 4.9% ultimate rate in 2094
Inflation rate	3.0%

Note 13
Derivative Instruments

Hedging Derivatives

In addition to investment derivatives as described in Note 3, the state, through the Washington State Department of Transportation Ferries Division (WSF) entered into commodity swap agreements to hedge a portion of WSF diesel fuel consumption.

The following table presents the hedging derivative instruments as of June 30, 2015 (expressed in thousands):

	Changes in Fair Value		Fair Value at June 30, 2015		Notional amount
	Classification	Amount	Classification	Amount	(in gallons)
Governmental Activites					
Cash Flow Hedges:					
Commodity Swaps	Deferred Outflow	$ 5,008	Accounts Payable	$ 5,008	9,072

The commodity swaps noted above were reviewed for hedge accounting and were deemed effective using the regression analysis method.

Objective

The objective for the hedge transaction is to minimize the volatility of the price of diesel fuel and therefore stabilize the percentage of the WSF operating budget represented by fuel purchases. To accomplish this, a strategy of active hedging has been implemented by WSF to control the uncertain costs of fuel and allow for more accurate budget estimates.

Significant Terms

The significant terms of active hedges WSF entered into during fiscal year 2015 are presented in the table below:

Type	Counterparty	Contract price range per gallon	Variable rate received	Trade date	Settlement period	Monthly notional amount (in gallons)
Commodity	Cargill	$2.89 - $2.93	NYMEX ULSD Heating Oil	7/11/2014	9/2014 - 6/2015	252,000
Commodity	Cargill	$2.83 - $2.85	NYMEX ULSD Heating Oil	8/18/2014	9/2014 - 6/2015	252,000
Commodity	Cargill	$2.80 - $2.82	NYMEX ULSD Heating Oil	9/9/2014	10/2014 - 6/2015	252,000
Commodity	Cargill	$2.71 - $2.75	NYMEX ULSD Heating Oil	9/25/2014	10/2014 - 6/2015	252,000
Commodity	Cargill	$2.76 - $2.82	NYMEX ULSD Heating Oil	9/9/2014	7/2015 - 6/2016	252,000
Commodity	Cargill	$2.74 - $2.79	NYMEX ULSD Heating Oil	9/25/2014	7/2015 - 6/2016	252,000
Commodity	Cargill	$1.94	NYMEX ULSD Heating Oil	12/30/2014	7/2015 - 6/2016	252,000

The hedging strategy consists of a reference to futures contracts of New York Mercantile Exchange (NYMEX) Ultra Low Sulfur Diesel (ULSD) Heating Oil. This commodity remains highly correlated to the diesel fuel type being used by WSF. These fuel hedges require no initial cash investment and provide monthly settlements.

The monthly settlements are based on the daily prices of the respective commodities whereby WSF will either receive a payment, or make a payment to the counterparty depending on the average monthly prices of the commodities in relation to the contract prices.

Fair Value.

The state reports its hedging derivative instruments at fair value as either accounts payable - liability (negative fair value amount) or as other receivables - asset (positive fair value amount). The fair value represents the current price to settle swap assets or liabilities in the market place if a swap were to be terminated. The changes in fair value for hedging derivatives represent the unrealized gain or loss on the contracts and are reported as deferred inflows or deferred outflows of resources respectively. At fiscal year end, the state reports the fair value and changes in fair value related to hedging derivative instruments on the Balance Sheet for Non-major Governmental Funds and the Government-wide Statement of Net Position.

Risks

The following risks are generally associated with commodity swap agreements:

Basis risk. Basis risk is the risk that arises when variable rates or prices of a hedging derivative instrument and a hedged item are based on different reference rates. Statistically, the relationship between heating oil prices and diesel fuel prices has been quite stable over the past five years with a 98 percent correlation. This means that the heating oil futures price explains 98 percent of the variance in the price that WSF pays for its diesel fuel, making it highly reliable. In order to mitigate basis risk, WSF continually monitors the relationship between futures prices and the price of diesel fuel delivered.

Termination Risk. Termination risk is the risk that there will be a mandatory early termination of the commodity swap that would result in WSF either paying or receiving a termination payment. Mandatory terminations generally result when a counterparty suffers degraded credit quality or fails to perform. Upon termination, payment may be required by either party, reflecting fair value at the time of termination.

Credit Risk. Credit risk is the risk that the counterparty fails to make the required payments or otherwise comply with the terms of the swap agreement. WSF is exposed to credit risk in the amount of the derivative's fair value. When the fair value of any derivative has a positive market value, then WSF is exposed to the actual risk that the counterparty will not fulfill its obligation. To mitigate credit risk, WSF monitors the credit ratings of the counterparties. At June 30, 2015, credit ratings of the state's counterparty were as follows:

Counterparty	Moody's	Standard & Poor's	Fitch
Cargill	A2	A	A

Note 14
Commitments and Contingencies

A. CAPITAL COMMITMENTS

Outstanding commitments related to state infrastructure and facility construction, improvement, and/or renovation totaled $2.42 billion at June 30, 2015.

B. 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 2015 are (expressed in thousands):

General Fund	$ 29,750
Higher Education Special Revenue Fund	169
Nonmajor Governmental Funds	530,924

C. 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 7.E, 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 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 $35 million exclusive of the basic education case, which will 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 $150 million.

The Department of Revenue routinely has claims for refunds or exemptions in various stages of administrative and legal review. Cases involving such claims currently total approximately $50 million, though an adverse ruling could result in additional claims being brought by similarly situated taxpayers.

The state is a defendant in a number of lawsuits related to: habitat restoration and environmental remediation arising out of highway/roadway construction and maintenance. While estimates are not available for all lawsuits, claims for damages equate to approximately $155 million per annum.

The state is a defendant in a number of lawsuits by employees and other entities alleging various infractions of law or contract. These suits claim back pay, damages, or future entitlements valued at approximately $150 million.

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 annual payment under the settlement was approximately $109.2 million in fiscal year 2015. 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 annual base payment. The fiscal year 2015 strategic contribution payment was approximately $37 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.

With respect to 2003 sales data, Washington and a number of other states participated in a single national arbitration of the nonparticipating manufacturer (NPM) adjustment dispute. In late 2013, 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. As a result of that decision, in fiscal year 2014, Washington received approximately $14 million more than it would have otherwise received due to the release of amounts placed in the MSA Disputed Payment Account (DPA) related to the 2003 calendar year. More importantly, if Washington had not prevailed in the arbitration, its fiscal year 2014 payment would have been reduced by approximately $100 million due to the application of the NPM adjustment.

The panel's decision addressed 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. Washington faces a potential "nonparticipating manufacturer (NPM) adjustment" in its share of between $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 through 2013. Washington faces potential NPM adjustments that put at risk Washington's entire MSA payment. For example, the potential NPM adjustment for the year 2007 is between $0 and $123 million, and for the year 2008, it is between $0 and $173 million.

D. 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.

E. 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.

F. FINANCIAL GUARANTEES

School District Credit Enhancement Program

In accordance with Chapter 39.98 RCW (School District Credit Enhancement Program), the state has guaranteed outstanding voter-approved general obligation bonds of school districts within the state in the amount of $9.33 billion at June 30, 2015. The guarantees extend through the life of the bonds, with a final maturity date of the longest series in 2043.

In the event that a school district has insufficient funds to make a required debt service payment on a guaranteed bond, the state is required to transfer sufficient funds to make the payment. School districts for which the state has made all or part of a debt service payment shall reimburse the state treasurer for all money drawn on their behalf, as well as interest and penalties. The state has not paid debt service on any school debt since the inception of the program in 2000.

G. GUARANTEED EDUCATION TUITION (GET) LOSS CONTINGENCY

Engrossed Second Substitute Senate Bill (E2SSB) 5954 was signed into law by the Governor on July 6, 2015, establishing the College Affordability Program. It reduces tuition at all public institutions of higher education during the next two years and limits tuition growth in future years. Subsequent to the passage of E2SSB 5954, the State Guaranteed Education Tuition (GET) Program Committee authorized account holders, upon request, to receive a refund of their contributions or a fixed payout value, whichever is greater. Account holders have until December 15, 2016, to request a refund. The financial impact of this action cannot reasonably be estimated as of the date of these financial statements.

H. OTHER COMMITMENTS AND CONTINGENCIES

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, 2015, outstanding certificates of participation notes totaled $81.2 million for 150 local governments participating in LOCAL. The state estimates that the LOCAL program liability, if any, will be immaterial to its overall financial condition.

Note 15
Subsequent Events

A. BOND ISSUES

In September 2015, the state issued:

- $188.0 million in motor vehicle fuel tax general obligation bonds for funding various transportation projects.
- $188.3 million in general obligation refunding bonds for the purpose of refunding certain various purpose general obligation bonds of the state.
- $443.8 million in general obligation bonds for various state capital projects.
- $51.1 million in general obligation (green bonds) to fund certain projects which have been identified as environmentally beneficial.
- $60.6 million in taxable general obligation bonds for capital projects and loan programs for low-income housing and various energy efficiency and renewable energy projects.

In September 2015, the University of Washington issued $159.2 million in general revenue and refunding bonds and $36.4 million in general revenue and refunding taxable bonds to refund Northwest Hospital commercial papers, fund Denny Hall, animal care and research facilities, SW campus central utility plant, and other internal lending program projects.

Also in September 2015, the University of Washington through Washington Biomedical Research Properties 3.2, a blended component unit, issued $132.1 million in lease revenue bonds to fund the design, construction, and equipping of a new biomedical research facility.

In September 2015, The Evergreen State College issued $4.1 million in revenue refunding bonds to refund housing revenue bonds.

Later in the 2015 calendar year, Washington State University is planning to issue approximately $40.0 million in general revenue bonds to construct a Student Union Building on the Tri-Cities campus and renovate the bookstore building.

B. CERTIFICATES OF PARTICIPATION

In September 2015, the state issued $57.6 million in Certificates of Participation.

In October 2015, the state issued $134.6 million in Certificates of Participation and $23.4 million in refunding Certificates of Participation.

C. GENERAL ELECTION

There is an initiative on the state's November 3, 2015, general election ballot that addresses state taxes. This measure would reduce the state retail sales tax by 1 percent unless the Legislature refers to voters a constitutional amendment requiring two-thirds legislative approval or voter approval to raise taxes and legislative approval for fee increases. If passed, the measure could impact the state fiscally.

Election results are not final or official until certified. By law December 3, 2015, is the last day for the Office of the Secretary of State to certify General Election returns.

Information is posted on the Secretary of State's website at http://www.sos.wa.gov.

D. LEGISLATION ENACTED SUBSEQUENT TO YEAR END

Engrossed Second Substitute Senate Bill (E2SSB) 5954 was signed into law by the Governor on July 6, 2015, establishing the College Affordability Program. It reduces tuition at all public institutions of higher education during the next two years and limits tuition growth in future years. E2SSB 5954 and subsequent decisions of the State Guaranteed Education Tuition (GET) Program Committee are significantly impacting the state's GET Program. Subsequent to June 30, 2015, the GET Committee directed the Program to:

- Refund approximately $75.0 million in amortization fees to account holders. The liability for these refunds is recognized as of June 30, 2015.
- Beginning September 2, 2015, through December 15, 2016, allow permit account holders, upon request, to receive a refund of their contributions or a fixed payout value, whichever is greater, without the usual penalties, fees, and minimum holding period. The financial impact of this action cannot reasonably be estimated as of the date of these financial statements.

Information about the State Guaranteed Education Tuition Program can be found at http://www.get.wa.gov.

E. STATE SUPREME COURT ORDER

Washington continues to face the requirements of the state Supreme Court 2012 McCleary ruling that found that the state has failed to meet its constitutional requirement to amply fund basic education. Although funding progress was made through the 2013-15 biennial budget, it was insufficient to satisfy the court. In September 2014, the court found the state in contempt and threatened sanctions if an acceptable funding plan was not in place by the end of the 2015 legislative session.

On August 13, 2015, shortly after the conclusion of the 2015 legislative session, the Washington State Supreme Court issued an order imposing daily penalties of $100 thousand until the legislature fully funds basic education as ordered in prior court rulings.

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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, 2015
(expressed in thousands)

	Original Budget 2013-15 Biennium	Final Budget 2013-15 Biennium	Actual 2013-15 Biennium	Variance with Final Budget
Budgetary Fund Balance, July 1, as restated	$ 472,246	$ 472,246	$ 472,246	$ -
Resources				
Taxes	31,808,299	32,620,383	32,802,875	182,492
Licenses, permits, and fees	197,260	215,775	222,964	7,189
Other contracts and grants	529,972	526,952	420,675	(106,277)
Timber sales	5,040	4,363	3,686	(677)
Federal grants-in-aid	17,191,481	18,958,876	17,772,637	(1,186,239)
Charges for services	68,703	73,449	89,791	16,342
Investment income (loss)	(9,830)	965	3,157	2,192
Miscellaneous revenue	582,417	462,912	351,927	(110,985)
Unclaimed property	128,649	125,002	116,885	(8,117)
Transfers from other funds	1,333,052	1,475,687	1,484,679	8,992
Total Resources	52,307,289	54,936,610	53,741,522	(1,195,088)
Charges To Appropriations				
General government	3,474,379	3,492,904	3,322,213	170,691
Human services	26,375,585	28,098,574	27,285,932	812,642
Natural resources and recreation	633,909	725,584	648,051	77,533
Transportation	94,456	94,155	84,364	9,791
Education	20,010,213	20,138,083	19,912,685	225,398
Capital outlays	965,922	917,722	462,588	455,134
Transfers to other funds	561,776	620,554	725,394	(104,840)
Total Charges To Appropriations	52,116,240	54,087,576	52,441,227	1,646,349
Excess Available For Appropriation Over (Under) Charges To Appropriations	191,049	849,034	1,300,295	451,261
Reconciling Items				
Bond sale proceeds	138,792	203,542	341,315	137,773
Issuance premiums	-	891	5,910	5,019
Assumed reversions	140,000	239,531	-	(239,531)
Working capital adjustment	-	-	(179,800)	(179,800)
Allocations	50,001	2,500	-	(2,500)
Noncash activity (net)	-	-	84,377	84,377
Nonappropriated fund balances	-	-	51,014	51,014
Changes in reserves (net)	-	-	(680)	(680)
Total Reconciling Items	328,793	446,464	302,136	(144,328)
Budgetary Fund Balance, June 30	$ 519,842	$ 1,295,498	$ 1,602,431	$ 306,933

BUDGETARY COMPARISON SCHEDULE
General Fund - Budget to GAAP Reconciliation

General Fund
For the Biennium Ended June 30, 2015
(expressed in thousands)

Sources/Inflows of Resources		
Actual amounts (budgetary basis) "Total Resources" from the Budgetary Comparison Schedule	$	53,741,522
Differences - budget to GAAP:		
The following items are inflows of budgetary resources but are not revenue for financial reporting purposes:		
Transfers from other funds		(1,484,679)
Budgetary fund balance at the beginning of the biennium, as restated		(472,246)
Appropriated loan principal repayment		(3,184)
The following items are not inflows of budgetary resources but are revenue for financial reporting purposes:		
Noncash commodities and electronic food stamp benefits		3,288,468
Revenues collected for other governments		231,019
Unanticipated receipts		1,215,892
Noncash revenues		82,483
Other		5,071
Biennium total revenues		56,604,346
Fiscal year 2014 total revenues, as restated for fund reclassification		(26,847,449)
Nonappropriated activity		27,536
Total Revenues (GAAP Basis) as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	$	29,784,433
Uses/Outflows of Resources		
Actual amounts (budgetary basis) "Total Charges to Appropriations" from the Budgetary Comparison Schedule	$	52,441,227
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		(2,536,683)
Other transfers to other funds		(725,394)
Appropriated loan disbursements		(14)
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		3,288,468
Distributions to other governments		231,019
Certificates of participation and capital lease acquisitions		9,052
Expenditures related to unanticipated receipts		1,215,892
Other		12,762
Biennium total expenditures		53,936,329
Fiscal year 2014 total expenditures, as restated for fund reclassification		(26,124,434)
Nonappropriated activity		664,634
Total expenditures (GAAP basis) as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds	$	28,476,529

BUDGETARY COMPARISON SCHEDULE
Higher Education Special Revenue Fund

Budgetary Comparison Schedule
Higher Education Special Revenue Fund
For the Biennium Ended June 30, 2015
(expressed in thousands)

	Original Budget 2013-15 Biennium	Final Budget 2013-15 Biennium	Actual 2013-15 Biennium	Variance with Final Budget
Budgetary Fund Balance, July 1, as restated	$ 93,087	$ 93,087	$ 93,087	$ -
Resources				
Taxes	334,110	389,878	406,206	16,328
Other contracts and grants	-	438	-	(438)
Charges for services	917	-	-	-
Investment income (loss)	95	-	333	333
Miscellaneous revenue	-	602	-	(602)
Transfers from other funds	340,577	345,232	346,932	1,700
Total Resources	768,786	829,237	846,558	17,321
Charges To Appropriations				
Education	608,761	673,423	672,339	1,084
Transfers to other funds	62,150	53,888	53,589	299
Total Charges To Appropriations	670,911	727,311	725,928	1,383
Excess Available For Appropriation Over (Under) Charges To Appropriations	97,875	101,926	120,630	18,704
Reconciling Items				
Working Capital Adjustment	-	-	(16,060)	(16,060)
Noncash activity (net)	-	-	(50,017)	(50,017)
Nonappropriated fund balances	-	-	2,480,995	2,480,995
Changes in reserves (net)	-	-	230,874	230,874
Total Reconciling Items	-	-	2,645,792	2,645,792
Budgetary Fund Balance, June 30	$ 97,875	$ 101,926	$ 2,766,422	$ 2,664,496

BUDGETARY COMPARISON SCHEDULE

Higher Education Special Revenue Fund - Budget to GAAP Reconciliation

Higher Education Special Revenue Fund
For the Biennium Ended June 30, 2015
(expressed in thousands)

Sources/Inflows of Resources		
Actual amounts (budgetary basis) "Total Resources"		
from the Budgetary Comparison Schedule	$	846,558
Differences - budget to GAAP:		
The following items are inflows of budgetary resources but are not revenue for financial reporting purposes:		
Transfers from other funds		(346,932)
Budgetary fund balance at the beginning of the biennium, as restated		(93,087)
The following items are not inflows of budgetary resources but are revenue for financial reporting purposes:		
Noncash revenues		140
Other		-
Biennium total revenues		406,679
Fiscal year 2014 total revenues		(5,107,607)
Nonappropriated activity		9,947,551
Total Revenues (GAAP Basis) as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	$	5,246,623
Uses/Outflows of Resources		
Actual amounts (budgetary basis) "Total Charges to Appropriations"		
from the Budgetary Comparison Schedule	$	725,928
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		(31,354)
Other transfers to other funds		(53,589)
Biennium total expenditures		640,985
Fiscal year 2014 total expenditures		(5,047,518)
Nonappropriated activity		9,798,640
Total expenditures (GAAP basis) as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds	$	5,392,107

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 Governmental Accounting Standards Board 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 2013-15 biennium to illustrate legal budgetary compliance. Appropriated budget versus actual expenditures, and estimated versus actual revenues and other financing sources (uses) for appropriated funds/accounts at agency and appropriation level are presented in the Budget-to-Actual Detail Report for governmental funds. The report is available on line at http://www.ofm.wa.gov/cafr/2015/default.asp.

Legislative appropriations are strict legal limits on expenditures, and over-expenditures are prohibited. All appropriated and certain nonappropriated funds/accounts are further controlled by the executive branch through the allotment process. This process allocates the expenditure plan into monthly allotments by program, source of funds, and object of expenditure. State law does not preclude the over-expenditure of allotments.

Proprietary funds/accounts can earn revenues and incur expenses (i.e., depreciation or cost of goods sold) not covered by the allotment process. Budget estimates are generally made outside the allotment process according to prepared business plans. These proprietary fund/account 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 estimate revenue and make expenditure allotments based on availability of unanticipated receipts, mainly federal government grant increases made during a fiscal year.

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 generally accepted accounting principles. 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. Nonappropriated activities can represent a portion of a fund such as the Higher Education Special Revenue Fund or all of a fund such as the Higher Education Endowment and Tobacco Settlement Securitization Bond Debt Service Funds. 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 restricted fund balance reduced by a portion that is not available for budgeting, committed, and unassigned fund balances as reported on the Governmental Funds Balance Sheet. In the Higher Education Special Revenue Fund, Budgetary Fund Balance equals the sum of restricted and committed 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
Single Employer Plans

continued

Schedule of Changes in Net Pension Liability and Related Ratios
Washington State Patrol Retirement System - Plan 1/2
Last Two Fiscal Years*
(expressed in thousands)

	2014	2013
Total Pension Liability		
Service cost	$ 18,041	N/A
Interest	75,249	N/A
Changes of benefit terms	-	N/A
Differences between expected and actual experience	-	N/A
Changes in assumptions	-	N/A
Benefit payments, including refunds of employee contributions	(47,510)	N/A
Net Change in Total Pension Liability	45,780	N/A
Total Pension Liability - Beginning	1,026,644	N/A
Total Pension Liability - Ending (a)	$ 1,072,424	$ 1,026,644
Plan Fiduciary Net Position		
Contributions - employer	$ 6,587	N/A
Contributions - employee	6,555	N/A
Net investment income	176,856	N/A
Benefit payments, including refunds of employee contributions	(47,510)	N/A
Administrative expense	(84)	N/A
Other	509	N/A
Net Change in Plan Fiduciary Net Position	142,913	N/A
Plan Fiduciary Net Position - Beginning	955,514	N/A
Plan Fiduciary Net Position - Ending (b)	$ 1,098,427	$ 955,514
State's Net Pension Liability/(Asset) - Ending (a) - (b)	$ (26,003)	$ 71,130
Plan Fiduciary Net Position as a percentage of the Total Pension Liability /(Asset)	102.42%	93.07%
Covered-employee payroll	$ 85,046	$ 81,895
State's Net Pension Liability/(Asset) as a percentage of covered-employee payroll	-30.58%	86.85%

N/A indicates data not available.
*This schedule is to be built prospectively until it contains ten years of data.
Note: Figures may not total due to rounding.

Source: Washington State Office of the State Actuary

PENSION PLAN INFORMATION
Single Employer Plans

continued

Schedule of Changes in Net Pension Liability and Related Ratios
Judicial Retirement System
Last Two Fiscal Years*
(expressed in thousands)

	2014	2013
Total Pension Liability		
Service cost	$ -	N/A
Interest	4,319	N/A
Changes of benefit terms	-	N/A
Differences between expected and actual experience	-	N/A
Changes in assumptions	-	N/A
Benefit payments, including refunds of employee contributions	(9,480)	N/A
Net Change in Total Pension Liability	(5,161)	N/A
Total Pension Liability - Beginning	105,502	N/A
Total Pension Liability - Ending (a)	$ 100,341	$ 105,502
Plan Fiduciary Net Position		
Contributions - employer	$ 10,600	N/A
Contributions - employee	-	N/A
Net investment income	25	N/A
Benefit payments, including refunds of employee contributions	(9,480)	N/A
Administrative expense	-	N/A
Other	-	N/A
Net Change in Plan Fiduciary Net Position	1,145	N/A
Plan Fiduciary Net Position - Beginning	3,886	N/A
Plan Fiduciary Net Position - Ending (b)	$ 5,031	$ 3,886
State's Net Pension Liability/(Asset) - Ending (a) - (b)	$ 95,310	$ 101,616
Plan Fiduciary Net Position as a percentage of the Total Pension Liability/(Asset)	5.01%	3.68%
Covered-employee payroll [1]	N/A	$ 160
State's Net Pension Liability/(Asset) as a percentage of covered-employee payroll [1]	N/A	63510%

N/A indicates data not available.
[1] Covered-employee payroll is not applicable because there are no active plan employees.
*This schedule is to be built prospectively until it contains ten years of data.
Note: Figures may not total due to rounding.

Source: Washington State Office of the State Actuary

PENSION PLAN INFORMATION
Single Employer Plans

concluded

Schedule of Changes in Net Pension Liability and Related Ratios
Judges' Retirement Fund
Last Two Fiscal Years*
(expressed in thousands)

		2014		2013
Total Pension Liability				
Service cost	$	-		N/A
Interest		137		N/A
Changes of benefit terms		-		N/A
Differences between expected and actual experience		-		N/A
Changes in assumptions		-		N/A
Benefit payments, including refunds of employee contributions		(444)		N/A
Net Change in Total Pension Liability		(307)		N/A
Total Pension Liability - Beginning		3,453		N/A
Total Pension Liability - Ending (a)	$	3,146	$	3,453
Plan Fiduciary Net Position				
Contributions - employer	$	-		N/A
Contributions - employee		-		N/A
Net investment income		7		N/A
Benefit payments, including refunds of employee contributions		(444)		N/A
Administrative expense		-		N/A
Other		-		N/A
Net Change in Plan Fiduciary Net Position		(437)		N/A
Plan Fiduciary Net Position - Beginning		1,392		N/A
Plan Fiduciary Net Position - Ending (b)	$	955	$	1,392
State's Net Pension Liability/(Asset) - Ending (a) - (b)	$	2,191	$	2,061
Plan Fiduciary Net Position as a percentage of the Total Pension Liability/(Asset)		30.36%		40.31%
Covered-employee payroll [1]		N/A		N/A
State's Net Pension Liability/(Asset) as a percentage of covered-employee payroll [1]		N/A		N/A

N/A indicates data not available.
[1] Covered-employee payroll is not applicable because there are no active plan employees.
* This schedule is to be built prospectively until it contains ten years of data.
Note: Figures may not total due to rounding.

Source: Washington State Office of the State Actuary

PENSION PLAN INFORMATION
Single Employer Plans

continued

Schedule of Contributions
Washington State Patrol Retirement System - Plan 1/2
Last Ten Fiscal Years
(expressed in thousands)

Year	Actuarially Determined Contributions	Contributions in relation to the Actuarial Determined Contributions	Contribution deficiency (excess)	Covered-employee payroll	Contributions as a percentage of covered-employee payroll
2014	$ 6,677	$ 6,587	$ 90	$ 85,046	7.75%
2013	2,500	6,478	(3,978)	81,895	7.91%
2012	2,900	6,454	(3,554)	81,578	7.91%
2011	2,300	5,251	(2,951)	81,882	6.41%
2010	6,600	5,271	1,329	82,764	6.37%
2009	5,000	6,371	(1,371)	82,719	7.70%
2008	6,800	6,064	736	78,781	7.70%
2007	5,300	3,278	2,022	72,688	4.51%
2006	6,100	3,133	2,967	69,515	4.51%
2005	3,400	-	3,400	65,805	0.00%

Prior to 2014, the Annual Required Contribution (ARC) amounts are presented for the Actuarially Determined Contributions.

Note: Figures may not total due to rounding.

Source: Washington State Office of the State Actuary

PENSION PLAN INFORMATION
Single Employer Plans

continued

Schedule of Contributions
Judicial Retirement System
Last Ten Fiscal Years
(expressed in thousands)

Year	Actuarially Determined Contributions	Contributions in relation to the Actuarial Determined Contributions	Contribution deficiency (excess)	Covered-employee payroll	Contributions as a percentage of covered-employee payroll
2014	$ 9,205	$ 10,600	$ (1,395)	$ -	N/A
2013	21,700	10,112	11,588	160	6320.00%
2012	22,600	8,131	14,469	407	1997.79%
2011	18,600	10,906	7,694	611	1784.94%
2010	20,400	11,649	8,751	1,053	1106.27%
2009	21,200	10,305	10,895	1,394	739.24%
2008	26,600	9,712	16,888	1,496	649.20%
2007	37,300	9,650	27,650	1,478	652.91%
2006	27,700	6,716	20,984	1,534	437.81%
2005	21,700	6,150	15,550	2,071	296.96%

Contributions in relation to the Actuarially Determined Contributions are based on state contributions.

N/A indicates data not available. Beginning in 2014, there are no active members.

Prior to 2014, the Annual Required Contribution (ARC) amounts are presented for the Actuarially Determined Contributions.

Note: Figures may not total due to rounding.

Source: Washington State Office of the State Actuary

PENSION PLAN INFORMATION
Single Employer Plans

concluded

Schedule of Contributions
Judges' Retirement Fund
Last Ten Fiscal Years
(expressed in thousands)

Year	Actuarially Determined Contributions	Contributions in relation to the Actuarial Determined Contributions	Contribution deficiency (excess)	Covered-employee payroll	Contributions as a percentage of covered-employee payroll
2014	$ 425	$ -	$ 425	$ -	N/A
2013	400	-	400	-	N/A
2012	300	-	300	-	N/A
2011	100	-	100	-	N/A
2010	-	-	-	-	N/A
2009	-	-	-	-	N/A
2008	-	300	(300)	-	N/A
2007	-	300	(300)	-	N/A
2006	100	300	(200)	-	N/A
2005	100	500	(400)	-	N/A

Contributions in relation to the Actuarially Determined Contributions are based on state contributions.

N/A indicates data not available. There are no active employees.

Prior to 2014, the Annual Required Contribution (ARC) amounts are presented for the Actuarially Determined Contributions.

Note: Figures may not total due to rounding.

Source: Washington State Office of the State Actuary

Notes to Required Supplementary Information

Methods and assumptions used in calculations of Actuarial Determined Contributions (ADC) for PERS, TRS, LEOFF, and WSPRS. The Office of the State Actuary (OSA) calculates the ADC based on the results of an actuarial valuation consistent with the state's funding policy defined under chapter 41.45 RCW. Consistent with the state's contribution rate adoption process, the results of an actuarial valuation with an odd-numbered year valuation date determine the ADC for the biennium that ensues two years later. For example, the actuarial valuation with a June 30, 2013, valuation date, completed in the fall of 2014, determines the ADC for the period beginning July 1, 2015, and ending June 30, 2017.

Methods and assumptions used in calculations of the ADC for JRS and Judges. The OSA calculates the ADC based on the results of an actuarial valuation, and sets the ADC equal to the expected benefit payments from the plan. Consistent with the state's funding policy defined under chapters 2.10.90 and 2.12.60 RCW, the Legislature makes biennial appropriations in order to ensure the fund is solvent to make the necessary benefit payments.

PENSION PLAN INFORMATION
Cost Sharing Employer Plans

continued

Schedule of the State's Proportionate Share of the Net Pension Liability Public Employees' Retirement System (PERS) Plan 1 Measurement Date of June 30 * *(expressed in thousands)*	
	2014
State PERS Plan 1 employers' proportion of the net pension liability/(asset)	42.37%
State PERS Plan 1 employers' proportionate share of the net pension liability/(asset)	$ 2,134,189
State PERS Plan 1 employers' covered-employee payroll	$ 143,836
State PERS Plan 1 employers' proportionate share of the net pension liability/(asset) as a percentage of its covered-employee payroll	1483.77%
Plan fiduciary net position as a percentage of the total pension liability/(asset)	61.19%

* This schedule is to be built prospectively until it contains ten years of data.

Schedule of the State's Proportionate Share of the Net Pension Liability Public Employees' Retirement System (PERS) Plan 2/3 Measurement Date of June 30 * *(expressed in thousands)*	
	2014
State PERS Plan 2/3 employers' proportion of the net pension liability/(asset)	49.27%
State PERS Plan 2/3 employers' proportionate share of the net pension liability/(asset)	$ 995,856
State PERS Plan 2/3 employers' covered-employee payroll	$ 4,215,934
State PERS Plan 2/3 employers' proportionate share of the net pension liability/(asset) as a percentage of its covered-employee payroll	23.62%
Plan fiduciary net position as a percentage of the total pension liability/(asset)	93.29%

* This schedule is to be built prospectively until it contains ten years of data.

PENSION PLAN INFORMATION
Cost Sharing Employer Plans

continued

Schedule of the State's Proportionate Share of the Net Pension Liability
Teachers' Retirement System (TRS) Plan 1
Measurement Date of June 30 *
(expressed in thousands)

		2014
State TRS Plan 1 employers' proportion of the net pension liability/(asset)		0.78%
State TRS Plan 1 employers' proportionate share of the net pension liability/(asset)	$	22,924
State TRS Plan 1 employers' covered-employee payroll	$	4,611
State TRS Plan 1 employers' proportionate share of the net pension liability/(asset) as a percentage of its covered-employee payroll		497.15%
Plan fiduciary net position as a percentage of the total pension liability/(asset)		68.77%

* This schedule is to be built prospectively until it contains ten years of data.

Schedule of the State's Proportionate Share of the Net Pension Liability
Teachers' Retirement System (TRS) Plan 2/3
Measurement Date of June 30 *
(expressed in thousands)

		2014
State TRS Plan 2/3 employers' proportion of the net pension liability/(asset)		0.59%
State TRS Plan 2/3 employers' proportionate share of the net pension liability/(asset)	$	1,913
State TRS Plan 2/3 employers' covered-employee payroll	$	25,673
State TRS Plan 2/3 employers' proportionate share of the net pension liability/(asset) as a percentage of its covered-employee payroll		7.45%
Plan fiduciary net position as a percentage of the total pension liability/(asset)		96.81%

* This schedule is to be built prospectively until it contains ten years of data.

PENSION PLAN INFORMATION
Cost Sharing Employer Plans

continued

Schedule of the State's Proportionate Share of the Net Pension Liability Public Safety Employees' Retirement System (PSERS) Plan 2 Measurement Date of June 30 * *(expressed in thousands)*	
	2014
State PSERS Plan 2 employers' proportion of the net pension liability/(asset)	48.26%
State PSERS Plan 2 employers' proportionate share of the net pension liability (asset)	$ (6,988)
State PSERS Plan 2 employers' covered-employee payroll	$ 130,172
State PSERS Plan 2 employers' proportionate share of the net pension liability/(asset) as a percentage of its covered-employee payroll	-5.37%
Plan fiduciary net position as a percentage of the total pension liability/(asset)	105.01%

* This schedule is to be built prospectively until it contains ten years of data.

Schedule of the State's Proportionate Share of the Net Pension Liability Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) Plan 1 Measurement Date of June 30 * *(expressed in thousands)*	
	2014
State's nonemployer proportion of the net pension liability/(asset)	87.12%
State as nonemployer contributing entity proportionate share of the net pension liability/(asset)	$ (1,056,583)
Plan fiduciary net position as a percentage of the total pension liability/(asset)	126.91%

* This schedule is to be built prospectively until it contains ten years of data.

PENSION PLAN INFORMATION
Cost Sharing Employer Plans

concluded

Schedule of the State's Proportionate Share of the Net Pension Liability Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) Plan 2 Measurement Date of June 30 * *(expressed in thousands)*		
		2014
State LEOFF Plan 2 employers' proportion of the net pension liability/(asset)		0.84%
State as nonemployer contributing entity proportion of the net pension liability/(asset)		39.52%
State LEOFF Plan 2 employers' proportionate share of the net pension liability/(asset)	$	(11,175)
State as nonemployer contributing entity total proportionate share of the net pension liability/(asset)		(524,419)
Total	$	(535,594)
State LEOFF Plan 2 employers' covered-employee payroll	$	18,259
State LEOFF Plan 2 employers' proportionate share of the net pension liability/(asset) as a percentage of its covered-employee payroll		-61.20%
Plan fiduciary net position as a percentage of the total pension liability/(asset)		116.75%

* This schedule is to be built prospectively until it contains ten years of data.

PENSION PLAN INFORMATION
Cost Sharing Employer Plans

Schedule of Contributions Public Employees' Retirement System (PERS) - Plan 1 Fiscal Year Ended June 30, 2014 *(dollars in thousands)*	
Contractually Required Contribution	$ 13,247
Contributions in relation to the contractually required contribution	13,245
Contribution deficiency (excess)	$ 2
Covered-employee payroll	$ 143,836
Contributions as a percentage of covered-employee payroll	9.21%

Schedule of Contributions Public Employees' Retirement System (PERS) - Plan 2/3 Fiscal Year Ended June 30, 2014 *(dollars in thousands)*	
Contractually Required Contribution	$ 388,288
Contributions in relation to the contractually required contribution	386,812
Contribution deficiency (excess)	$ 1,476
Covered-employee payroll	$ 4,215,934
Contributions as a percentage of covered-employee payroll	9.18%

Schedule of Contributions Teachers' Retirement System (TRS) - Plan 1 Fiscal Year Ended June 30, 2014 *(dollars in thousands)*	
Contractually Required Contribution	$ 479
Contributions in relation to the contractually required contribution	476
Contribution deficiency (excess)	$ 3
Covered-employee payroll	$ 4,611
Contributions as a percentage of covered-employee payroll	10.32%

Schedule of Contributions Teachers' Retirement System (TRS) - Plan 2/3 Fiscal Year Ended June 30, 2014 *(dollars in thousands)*	
Contractually Required Contribution	$ 2,667
Contributions in relation to the contractually required contribution	2,947
Contribution deficiency (excess)	$ (280)
Covered-employee payroll	$ 25,673
Contributions as a percentage of covered-employee payroll	11.48%

Schedule of Contributions Public Safety Employees' Retirement System (PSERS) Plan 2 Fiscal Year Ended June 30, 2014 *(dollars in thousands)*	
Contractually Required Contribution	$ 13,720
Contributions in relation to the contractually required contribution	13,604
Contribution deficiency (excess)	$ 116
Covered-employee payroll	$ 130,172
Contributions as a percentage of covered-employee payroll	10.45%

Schedule of Contributions Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) Plan 2 Fiscal Year Ended June 30, 2014 *(dollars in thousands)*	
Contractually Required Contribution	$ 1,568
Contributions in relation to the contractually required contribution	1,222
Contribution deficiency (excess)	$ 346
Covered-employee payroll	$ 18,259
Contributions as a percentage of covered-employee payroll	6.69%

Notes:
These schedules will be built prospectively until they contain ten years of data.
Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) Plan 1 currently has no active members; therefore, no contributions are required or paid.

PENSION PLAN INFORMATION

Volunteer Fire Fighters' and Reserve Officers' Relief and Pension Fund

Schedule of Change in Net Pension Liability
Last Three Fiscal Years*
(expressed in thousands)

	2015	2014	2013
Total Pension Liability			
Service cost	$ 919	$ 1,240	N/A
Interest	12,656	12,480	N/A
Changes of benefit terms	-	-	N/A
Differences between expected and actual experience	(2,948)	-	N/A
Changes in assumptions	1,931	-	N/A
Benefit payments, including refunds of member contributions	(10,501)	(10,771)	N/A
Net Change in Total Pension Liability	2,057	2,949	N/A
Total Pension Liability - Beginning	186,527	183,578	N/A
Total Pension Liability - Ending	$ 188,584	$ 186,527	$ 183,578
Plan Fiduciary Net Position			
Contributions - Municipalities	$ 913	$ 953	N/A
Contributions - Member	76	95	N/A
Contributions - State as nonemployer contributing entity	5,903	6,383	N/A
Net investment income	8,289	31,892	N/A
Benefit payments, including refunds of member contributions	(10,501)	(10,771)	N/A
Administrative expense	(1,020)	(1,469)	N/A
Other	-	(22)	N/A
Net Change in Plan Fiduciary Net Position	3,660	27,061	N/A
Plan Fiduciary Net Position - Beginning	204,195	177,134	N/A
Plan Fiduciary Net Position - Ending	$ 207,855	$ 204,195	$ 177,134
Plan's Net Pension Liability/(Asset) - Ending	$ (19,271)	$ (17,668)	$ 6,444

N/A indicates data not available.
*This schedule is to be built prospectively until it contains ten years of data.
Note: Figures may not total due to rounding.

Source: Washington State Office of the State Actuary

PENSION PLAN INFORMATION

Volunteer Fire Fighters' and Reserve Officers' Relief and Pension Fund

Schedule of Net Pension Liability
Last Three Fiscal Years*
(expressed in thousands)

	2015	2014	2013
Total Pension Liability - Ending	$ 188,584	$ 186,527	$ 183,578
Plan Fiduciary Net Position - Ending	207,855	204,195	177,134
Plan's Net Pension Liability/(Asset) - Ending	$ (19,271)	$ (17,668)	$ 6,444
Plan fiduciary net position as a percentage of the total pension liability/(asset)	110.22%	109.47%	96.49%
Covered-employee payroll	N/A	N/A	N/A
Plan's net pension liability/(asset) as a percentage of covered-employee payroll	N/A	N/A	N/A

N/A indicates data not applicable. This is a volunteer organization.
*This schedule is to be built prospectively until it contains ten years of data.
Note: Figures may not total due to rounding. Percentages are calculated using unrounded totals.

Source: Washington State Office of the State Actuary

Schedule of Contributions
Last Ten Fiscal Years
(expressed in thousands)

Year	Actuarially Determined Contribution	Contributions in relation to the Actuarial Determined Contribution	Contribution deficiency (excess)
2015	$ 6,653	$ 6,816	$ (163)
2014	6,421	7,336	(915)
2013	4,600	6,946	(2,346)
2012	4,700	6,484	(1,784)
2011	5,300	6,778	(1,478)
2010	2,800	6,787	(3,987)
2009	2,500	6,223	(3,723)
2008	1,900	6,102	(4,202)
2007	3,000	7,063	(4,063)
2006	4,600	5,695	(1,095)

Neither covered-employee payroll nor contributions as a percentage of covered-employee payroll are applicable. This is a volunteer organization.

Prior to 2014, the Annual Required Contribution (ARC) amounts are presented for the Actuarially Determined Contributions.

Note: Figures may not total due to rounding.

Source: Washington State Office of the State Actuary

PENSION PLAN INFORMATION

Volunteer Fire Fighters' and Reserve Officers' Relief and Pension Fund

Schedule of Investment Returns Last Two Fiscal Years*		
	2015	**2014**
Annual money-weighted rate of return, net of investment expense	4.05%	18.50%

*This schedule is to be built prospectively until it contains ten years of data.

Source: Washington State Office of the State Actuary

Volunteer Fire Fighters' and Reserve Officers' Relief and Pension Fund Notes to Required Supplementary Information

The Office of the State Actuary (OSA) calculates the Actuarially Determined Contributions (ADC) based on the results of an actuarial valuation consistent with funding policy defined under chapter 41.24 RCW and adopted policies made by the State Board for Volunteer Fire Fighters and Reserve Officers. Consistent with the Board's contribution rate adoption process, the results of an actuarial valuation determine the ADC two years after the valuation date. For example, the actuarial valuation with a June 30, 2013, valuation date, completed in the fall of 2014, determines the ADC for the period ending June 30, 2015.

OTHER POSTEMPLOYMENT BENEFITS INFORMATION

Schedule of Funding Progress Other Postemployment Benefits *(expressed in millions)*			
	2015	**2013**	**2011**
Actuarial valuation date	1/1/2015	1/1/2013	1/1/2011
Actuarial value of plan assets	$ -	$ -	$ -
Actuarial accrued liability (AAL)*	5,274	3,707	3,492
Unfunded actuarial accrued liability (UAAL)	5,274	3,707	3,492
Funded ratio	0%	0%	0%
Covered payroll	6,219	5,787	5,937
UAAL as a percentage of covered payroll	85%	64%	59%

* 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 2015, the state was responsible to maintain and preserve 20,732 pavement lane miles, 3,288 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 following table shows the combined conditions and the ratings 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 WSDOT's policy is to maintain 85 percent of pavements at a condition level of fair or better. The following table shows pavement condition ratings for state highways:

Pavements Percentage in Fair or Better Condition* Two Year Cycle Ending Calendar Year			
2013	2011	2009	Average of Last Three Assessments
92.8%	91.2%	92.7%	92.2%

* Starting in 2013 the methodology changed from being based solely on number of lane miles to being based on lane miles weighted by vehicle miles traveled. Vehicle miles traveled are key data for highway planning and management, and a common measure of roadway use.

The following table reflects the state's estimated and actual expenditures necessary to preserve state highways at the established condition level:

Pavements Preservation and Maintenance - Planned to Actual - Fiscal Year *(expressed in thousands)*					
	2015	2014	2013	2012	2011
Planned	$ 173,716	$ 122,868	$ 137,779	$ 148,811	$ 122,203
Actual	142,789	143,598	108,972	148,366	117,811
Variance	$ 30,927	$ (20,730)	$ 28,807	$ 445	$ 4,392
	17.8%	(16.9%)	20.9%	0.3%	3.6%

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 established in FHWA's "Recording and Coding Guide for the Structural Inventory and Appraisal of the Nation's Bridges," which classifies the physical condition of bridges as good, fair, or poor based on structural sufficiency standards for the following bridge components: bridge superstructure, substructure, and deck. The appraisal data is collected in the National Bridge Inventory (NBI) and assigned a code from 0 to 9, with 0 being in a failed condition and 9 being in excellent condition.

Category	National Bridge Inventory Code*	Description
Good	7 or more	A range from no problems noted to some minor problems.
Fair	5 or 6	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.

*For 2015 the NBI code of 6 has changed from good condition to fair condition. This change aligns with federal reporting requirements.

The WSDOT's policy is to maintain 90 percent of bridges at a condition level of fair or better. The following table shows condition ratings for state bridges:

Bridges Percentage in Fair or Better Condition* Two Year Cycle Ending Fiscal Year			
2015	2013	2011	Average of Last Three Assessments
92.1%	91.4%	95.4%	93.0%

* The methodology for 2013 has changed from number of bridges to square footage of the bridge deck. This change aligns with federal reporting requirements.

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)*					
	2015	2014	2013	2012	2011
Planned	$ 71,078	$ 92,192	$ 98,519	$ 66,510	$ 46,708
Actual	64,060	87,271	87,306	61,026	43,709
Variance	$ 7,018	$ 4,921	$ 11,213	$ 5,484	$ 2,999
	9.9%	5.3%	11.4%	8.2%	6.4%

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/Bridge/Structures/.

SAFETY REST AREA CONDITION

The WSDOT performs safety rest area condition assessments over a two fiscal year cycle. Sites and buildings are divided into functional components that are assessed with a numerical rating of one to five. The rating is based on guidelines and parameters established by the WSDOT Capital Facilities Program and weighted by the criticality of the functional 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 condition ratings for safety rest areas:

Safety Rest Areas Percentage in Fair or Better Condition Two Year Cycle Ending Fiscal Year			
2015	2013	2011	Average of Last Three Assessments
100.0%	100.0%	100.0%	100.0%

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)*					
	2015	2014	2013	2012	2011
Planned	$ 8,463	$ 7,488	$ 6,607	$ 6,278	$ 6,259
Actual	8,369	7,591	6,676	6,467	6,514
Variance	$ 94	$ (103)	$ (69)	$ (189)	$ (255)
	1.1%	(1.4%)	(1.0%)	(3.0%)	(4.1%)

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 IT'S BOOK-ENTRY SYSTEM

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DTC AND ITS BOOK-ENTRY SYSTEM

The following information has been obtained from DTC's website. 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 Bonds. The Bonds 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 Bond certificate will be issued for each maturity within a series of the Bonds in the principal amount of such maturity 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 a 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 by reference).

3. Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

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

5. When notices are given, they shall be sent by the Bond Registrar to DTC only**.** Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct

Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

6. Redemption notices will be sent to DTC. If less than all of the Bonds within a Series are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

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

8. Payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the State or the Bond Registrar, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Bond Registrar or the State, subject to any statutory or regulatory requirements as may be in effect from time to time. Payments to Cede & Co. (or any other nominee as may be requested by an authorized representative of DTC) are the responsibility of the State or the Bond Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

9. DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the State or the Bond Registrar. Under such circumstances, in the event that a successor depository is not obtained, Bond 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, Bond certificates will be printed and delivered.