OFFICIAL STATEMENT DATED SEPTEMBER 30, 2015

NEW ISSUE, BOOK-ENTRY ONLY

STATE OF WASHINGTON

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

$443,830,000
VARIOUS PURPOSE GENERAL OBLIGATION BONDS, SERIES 2016A-1

$51,085,000
VARIOUS PURPOSE GENERAL OBLIGATION BONDS, SERIES 2016A-2 (GREEN BONDS)

$188,020,000
MOTOR VEHICLE FUEL TAX GENERAL OBLIGATION BONDS, SERIES 2016B

$60,565,000
GENERAL OBLIGATION BONDS, SERIES 2016T (TAXABLE)

$188,305,000
VARIOUS PURPOSE GENERAL OBLIGATION REFUNDING BONDS, SERIES R-2016A

Dated: Date of Initial Delivery **Due: See inside cover pages**

The Series 2016A-1 Bonds, the Series 2016A-2 Bonds, the Series 2016B Bonds, the Series 2016T Bonds and the Series R-2016A Bonds referenced above (collectively, 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 2016B 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, beginning February 1, 2016, for the Series 2016A-1 Bonds, the Series 2016A-2 Bonds, the Series 2016B Bonds and the Series 2016T Bonds, and beginning January 1, 2016, for the Series R-2016A Bonds. Principal of the Bonds is payable in the stated maturity amounts on the dates and years shown on pages i through v.

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 Series 2016A-1 Bonds, the Series 2016A-2 Bonds, the Series 2016B Bonds and the Series R-2016A Bonds (collectively, the "Tax-Exempt Bonds"), interest on the Tax-Exempt 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 Tax-Exempt Bonds also is not an item of tax preference for purposes of the alternative minimum tax applicable to corporations, interest on the Tax-Exempt 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 Tax-Exempt Bonds received by certain S corporations may be subject to tax, and interest on the Tax-Exempt Bonds received by foreign corporations with United States branches may be subject to a foreign branch profits tax. Receipt of interest on the Tax-Exempt Bonds may have other federal tax consequences for certain taxpayers. In the opinion of Bond Counsel, interest on the Series 2016T Bonds (the "Taxable Bonds") is not excluded from gross income for federal income tax purposes under Section 103(a) of the Code. 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 October 8, 2015.

BofA Merrill Lynch, Managing Underwriter of the Series 2016A-2 Bonds

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

In connection with the offering of the 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.

STATE OF WASHINGTON
$443,830,000
VARIOUS PURPOSE GENERAL OBLIGATION BONDS, SERIES 2016A-1

Due August 1	Principal Amounts	Interest Rates	Yields	Prices	CUSIP[1]
2021	$ 3,900,000	5.000%	1.550%	119.107	93974DSC3
2022	12,460,000	5.000	1.800	120.431	93974DSD1
2023	15,305,000	5.000	1.980	121.760	93974DSE9
2024	15,655,000	5.000	2.160	122.678	93974DSF6
2025	10,945,000	5.000	2.290	123.694	93974DSG4
2026	18,735,000	5.000	2.410	122.512[2]	93974DSH2
2027	19,695,000	5.000	2.510	121.536[2]	93974DSJ8
2028	20,710,000	5.000	2.610	120.570[2]	93974DSK5
2029	21,770,000	5.000	2.700	119.709[2]	93974DSL3
2030	11,420,000	5.000	2.790	118.854[2]	93974DSM1
2031	23,820,000	5.000	2.860	118.195[2]	93974DSN9
2032	25,040,000	5.000	2.920	117.633[2]	93974DSP4
2033	26,325,000	5.000	2.970	117.167[2]	93974DSQ2
2034	27,675,000	5.000	3.020	116.704[2]	93974DSR0
2035	24,945,000	5.000	3.070	116.242[2]	93974DSS8
2036	30,515,000	5.000	3.110	115.875[2]	93974DST6
2037	32,080,000	5.000	3.150	115.508[2]	93974DSU3
2038	33,725,000	5.000	3.190	115.144[2]	93974DSV1
2039	35,455,000	5.000	3.220	114.871[2]	93974DSW9
2040	33,655,000	5.000	3.240	114.690[2]	93974DSX7
Total	$443,830,000				

(1) 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 2016A-1 Bonds. Neither the State nor the Underwriter take responsibility for the accuracy of the CUSIP numbers.

(2) Priced to the August 1, 2025 par call date.

STATE OF WASHINGTON
$51,085,000
VARIOUS PURPOSE GENERAL OBLIGATION BONDS, SERIES 2016A-2

Due August 1	Principal Amounts	Interest Rates	Yields	Prices	CUSIP[1]
2016	$ 245,000	2.000%	0.270%	101.405	93974DQC5
2017	725,000	3.000	0.640	104.248	93974DQD3
2018	8,910,000	4.000	0.880	108.651	93974DQE1
2019	2,980,000	3.000	1.150	106.882	93974DQF8
2020	6,060,000	2.000	1.430	102.641	93974DQG6
2021	1,120,000	3.000	1.640	107.510	93974DQH4
2022	2,940,000	4.000	1.860	113.633	93974DQJ0
2023	855,000	2.500	2.040	103.305	93974DQK7
2024	1,310,000	3.000	2.170	106.624	93974DQL5
2025	6,880,000	5.000	2.300	123.595	93974DQM3
2030	11,350,000	3.000	3.200	97.652	93974DQN1
2035	4,115,000	3.375	3.550	97.521	93974DQP6
2040	3,595,000	3.750	3.760	99.835	93974DQQ4
Total	$51,085,000				

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STATE OF WASHINGTON
$188,020,000
MOTOR VEHICLE FUEL TAX GENERAL OBLIGATION BONDS, SERIES 2016B

Due August 1	Principal Amounts	Interest Rates	Yields	Prices	CUSIP[1]
2016	$ 3,870,000	5.000%	0.250%	103.859	93974DQR2
2017	4,070,000	5.000	0.620	107.887	93974DQS0
2018	4,280,000	5.000	0.860	111.484	93974DQT8
2019	4,500,000	5.000	1.110	114.485	93974DQU5
2020	4,730,000	5.000	1.380	116.802	93974DQV3
2021	4,970,000	5.000	1.570	118.985	93974DQW1
2022	5,225,000	5.000	1.810	120.360	93974DQX9
2023	5,495,000	5.000	1.990	121.679	93974DQY7
2024	5,775,000	5.000	2.140	122.859	93974DQZ4
2025	6,070,000	5.000	2.270	123.893	93974DRA8
2026	6,380,000	5.000	2.410	122.512[2]	93974DRB6
2027	6,710,000	5.000	2.510	121.536[2]	93974DRC4
2028	7,050,000	5.000	2.610	120.570[2]	93974DRD2
2029	7,415,000	5.000	2.700	119.709[2]	93974DRE0
2030	7,795,000	5.000	2.790	118.854[2]	93974DRF7
2031	8,195,000	5.000	2.860	118.195[2]	93974DRG5
2032	8,615,000	5.000	2.920	117.633[2]	93974DRH3
2033	9,060,000	5.000	2.980	117.074[2]	93974DRJ9
2034	9,520,000	5.000	3.030	116.611[2]	93974DRK6
2035	10,010,000	5.000	3.080	116.150[2]	93974DRL4
2036	10,520,000	5.000	3.110	115.875[2]	93974DRM2
2037	11,060,000	5.000	3.150	115.508[2]	93974DRN0
2038	11,625,000	5.000	3.190	115.144[2]	93974DRP5
2039	12,225,000	5.000	3.220	114.871[2]	93974DRQ3
2040	12,855,000	5.000	3.240	114.690[2]	93974DRR1
Total	$188,020,000				

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(2) Priced to the August 1, 2025 par call date.

STATE OF WASHINGTON
$60,565,000
GENERAL OBLIGATION BONDS, SERIES 2016T (TAXABLE)

Due August 1	Principal Amounts	Interest Rates	Yields	Prices	CUSIP[1]
2016	$13,270,000	0.360%	0.360%	100.000	93974DSY5
2017	12,885,000	0.830	0.830	100.000	93974DSZ2
2018	4,970,000	1.180	1.180	100.000	93974DTA6
2019	11,235,000	1.430	1.430	100.000	93974DTB4
2020	8,410,000	1.710	1.710	100.000	93974DTC2
2021	9,795,000	2.020	2.020	100.000	93974DTD0
Total	$60,565,000				

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STATE OF WASHINGTON
$188,305,000
VARIOUS PURPOSE GENERAL OBLIGATION REFUNDING BONDS, SERIES R-2016A

Due	Principal Amounts	Interest Rates	Yields	Prices	CUSIP[(1)]
January 1, 2016	$ 430,000	5.000%	0.170%	101.112	93974DRS9
July 1, 2016	19,485,000	5.000	0.240	103.471	93974DRT7
July 1, 2017	20,505,000	5.000	0.590	107.580	93974DRU4
July 1, 2018	21,675,000	5.500	0.840	112.552	93974DRV2
July 1, 2019	22,835,000	5.000	1.100	114.214	93974DRW0
July 1, 2020	24,050,000	5.000	1.370	116.570	93974DRX8
July 1, 2021	25,275,000	5.000	1.550	118.845	93974DRY6
July 1, 2022	17,135,000	5.000	1.810	120.125	93974DRZ3
July 1, 2023	18,005,000	5.000	1.990	121.465	93974DSA7
July 1, 2024	18,910,000	5.000	2.110	122.930	93974DSB5
Total	$188,305,000				

(1) 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-2016A Bonds. Neither the State nor the Underwriter take responsibility for the accuracy of the CUSIP numbers.

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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

Montague DeRose and Associates, LLC
Walnut Creek, California

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

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

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

CONTACT INFORMATION

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Bond Counsel and Disclosure Counsel	Foster Pepper PLLC 1111 Third Avenue, Suite 3400 Seattle, Washington 98101 Phone: (206) 447-4400
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TABLE OF CONTENTS

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OFFICIAL STATEMENT

STATE OF WASHINGTON

$443,830,000
VARIOUS PURPOSE GENERAL OBLIGATION BONDS, SERIES 2016A-1

$51,085,000
VARIOUS PURPOSE GENERAL OBLIGATION BONDS, SERIES 2016A-2 (GREEN BONDS)

$188,020,000
MOTOR VEHICLE FUEL TAX GENERAL OBLIGATION BONDS, SERIES 2016B

$60,565,000
GENERAL OBLIGATION BONDS, SERIES 2016T (TAXABLE)

$188,305,000
VARIOUS PURPOSE GENERAL OBLIGATION REFUNDING BONDS, SERIES R-2016A

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 (collectively, 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, 2014, are included as Appendix D—"THE STATE'S 2014 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.

DESCRIPTION OF THE BONDS

Authority and Purpose

The State of Washington Various Purpose General Obligation Bonds, Series 2016A-1 (the "Series 2016A-1 Bonds"), in the aggregate principal amount of $443,830,000, are being issued pursuant to Chapter 179, Laws of 2008; Chapter 49, Laws of 2011, 1st Sp. Sess.; Chapter 20, Laws of 2013, 2nd Sp. Sess.; Chapter 37, Laws of 2015, 3rd Sp. Sess.; Chapter 39.42 RCW; and Resolution No. 1170 of the Committee and Resolution No. 1175 of the Committee acting by and through the Treasurer (collectively, the "Series 2016A-1 Bond Resolution"), to provide funds to pay and reimburse State expenditures for various capital projects and to pay costs of issuance of the Series 2016A-1 Bonds.

Examples of projects to be financed with proceeds of the Series 2016A-1 Bonds include K-12 school renewal and replacement projects, facilities for state universities and community and technical colleges, outdoor recreation facilities and state programs for Columbia River Basin water supply development, habitat conservation, and farmland and riparian protection.

The State of Washington Various Purpose General Obligation Bonds, Series 2016A-2 (the "Series 2016A-2 Bonds" or "Green Bonds" and, collectively with the Series 2016A-1 Bonds, the "Series 2016A Bonds"), in the aggregate principal amount of $51,085,000, are being issued pursuant to Chapter 49, Laws of 2011, 1st Sp. Sess.; Chapter 20, Laws of 2013, 2nd Sp. Sess.; Chapter 37, Laws of 2015, 3rd Sp. Sess.; Chapter 39.42 RCW; and Resolution No. 1170 of the Committee and Resolution No. 1176 of the Committee acting by and through the Treasurer (collectively, the "Series 2016A-2 Bond Resolution"), to provide funds to pay and reimburse State expenditures for all or portions of certain projects and programs which have been identified as being environmentally beneficial and to pay costs of issuance of the Series 2016A-2 Bonds.

As described under "Designation of Series 2016A-2 Bonds as Green Bonds," the Series 2016A-2 Bonds are "Green Bonds" and will fund all or portions of certain environmentally beneficial projects and programs. See "DESCRIPTION OF THE BONDS–Designation of Series 2016A-2 Bonds as Green Bonds."

The State of Washington Motor Vehicle Fuel Tax General Obligation Bonds, Series 2016B (the "Series 2016B Bonds"), in the principal amount of $188,020,000, are being issued pursuant to Chapter 147, Laws of 2003 (RCW 47.10.861); Chapter 315, Laws of 2005 (RCW 47.10.873); Chapter 39.42 RCW; and Resolution No. 1171 of the Committee and Resolution No. 1177 of the Committee acting by and through the Treasurer (collectively, the "Series 2016B Bond Resolution"), to provide funds to pay and reimburse State expenditures for construction of selected projects or improvements that are identified by Legislature as transportation 2003 or 2005 projects or improvements, and to pay for the costs of issuance of the Series 2016B Bonds. Examples of projects to be financed with proceeds of the Series 2016B Bonds include high occupancy vehicle projects in Pierce County, widening of I-405, improvements to I-90 at Snoqualmie Pass East, and improvements to I-5 in Cowlitz and Lewis Counties.

The State of Washington General Obligation Bonds, Series 2016T (Taxable) (the "Series 2016T Bonds"), in the principal amount of $60,565,000, are being issued pursuant to Chapter 167, Laws of 2006, Chapter 20, Laws of 2013, 2nd Sp. Sess.; Chapter 37, Laws of 2015, 3rd Sp. Sess.; Chapter 39.42 RCW; and Resolution No. 1170 of the Committee and Resolution No. 1178 of the Committee acting by and through the Treasurer (collectively, the "Series 2016T Bond Resolution"), to provide funds to pay and reimburse State expenditures for capital projects and loan programs for low-income housing and various energy efficiency and renewable energy projects that cannot be financed with tax-exempt bonds, and to pay the costs of issuance of the Series 2016T Bonds.

The State of Washington Various Purpose General Obligation Refunding Bonds, Series R-2016A (the "Series R-2016A Bonds"), in the principal amount of $188,305,000, are being issued pursuant to Chapters 39.42 and 39.53 RCW, and Resolution No. 1172 of the Committee and Resolution No. 1179 of the Committee acting by and through the Treasurer (collectively, the "Series R-2016A 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-2016A Bonds.

Collectively, the Series 2016A-1 Bond Resolution, the Series 2016A-2 Bond Resolution, the Series 2016B Bond Resolution, the Series 2016T Bond Resolution and the Series R-2016A Bond Resolution are referred to as the "Bond Resolutions."

The Series 2016A-1 Bonds, the Series 2016A-2 Bonds, the Series 2016B Bonds and the Series R-2016A Bonds are collectively referred to as the "Tax-Exempt Bonds" and the Series 2016T Bonds are referred to as the "Taxable Bonds."

The Series R-2016A Bonds may also be referred to as the "Refunding Bonds." 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 Series 2016A-1 Bonds, the Series 2016A-2 Bonds, the Series 2016B Bonds and the Series 2016T Bonds will be payable semiannually on each February 1 and August 1, beginning February 1, 2016, at the rates shown on pages i, ii, iii and iv. Interest on the Series R-2016A Bonds will be payable semiannually on each January 1 and July 1, beginning January 1, 2016, at the rates shown on page v.

Principal of the Series 2016A-1 Bonds, the Series 2016A-2 Bonds, the Series 2016B Bonds and the Series 2016T Bonds is payable on each August 1 in the years and amounts shown on pages i, ii, iii and iv. Principal of the Series R-2016A Bonds is payable on January 1, 2016, and on each July 1 in the years and amounts shown on page v.

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 ITS 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."

Designation of Series 2016A-2 Bonds as Green Bonds

The State is issuing the Series 2016A-2 Bonds as "Green Bonds" to fund all or portions of certain projects and programs which have been identified as being environmentally beneficial. The Green Bonds are general obligations of the State and holders of Green Bonds do not assume any specific project risk related to any of the funded projects and programs.

Use of Series 2016A-2 Bond Proceeds. The Green Bonds are being issued to provide all or partial funding for certain projects and programs that are identified in one or more of the following "Green Project Categories":

(1) *Protection of Puget Sound, Rivers, Lakes, Streams and Aquatic Lands.* Projects which protect and restore Puget Sound, rivers, lakes and streams, their watersheds and associated land, and riparian zones.

(2) *Habitat Conservation*. Projects which support habitat conservation, outdoor recreation, and farmland preservation. This includes projects which protect and conserve forests and wildlife habitat, and projects that include land protection programs and open space acquisitions.

(3) *Energy Efficiency and Conservation*. Projects which are designed to reduce energy costs in existing and new public buildings.

(4) *Clean Water*. Projects which are designed to reduce pollution in the State's water supply to meet State and federal standards.

Examples of green projects to be financed with proceeds of the Green Bonds include (1) projects that protect or restore salmon habitat in the Puget Sound, such as river delta and flood plain restoration, removal of fish passage barriers, and shoreline protection projects plans; (2) statewide projects to improve the energy efficiency of K-12 schools and other public facilities; (3) projects to improve the energy efficiency of street lighting; (4) projects to install solar energy systems; (5) projects to treat polluted storm water throughout the state; (6) projects to restore forests, water quality, and fish and wildlife habitat on Washington's Pacific Coast; (7) projects for forest health and hazard reduction in Eastern and Central Washington; and (8) funding to design and construct water supply projects in the Yakima River Basin.

Proceeds Management. The proceeds of the Green Bonds will be deposited into accounts specified by the Bond Acts.

Reporting. The State plans to post a final list of projects and programs funded with proceeds of the Series 2016A-2 Bonds on the investor relations page on the website of the Office of the State Treasurer (*http://www.tre.wa.gov*), once all proceeds of the Green Bonds have been spent.

Redemption Provisions

Optional Redemption. The State may redeem the Series 2016A-1 Bonds, the Series 2016A-2 Bonds and the Series 2016B Bonds maturing on or after August 1, 2026, as a whole or in part on any date on or after August 1, 2025 (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 Series 2016T Bonds and Series R-2016A Bonds are not subject to optional redemption.

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

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.

If the State defeases any Taxable Bonds, such Taxable Bonds may be deemed to be retired and "reissued" for federal income tax purposes as a result of the defeasance. See "TAX MATTERS–The Taxable Bonds–Defeasance."

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 ITS 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 ITS 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:

	2016A-1	2016A-2	2016B	2016T	R-2016A	Total(1)
Sources						
Par Amount of Bonds	$443,830,000	$51,085,000	$188,020,000	$60,565,000	$188,305,000	$ 931,805,000
Net Original Issue Premium/Discount	79,013,687	3,019,022	32,247,219	-	28,599,212	142,879,140
Total Sources(1)	$522,843,687	$54,104,022	$220,267,219	$60,565,000	$216,904,212	$1,074,684,140
Uses						
Deposit to Project Funds	$521,508,595	$53,801,937	$219,990,491	$60,506,952	-	$ 855,807,975
Deposit to Escrow Funds	-	-	-	-	$216,720,512	216,720,512
Costs of Issuance(2)	184,020	26,942	77,426	24,826	106,476	419,690
Underwriting Spread	1,151,072	275,143	199,302	33,222	77,205	1,735,944
Additional Proceeds	-	-	-	-	18	18
Total Uses(1)	$522,843,687	$54,104,022	$220,267,219	$60,565,000	$216,904,212	$1,074,684,140

(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 Refunding Bonds, the State will enter into an Escrow Agreement with Zions Bank, as Escrow Agent. The Escrow Agreement will provide for the refunding of the various purpose general obligation bonds (the “Refunded Bonds”) shown in the table set forth below. The refunding is being undertaken to achieve debt service savings. The Escrow Agreement creates an irrevocable trust fund to be held by the Escrow Agent and to be applied solely to the payment of the applicable Refunded Bonds. The proceeds of the Refunding Bonds required to carry out the plan of refunding will be deposited with the Escrow Agent and held in cash to pay the principal of and accrued interest coming due on the redemption date of the Refunded Bonds.

The money described above will be held solely for the benefit of the Registered Owners of the Refunded Bonds.

The mathematical accuracy of the computations of the adequacy of the money to be held by the Escrow Agent to pay principal of and interest on the Refunded Bonds as described above, will be verified by Grant Thornton LLP, independent certified public accountants.

The following table lists the Refunded Bonds.

REFUNDED BONDS

Bonds	Maturity Dates	Interest Rates (%)	Par Amounts ($)	Call Date	Call Price (%)	CUSIP Numbers
Various Purpose GO Refunding Bonds, Series R-2006A, dated July 26, 2005						
Serials	07/01/2016	5.000	$ 22,095,000*	11/09/2015	100	93974DAF5
	07/01/2017	5.000	23,250,000*	11/09/2015	100	93974DAG3
	07/01/2018	5.000	24,510,000*	11/09/2015	100	93974DAH1
	07/01/2019	5.000	25,760,000	11/09/2015	100	93974BFH0
	07/01/2020	5.000	27,125,000	11/09/2015	100	93974BFJ6
	07/01/2021	5.000	28,510,000	11/09/2015	100	93974BFK3
	07/01/2022	5.000	19,555,000	11/09/2015	100	93974BFL1
	07/01/2023	5.000	20,545,000	11/09/2015	100	93974BFM9
	07/01/2024	5.000	21,585,000	11/09/2015	100	93974BFN7
Total			$212,935,000			

*Previously partially refunded maturity. Consists of the remaining unrefunded balance.

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 2016B 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 2016B Bond Resolution, the Committee on behalf of the State pledges to the payment of the Series 2016B Bonds and the interest thereon the proceeds of such excise taxes and provides that the charge on such excise taxes for payment of Series 2016B 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 2016B 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 2016B 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 currently anticipates that it will issue approximately $440 million various purpose general obligation bonds and $240 million motor vehicle fuel tax general obligation bonds in the first few months 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, 2014, 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 2014 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), May or June, September and November. The Forecast Council's next economic and revenue forecast is scheduled to be released in November 2015. 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 September 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 2014 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.

The following initiatives have been certified for the November 3, 2015, election: (1) Initiative 1366 ("I-1366") would reduce the State 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; and (2) Initiative 1401 ("I-1401") would make selling, purchasing, trading or distributing certain animal species threatened with extinction, and products containing such species, a gross misdemeanor or class-C felony, subject to certain exemptions.

The Office of Financial Management ("OFM") prepares summaries of the projected fiscal impacts of initiatives and referenda. The OFM website (*www.ofm.wa.gov*) contains projected fiscal impacts for the initiatives summarized in the prior paragraph. The OFM summary for I-1366 states 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 impacted collections.

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. Bond Counsel periodically serves as underwriter's counsel to the Underwriters on non-State issues.

Certain legal matters will be passed upon for the Underwriters of the Series 2016A-2 Bonds by their counsel, K&L Gates LLP, Seattle, Washington. Any opinion of Underwriters' counsel will be rendered solely to the Underwriters of the Series 2016A-2 Bonds, will be limited in scope, and cannot be relied upon by investors. From time to time K&L Gates LLP represents one or more State entities in manners unrelated to the Bonds.

TAX MATTERS

The Tax-Exempt Bonds

Exclusion From Gross Income. In the opinion of Bond Counsel, under existing federal law and assuming compliance with applicable requirements of the Code that must be satisfied subsequent to the issue date of the Tax-Exempt Bonds, interest on the Tax-Exempt 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 Tax-Exempt Bonds in order to maintain the exclusion of the interest on the Tax-Exempt Bonds from gross income for federal income tax purposes, including, without limitation, requirements concerning the qualified use of Tax-Exempt Bond proceeds and the facilities financed or refinanced with Tax-Exempt Bond proceeds, limitations on investing gross proceeds of the Tax-Exempt Bonds in higher yielding investments in certain circumstances, and the requirement to comply with the arbitrage rebate requirement to the extent applicable to the Tax-Exempt Bonds. The State has covenanted in the Bond Resolutions for the Tax-Exempt Bonds to comply with those requirements, but if the State fails to comply with those requirements, interest on the Tax-Exempt Bonds could become taxable retroactive to the date of issuance of the Tax-Exempt 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 Tax-Exempt 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 Tax-Exempt 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 Tax-Exempt 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 Tax-Exempt Bonds may be subject to the foreign branch profits tax imposed by Section 884 of the Code when the Tax-Exempt 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 Tax-Exempt 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 Tax-Exempt Bonds. Depending on all the facts and circumstances and the type of audit involved, it is possible that commencement of an audit of the Tax-Exempt Bonds could adversely affect the market value and liquidity of the Tax-Exempt Bonds until the audit is concluded, regardless of its ultimate outcome.

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

The State is a governmental unit that, together with all subordinate entities, has issued more than $10,000,000 of tax-exempt obligations during the current calendar year and has not designated the Tax-Exempt 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 Tax-Exempt 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 Tax-Exempt 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 Tax-Exempt Bonds into account in determining gross income.

Other Possible Federal Tax Consequences. Receipt of interest on the Tax-Exempt Bonds may have other federal tax consequences as to which prospective purchasers of the Tax-Exempt 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 Tax-Exempt Bonds set forth above or adversely affect the market value of the Tax-Exempt 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 Tax-Exempt Bonds. Prospective purchasers of the Tax-Exempt 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 Tax-Exempt Bonds.

Original Issue Discount. The Series 2016A-2 Bonds maturing in 2030, 2035 and 2040 have been sold at prices reflecting original issue discount ("Discount Bonds"). Under existing law, the original issue discount in the selling price of each Discount Bond, to the extent properly allocable to each owner of such Discount Bond, is excluded from gross income for federal income tax purposes with respect to such owner. The original issue discount is the excess of the stated redemption price at maturity of such Discount Bond over the initial offering price to the public, excluding underwriters and other intermediaries, at which price a substantial amount of the Discount Bonds of such maturity were sold.

Under Section 1288 of the Code, original issue discount on tax-exempt bonds accrues on a compound basis. The amount of original issue discount that accrues to an owner of a Discount Bond during any accrual period generally equals (i) the issue price of such Discount Bond plus the amount of original issue discount accrued in all prior accrual periods, multiplied by (ii) the yield to maturity of such Discount Bond (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period), less (iii) any interest payable on such Discount Bond during such accrual period. The amount of original issue discount so accrued in a particular accrual period will be considered to be received ratably on each day of the accrual period, will be excluded from gross income for federal income tax purposes, and will increase the owner's tax basis in such Discount Bond. Any gain realized by an owner from a sale, exchange, payment or redemption of a Discount Bond will be treated as gain from the sale or exchange of such Discount Bond.

The portion of original issue discount that accrues in each year to an owner of a Discount Bond may result in certain collateral federal income tax consequences. The accrual of such portion of the original issue discount will be included in the calculation of alternative minimum tax liability as described above, and may result in an alternative minimum tax liability even though the owner of such Discount Bond will not receive a corresponding cash payment until a later year.

Owners who purchase Discount Bonds in the initial public offering but at a price different from the first offering price at which a substantial amount of those Discount Bonds were sold to the public, or who do not purchase Discount Bonds in the initial public offering, should consult their own tax advisors with respect to the tax consequences of the ownership of such Discount Bonds. Owners of Discount Bonds who sell or otherwise dispose of such Discount Bonds prior to maturity should consult their own tax advisors with respect to the amount of original issue discount accrued over the period such Discount Bonds have been held and the amount of taxable gain or loss to be recognized upon that sale or other disposition of Discount Bonds. Owners of Discount Bonds also should consult their own tax advisors with respect to state and local tax consequences of owning such Discount Bonds.

Original Issue Premium. The Series 2016A-2 Bonds maturing in the years 2016 through 2025, inclusive, and all of the Series 2016A-1 Bonds, Series 2016B Bonds and Series R-2016A Bonds have been sold at prices reflecting original issue premium ("Premium Bonds"). An amount equal to the excess of the purchase price of a Premium Bond over its stated redemption price at maturity constitutes premium on such Premium Bond. A purchaser of a Premium Bond must amortize any premium over such Premium Bond's term using constant yield principles, based on the purchaser's yield to maturity. The amount of amortizable premium allocable to an interest accrual period for a Premium Bond will offset a like amount of qualified stated interest on such Premium Bond allocable to that accrual period, and may affect the calculation of alternative minimum tax liability described above. As premium is amortized, the purchaser's basis in such Premium Bond is reduced by a corresponding amount, resulting in an increase in the gain (or decrease in the loss) to be recognized for federal income tax purposes upon a sale or disposition of such Premium Bond prior to its maturity. Even though the purchaser's basis is reduced, no federal income tax deduction is allowed. Purchasers of Premium Bonds, whether at the time of initial issuance or subsequent thereto, should consult with their own tax advisors with respect to the determination and treatment of premium for federal income tax purposes and with respect to state and local tax consequences of owning such Premium Bonds.

The Taxable Bonds

THIS ADVICE WAS WRITTEN TO SUPPORT THE PROMOTION OR MARKETING OF THE TAXABLE BONDS. THIS ADVICE IS NOT INTENDED OR WRITTEN TO BE USED, AND MAY NOT BE USED, BY ANY PERSON OR ANY ENTITY FOR THE PURPOSE OF AVOIDING ANY PENALTIES THAT MAY BE IMPOSED ON ANY PERSON OR ENTITY UNDER THE CODE. PROSPECTIVE PURCHASERS OF THE

TAXABLE BONDS SHOULD SEEK ADVICE BASED ON THEIR PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

The following discussion generally describes certain aspects of the principal U.S. federal tax treatment of U.S. persons that are beneficial owners ("Owners") of the Taxable Bonds who have purchased the Taxable Bonds in the initial offering and who hold the Taxable Bonds as capital assets within the meaning of Section 1221 of the Code. For purposes of this discussion, a "U.S. person" means an individual who, for U.S. federal income tax purposes, is (1) a citizen or resident of the United States, (2) a corporation, partnership or other entity created or organized in or under the laws of the United States or any political subdivision thereof, (3) an estate, the income of which is subject to U.S. federal income taxation regardless of its source of income, or (4) a trust, if either (a) a United States court is able to exercise primary supervision over the administration of the trust and one or more United States persons have the authority to control all substantial decisions of the trust, or (b) the trust has a valid election in effect to be treated as a United States person under the applicable Treasury Regulations.

This summary is based on the Code, published revenue rulings, administrative and judicial decisions, and existing and proposed Treasury regulations (all as of the date hereof and all of which are subject to change, possibly with retroactive effect). This summary does not discuss all of the tax consequences that may be relevant to an Owner in light of its particular circumstances, such as an Owner who may purchase the Taxable Bonds in the secondary market, or to Owners subject to special rules, such as certain financial institutions, insurance companies, tax-exempt organizations, non-U.S. persons, taxpayers who may be subject to the alternative minimum tax or personal holding company provisions of the Code, or dealers in securities. ACCORDINGLY, BEFORE DECIDING WHETHER TO PURCHASE ANY OF THE TAXABLE BONDS, PROSPECTIVE PURCHASERS SHOULD CONSULT THEIR OWN TAX ADVISORS REGARDING THE UNITED STATES FEDERAL INCOME TAX CONSEQUENCES, AS WELL AS TAX CONSEQUENCES UNDER THE LAWS OF ANY STATE, LOCAL OR FOREIGN TAXING JURISDICTION OR UNDER ANY APPLICABLE TAX TREATY, OF PURCHASING, HOLDING, OWING AND DISPOSING OF THE TAXABLE BONDS.

In General. Interest on the Taxable Bonds is <u>not</u> excluded from gross income for federal income tax purposes under Section 103(a) of the Code.

Payment of Interest. Interest paid on the Taxable Bonds will generally be taxable to Owners as ordinary interest income at the time it accrues or is received, in accordance with the Owner's method of accounting for U.S. federal income tax purposes. Owners who are cash-method taxpayers will be required to include interest in income upon receipt of such interest payment; Owners who are accrual-method taxpayers will be required to include interest as it accrues, without regard to when interest payments are actually received.

Disposition or Retirement. Upon the sale, exchange or other disposition of a Taxable Bond, or upon the retirement of a Taxable Bond (including by redemption), an Owner will recognize a capital gain or loss equal to the difference, if any, between the amount realized upon the disposition or retirement (excluding any amounts attributable to accrued but unpaid interest, which will be taxable as such) and the Owner's adjusted tax basis in the Taxable Bond. Any such gain or loss will be United States source gain or loss for foreign tax credit purposes.

Defeasance. If the State defeases any of the Taxable Bonds, such Taxable Bonds may be deemed to be retired and "reissued" for federal income tax purposes as a result of the defeasance. In such event, the Owner of a Taxable Bond would recognize a gain or loss on the Taxable Bond at the time of defeasance.

Backup Withholding. An Owner may, under certain circumstances, be subject to "backup withholding" (currently the rate of this withholding tax is 28 percent, but may change in the future) with respect to interest or original issue discount on the Taxable Bond. This withholding generally applies if the Owner of a Taxable Bond (1) fails to furnish the Bond Registrar or other payor with its taxpayer identification number, (2) furnishes the Bond Registrar or other payor with an incorrect taxpayer identification number, (3) fails to properly report interest, dividends or other "reportable payments" as defined in the Code, or (4) under certain circumstances, fails to provide the Bond Registrar or other payor with a certified statement, signed under penalty of perjury, that the taxpayer identification number provided is its correct number and that the Owner is not subject to backup withholding. Any amount withheld may be creditable against the Owner's U.S. federal income tax liability and be refundable to the extent it exceeds the Owner's U.S. federal income tax liability.

The amount of "reportable payments" for each calendar year and the amount of tax withheld, if any, with respect to payments on the Taxable Bonds will be reported to the Owners and to the Internal Revenue Service.

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, 2015, 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 Tax-Exempt 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

Montague DeRose and Associates, LLC and Piper Jaffray & Co., Seattle-Northwest Division 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 2016A-1 Bonds are being purchased by J.P. Morgan Securities LLC at a price of $521,692,615.13, and will be reoffered at a price of $522,843,687.35, as reflected by the prices and yields set forth on page i of this Official Statement.

The Series 2016B Bonds are being purchased by Merrill, Lynch, Pierce, Fenner & Smith Incorporated at a price of $220,067,917.40 and will be reoffered at a price of $220,267,218.60, as reflected by the prices and yields set forth on page iii of this Official Statement.

The Series 2016T Bonds are being purchased by J.P. Morgan Securities LLC at a price of $60,531,777.56, and will be reoffered at a price of $60,565,000, as reflected by the prices and yields set forth on page iv of this Official Statement.

The Series R-2016A Bonds are being purchased by Merrill, Lynch, Pierce, Fenner & Smith Incorporated at a price of $216,827,006.55, and will be reoffered at a price of $216,904,211.60, as reflected by the prices and yields set forth on page v of this Official Statement.

The Series 2016A-2 Bonds are being purchased by Merrill, Lynch, Pierce, Fenner & Smith Incorporated ("Merrill"). Subject to the provisions of a bond purchase contract, Merrill has agreed to purchase all of the Series 2016A-2 Bonds at a price of $53,828,879.18, which represents the principal amount of the Bonds plus an original issue premium of $3,019,022.30 and less an Underwriters' discount of $275,143.12. The Series 2016A-2 Bonds will be reoffered at a price of $54,104,022.30, as reflected by the prices and yields set forth on page ii of this Official Statement.

The following firms are co-managing Underwriters of the Series 2016A-2 Bonds: Citigroup Global Markets Inc., D.A. Davidson & Co., Edward D. Jones & Co., L.P., Fidelity Capital Markets, J.P. Morgan Securities LLC, KeyBanc Capital Markets, Morgan Stanley & Co. LLC, RBC Capital Markets, LLC, U.S. Bancorp and Wells Fargo Securities.

The Underwriters have provided the following information to the State.

Citigroup Global Markets Inc., a co-managing Underwriter of the Series 2016A-2 Bonds, has informed the State that it has entered into a retail distribution agreement with each of TMC Bonds L.L.C. ("TMC") and UBS Financial Services Inc. ("UBSFS"). Under these distribution agreements, Citigroup Global Markets Inc. may distribute municipal securities to retail investors through the financial advisor network of UBSFS and the electronic primary offering platform of TMC. As part of this arrangement, Citigroup Global Markets Inc. may compensate TMC (and TMC may compensate its electronic platform member firms) and UBSFS for their selling efforts with respect to the Series 2016A-2 Bonds.

J.P. Morgan Securities LLC ("JPMS"), a co-managing Underwriter of the Series 2016A-2 Bonds and purchaser of the Series 2016A-1 Bonds and Series 2016T Bonds, has informed the State that it has entered into negotiated dealer agreements (each, a "Dealer Agreement") with each of Charles Schwab & Co., Inc. ("CS&Co.") and LPL Financial LLC ("LPL") for the retail distribution of certain securities offerings at the original issue prices. Pursuant to each Dealer Agreement, each of CS&Co. and LPL may purchase Series 2016A-2 Bonds from JPMS at the original issue price less a negotiated portion of the selling concession applicable to any Series 2016A-2 Bonds that such firm sells.

Morgan Stanley, parent company of Morgan Stanley & Co. LLC, a co-managing Underwriter of the Series 2016A-2 Bonds, has informed the State that it has entered into a retail distribution arrangement with its affiliate Morgan Stanley Smith Barney LLC. As part of the distribution arrangement, Morgan Stanley & Co. LLC may distribute municipal securities to retail investors through the financial advisor network of Morgan Stanley Smith Barney LLC. As part of this arrangement, Morgan Stanley & Co. LLC may compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the Series 2016A-2 Bonds.

"US Bancorp" is the marketing name of U.S. Bancorp and its subsidiaries, including U.S. Bancorp Investments, Inc. ("USBII"), which is serving as a co-managing Underwriter of the Series 2016A-2 Bonds.

Wells Fargo Bank, National Association ("WFBNA"), a co-managing Underwriter of the Series 2016A-2 Bonds, has entered into an agreement (the "Distribution Agreement") with its affiliate, Wells Fargo Advisors, LLC ("WFA") for the distribution of certain municipal securities offerings, including the Series 2016A-2 Bonds. Pursuant to the Distribution Agreement, WFBNA will share a portion of its underwriting compensation with respect to the Series 2016A-2 Bonds with WFA. WFBNA also utilizes the distribution capabilities of its affiliate, Wells Fargo Securities, LLC ("WFSLLC"), for the distribution of municipal securities offerings, including the Series 2016A-2 Bonds. In connection with utilizing the distribution capabilities of WFSLLC, WFBNA pays a portion of WFSLLC's expenses based on its municipal securities transactions. WFBNA, WFSLLC, and WFA are each wholly-owned subsidiaries of Wells Fargo & Company.

The Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, investment research, principal investment, hedging, financing and brokerage activities. Certain of the Underwriters and their respective affiliates have, from time to time, performed, and may in the future perform, various investment banking services for the State, for which they received or will receive customary fees and expenses. In the ordinary course of their various business activities, the Underwriters and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers, and such investment and securities activities may involve securities and/or instruments of the State. The Underwriters and their respective affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or instruments and may at any time hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

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, ii, iii, iv and v, 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: /s/ James L. McIntire
State Treasurer and Chairman,
State Finance Committee

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APPENDIX A

GENERAL AND ECONOMIC INFORMATION

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TABLE OF CONTENTS

INDEX OF TABLES

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

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

The Legislature is obligated under the Constitution to appropriate money for debt service requirements on State general obligation indebtedness. Appropriations 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 2014 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 2014 AUDITED FINANCIAL STATEMENTS," the State also maintains a number of other funds and several hundred accounts.

General Fund Revenue

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

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

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

The assessed value of most real property is determined by the county assessors, with the goal being to determine the fair market value of the property according to its highest and best use (unless an exemption applies that would permit a lower use to be considered). Property taxes for local taxing districts are levied against this assessed value. The State property tax is levied against the assessed value determined by the county assessors but then is adjusted to the State equalized value (a rate that would be equal across the State) in accordance with a ratio fixed by the Department of Revenue. For property taxes payable in 2015, assessed value against which property taxes were levied averaged 93.1 percent of fair market value as determined by the county assessors.

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

Increases in assessed values of property are not limited; however, by statute, the State property tax levy is limited to the limit factor (the lesser of 101 percent, or 100 percent plus inflation) multiplied by the amount of property taxes levied by the State in the highest of the three most recent years, plus an additional amount calculated by multiplying the increase in assessed value resulting from new construction and improvements by the property tax rate for the preceding year. The average State levy rate for property taxes due in calendar year 2014 was $2.45 per $1,000 of true and fair property value.

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

Other State Tax Revenue. The State imposes a number of other taxes, including estate taxes, liquor taxes, rental car and telephone taxes, taxes on hazardous substances and taxes on cigarettes and other tobacco products. 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 Years 2010 and 2011 included funds made available under the American Recovery and Reinvestment Act of 2009 ("ARRA"). Federal revenues may be deposited into the General Fund, but are not "general State revenue." See "General Fund Expenditures–*Payment of General Obligation 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 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's expenditures for public schools are mandated by the constitutional requirement that the State support the common schools, and as shown in Table 5, a significant portion of the General Fund budget is used for supporting public schools.

The Supreme Court has interpreted the Constitution to require the State to ensure that each public school district receives the funds needed to provide a basic education. The Legislature enacted legislation in previous sessions intended to improve the stability and predictability of school funding, including legislation that (1) prescribes course offerings, teacher contract hours and core student/staff ratios; (2) limits local property tax levies and provides for the gradual equalization of levy capacity per student throughout the state; (3) limits local compensation increases to those authorized by the State; (4) provides for State assistance to equalize tax rates for local levies; (5) establishes a State-wide salary allocation schedule with mandated minimum salaries for teachers; and (6) requires school districts to maintain minimum teacher/student ratios.

In 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. The report acknowledged that the Legislature did not enact additional timelines to implement the program of basic education as directed by the court. Further, the report noted that while there remain differences between the chambers and the political caucuses on how to implement and finance basic education, there is general agreement that the Legislature must, consistent with its constitutional role, maintain the essential policy making prerogative so long as any particular changes are consistent with the constitutional directives of the Supreme Court. 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. 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. In the 2015 session, the Legislature did not reach consensus on legislation for further basic education reforms related to compensation and school districts' reliance on local voted levies, which have been mandated by the Supreme Court. See also the discussion of the *McCleary* case in "LITIGATION" for a description of the Supreme Court's orders regarding funding K-12 education.

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 State's obligations under the McCleary orders, 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 notes that the 2015-17 Biennium Budget includes an additional $2.89 billion in K-12 spending over the 2013-15 Biennium Budget. 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. If the Legislature holds a special session and during the session complies with the Court's order, the Supreme Court may vacate any penalties that accrue during the session. 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 is not on course to meet its class-size reduction goals by 2018, 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

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 233,000 full-time equivalent students. 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 550,000 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 April 22, 2015, approximately 170,000 individuals had enrolled in qualified health plans through the Exchange. The second open enrollment period ran from November 15, 2014 through February 15, 2015, with a special enrollment period running from February 17, 2015 through April 17, 2015. Medicaid enrollments have no enrollment periods, and applicants can apply for and receive that coverage year-round.

Corrections. As of June 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 June 2015, the offender population was approximately 18,400 in the prison system; the prison confinement was 99.2 percent of operational capacity.

Employees and Employee Benefits. The State had 108,893 full-time equivalents ("FTEs") as of June 30, 2014 and 107,568 FTEs as of June 30, 2013. 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 benefit was $1,017 in Fiscal Year 2014, with $880 paid by the State and $137 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 September 14, 2015 (the "September 2015 Forecast"). The next forecast is expected to be released in November 2015. The forecasts are available on the Forecast Council's website (www.erfc.wa.gov).

September 2015 Forecast. The September 2015 Forecast was based on the IHS Global Insight Model of the U.S. Economy issued in September 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 September 2015 Forecast is similar to recent forecasts in assuming a moderate pace of economic growth in both the U.S. and Washington economies. The forecast shows Washington employment growing in most sectors, growing residential construction, a slowdown in export growth, low inflation and higher personal income. Downside uncertainty is attributable to a reduction in exports due to a stronger dollar and a slowing Chinese economy, turmoil in the Middle East and Eastern Europe and weak consumer spending due to lackluster wage growth, as well as concerns about the strength of the housing recovery and the impacts of stock market volatility; the probability of risks on the downside exceed risks on the upside.

The September 2015 Forecast increased General Fund Revenues for the 2013-15 Biennium by $13 million to $33.666 billion. State General Fund Revenues grew by 9.8 percent in the 2013-15 Biennium from the 2011-13 Biennium. Forecasted General Fund Revenues for the 2015-17 Biennium were increased by $333 million to $37.091 billion ($37.814 billion including the Education Legacy Trust Account and Opportunity Pathways Account), or 10.2 percent higher than the 2013-15 Biennium.

The Washington economy continues to show solid growth, with employment rising in most sectors. Washington nonfarm employment grew 3.0 percent in July 2015 from a year earlier. Employment in construction grew by 10.2 percent over this period, followed by retail trade at 5.4 percent and professional and business services at 5.2 percent. The State's seasonally adjusted unemployment rate was 5.3 percent in July 2015, unchanged from June and down from 5.4 percent in May 2015; the unemployment rate was 6.2 percent in July 2014. The July 2015 seasonally adjusted unemployment rate in the Seattle metropolitan area declined to 3.7 percent from 3.8 percent in June 2015 and from 4.1 percent in May 2015.

The most recent data show that Washington nominal personal income growth accelerated to an annual rate of 5.4 percent in 2014 from the 2.5 percent pace in 2013, in part reflecting upward revisions to historic data on property income (dividends, interest and rent). Personal income growth slowed slightly to a 4.9 percent rate (seasonally adjusted annual rate "SAAR") in the first quarter of 2015.

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, likely reflecting the impacts of a stronger dollar and a slowing Chinese economy. Exports for 2015 year to date (January – July) were 3.3 percent lower than for the same time period last year. Year to date transportation equipment exports (mostly Boeing planes) increased 8.3 percent compared to January – July 2014 while exports of agricultural products fell 14.4 percent over the same period. Year to date exports of all other Washington products fell 18.8 percent compared to January – July 2014. Total housing units authorized by building permits averaged 53,600 (SAAR) in the first quarter of 2015. Single family housing was slightly above the forecast while multi-family housing was more than double what was expected. Second quarter housing permits slowed to an average of 36,800 units, 600 units fewer than the forecast. The June 2015 seasonally adjusted Case-Shiller home price index for Seattle is 7.4% higher than the previous June and 35.2% higher than the November 2011 trough.

The following table summarizes some of the historical values and forecasts of the primary economic drivers upon which the September 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	6.7	2.5	5.4	5.1	5.0
Nonfarm Payroll Employment	(0.9)	1.3	1.7	2.4	2.7	3.0	1.8
Housing Units[(2)]	21.6	0.8	34.8	17.2	2.8	19.7	-3.7

(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: September 2015.

Alternative September 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, the recent volatility in global equity markets triggers a sharp downturn in the U.S. stock market. As a result, consumer confidence declines and spending slows, housing starts weaken and demand wavers; businesses pull back on investment, and labor productivity slows. In Washington, employment in aerospace declines faster than in the baseline, while software and construction employment grow more slowly than expected.

Caseload Forecast

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

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

State Budget Outlook

Legislation adopted in 2012 requires the Legislature to adopt a four-year balanced budget that leaves a positive ending fund balance in the General Fund and related funds beginning with the 2013-15 Biennium. In addition, the legislation established a work group that includes the Office of Financial Management, fiscal staff, members of the Legislature, the Caseload Forecast Council and the Economic and Revenue Forecast Council to prepare a budget outlook for State revenues and expenditures for the next biennium. The Forecast Council approves the budget outlook. With certain exceptions, the projected continuing cost of existing programs and services and implementing new programs and services called for in existing laws in the ensuing biennium may not exceed projected available fiscal resources. The work group prepared its first budget outlook in November 2012, which was the starting point for developing the Governor's budget for the 2013-15 Biennium, and subsequently prepared four- and six-year outlooks, with the most recent, a four-year outlook based on the 2015-17 Biennium Budget, prepared in July 2015. The outlooks are available on the Forecast Council's website (www.erfc.wa.gov). See "General Fund–State Operating Budget."

General Fund-State Operating Budget

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

During the economic downturn that began in 2008, the Governor and Legislature modified the State operating budget several times in response to lower actual and projected general State revenues and higher costs associated with growth in mandatory caseloads, school enrollment and medical assistance costs. 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 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 (underexpenditures) of $86 million, and (6) shifting funding of approximately $46 million in expenditures from the General Fund to other funds.

Table 3A and Table 3B summarize the actions taken by the Legislature and other adjustments made to develop a budget for the 2013-15 Biennium and the 2015-17 Biennium.

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Table 3A
2013-15 General Fund-State, Education Legacy Trust, and Opportunity Pathways Accounts Adjustments
February 2012 through September 2015
($ in millions)

	General Fund-State	Education Legacy Trust and Opportunity Pathways Accounts[3]	Total
Beginning Balance			
Unrestricted Funds	168	(11)	157
Budget Stabilization Account	270	-	270
Revenue			
February 2012 Forecast	32,429	436	32,865
June 2012 Forecast	197	-	197
September 2012 Forecast	23	46	69
November 2012 Forecast	(88)	12	(76)
March 2013 Forecast	(20)	(160)	(180)
June 2013 Forecast	121	156	277
September 2013 Forecast	345	107	452
November 2013 Forecast	16	13	29
Prior Period Adjustments	(40)	-	(40)
February 2014 Forecast	30	33	63
June 2014 Forecast	156	(23)	133
September 2014 Forecast	163	-	163
November 2014 Forecast	108	7	115
February 2015 Forecast	107	28	135
June 2015 Forecast	106	(27)	79
September 2015 Forecast	13	11	24
Transfer to Budget Stabilization Account	(319)	-	(319)
Total Revenue	33,347	639	33,986
Other Resource Changes			
Enacted Revenue Transfers	137	293	430
Prior Period Adjustments	13	-	13
Total Other Resource Changes	150	293	443
Total Resources	33,665	921	34,586
Spending			
Enacted Budget	32,797	836	33,633
Governor's Vetoes	(1)	-	(1)
Aerospace Appropriations[1]	11	-	11
2014 Supplemental Budget	(45)	89	44
Governor's Vetoes	(3)	-	(3)
2015 Supplemental Budget	137	(31)	106
Governor's Vetoes	110	-	110
Estimated Reversions[2]	(240)	-	(240)
Total Spending	32,766	894	33,660
Ending Balance and Reserves			
Unrestricted Ending Fund Balance	899	27	926
Budget Stabilization Account Ending Balance	513	-	513
Total Reserves	1,412	27	1,439

(1) See "*Special Session and Supplemental 2013-15 Budget*" above.
(2) Estimated spending authority that will not be used by the end of the 2013-15 Biennium.
(3) 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.

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

	General Fund-State	Education Legacy Trust and Opportunity Pathways Accounts[2]	Total
Beginning Balance			
Unrestricted Funds	899	27	926
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
Transfer to Budget Stabilization Account	(372)	-	(372)
Total Revenue	36,526	697	37,223
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	37,838	750	38,588
Spending			
Enacted 2015-2017 Budget	37,507	712	38,219
Governor's Vetoes	-	-	-
Estimated Reversions[1]	(172)	-	(172)
Total Spending	37,335	712	38,047
Ending Balance and Reserves			
Unrestricted Ending Fund Balance	503	38	541
Budget Stabilization Account Ending Balance	894	-	894
Total Reserves	1,397	38	1,435

(1) Estimated spending authority that will not be used by the end of the 2013-15 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 2010 through 2014 and forecasted expenditures for Fiscal Years 2015 through 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, capital leases acquisitions and the distribution of resources collected on behalf of local governments. Further, certain debt service expenditures are appropriated as operating transfers. These transfers are reported as expenditures on 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)*

						Forecast		
	2010	2011	2012	2013	2014	2015(6)	2016(6)	2017(6)
Beginning Budget Stabilization Account Balance	21	95	1	130	270	415	513	695
Beginning General Fund Balance	279	(561)	(92)	(381)	168	373	899	809
General Fund State Revenues								
State Tax Revenues								
Retail Sales Tax	6,417	6,620	6,745	7,169	7,679	8,209	8,759	9,160
Business and Occupation Taxes	2,574	3,010	3,126	3,307	3,246	3,381	3,637	3,838
Use Taxes (General Fund portion)	423	534	480	518	558	594	610	638
Property Taxes	1,822	1,840	1,898	1,936	1,974	2,019	2,063	2,108
Real Estate Excise Taxes	380	373	399	535	616	741	754	717
Other Excise Taxes(1)	17	18	17	16	16	30	59	94
Other Taxes(2)	1,535	1,804	1,827	1,875	1,876	1,933	1,927	1,973
Subtotal State Tax Revenues	13,168	14,199	14,492	15,356	15,965	16,907	17,809	18,528
State Non-Tax Revenues								
Licenses, permits and other fees	84	87	99	105	128	137	139	144
Liquor profits and fees	71	117	49	141	124	82	83	90
Investment income	2	(12)	(10)	(10)	(3)	2	4	9
Lottery transfers	13	9	-	-	9	1	-	9
Other Non-Tax Revenue	233	248	244	191	160	154	137	140
Subtotal State Non-Tax Revenues	403	449	382	427	418	376	363	392
Adjustments and Transfers								
Enacted Transfers/Prior Period Adjustments	699	550	246	146	47	103	116	102
Adjustment to Working Capital	-	-	-	238	-	-	-	-
Transfers from Budget Stabilization Account	45	223	-	-	-	38	-	5
Transfers to Budget Stabilization Account(3)	(119)	(129)	(130)	(139)	(145)	(212)	(181)	(196)
Subtotal Adjustment and Transfers	625	644	116	245	(98)	(71)	(65)	(89)
Total General Fund-State Resources	14,475	14,731	14,898	15,647	16,453	17,585	19,006	19,640
General Fund-State Resources	14,475	14,731	14,898	15,647	16,453	17,585	19,006	19,640
General Fund-Federal Revenues(3)(4)	8,339	7,975	7,114	7,037	8,556	10,059	11,013	11,988
General Fund-Private/Local Revenues(4)	225	250	273	260	254	214	256	329
Total General Fund Resources(4)	23,039	22,956	22,285	22,944	25,263	27,858	30,275	31,957
Total Education Legacy Trust and Opportunity Pathways Resources(5)	294	302	257	236	449	510	384	395
Total General Fund, Education Legacy Trust and Opportunity Pathways Resources	23,333	23,258	22,542	23,180	25,712	28,368	30,659	32,352

(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 2009, 2010 and 2011 of $1.0 billion, $2.1 billion, and $1.9 billion, respectively.
(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 September 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)*

	2010	2011	2012	2013	2014	Estimates 2015[6]	2016[6]	2017[6]
General Fund								
Education								
Public School	6,512	6,334	6,789	6,735	7,220	7,668	8,700	9,275
Higher Education	1,396	1,355	1,185	1,164	1,342	1,328	1,504	1,600
Other Education	82	39	40	42	51	74	113	127
Total Education	7,990	7,728	8,014	7,941	8,613	9,070	10,317	11,002
Human Services								
Dept. Social and Health Services[1]	4,303	4,425	2,683	2,648	2,819	2,878	3,093	3,288
Health Care Authority	207	106	2,029	2,071	2,132	2,162	1,943	1,940
Dept. Corrections	708	792	812	788	839	856	918	940
Other Human Services[1]	163	127	147	143	104	107	106	106
Total Human Services	5,381	5,450	5,671	5,650	5,894	6,003	6,060	6,274
Natural Resources Recreation	198	160	138	161	137	133	154	155
Government Operations	238	212	204	216	266	231	260	250
Transportation	40	34	36	41	36	33	41	40
Transfers to Debt Service Funds[2]	870	907	941	1,203	856	976	1,085	1,148
Other Expenditures[3]	319	332	275	267	278	240	280	268
Total General Fund-State Expenditures	15,036	14,823	15,279	15,479	16,080	16,686	18,197	19,137
Expenditures from Federal Funds	8,339	7,975	7,114	7,037	8,556	10,059	11,013	11,988
Expenditures from Private/Local Funds[4]	225	250	273	260	254	214	256	329
Total General Fund Expenditures	23,600	23,048	22,666	22,776	24,890	26,959	29,466	31,454
Education Legacy Trust and Opportunity Pathways Accounts[5]								
Public School	76	68	25	1	153	246	91	91
Higher Education	178	163	175	208	218	197	210	212
Other Education	-	40	40	38	40	40	54	54
Total Education Legacy Trust and Opportunity Pathways Accounts	254	271	240	247	411	483	355	357
Total General Fund, Education Legacy Trust and Opportunity Pathways Expenditures	23,854	23,319	22,906	23,023	25,301	27,442	29,821	31,811
Total General Fund, Education Legacy Trust and Opportunity Pathways Revenues	23,333	23,258	22,542	23,180	25,712	28,368	30,659	32,352
Total General Fund, Education Legacy Trust and Opportunity Pathways Expenditures	(23,854)	(23,319)	(22,906)	(23,023)	(25,301)	(27,442)	(29,821)	(31,811)
Unrestricted General Fund Ending Balance	(561)	(92)	(381)	168	373	899	809	503
Education Legacy Trust and Opportunity Pathways Account Balance[6]	40	31	17	(11)	38	27	29	38
Total General Fund, Education Legacy Trust, Opportunity Pathways Balance	(521)	(61)	(364)	157	411	926	838	541
Budget Stabilization Balance	95	1	130	270	415	513	695	894
Total General Fund, Education Legacy Trust, Opportunity Pathways and Budget Stabilization Balance	(426)	(60)	(234)	427	826	1,439	1,533	1,435

(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 State revenues, such as tuition fees, admission taxes, parking taxes and certain King County sales and use taxes. See Tables 11 and 12.
(3) Includes legislative and judicial agencies and other special appropriations. Fiscal Years 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 September 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.

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. The program and the imposition of the taxes dedicated to the Highway Trust Fund must be periodically reauthorized by Congress. Most recently in 2012, the Moving Ahead for Progress in the 21st Century Act (MAP-21) extended highway-user taxes through September 30, 2016, with no change to the tax rates. Once a project has been approved, the federal government pays a portion of the costs (typically 86.5 percent for the State) of the project as costs are incurred. States also may apply to be reimbursed for debt service on obligations issued to finance an approved project. The SR 520 Project has been approved for debt service reimbursement. See "Transportation Expenditures."

The sequestration of funds pursuant to the Balanced Budget and Emergency Deficit Control Act (BBEDCA) resulted in a loss of approximately $2.04 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.

In July 2015, the U.S. Congress passed legislation that extended MAP-21 until October 29, 2015, at the level authorized for fiscal year 2014. To fund the extension, the bill transfers $8 billion from the General Fund to the Highway Trust Fund. Prior to this extension, the Secretary of USDOT had informed state transportation agencies that if Congress failed to extend MAP-21 by July 31, 2015, the Federal Highways Administration would be unable to incur new obligations after that date or to reimburse states for projects.

Tolls. Currently the State is collecting tolls on three facilities: the Tacoma Narrows Bridge, State Route ("SR") 167 High Occupancy Toll ("HOT") Lanes Pilot Project and the SR 520 Corridor. The Legislature has extended the SR 167 HOT Lanes Pilot Project through June 2017. In September 2015 the State will begin 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 September 2015, the Transportation Revenue Forecast Council projects that gross transportation revenues for the 2015-17 Biennium will total $5.68 billion, an increase of 21.5 percent from the prior biennium's total revenue of $4.67 billion. The September forecast is the first quarterly forecast to incorporate the impacts of the new revenues recently enacted by the Legislature. The next forecast is expected to be released in November 2015.

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

The State issued the second and fourth series of bonds for the SR 520 Corridor Program in June 2012 and September 2013, respectively, as GARVEE bonds, payable solely from Federal-Aid Highway Program funds, including federal reimbursements of debt service on the GARVEE bonds and federal reimbursements to the State for projects or portions of projects not financed with bond proceeds. The State issued the third series of bonds for the SR 520 Corridor Program in October 2012 as the Transportation Infrastructure Finance and Innovation Act Bond ("TIFIA Bond"), which represents a draw-down loan from the Federal Highway Administration. As of July 1, 2015, $195.199 million was drawn on the TIFIA Bond. The TIFIA Bond is payable solely from toll revenues. See "*The SR 520 Corridor Program*."

Transportation Capital Program. Since 2002, WSDOT has completed a series of large projects, including the Tacoma Narrows Bridge for approximately $735 million and the Hood Canal Floating Bridge for approximately $500 million. To date, WSDOT has completed 361 of 421 projects funded by the 2003-2005 gas tax, 87 percent of which projects were completed early or on time and 91 percent of which were on or under budget.

The State's transportation capital plan includes several mega-projects, including the SR 520 Corridor Program and the replacement of the Viaduct. Other major highway projects include the I-405 and SR 520 interchange in Bellevue, the U.S. 395 North Spokane corridor, and the I-5 and SR 16 interchange in Tacoma. Construction of approximately 200 smaller highway projects, including construction of new interchanges, lanes and bridges, is underway. Three 64-auto and two 144-auto ferry vessels have been constructed and delivered since 2010. Two additional 144-auto ferry vessels are being constructed. The third ferry will be placed in service mid-2017, while the fourth ferry is expected to be in service 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 the capital improvements necessary to expand the Amtrak Cascades Service, including projects needed to provide two additional daily round trips between Seattle and Portland, reduce travel time between Seattle and Portland and improve on-time performance. As described under "LITIGATION–Other," in March 2013, a U.S. district court issued a permanent injunction that requires WSDOT to repair or replace approximately 847 fish barrier culverts by 2030, which WSDOT has estimated could cost $2.4 billion over the next 17 years. The injunction includes the potential for the State to defer culvert corrections comprising up to 10 percent of habitat gain. All fish blocking culverts, however, are required to be corrected at the end of their useful life.

The SR 520 Corridor Program. The SR 520 floating bridge provides a major east-west link across Lake Washington. 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 in Triple Pledge Bonds in October 2011, $500.4 million in GARVEE bonds in June 2012, a $300 million TIFIA Bond in October 2012 and $285.915 million in GARVEE bonds in September 2013, and expects to fund the remaining costs with additional bond proceeds, federal funds, toll revenue and excise taxes on motor vehicle and special fuels. It is expected that the total net proceeds of the various bond issues for the project will be approximately $1.9 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. The remaining Eastside project elements are expected to be completed in 2015.

Issues with spalling and end-wall cracking found in the first cycle of pontoons have resulted in a number of change orders that are the responsibility of WSDOT. On January 8, 2014, WSDOT announced that change orders resulting from a WSDOT design error have consumed much of the project's risk reserve and contingency. 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. 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, 7 cents on August 1, 2015 and 4.9 cents on July 1, 2016. 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.

In 2014, the State completed an annual update to the initial investment-grade traffic and revenue study for the SR 520 Corridor Program that was completed in 2011. The studies forecasted toll traffic and gross revenue through Fiscal Year 2056. The original study projected that toll traffic would initially be approximately 48 percent lower than pre-toll traffic levels. Since tolling began, 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. In July 2015, STP released a revised schedule showing tunneling will resume in November 2015 with the tunnel opening by March 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.

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 2014 and forecasted transportation-related revenues and other funding for Fiscal Years 2015, 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 legislative 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 2014 and budgeted and projected expenditures for Fiscal Years 2015, 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.

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

	2010	2011	2012	2013	2014	Forecast[6] 2015	2016	2017
Beginning Balance	284	1,476	591	1,263	942	1,029	730	349
Gross Fuel Tax Collections including Non-Highway	1,234	1,255	1,242	1,246	1,262	1,286	1,477	1,700
Refunds for Non-Highway Use	(57)	(62)	(81)	(66)	(67)	(71)	(83)	(97)
Adjusted Gross Fuel Tax Collections	1,177	1,193	1,161	1,180	1,195	1,216	1,395	1,603
WSDOT Portion of Licenses, Permits and Fees	288	294	302	336	338	371	378	516
Ferry Fares	147	147	155	161	167	176	182	186
Tacoma Narrows Bridge Tolls[1]	47	45	47	64	64	72	79	87
State Route 167 Hot Lane Tolls[1]	1	1	1	1	1	2	2	2
SR 520 Corridor Tolls[1]	-	-	33	68	68	77	78	87
Other Revenues and Adjustments[2]	123	123	83	84	131	107	105	108
Total State Sources[3]	1,782	1,804	1,782	1,895	1,964	2,021	2,218	2,590
Other Funding[4]								
Bond Proceeds (Bonds sold in Fiscal Year)	2,082	48	1,134	633	600	240	381	381
Bond Proceeds (GARVEE)[5]	-	-	602	-	324	-	-	-
Federal Aid Highway Funds[5]	-	-	-	18	31	39	100	100
TIFIA Loan	-	-	-	-	-	185	105	-
Federal Stimulus Funds (ARRA)	195	129	37	36	-	-	-	-
Federal High Speed Rail Funds	-	2	3	27	103	144	181	181
Federal Highway Funds	362	385	555	625	614	407	476	476
Local Funds	48	54	25	40	12	135	93	93
Total Other Funding	2,687	618	2,355	1,379	1,683	1,150	1,337	1,232
Total Sources	4,753	3,898	4,727	4,537	4,590	4,200	4,285	4,172

(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 include WSDOT accounts only and does not include other accounts that support expenditures for agencies such as Department of Licensing, the Washington State Patrol and local grant agencies.
(4) Other Funding is largely based on the appropriated bond proceeds and appropriated levels for federal expenditures provided in the 2015 Enacted Transportation Budget.
(5) Federal-Aid Highway Program funds are used for GARVEE bond debt service.
(6) Based on September 2015 Transportation Revenue Forecast, which includes new revenues associated with gas tax increases (estimated to be $179 million in 2016 and $386 million in 2017) and license, permits, and fees (estimated to be $144 million in 2017).

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	
	2010	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
Distributions and Transfers								
Debt Service Transfers – Motor Fuel Tax[3]	332	409	416	481	525	548	586	615
Debt Service Transfers – Toll Revenue[3]	-	-	17	26	26	26	27	49
Debt Service Transfers – GO[3]	8	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]	235	238	231	235	240	242	257	259
Fuel Tax Distributions to Support Local Grant Programs[6]	128	130	126	128	130	132	133	134
Expenditures by Other Agencies[7]	45	47	57	57	53	53	84	84
Total Distributions and Transfers	747	833	858	957	1,018	1,053	1,200	1,255
WSDOT Operations								
Toll Maintenance and Operations	14	11	21	23	26	28	43	43
Highway Maintenance and Operations	198	214	211	219	223	235	242	242
Ferries Maintenance and Operations	209	225	231	227	237	236	242	242
Aviation, Public Transportation and Rail	73	82	65	74	64	80	117	117
Local Programs and Economic Partnerships	6	6	5	6	6	6	7	7
Operational Activities [8]	149	149	131	143	141	154	156	156
Compensation Adjustment	-	-	-	-	-	-	(22)	(22)
Operating Appropriations Placed in Unallotted Status	-	-	-	-	-	-	-	(10)
Total Operations	648	687	664	692	696	738	784	774
WSDOT Capital								
Highway Construction	1,636	1,553	1,809	1,703	1,566	1,354	1,526	1,526
Traffic Operations and Facilities	6	8	9	8	8	19	18	18
Ferry Capital Construction	131	158	83	151	135	124	152	152
Rail Program	59	35	22	55	129	164	198	198
Highways and Local Programs	50	33	18	29	19	18	57	57
Capital Appropriations (Unallotted/Unexpended)[9]	-	-	-	-	-	-	-	(283)
Total Capital	1,881	1,787	1,942	1,945	1,857	1,679	1,951	1,668
Total WSDOT Transportation Uses	3,277	3,307	3,464	3,594	3,571	3,470	3,936	3,698
Ending Fund Balance	1,476	591	1,263	942	1,019	730	349	474

(1) Revenue distributions are based on the September 2015 Transportation Revenue Forecast.
(2) Actual expenditure data provided for Fiscal Years 2014 and 2015.
(3) Funds are transferred to debt retirements accounts on a monthly basis and include debt service for fuel tax bonds, general obligation bonds and toll revenue bonds. These transfers do not match fiscal year debt service. Debt service in this table is net of the Build America Bonds' subsidy (and reflects reductions in Fiscal Years 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*."

Bonds for SR 520 Corridor Program. The Legislature has authorized the issuance of $1.95 billion of bonds to provide the funds necessary for the location, design, right-of-way, and construction of the Floating Bridge and the Eastside plus West Approach Bridge Project portion of the SR 520 Corridor Program. In October 2011, the State issued $518.775 million of Triple Pledge Bonds first payable from toll revenue, then excise taxes on motor vehicle and special fuels, and finally by the full faith and credit of the State. In June 2012, the State issued $500.4 million of GARVEE bonds and in September 2013, issued $285.915 million of GARVEE bonds payable from Federal-Aid Highway Program funds to finance the SR 520 Corridor Program. In October 2012, the State issued a $300 million TIFIA Bond payable solely from toll revenues. The TIFIA Bond is a draw down loan, of which $195.199 million was drawn as of July 1, 2015. The State expects to issue additional bonds for the project. See "TRANSPORTATION-RELATED REVENUES AND EXPENDITURES."

Constitutional General Obligation Debt Limitation. With certain exceptions noted below, the amount of State general obligation debt that may be incurred is limited by the Constitution. The constitutional debt limitation prohibits the issuance of new debt 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) moneys received as gifts, grants, donations, aid, or assistance when the terms require the application of such moneys otherwise then for general purposes of the State; (3) retirement system moneys and performance bonds and deposits; (4) trust fund money, including money received from taxes levied for specific purposes; and (5) proceeds from sale of bonds or other indebtedness.

Legislation adopted in 2011 directs that the Committee set a more restrictive working debt limit for budget development purposes. 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 October 8, 2015, 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 $15,498,204,727. The debt service limitation, 8.5 percent of this mean, is $1,317,347,402. The State's maximum annual debt service expected as of October 8, 2015, on debt service subject to the constitutional debt limitation will be $1,138,414,503, or $178,932,899 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 June 30	Outstanding 10/8/2015[1]										2016A-1, 2016A-2, 2016B and R-2016A Bonds[2]		2016B 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		GARVEEs		TIFIA Bond		General State Revenues		Motor Vehicle Fuel Tax Revenues		
	Principal	Interest	Principal	Interest[4]	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	
2016[5]	269,750,898	272,710,892	101,699,493	174,591,361	-	26,024,975	-	17,996,338	-	-	430,000	9,939,650	-	2,950,869	876,094,475
2017	606,441,191	526,515,260	278,168,239	323,087,623	10,835,000	26,024,975	65,710,000	34,360,925	2,038,906	6,105,378	33,000,000	33,659,577	3,870,000	9,304,250	1,959,121,324
2018	591,859,950	496,527,667	282,799,188	313,449,052	11,375,000	25,483,225	68,975,000	31,026,150	2,092,210	6,052,074	34,115,000	32,569,143	4,070,000	9,105,750	1,909,499,408
2019	577,936,629	469,658,489	292,066,883	304,750,937	11,945,000	24,914,475	72,380,000	27,519,375	2,155,235	5,989,049	35,555,000	31,188,585	4,280,000	8,897,000	1,869,236,657
2020	570,843,868	446,635,880	299,293,119	294,955,632	12,540,000	24,317,225	75,985,000	23,819,250	2,212,465	5,931,819	37,050,000	29,689,094	4,500,000	8,677,500	1,836,450,850
2021	549,958,505	404,495,053	299,796,687	283,934,078	13,165,000	23,690,225	79,780,000	19,937,625	2,294,566	5,849,718	38,520,000	28,259,433	4,730,000	8,446,750	1,762,857,641
2022	545,965,000	354,837,084	308,147,106	275,026,367	13,825,000	23,031,975	83,750,000	15,869,938	2,355,926	5,788,358	40,090,000	26,680,573	4,970,000	8,204,250	1,708,541,577
2023	559,770,000	327,830,446	308,092,167	264,009,888	14,515,000	22,340,725	87,915,000	11,593,625	2,426,894	5,717,390	32,535,000	25,036,794	5,225,000	7,949,375	1,674,957,304
2024	561,660,000	300,385,964	315,464,322	253,918,729	15,240,000	21,614,975	92,305,000	7,092,125	2,492,694	5,651,590	34,165,000	23,394,681	5,495,000	7,681,375	1,646,561,455
2025	541,660,000	272,570,628	325,509,917	241,843,084	16,005,000	20,852,975	96,915,000	2,392,250	2,582,453	5,561,831	35,875,000	21,667,469	5,775,000	7,399,625	1,596,610,231
2026	553,925,000	245,234,220	336,410,654	227,768,083	16,805,000	20,052,725	-	-	2,652,882	5,491,402	17,825,000	20,338,069	6,070,000	7,103,500	1,459,676,534
2027	539,560,000	218,492,413	335,078,610	213,777,017	17,685,000	19,170,463	-	-	2,732,796	5,411,488	18,735,000	19,424,069	6,380,000	6,792,250	1,403,239,105
2028	522,145,000	194,805,850	323,991,468	202,393,930	18,615,000	18,242,000	-	-	2,808,246	5,336,038	19,695,000	18,463,319	6,710,000	6,465,000	1,339,670,851
2029	522,200,000	171,009,725	324,666,913	190,339,932	19,545,000	17,311,250	-	-	2,906,627	5,237,657	20,710,000	17,453,194	7,050,000	6,121,000	1,304,551,298
2030	504,205,000	147,780,269	321,055,835	177,109,565	20,525,000	16,334,000	-	-	2,987,270	5,157,014	21,770,000	16,391,194	7,415,000	5,759,375	1,246,489,522
2031	479,710,000	125,651,338	290,885,000	103,823,875	21,550,000	15,307,750	-	-	3,077,257	5,067,027	22,770,000	15,391,194	7,795,000	5,379,125	1,096,407,565
2032	466,470,000	103,637,513	272,070,000	90,772,048	22,625,000	14,230,250	-	-	3,163,572	4,980,712	23,820,000	14,339,944	8,195,000	4,979,375	1,029,283,413
2033	438,815,000	81,993,325	247,085,000	78,293,858	23,760,000	13,099,000	-	-	3,271,663	4,872,621	25,040,000	13,118,444	8,615,000	4,559,125	942,523,036
2034	368,705,000	62,346,013	208,780,000	67,241,455	24,945,000	11,911,000	-	-	3,363,806	4,780,478	26,325,000	11,834,319	9,060,000	4,117,250	803,409,320
2035	299,400,000	44,844,575	187,310,000	57,208,906	26,195,000	10,663,750	-	-	3,465,136	4,679,148	27,675,000	10,484,319	9,520,000	3,652,750	685,098,583
2036	237,370,000	30,979,125	166,475,000	48,517,356	27,505,000	9,354,000	-	-	3,563,687	4,580,597	29,060,000	9,099,378	10,010,000	3,164,500	579,678,643
2037	184,120,000	20,314,838	173,260,000	40,217,047	28,880,000	7,978,750	-	-	3,682,711	4,461,573	30,515,000	7,643,438	10,520,000	2,651,250	514,244,606
2038	139,025,000	12,361,638	180,150,000	31,726,872	30,325,000	6,534,750	-	-	3,787,805	4,356,479	32,080,000	6,078,563	11,060,000	2,111,750	459,597,856
2039	109,855,000	6,083,688	187,510,000	22,746,388	31,840,000	5,018,500	-	-	3,901,907	4,242,377	33,725,000	4,433,438	11,625,000	1,544,625	422,525,922
2040	43,125,000	1,606,219	156,470,000	13,858,262	33,430,000	3,426,500	-	-	4,014,236	4,130,048	35,455,000	2,703,938	12,225,000	948,375	311,392,578
2041	-	-	117,580,000	6,903,737	35,100,000	1,755,000	-	-	4,145,572	3,998,712	37,250,000	908,781	12,855,000	321,375	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	10,784,476,040	5,339,308,104	6,725,180,603	4,306,190,190	518,775,000	428,685,438	723,715,000	191,607,600	195,199,364	154,566,069	743,785,000	450,190,596	188,020,000	144,287,369	30,893,986,374

(1) Does not include the current offerings (Series 2016A-1, 2016A-2, 2016B, 2016T and R-2016A Bonds, collectively, the "Bonds"). Excludes the Refunded Bonds to be refunded with a portion of the proceeds of the Bonds. Includes the $195.199 million of a $300 million TIFIA loan, which is expected to be drawn as of October 8, 2015. See "TRANSPORTATION RELATED REVENUES AND EXPENDITURES-Transportation Expenditures-Payment of Bonds Payable from Toll Revenue and Other Funds."

(2) Current offerings dated October 8, 2015 (Series 2016A-1, 2016A-2, 2016B, 2016T and R-2016A Bonds).

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

(4) Debt service does not take into account the receipts of the 35 percent federal credit payments applicable to bonds issued as Build America Bonds. See "TRANSPORTATION-RELATED REVENUES AND EXPENDITURES–Transportation Revenue–*Federal Funds*."

(5) Remaining debt service on outstanding bonds. Upon the issuance of the Bonds, estimated debt service requirements for entire Fiscal Year 2016 are: principal $959,341,570; interest $939,698,991; total debt service $1,899,040,561.

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
Outstanding by Source of Payment					
General Obligation Bonds					
General State Revenues and Other Sources [(1)]	10,763,996,170	10,980,895,035	10,980,397,783	11,433,123,784	11,357,937,220
First payable from 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
First payable from Toll Revenue on the SR-520 Corridor	-	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
GARVEE and TIFIA Bonds					
GARVEE Bonds payable from Pledged Federal Aid	-	500,400,000	500,400,000	786,315,000	786,315,000
TIFIA Bond payable from Tolls on the SR-520 Corridor	-	-	-	-	195,199,364
Total – Outstanding	16,768,450,665	18,353,125,916	18,711,578,920	19,748,502,380	19,747,742,187
Annual Debt Service Requirements by Fiscal Year					
General Obligation Bonds					
General State Revenues and Other Sources[(1)]					
General State Revenues	904,457,910	936,976,816	969,603,360	1,000,139,367	1,065,773,549
Reimbursed from Other Sources[(1)]	88,239,461	86,327,135	83,775,821	87,737,679	88,687,469
	992,697,370	1,023,303,951	1,053,379,180	1,087,877,046	1,154,461,019
Motor Vehicle Fuel Tax Revenue					
First payable from Excise Taxes on Motor Vehicle and Special Fuels	379,425,700	399,676,957	420,422,316	489,875,489	517,831,766
Reimbursed from Tolls on the Tacoma Narrows Bridge	42,200,419	43,266,544	45,329,581	54,344,250	53,106,066
	421,626,119	422,943,501	465,751,897	544,219,739	570,937,831
Toll Revenue					
First payable from Tolls on the SR-520 Corridor	-	15,253,527	26,024,975	26,024,975	26,024,975
GARVEE and TIFIA Bonds					
GARVEE Bonds payable from Pledged Federal Aid	-	-	18,282,056	30,817,141	39,095,675
TIFIA Bond payable from Tolls on the SR-520 Corridor	-	-	-	-	-
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.

Totals may not add due to rounding.

Source: Office of the State Treasurer.

Table 12
Bonds by Source of Payment(1)
(Outstanding as of October 8, 2015)
(in dollars)

General Obligation Bonds	
Various Purpose General Obligation Bonds	
General State Revenues	10,886,051,322
Reimbursed from Other Sources(2)	642,209,718
Sub Total	11,528,261,040
Motor Vehicle Fuel Tax General Obligation Bonds	
First payable from Excise Taxes on Motor Vehicle and Special Fuels	6,443,670,000
First payable from Tolls on the SR-520 Corridor	518,775,000
Reimbursed from Tolls on the Tacoma Narrows Bridge	469,530,603
Sub Total	7,431,975,603
Total General Obligation	18,960,236,643
GARVEE and TIFIA Bonds	
GARVEE Bonds payable from Pledged Federal Aid	723,715,000
TIFIA Bond payable from Tolls on the SR-520 Corridor	195,199,364
Total Limited Obligation	918,914,364
Total	19,879,151,007

(1) Includes the current offerings dated October 8, 2015 (Series 2016A-1, 2016A-2, 2016B, 2016T and R-2016A Bonds, after defeasance of the Refunded Bonds). Includes $195.199 million of a $300 million TIFIA loan, which will be drawn as of October 8, 2015. See "TRANSPORTATION—RELATED REVENUES AND EXPENDITURES—Transportation Expenditures—Payment of Bonds Payable from Toll Revenue and Other Funds."

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

Totals may not add due to rounding.

Source: Office of the State Treasurer.

Certificates of Participation/Financing Contracts for State and Local Agencies

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

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

The State also has entered into two long-term leases with separate nonprofit corporations that issued "63-20" lease revenue bonds on behalf of the State. The first lease, entered into in 2004 with Tumwater Office Properties (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 "1500 Jefferson Building"). The State began making lease payments for the 1500 Jefferson Building in July 2011. The State's payments under the leases have been assigned to separate trustees as security for the "63-20" bonds issued by each of the lessors. Under each lease, the State's obligation to make payments of rent is subject to appropriation by the Legislature and subject to Executive Order reduction by the Governor, and neither lease is a "debt" under the Constitution.

As of June 30, 2014, the State had approximately $19.8 million in capital leases outstanding for land, building and equipment. See Footnote 7(D) in Appendix D—"THE STATE'S 2014 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.

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

Table 13
Payments of Certificates of Participation in State Financing Contracts for State and Local Agencies by Fiscal Year[1]
(Outstanding as of October 8, 2015)
(in dollars)

	State				Local				State and Local Real Estate & Equipment Total Payments
	Real Estate		Equipment		Real Estate		Equipment		
Fiscal Year	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	
2016[2][3]	10,575,000	7,939,784	5,862,644	4,229,055	1,528,578	772,673	2,550,109	921,471	34,379,313
2017	27,480,000	16,384,790	41,904,292	8,478,750	3,726,682	1,409,927	8,132,027	1,853,477	109,369,944
2018	27,690,000	14,970,455	35,716,559	6,636,305	3,087,758	1,268,621	7,472,810	1,448,602	98,291,110
2019	27,410,000	13,813,733	33,687,839	5,202,054	2,930,027	1,142,284	6,531,315	1,138,920	91,856,172
2020	27,170,000	12,670,955	28,485,572	3,893,919	2,875,013	1,017,269	5,422,062	861,799	82,396,590
2021	27,190,000	11,511,720	22,576,469	2,825,801	2,670,000	895,990	3,400,064	654,503	71,724,547
2022	26,570,000	10,352,138	11,197,480	2,062,659	2,455,000	781,408	2,637,520	504,766	56,560,971
2023	26,705,000	9,184,665	7,696,674	1,568,806	2,555,000	667,563	2,278,326	378,419	51,034,453
2024	25,815,000	8,016,561	6,982,270	1,216,263	2,165,000	561,425	2,147,730	270,275	47,174,523
2025	23,780,000	6,921,708	7,094,851	885,126	2,150,000	465,518	1,660,149	189,512	43,146,863
2026	23,495,000	5,844,113	5,303,231	596,118	2,245,000	365,303	1,456,769	114,439	39,419,971
2027	23,460,000	4,750,598	4,065,000	342,950	2,175,000	264,263	865,000	51,944	35,974,754
2028	20,255,000	3,748,786	3,940,000	180,900	2,225,000	165,191	895,000	23,244	31,433,121
2029	19,710,000	2,870,818	4,060,000	60,900	1,135,000	65,069	95,000	1,900	27,998,686
2030	20,225,000	1,994,120	-	-	385,000	25,818	-	-	22,629,938
2031	13,210,000	1,287,838	-	-	205,000	14,300	-	-	14,717,138
2032	8,425,000	800,634	-	-	145,000	7,600	-	-	9,378,234
2033	7,950,000	472,953	-	-	90,000	1,800	-	-	8,514,753
2034	3,090,000	266,084	-	-	-	-	-	-	3,356,084
2035	2,890,000	158,613	-	-	-	-	-	-	3,048,613
2036	1,905,000	71,438	-	-	-	-	-	-	1,976,438
Total	395,000,000	134,032,502	218,572,881	38,179,605	34,748,059	9,892,019	45,543,881	8,413,270	884,382,216

(1) Excludes payments on State leases supporting "63-20" lease revenue bonds. See Table 14. Does not include the Certificates of Participation, Series 2015C, in the preliminary principal amount of $161,610,000, expected to be issued on October 21, 2015.
(2) Total payments for Fiscal Year 2016 are $108,703,100.
(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 "63-20" Lease Revenue Bonds by Fiscal Year
(Outstanding as of October 8, 2015)
(in dollars)

Fiscal Year	E.L. Goodrich Building		1500 Jefferson Building		Total Lease Revenue Bonds
	Principal	Interest	Principal	Interest	
2016	-	932,575	6,310,000	15,321,625	22,564,200
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	41,870,000	15,297,800	287,315,000	231,944,613	576,427,413

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

Other Debt

See Appendix D—"THE STATE'S 2014 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

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

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

As of August 1, 2015, the aggregate total principal amount outstanding on 501 voter-approved bond issues guaranteed under the program was $9.72 billion. The bonds were issued by 180 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 preliminary June 30, 2015 actuarial report prepared by OSA showed program assets of $2.042 billion, or 140.9 percent of the "best estimate" of the actuarially determined present value of obligations for future payments of $2.878 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. 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.

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, 2014, for the LGIP, Treasurer's Trust Funds, State pension plans and Workers' Compensation Funds, see Note 3 in Appendix D—"THE STATE'S 2014 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)

	August 2015		September 2014-August 2015[1]	
	$	**%**	**$**	**%**
U.S. Agency	2,131,068	52.1	2,280,667	53.2
U.S. Treasury	1,196,255	29.3	1,067,063	24.9
Repurchase Agreements	--	--	11,233	0.3
Bank Deposits	30,221	0.7	95,257	2.2
LGIP Deposit[2]	581,185	14.2	683,840	15.9
Certificates of Deposit	148,211	3.6	150,398	3.5
	4,086,940	100.0	4,288,458	100.0
Weighted Average Maturity:	728 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)

	August 2015		September 2014-August 2015[1]	
	$	%	$	%
U.S. Agency	4,347,575	47.2	5,726,347	60.6
U.S. Treasury	1,476,743	16.0	984,421	10.4
Repurchase Agreements	2,432,372	26.4	1,810,253	19.2
Interest Bearing Bank Accounts	878,831	9.5	856,835	9.1
Certificates of Deposit	68,260	0.7	63,938	0.7
	9,203,781	100.0	9,441,794	100.0
Weighted Average Maturity:	40 days			

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

RISK MANAGEMENT

Insurance

The State operates a self-insurance liability program (the "SILP") for third-party claims against the State for injuries and property damage up to $10 million for each occurrence. An excess insurance policy is also purchased for these risks, which covers amounts above a self-insured retention (the "SIR") up to an annual limit of $75 million. The current SIR is $10 million for all agencies except DSHS and DOC, each of which has a $16 million SIR. Insurance is procured annually, and the SIR may change. The SILP is administered by OFM with money available in a statutorily-based Liability Account within the Risk Management Fund. The Liability Account is funded by annual premiums assessed to State agencies based on each agency's loss history (paid claims over the most recent five years and open reserves for pending claims). State statutes do not permit the Liability Account to exceed 50 percent of the State's outstanding liabilities as determined bi-annually by an independent actuary. General and auto claims are investigated and settled through the coordinated efforts of OFM, the Office of the Attorney General and WSDOT with consultation and agreement of the affected agency. Approved claims (including judgments, settlements and related defense costs) are paid by OFM from the Liability Account. As of June 30, 2014, the Liability Account held $60.31 million designated for payment of tortious liability and certain federal due process claims. As of June 30, 2014, outstanding and actuarially determined claims against the State and its agencies (except for the University of Washington), including projected defense costs, that were payable from the Liability Account were $550 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 2014 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, 2014, was estimated to be approximately $24.44 billion, including $11.52 billion for supplemental pension COLA described in the next paragraph. As of June 30, 2014, there were $14.5 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 2014 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, 2014, was estimated to be approximately $11.52 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 7(E) in Appendix D—"THE STATE'S 2014 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	1.71	3,633

(1) Average Tax Rate on taxable wages as of the second quarter of the year, except for 2015, which is not yet available and information is as of the first quarter.
(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 June 30, 2015, was $3.63 billion, which is estimated to be enough coverage to provide 15.5 months of benefits.

In June 2015, approximately 57,000 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, wind storms and avalanches are possible. The loss of life and property damage that could result from a major earthquake or other major natural disasters could have a material and adverse impact on the State and its economy and financial condition. See "TRANSPORTATION-RELATED REVENUES AND EXPENDITURES–Transportation Expenditures–*The SR 520 Corridor Program*" and "–*The Alaskan Way Viaduct*."

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 457,641 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	685	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	16,353	4,117	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 2014 AUDITED FINANCIAL STATEMENTS."

(2) Member data as of June 30, 2014. Member information for VFFRPF is as of June 30, 2013; 2014 information will not be available until October 31, 2015.

(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, 2013 (1) rate of investment return: 7.9 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 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. Updated demographic assumptions incorporating experience regarding mortality, retirement, disability, termination rates and other assumptions observed in the 2007-2012 period 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.

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)

	Rates for the 2013-15 Biennium [1]		Adopted Rates Starting July 1, 2015[1][2]	
	Employer Rate[3]	**Employee Rate [4]**	**Employer Rate[3]**	**Employee Rate [4]**
PERS Plan 1	9.21	6.00	11.18	6.00
PERS Plan 1 elected State officials[4][5]	13.73	7.50	16.68	7.50
PERS Plan 2/3[6]	9.21	4.92	11.18	6.12
TRS Plan 1	10.39	6.00	13.13	6.00
TRS Plan 1 elected State officials[5]	10.39	7.50	13.13	7.50
TRS Plan 2/3	10.39	4.96	13.13	5.95
SERS Plan 2/3	9.82	4.64	11.58	5.63
PSERS Plan 2	10.54	6.36	11.54	6.59
LEOFF Plan 1	0.18	0.00	0.18	0.00
LEOFF Plan 2	8.59	8.41	8.59	8.41
WSPRS Plan 1	8.09	6.59	8.19	6.69
WSPRS Plan 2	8.09	6.59	8.19	6.69

(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) Adopted 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.

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 the adoption of an updated assumption for projected improvements in future rates of mortality. 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. 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				
	2010	**2011**	**2012**	**2013**	**2014**
PERS Plan 1	78.2	72.3	124.0	125.6	208.1
PERS Plan 2/3	160.4	158.0	182.8	182.9	203.7
TRS Plan 1	5.6	4.4	3.1	3.7	6.3
TRS Plan 2/3	0.8	0.7	1.1	1.2	1.1
PSERS Plan 2	7.8	8.0	7.4	7.5	8.2
LEOFF Plan 2[2]	52.2	52.9	52.8	54.2	55.6
VFFRPF	5.7	5.7	5.6	6.0	6.4
WSPRS Plan 1/2	5.3	5.3	6.5	6.5	6.6
JRS	11.6	10.9	8.1	10.1	10.6
Total	327.6	318.2	391.4	397.7	506.6

(1) Does not include State contributions for K-12 employees.
(2) The State contributes to LEOFF Plan 2 for local government employees.
Totals may not add due to rounding.
Source: Washington State Comprehensive Annual Financial Reports ("CAFR") for Fiscal Year Ended June 30, 2014.

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, 2013, 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

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 June 30, 2015, there was $80.5 billion invested in the various retirement plans, including the defined benefit plans, defined contribution plans and certain deferred compensation funds, of which 23.76 percent was in fixed income securities, 37.27 percent in public equity, 22.04 percent in private equity, 14.45 percent in real estate, 1.95 percent in tangible assets and 0.53 percent in other investments.

The following table shows the investment returns on the retirement funds for the past 10 years. From July 1, 2014 through June 30, 2015, the annualized return was 4.93%. The 10-year annualized return as of June 30, 2015, was 7.55 percent.

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

Fiscal Year	1 Year Annualized Return
2005	13.05
2006	16.69
2007	21.33
2008	-1.24
2009	-22.84
2010	13.22
2011	21.14
2012	1.40
2013	12.36
2014	17.06

Source: Washington State Investment Board.

Notes 3 and 11 of Appendix D–"THE STATE'S 2014 AUDITED FINANCIAL STATEMENTS" describe the Board's policy regarding permitted investments, how investments are valued, and a breakdown of investments as of June 30, 2014, 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, 2014.

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).

As required by State law, OSA periodically prepares an experience study which compares demographic assumptions with actual experience. The primary purpose of the study was to compare the current demographic assumptions to the actual experience of the retirement plans 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. 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.

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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 (%)										
2003	82	142	89	155	138	n/a	112	125	123	107
2004	81	134	88	153	137	n/a	109	117	118	105
2005[4]	74	127	80	134	122	n/a	114	114	113	99
2006[4]	74	121	80	133	125	99	117	116	114	100
2007[4]	71	120	76	130	126	120	123	129	118	99
2008[4]	71	119	77	125	121	127	128	133	121	100
2009	70	116	75	118	116	128	125	128	119	99
2010[5]	74	113	84	116	113	129	127	119	118	102
2011[4]	71	112	81	113	110	132	135	119	115	101
2012	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.

Actual Employer Contributions vs. ARC. The following table shows all employers' Annual Required Contributions ("ARC") for 2010-2014, employers' actual annual contributions over the same period and the percentage contributed. ARC is required under generally accepted accounting principles and is based on the most recent valuations. The methods used to derive the ARC for this reporting disclosure differ from the methods used to derive the contributions required by law shown above. These differences include the use of different actuarial valuations (actual contributions may be based on an earlier valuation), and different actuarial cost methods. For these reasons, the actual contributions will not match the ARCs.

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Table 25
Contributions From Employers and
State Payments[1]
(For the Fiscal Years ending June 30, 2010 through 2014)
(dollars in millions)

	2010	2011	2012	2013	2014
PERS PLAN 1					
Employers' annual required contribution (ARC)	627.8	439.3	508.0	534.2	670.9
Employers' actual contribution	154.0	145.6	257.2	266.3	448.9
Percentage of ARC contributed	25%	33%	51%	50%	67%
PERS PLANS 2/3					
Employers' ARC	383.1	408.6	407.7	408.3	612.0
Employers' actual contribution	327.5	328.3	385.3	389.0	430.3
Percentage of ARC contributed	85%	80%	95%	95%	70%
TRS PLAN 1					
Employers' ARC	406.1	205.9	254.0	275.4	388.6
Employers' actual contribution	112.7	96.8	111.9	118.6	200.7
Percentage of ARC contributed	28%	47%	44%	43%	52%
TRS PLANS 2/3					
Employers' ARC	221.1	232.3	232.2	231.6	335.4
Employers' actual contribution	165.0	168.3	213.9	229.0	249.3
Percentage of ARC contributed	75%	72%	92%	99%	74%
SERS PLANS 2/3					
Employers' ARC	82.3	88.6	85.2	86.6	124.5
Employers' actual contribution	62.1	62.3	74.6	78.4	88.8
Percentage of ARC contributed	75%	70%	88%	91%	71%
LEOFF Plan 2[2]					
Employers' ARC	67.3	50.4	59.1	56.8	70.1
Employers' actual contribution	77.0	79.7	80.5	82.4	85.5
Percentage of ARC contributed	114%	158%	136%	145%	122%
State ARC	44.4	33.6	38.2	37.9	46.8
State actual contribution	51.1	51.4	52.0	52.8	55.6
Percentage contributed	114%	157%	137%	144%	121%
WSPRS					
Employers' ARC	6.6	2.3	2.9	2.5	7.3
Employers' actual contribution	5.3	5.3	6.5	6.5	6.6
Percentage of ARC contributed	80%	228%	224%	260%	90%
PSERS PLAN 2					
Employers' ARC	14.8	14.7	14.7	15.1	18.6
Employers' actual contribution	15.2	15.6	15.3	15.6	17.1
Percentage of ARC contributed	103%	106%	104%	103%	92%
JRS					
Employers' ARC	20.4	18.6	22.6	21.7	22.5
Employers' actual contribution	11.6	10.9	8.1	10.1	10.6
Percentage of ARC contributed	57%	59%	36%	47%	47%
VFFRPF[2]					
Employers' ARC	1.0	1.1	1.0	0.9	1.0
Employers' actual contribution	1.0	1.1	1.0	0.9	1.0
Percentage of ARC contributed	100%	100%	100%	100%	100%
State ARC	1.8	4.2	3.7	3.7	5.2
State actual contribution	5.7	5.8	5.6	6.0	6.4
Percentage of ARC contributed	317%	138%	151%	162%	123%

(1) No contributions were made for LEOFF Plan 1 and almost no payments for the Judges' Pension Plan. The Annual Required Contribution ("ARC") changes each year with the experience of the plans. Factors influencing the experience include changes in funding methods, assumptions, plan provisions, and economic and demographic experience gains and losses. The

methods used to derive the ARC for this reporting disclosure are different from the methods used to derive the actual contributions required by law. These differences include the use of different actuarial valuations (actual contributions may be based on an earlier valuation), and different actuarial cost methods. For these reasons the actual contributions will not match the ARCs. Starting in 2009, the ARC for PERS and TRS Plans 1 was calculated using the Entry Age Normal cost method with a rolling 10-year amortization (excluding the temporary rate ceilings). Starting in 2011, the calculation of the ARC reflects the underlying actuarial cost method (excluding minimum contribution rates).

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

Source: Washington State Comprehensive Annual Financial Reports ("CAFR") for Fiscal Year Ended June 30, 2014.

Additional 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; lower actuarial discount rates are required to be used for underfunded plans in certain cases; and the difference between expected and actual investment returns each year will be recognized over a closed five-year smoothing period when reporting annual 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. 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, 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 new GASB reporting requirements are reflected in the Comprehensive Annual Financial Report for the Fiscal Year ended June 30, 2014, prepared by the State Department of Retirement Systems ("DRS") and available on DRS's website (www.drs.wa.gov). The allocation of the plans' net pension liability to the State will be reported in the 2015 OFM CAFR. Allocations are based on the share of employer contributions to the plan.

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 2014 AUDITED FINANCIAL STATEMENTS." Note 3 in Appendix D–"THE STATE'S 2014 AUDITED FINANCIAL STATEMENTS" describes eligible investments for the State's pension plans.

Notes J and K of Appendix D–"THE STATE'S 2014 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 2014 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 2014 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 26
Membership in PEBB Plan
(As of June 30, 2014)

	Active Employees	Retirees[1]	Total
State	108,291	29,674	137,965
K-12 Schools and ESDs[2]	2,138	31,642	33,780
Political Subdivision	12,079	1,547	13,626
Total	122,508	62,863	185,371

(1) Retirees include retired employees, surviving spouses, and terminated members entitled to a benefit.
(2) In Fiscal Year 2014, there were 101,445 full-time equivalent active employees in the 237 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, 2014.

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 is $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.

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 selected in consultation with the Office of the State Treasurer to represent a long-term average of short-term investment rates, and annual inflation is assumed to be 3.0 percent. 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 4.7 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 27 shows annual OPEB costs and net OPEB obligations for the Fiscal Years ended June 30, 2010 through June 30, 2014. 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 21 percent. Based on the 2015 OPEB Report, for Fiscal Year 2015, the State's Annual OPEB Cost is $502,376 and the NOO is $2,322,888.

Table 27
Annual OPEB Cost and Net OPEB Obligation
($ in thousands)

	2010	2011	2012	2013	2014
a. Beginning Net OPEB Obligation (NOO)[1]	493,551	777,872	1,027,767	1,279,381	1,613,775
b. Annual Required Contribution (ARC)[2]	349,326	320,991	320,991	342,283	353,842
c. Interest on the NOO	22,210	35,004	46,250	53,434	64,551
d. Amortization of the NOO	(17,116)	(27,427)	(36,954)	(48,684)	(59,951)
e. Annual OPEB Cost (b+c+d)	354,420	328,568	330,286	347,033	358,442
f. 2012 Adjustment	-	-	-	56,476	-
g. Contributions for Fiscal Year[3]	(70,099)	(78,673)	(78,673)	(69,114)	(77,650)
h. Ending NOO [1] (a+e+f+g)	777,872	1,027,767	1,279,381	1,613,775	1,894,567

(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, 2010 through June 30, 2014.

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 foster children, 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 clean-up arising out of highway/roadway construction and maintenance and historic mining activity.

See Note 13 in Appendix D–"THE STATE'S 2014 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 prerogative to reform, define and provide full funding for K-12 education.

In July 2012, the Supreme Court issued an additional ruling in the case, essentially adopting the State's position regarding the process for the court's monitoring of the implementation of the 2009 reform legislation. This ruling calls for annual reporting 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. Pursuant to the order, 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 and Class member distributions have commenced.

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.

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 the breach of statute claim. Following the court's denial of plaintiffs' class certification on the breach of contract claim, plaintiffs dismissed the claim without prejudice. The State Court of Appeals granted defendant's motion for discretionary review of the trial court's decision on the measure of damages issue, which favored plaintiffs. The trial court stayed the trial pending a decision in the appellate matter. Following submission of briefs in the Court of Appeals, plaintiffs moved for direct review by the Supreme Court and that motion was granted. Expedited oral argument before the Supreme Court was held in May 2014. In August 2014, the Supreme Court issued a unanimous decision rejecting the State's arguments on damages. Trial is now set for December 7, 2015.

In addition, there is a second matter (Moore II) that involves only a breach of contract claim based on the same facts as Moore I. Moore II was filed after the trial court would not certify the class. Discovery is ongoing in both Moore I and II. Discovery for the statutory claims has a cutoff date of October 26, 2015. In September 2015 the Supreme Court denied the plaintiffs' motions to recall mandate and for discretionary review. The parties are in the process of scheduling a mediation of their disputes.

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. Appellate briefs have been filed and oral argument is set for October 17, 2015. 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, Expeditors International of Washington, Microsoft, Nordstrom, PACCAR, Starbucks and Weyerhaeuser. Key sectors in the State's economy include:

Table 28
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 29
Twenty-Five Largest Employers in Washington
(as of July 2014)

		Full Time Washington Employees[(1)]			Full Time Washington Employees[(1)]
1	The Boeing Co.	81,939	14	MultiCare Health System	10,758
2	Joint Base Lewis-McChord	56,000	15	Swedish Health Services	10,726
3	Microsoft Corp.	43,031	16	City of Seattle	10,080[(3)]
4	Navy Region Northwest	43,000	17	Costco Wholesale Corp.	9,264
5	University of Washington	30,200	18	Nordstrom Inc.	8,982
6	Amazon.com Inc.	24,700[(2)]	19	PeaceHealth	8,800
7	Providence Health & Services	19,456	20	Group Health Cooperative	7,271
8	Wal-Mart Stores Inc.	19,350	21	Alaska Air Group Inc.	6,139
9	Fred Meyer Stores	15,450	22	Virginia Mason Medical Center	6,000
10	King County Government	13,400[(3)]	23	Fairchild Air Force Base	5,957
11	Franciscan Health System	12,440	24	Target	5,773
12	United States Postal Service	11,672	25	Seattle Public Schools	5,583
13	Starbucks Corp.	11,239			

(1) Employment totals are as of December 31, 2013.
(2) Estimated employee count based on company square footage.
(3) Does not include temporary workers.
Source: Puget Sound Business Journal, July 25, 2014.

Trade

Washington is one of the most trade-intensive states in the nation and is an important gateway for trade with Asia and Canada and for domestic trade with Alaska and Hawaii. In 2014, Washington had $90.6 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 10^{th} and the port of Seattle nationally ranked 13^{th} in 2013 when measured by total dollar value of foreign imports and exports.

Airport. Seattle-Tacoma International Airport is Washington's primary airport and, measured by total passengers, was the 15^{th} busiest airport in the country based on 2014 preliminary information according to the Federal Aviation Administration Air Carrier Activity Information System database. The airport also ranks as the 18^{th} 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 2012 the State's top 10 agricultural commodities (in commodities value) were apples, wheat, milk, potatoes, hay, cattle, cherries, nursery, grapes and pears. Washington ranked first in United States production of 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 and the Fred Hutchinson Cancer Research Center. The University of Washington Medical Center is the largest public university recipient of federal research dollars, receiving approximately $1.2 billion in federal grants and contacts each year.

Services/Tourism

Tourism is important to Washington's economy. Tourists are drawn to the State's mountains, water, proximity to Canada and Alaska, and metropolitan areas. As the business, legal and financial center of the State, Seattle has the largest selection of hospitality and entertainment venues in the State. The Washington State Convention Center has the capacity for events involving as many as 11,000 people. There are more than 10,000 hotel rooms in downtown

Seattle and nearby venues, and entertainment options include professional football, soccer and baseball teams, theatres and music halls, the historic Pike Place Market, the Space Needle and the Seattle Center landmark from the 1962 World's Fair, and the architecturally unique Seattle Public Library, among others. Seattle is an embarkation port for several cruise ship lines, primarily sailing to Canada and Alaska.

Military

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

Construction

Table 30 provides information on housing permits for the State and the United States.

Table 30
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 31
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 July 2015, the June 2015 unemployment rate (seasonally adjusted) was 5.3 percent in Washington and 5.3 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 32
Composition of Employment by Industry Sector[1]
(percents)

	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 33
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 34, 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 34
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 October 8, 2015

Subject to Constitutional Debt Limitation

Chapter and Laws	Bonds Authorized	Issued (1)	Bonds Outstanding (1)	Unissued (2)
Ch. 138 -- Laws of 1965 (R-2006A)............................	192,715,000	192,715,000	-	-
Ch. 138 -- Laws of 1965 (R-2007A)............................	321,050,000	321,050,000	181,365,000	-
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	268,390,000	-
Ch. 138 -- Laws of 1965 (R-2010B)............................	215,500,000	215,500,000	170,690,000	-
Ch. 138 -- Laws of 1965 (R-2011A)............................	365,605,000	365,605,000	277,955,000	-
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	188,305,000	-
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	37,520,000	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	12,045,000	-
Ch. 18 -- Laws of 2003, 1st Sp. Sess..........................	253,825,000	195,285,000	88,190,000	58,540,000
Ch. 147 -- Laws of 2003, Regular Sess.........................	203,590,000	165,540,000	141,840,000	38,050,000
Ch. 487 -- Laws of 2005, Regular Sess.........................	341,920,000	341,920,000	147,560,000	-
Ch. 167 -- Laws of 2006, Regular Sess.........................	217,615,000	157,565,000	132,735,000	60,050,000
Ch. 521 -- Laws of 2007, Regular Sess.........................	1,253,040,000	1,253,040,000	931,135,000	-
Ch. 179 -- Laws of 2008, Regular Sess.........................	50,000,000	48,210,000	47,480,000	1,790,000
Ch. 6 -- Laws of 2009, Regular Sess.........................	133,000,000	124,325,000	105,330,000	8,675,000
Ch. 498 -- Laws of 2009, Regular Sess.........................	2,219,000,000	2,029,230,000	1,782,065,000	189,770,000
Ch. 49 -- Laws of 2011, 1st Sp. Sess..........................	1,122,000,000	991,985,000	955,070,000	130,015,000
Ch. 1 -- Laws of 2012, 1st Sp. Sess..........................	505,466,000	456,215,000	443,195,000	49,251,000
Ch. 20 -- Laws of 2013, 2nd Sp. Sess.........................	2,036,000,000	1,007,485,000	987,550,000	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..	19,138,641,865	15,387,800,434	11,330,846,322	3,750,841,431

(1) Includes offering dated October 8, 2015 (Series 2016A-1, 2016A-2, 2016T, and R-2016A) -- after defeasance of the refunded bonds.

(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-2013T)..............................	78,295,000	78,295,000	8,335,000	-
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	101,904,718	-
Ch. 179 -- Laws of 2008, Regular Sess..........................	91,725,000	87,095,000	79,470,000	4,630,000
Subtotal...	394,809,718	390,179,718	197,414,718	4,630,000
Total..	19,533,451,582	15,777,980,151	11,528,261,040	3,755,471,431

Debt Authorization and Outstanding Debt
Motor Vehicle Fuel Tax General Obligation Bonds
and Limited Obligation Bonds
As of October 8, 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	33,325,000	-
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	96,555,000	-
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	36,293,771	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	647,473,350	73,433,288
Ch. 147 -- Laws of 2003	2,028,745,000	1,685,018,877	1,264,026,904	343,726,123
Ch. 315 -- Laws of 2005	4,907,335,000	2,870,053,336	2,566,911,578	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	7,431,975,603	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	8,350,889,967	8,458,268,366

(1) Includes offering dated October 8, 2015 (Series 2016B).

(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 October 8, 2015. See "TRANSPORTATION RELATED REVENUES AND EXPENDITURES--Transportation Expenditures--Payment of Bonds Payable from Toll Revenue and Other Funds."

Grand Total..	38,324,641,582	26,110,901,785	19,879,151,007	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"):

$443,830,000
STATE OF WASHINGTON
VARIOUS PURPOSE GENERAL OBLIGATION BONDS, SERIES 2016A-1
DATED OCTOBER 8, 2015

The Bonds are issued pursuant to Ch. 179, Laws of 2008; Ch. 49, Laws of 2011, 1st Sp. Sess.; Ch. 20, Laws of 2013, 2nd Sp. Sess.; and Ch. 37, Laws of 2015, 3rd Sp. Sess., of the State (collectively, the "Bond Act"), Ch. 39.42 RCW, Resolution No. 1170 of the State Finance Committee (the "Committee") of the State adopted on August 17, 2015, and Resolution No. 1175 of the Committee acting by and through the State Treasurer adopted on September 30, 2015 (collectively, the "Bond Resolution"), and other proceedings duly had and taken in conformity therewith. The Bonds are issued for the purpose of providing funds to finance the General State Projects. 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 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"):

$51,085,000
STATE OF WASHINGTON
VARIOUS PURPOSE GENERAL OBLIGATION BONDS, SERIES 2016A-2 (GREEN BONDS)
DATED OCTOBER 8, 2015

The Bonds are issued pursuant to Ch. 49, Laws of 2011, 1st Sp. Sess.; Ch. 20, Laws of 2013, 2nd Sp. Sess.; and Ch. 37, Laws of 2015, 3rd Sp. Sess., of the State (collectively, the "Bond Act"), Ch. 39.42 RCW, Resolution No. 1170 of the State Finance Committee (the "Committee") of the State adopted on August 17, 2015, and Resolution No. 1176 of the Committee acting by and through the State Treasurer adopted on September 30, 2015 (collectively, the "Bond Resolution"), and other proceedings duly had and taken in conformity therewith. The Bonds are issued for the purpose of providing funds to finance the General State Projects that have been identified as environmentally beneficial. 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 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"):

$188,020,000
STATE OF WASHINGTON
MOTOR VEHICLE FUEL TAX GENERAL OBLIGATION BONDS, SERIES 2016B
DATED OCTOBER 8, 2015

The Bonds are issued pursuant to Ch. 147, Laws of 2003, and Ch. 315, Laws of 2005, of the State (collectively, the "Bond Act"), Ch. 39.42 RCW, Resolution No. 1171 of the State Finance Committee (the "Committee") of the State adopted on August 17, 2015, and Resolution No. 1177 of the Committee acting by and through the State Treasurer adopted on September 30, 2015 (collectively, the "Bond Resolution"), and other proceedings duly had and taken in conformity therewith. The Bonds are issued for the purpose of providing funds to finance the Transportation Projects. 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 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.

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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.

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,

[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"):

$60,565,000
STATE OF WASHINGTON
GENERAL OBLIGATION BONDS, SERIES 2016T (TAXABLE)
DATED OCTOBER 8, 2015

The Bonds are issued pursuant to Ch. 167, Laws of 2006; Ch. 20, Laws of 2013, 2nd Sp. Sess.; and Ch. 37, Laws of 2015, 3rd Sp. Sess., of the State (collectively, the "Bond Act"), Ch. 39.42 RCW, Resolution No. 1170 of the State Finance Committee (the "Committee") of the State adopted on August 17, 2015, and Resolution No. 1178 of the Committee acting by and through the State Treasurer adopted on September 30, 2015 (collectively, the "Bond Resolution"), and other proceedings duly had and taken in conformity therewith. The Bonds are issued for the purpose of providing funds to finance the General State Projects. 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.

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 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. Interest on the Bonds is not excludable from gross income for federal tax purposes.

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

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

Respectfully submitted,

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SEATTLE WASHINGTON SPOKANE WASHINGTON

[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"):

$188,305,000
STATE OF WASHINGTON
VARIOUS PURPOSE GENERAL OBLIGATION REFUNDING BONDS, SERIES R-2016A
DATED OCTOBER 8, 2015

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. 1179 of the Committee acting by and through the State Treasurer adopted on September 30, 2015 (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.

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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,

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APPENDIX D

THE STATE'S 2014 AUDITED FINANCIAL STATEMENTS

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Washington State Auditor
Troy Kelley

INDEPENDENT AUDITOR'S REPORT

October 31, 2014

The Honorable Jay Inslee
Governor, State of Washington

REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate discretely presented component units and remaining fund information of the State of Washington, as of and for the year ended June 30, 2014, 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:

Insurance Building, P.O. Box 40021 • Olympia, Washington 98504-0021 • (360) 902-0370 • TDD Relay (800) 833-6388

Opinion Unit	Percent of Total Assets	Percent of Net Position	Percent of Total Revenues/ Additions
Governmental Activities	13.6%	23.6%	9.0%
Business-Type Activities	75.3%	100%	36.7%
Higher Education Special Revenue Fund	53.1%	53.4%	50.3%
Higher Education Endowment Fund	96.4%	96.4%	100.0%
Higher Education Student Services Fund	68.9%	72.1%	82.1%
Workers' Compensation Fund	95.5%	100%	33.1%
Guaranteed Education Tuition Program Fund	88.1%	100%	72.8%
Aggregate Discretely Presented Component Units and Remaining Fund Information	92.0%	93.9%	71.4%

Those financial 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, are based solely on the reports of other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. 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, 2014, 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 $29.6 billion which comprise 26.9% of total assets and 28.9% 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, 2014, the State has implemented the Governmental Accounting Standards Board Statement No. 67, Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25 and Statement No. 70, Nonexchange Financial Guarantees. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 25 through 37, budgetary comparison information on pages 165 through 170, information on postemployment benefits other than pensions on page 182, infrastructure modified approach information on pages 183 through 186 and pension trust fund information on pages 171 through 182 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 on pages 189 through 241 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. This information has been subjected to auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us and other auditors. In our opinion, based on our audit, the procedures performed as described above, and the reports of the other auditors, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The information identified in the table of contents as the introductory and statistical sections is presented for purposes of additional analysis and is not a required part of the basic financial statements of the State. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we will also issue our report dated October 31, 2014, on our consideration of the State's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report will be issued under separate cover in the State's Single Audit Report. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State's internal control over financial reporting and compliance.

Sincerely,

TROY KELLEY
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, 2014. 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 $22.93 billion (reported as net position). Of this amount, $(7.92) 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 $13.41 billion, an increase of 7.9 percent compared with the prior year as restated.

- While the state's capital assets increased by $1.03 billion and total bond debt increased by $1.12 billion during the current fiscal year, the state's net investment in capital assets is $20.44 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 40-43 of this report.

FUND FINANCIAL STATEMENTS

A fund is a group of related accounts used to maintain control over resources that are segregated for specific activities or objectives. The state of Washington, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the state can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on fund balances at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for three major funds and an aggregate total for all nonmajor funds. The state's major governmental funds are the General Fund, Higher Education Special Revenue Fund, and the Higher Education Endowment Fund. Individual fund data for the state's nonmajor governmental funds are provided in the form of combining statements elsewhere in this report. The governmental fund financial statements can be found on pages 46-49 of this report.

Proprietary Funds. The state of Washington maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Internal service funds represent an accounting device used to accumulate and allocate costs internally among the state of Washington's various functions. The state of Washington uses internal service funds to account for general services such as motor pool, central stores, data processing services, risk management, employee health insurance, and printing services. Because internal service funds predominately benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Proprietary fund financial statements provide the same type of information as the government-wide financial statements, but in greater detail. The proprietary fund financial statements provide separate information for the Workers' Compensation Fund, Unemployment Compensation Fund, the Higher Education Student Services Fund, and the Guaranteed Education Tuition Program Fund, which are considered to be major funds, as well as an aggregated total for all nonmajor enterprise funds.

The internal service funds are combined for presentation purposes. Individual fund data for the state's nonmajor proprietary funds are provided in the form of combining statements elsewhere in this report. The proprietary fund financial statements can be found on pages 50-59 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 60-61 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 69-70 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 62-65 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 67-161 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 165-186 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 189-241 of this report.

STATE OF WASHINGTON

Statement of Net Position

(in millions of dollars)

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
ASSETS						
Current and other assets	$ 21,468	$ 19,999	$ 24,394	$ 22,119	$ 45,862	$ 42,118
Capital assets	36,375	35,435	2,850	2,761	39,225	38,196
Total assets	57,843	55,434	27,244	24,880	85,087	80,314
DEFERRED OUTFLOWS OF RESOURCES	-	-	15	16	15	16
LIABILITIES						
Current and other liabilities	5,043	4,585	1,190	912	6,233	5,497
Long-term liabilities outstanding	25,994	24,508	29,947	28,842	55,941	53,350
Total liabilities	31,037	29,093	31,137	29,754	62,174	58,847
DEFERRED INFLOWS OF RESOURCES	2	-	-	-	2	-
NET POSITION						
Net investment in capital assets	19,816	19,706	625	740	20,441	20,446
Restricted	6,589	6,524	3,815	3,469	10,404	9,993
Unrestricted	399	111	(8,318)	(9,067)	(7,919)	(8,956)
Total net position	$ 26,804	$ 26,341	$ (3,878)	$ (4,858)	$ 22,926	$ 21,483

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 $22.93 billion at June 30, 2014, as compared to $21.48 billion as reported at June 30, 2013.

The largest portion of the state's net position (89.2 percent for fiscal year 2014 as compared to 95.2 percent for fiscal year 2013) 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 (45.4 percent for fiscal year 2014 as compared to 46.5 percent for fiscal year 2013) represents resources that are subject to external restrictions on how they may be used. The remaining balance of $(7.92) billion represents unrestricted net position. The state's overall negative balance in unrestricted net position is caused by deficits in business-type activities.

In governmental activities, net position increased from $26.34 billion in fiscal year 2013 to $26.80 billion in fiscal year 2014. The increase reflects increases in grants and tax revenues that outpaced the increases in expenses.

In business-type activities, the majority of the deficit is caused by the workers' compensation program that provides time-loss, medical, disability, and pension payments to qualifying individuals who sustain work-related injuries or develop occupational diseases as a result of their required work activities.

The main benefit plans of the workers' compensation program are funded on rates that will keep the plans solvent in accordance with recognized actuarial principles. The supplemental pension cost-of-living adjustments (COLAs) granted for time-loss and disability payments, however, are funded on a pay-as-you-go basis. By statute, the state is only allowed to collect enough revenue to fund the current COLA payments.

As previously mentioned, the state's activities are divided between governmental and business-type. The majority of support for governmental activities comes from taxes and intergovernmental grants, while business-type activities are supported primarily through user charges.

STATE OF WASHINGTON

Changes in Net Position

(in millions of dollars)

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
REVENUES						
Program revenues:						
Charges for services	$ 5,850	$ 5,749	$ 6,416	$ 6,166	$ 12,266	$ 11,915
Operating grants and contributions	13,240	12,027	326	870	13,566	12,897
Capital grants and contributions	1,066	997	-	-	1,066	997
General revenues:						
Taxes	17,849	17,072	22	23	17,871	17,095
Interest and investment earnings (loss)	621	397	1,618	523	2,239	920
Total revenues	38,626	36,242	8,382	7,582	47,008	43,824
EXPENSES						
General government	(1,607)	(1,537)	-	-	(1,607)	(1,537)
Education - K-12	(8,914)	(8,238)	-	-	(8,914)	(8,238)
Education - Higher education	(6,910)	(6,992)	-	-	(6,910)	(6,992)
Human services	(15,052)	(13,181)	-	-	(15,052)	(13,181)
Adult corrections	(911)	(844)	-	-	(911)	(844)
Natural resources and recreation	(1,137)	(1,096)	-	-	(1,137)	(1,096)
Transportation	(2,400)	(2,379)	-	-	(2,400)	(2,379)
Interest on long-term debt	(938)	(955)	-	-	(938)	(955)
Workers' compensation	-	-	(3,142)	(3,330)	(3,142)	(3,330)
Unemployment compensation	-	-	(1,380)	(1,983)	(1,380)	(1,983)
Higher education student services	-	-	(2,080)	(1,927)	(2,080)	(1,927)
Washington's lottery	-	-	(463)	(437)	(463)	(437)
Guaranteed education tuition program	-	-	(185)	105	(185)	105
Other business-type activities	-	-	(133)	(126)	(133)	(126)
Total expenses	(37,869)	(35,222)	(7,383)	(7,698)	(45,252)	(42,920)
Excess (deficiency) of revenues over expenses before contributions to endowments and transfers	757	1,020	999	(116)	1,756	904
Contributions to endowments	66	63	-	-	66	63
Transfers	94	114	(94)	(114)	-	-
Increase (decrease) in net position	917	1,197	905	(230)	1,822	967
Net position - July 1, as restated	25,887	25,144	(4,783)	(4,628)	21,104	20,516
Net position - June 30	$ 26,804	$ 26,341	$ (3,878)	$ (4,858)	$ 22,926	$ 21,483

Governmental Activities. Governmental activities resulted in an increase in the state of Washington's net position of $916.8 million. A number of factors contributed to the increase:

- Tax revenues increased by $777.0 million in fiscal year 2014 as compared to fiscal year 2013 reflecting positive growth in the economy. Sales and use taxes reported an increase of $654.8 million. Sales and use taxes are the main tax revenue for governmental activities. Real estate excise tax revenue increased by $71.7 million. Real estate excise taxes are levied on the sale of real estate. These tax revenue increases reflect the slowly rebounding economy, recovering housing markets, and improving employment picture in Washington.

- Charges for services increased by $100.4 million in fiscal year 2014 compared to fiscal year 2013. Increases in fiscal year 2014 as compared with fiscal year 2013 included $104.1 million in the state's federally approved hospital safety net assessment, $43.2 million in timber sales, $36.7 million in motor vehicle license and operator license revenues, and $14.9 million in tolling revenues.

  These increases were offset by a decrease of $104.4 million in fiscal year 2014 related to liquor distributor license fees which were assessed in fiscal year 2013 as a one-time charge when the state privatized liquor retail sales and distribution. Tuition and fee revenues at higher education institutions held steady in fiscal year 2014 compared with fiscal year 2013.

- Operating grants and contributions grew by $1.21 billion in fiscal year 2014 compared with 2013 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 400,000 newly eligible adults.

- Expenses grew by $676.0 million for K-12 education in 2014 as compared to fiscal year 2013. 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.

Business-Type Activities. Business-type activities increased the state of Washington's net position by $905.6 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:

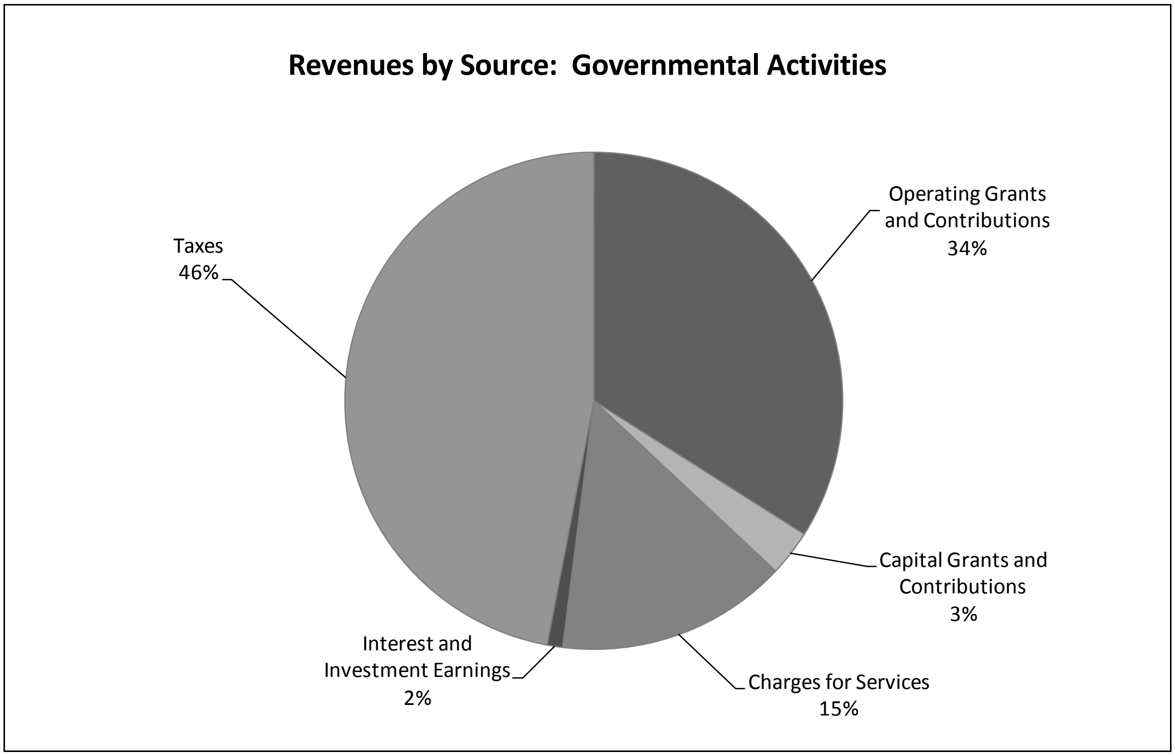
- The workers' compensation activity increase in net position in fiscal year 2014 was $240.4 million compared to a decrease of $925.9 million in fiscal year 2013. Premium revenue increased by $76.9 million as a result of an increase in the number of hours reported by employers, a mid-year premium rate increase, and an increase in the number of hours reported by businesses in higher rate classes. Claim costs decreased by $204.1 million in fiscal year 2014 compared with fiscal year 2013 reflecting a reduction in the number of time-loss claims. Nonoperating investment income increased by $896.7 million due predominately to a net increase in realized and unrealized gains on debt securities. The workers' compensation portfolio is 84.9 percent debt securities.

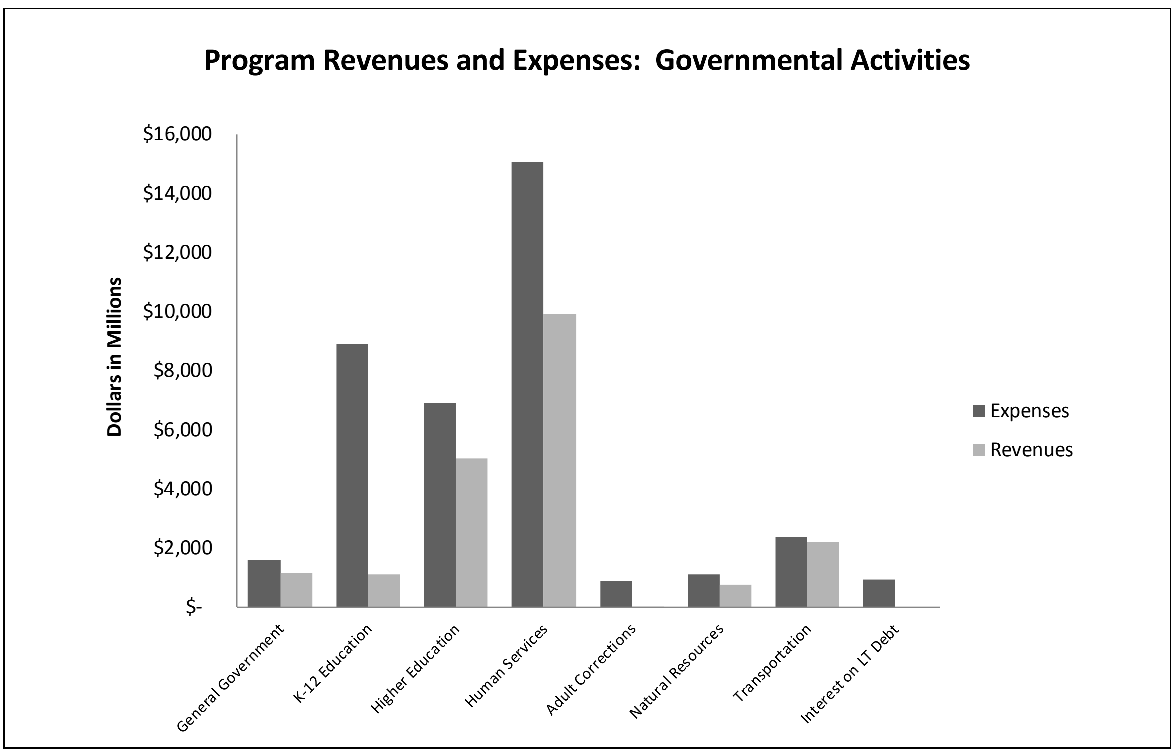
- The unemployment compensation activity reported an operating income in fiscal year 2014 of $272.6 million, compared to $174.3 in fiscal year 2013. Washington's unemployment insurance program is an experience-based system with the largest part of an individual employer's tax rate being based on the 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 $602.9 million in fiscal year 2014 over fiscal year 2013. 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 2014 was 5.4 percent, down from 7.0 percent in June 2013, and the insured rate declined to 1.8 percent in fiscal year 2014 from 2.2 percent in fiscal year 2013. While the state's unemployment insurance premiums are experienced based and the unemployment rate is declining, premium revenue increased by 3.1 percent reflecting a growing workforce and higher taxable wage base. The $545.5 million decline in federal aid also reflects the decrease in the unemployment rate.

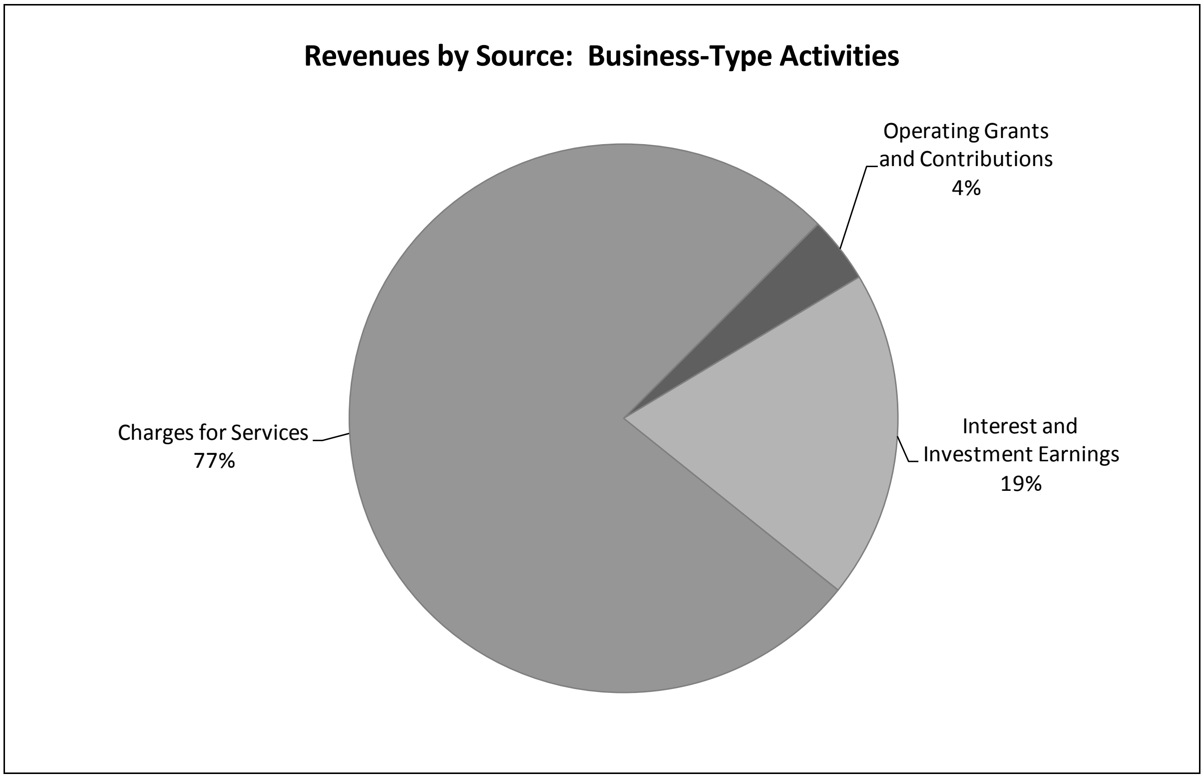
- The Guaranteed Education Tuition (GET) program reported an increase in net position of $322.1 million in spite of the fact that the number of tuition units sold dropped for the third straight year. Two factors contributed to the increase in net position and simultaneously made other long-term investment options more attractive to customers resulting in the decline in the number of tuition units sold. First, investment returns were 16.4 percent in fiscal year 2014 compared with 9.6 percent in fiscal year 2013. Secondly, tuition did not increase at state universities for the second year in a row. Since the pay-out value of a tuition unit is based on in-state undergraduate resident tuition and fees at the state's highest priced public university, the GET payout value remained unchanged.

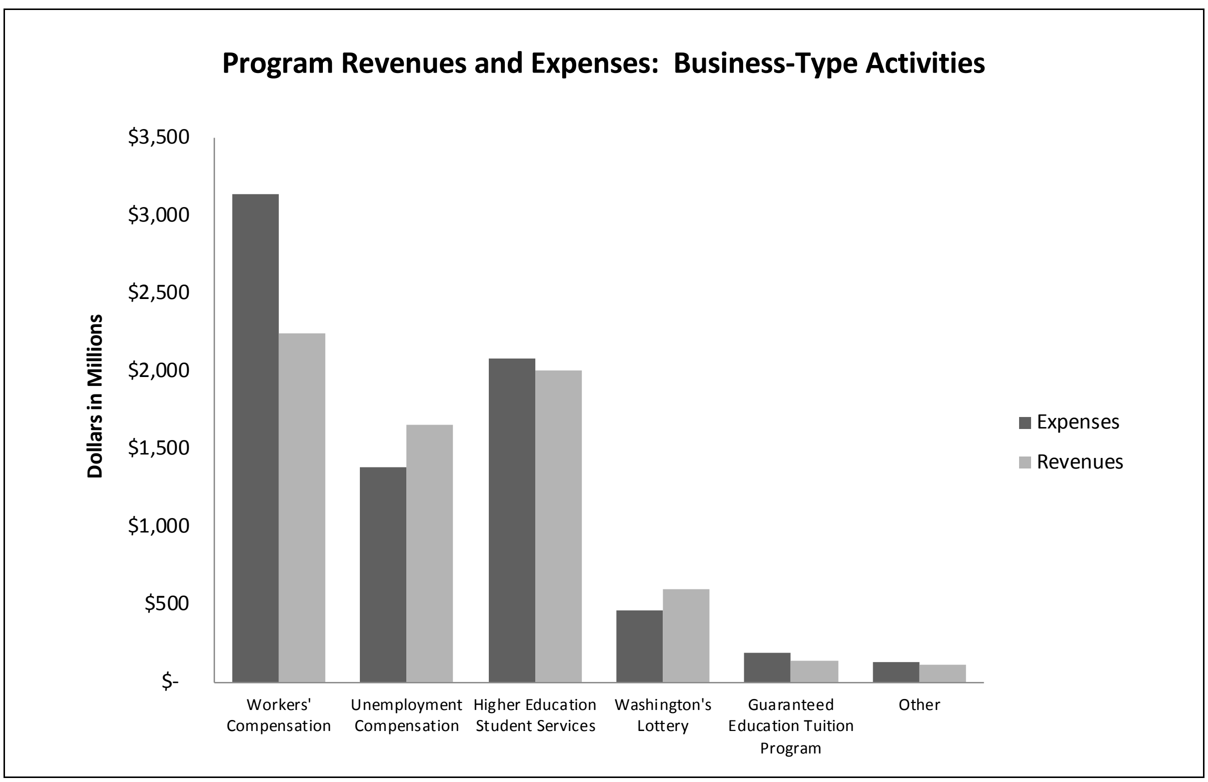
The slow tuition growth over the past two years combined with positive investment results improved GET's funded status to 106 percent at June 30, 2014.

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






Revenues by Source: Business-Type Activities
Operating Grants and Contributions 4%
Interest and Investment Earnings 19%
Charges for Services 77%


Program Revenues and Expenses: Business-Type Activities
$3,500
$3,000
$2,500
$2,000
$1,500
$1,000
$500
$-
Dollars in Millions
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 80 and 81, beginning fund balances of governmental funds were adjusted to correct prior period activity.

Fund Balances. At June 30, 2014, the state's governmental funds reported combined ending fund balances of $13.41 billion. Of this amount, $2.49 billion or 18.6 percent is nonspendable, either due to its form or legal constraints, and $4.42 billion or 33.0 percent is restricted for specific programs by external constraints, constitutional provisions or contractual obligations. An additional $5.28 billion or 39.4 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 $880.0 million or 6.6 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 $443.5 million in fiscal year 2014, as compared to a $375.0 million gain in fiscal year 2013. Increased revenues from taxes and federal grants-in-aid and concerted effort to hold the line on spending were the key contributing factors. Assigned fund balance of $880.0 million is reported for fiscal year 2014 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 2014	Fiscal Year 2013	Difference Increase (Decrease)
REVENUES			
Taxes	$ 16,008	$ 15,295	$ 713
Federal grants	10,226	8,780	1,446
Investment revenue (loss)	7	(17)	24
Other	614	644	(30)
Total	26,855	24,702	2,153
EXPENDITURES			
Human services	14,920	13,235	1,685
Education	9,754	9,115	639
Other	1,460	1,392	68
Total	26,134	23,742	2,392
Net transfers in (out)	(447)	(716)	269
Other financing sources	170	131	39
Net increase (decrease) in fund balance	$ 444	$ 375	$ 69

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 2014 was $140.6 million compared to $347.5 million in fiscal year 2013. The decline in fiscal year 2014 was largely due to a decline in revenue from charges for services of 4.0 percent combined with a 2.8 percent increase in expenditures.

- The fund balance for the Higher Education Endowment Fund increased by $6.8 million in fiscal year 2014. An overall net increase in fund balance of $407.8 million from current year activity was offset by a correction of a prior period accounting error which decreased fund balance by $401.1 million. Fiscal year 2014 reported an increase of $148.7 million in investment earnings.

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 an increase in net position of $240.4 million in fiscal year 2014. Operating revenues increased by $83.0 million and operating expenses decreased by $187.1 million as compared to fiscal year 2013. 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 increased $896.7 million over fiscal year 2013 due to an increase in net realized and unrealized capital gains.

- Washington's Unemployment Compensation Fund reported an increase in net position of $345.3 million. As reported previously, premium revenue increased reflecting a growing workforce and higher taxable wage base. Unemployment benefit claims expense decreased by $602.9 million in fiscal year 2014 as compared to 2013 and federal aid decreased by $545.5 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 $322.1 million in fiscal year 2014. As previously reported, the increase is due primarily to strong investment returns and the fact that tuition did not increase at the state's universities for the second straight year.

- 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 $1.18 billion over the course of the first year of the biennium. The major increase in estimated resources is reported in federal grants-in-aid reflecting additional funding available to cover state programs.

- Appropriated expenditure authority increased by $894.2 million over the first fiscal year of the biennium to address increases in mandatory and high priority programs. The major increases in appropriation authority were in human services and education. The availability of additional federal funding, rising caseloads, and high priority needs were the main drivers of the increases.

The state did not overspend its legal spending authority for the 2013-2015 biennium. Actual General Fund revenues and expenditures were 49.1 and 48.2 percent of final budgeted resources and appropriations, respectively, for the first fiscal year of the 2013-2015 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, 2014, totaled $39.23 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 2014 investment in capital assets, net of current year depreciation, increased $1.03 billion over fiscal year 2013, including increases to the state's transportation infrastructure of $777.4 million. The state's construction in progress includes both new construction and major improvements to state capital facilities and infrastructure. Remaining commitments on these construction projects total $2.72 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 20,692 lane miles of pavement, 3,286 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	
	2014	2013	2014	2013	2014	2013
Land	$ 2,480	$ 2,388	$ 61	$ 61	$ 2,541	$ 2,449
Transportation infrastructure and other assets not depreciated	22,585	21,805	5	5	22,590	21,810
Buildings	7,702	7,610	2,410	1,988	10,112	9,598
Furnishings, equipment, and intangible assets	1,513	1,480	190	182	1,703	1,662
Other improvements and infrastructure	1,189	1,218	80	83	1,269	1,301
Construction in progress	906	934	104	442	1,010	1,376
Total	$ 36,375	$ 35,435	$ 2,850	$ 2,761	$ 39,225	$ 38,196

The state's goal is to maintain 90 percent of pavements, 95 percent of bridges, and 95 percent of safety rest areas at a condition level of fair or better. The condition of these assets, along with the rating scales for pavements, bridges, rest areas, and additional detail comparing planned to actual preservation and maintenance spending are available in the required supplementary information beginning on page 183.

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 2014, actual maintenance and preservation expenditures were 16.9 percent higher than planned, and over the past five fiscal years, the actual expenditures were 3.1 percent lower than planned.

The most recent bridge condition assessment indicates that 91.4 percent of bridges were in good or fair condition. The condition of bridges has declined over the last three assessment periods, averaging 94.8 percent in good or fair condition. For fiscal year 2014, the actual maintenance and preservation expenditures were 5.3 percent lower than planned, and over the past five fiscal years, the actual expenditures were 9.7 percent lower than planned.

Bond Debt. At the end of fiscal year 2014, the state of Washington had general obligation bond debt outstanding of $18.96 billion, an increase of 4.1 percent from fiscal year 2013. This debt is secured by a pledge of the full faith and credit of the state. Additionally, the state had authorized $6.48 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, 2014, does not exceed that amount for which payments of principal and interest in any fiscal year would require the state to expend more than 9 percent of the arithmetic mean of its general state revenues for the three immediately preceding fiscal years. The arithmetic mean of its general state revenues for fiscal years 2012, 2013, and 2014 is $13.25 billion. The debt service limitation, 9 percent of this mean, is $1.19 billion. The state's maximum annual debt service as of June 30, 2014, subject to the constitutional debt limitation is $1.13 billion, or $66.7 million less than the debt service limitation.

For further information on the debt limit, refer to the statistical section on page 266 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_cdl2014.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, 2014, 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	
	2014	2013*	2014	2013*	2014	2013
General obligation (GO) bonds	$ 18,954	$ 18,200	$ 8	$ 11	$ 18,962	$ 18,211
Accreted interest on zero interest rate GO bonds	416	439	-	-	416	439
Revenue bonds	1,894	1,638	2,236	2,098	4,130	3,736
Total	$ 21,264	$ 20,277	$ 2,244	$ 2,109	$ 23,508	$ 22,386

* Prior year balances restated for comparability

The state had revenue debt outstanding at June 30, 2014, of $4.13 billion, an increase of $394.3 million over fiscal year 2013. This 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 which issues general revenue bonds that are payable from general revenues of the university.

General obligation and revenue bonds totaling $697.2 million were refunded during the year. Washington's refunding activity produced $136.4 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.

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

- Weak growth in Europe and slowing Asian growth remain significant threats to the U.S. economy.

- Federal fiscal policy remains a drag on economic growth through contractionary spending and tax policies. Monetary policy remains accommodative, but rate increases are expected next year.

- Washington's economy continues to grow at a moderate pace.

- As Washington's economy continues its slow recovery, state revenue collections are rebounding, but at a much slower pace than following previous recessions. Washington's heavy reliance on sales taxes is feeling the impact of the lingering effect of the recession on consumer confidence and tax cuts previously enacted as well as a shift in consumer spending to untaxed services and online purchases.

- Under legislation approved in 2012, and beginning with the 2013-2015 biennium, Washington became the only state in the nation required to pass a budget that balances spending against anticipated revenue over a four year period.

- 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 is being made through the 2013-2015 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 is not in place by the end of the 2015 legislative session.

General Election. There is a measure on the state's November 4, 2014, general election ballot that addresses K-12 education. This measure, if passed, could impact the state fiscally.

Election results are not final or official until certified. By law December 4, 2014, 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, 2014, $144.5 million was transferred to the BSA from the General Fund in accordance with the provisions of the Constitution. The BSA has a fund balance of $414.6 million as of June 30, 2014.

New Pension Reporting Standards. For fiscal year 2015 financial reporting, the state will be implementing Statement No. 68 of the Governmental Accounting Standards Board *Accounting and Financial Reporting for Pensions*. Current pension reporting standards focus on plan funding requirements. Plan level information on the pension plans administered by the state is presented in Note 11 and in the required supplementary information section of this report.

Statement 68 requires each governmental employer to report its proportionate share of the net pension liability. While decision making authority related to pension funding is not impacted, Statement 68 will have an impact on the state's government–wide and proprietary fund financial statements beginning in fiscal year 2015.

Requests for Information

This financial report is designed to provide a general overview of the state of Washington's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of Financial Management, Accounting Division, P.O. Box 43113, Olympia, WA 98504-3113.

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Basic Financial Statements

Government-wide Financial Statements

Statement of Net Position

June 30, 2014

(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	$ 5,996,232	$ 4,839,166	$ 10,835,398	$ 194,217
Taxes receivable (net of allowance for uncollectibles)	3,299,766	-	3,299,766	-
Other receivables (net of allowance for uncollectibles)	2,152,919	1,716,053	3,868,972	130,654
Internal balances	319,537	(319,537)	-	-
Due from other governments	4,068,870	159,412	4,228,282	-
Inventories	97,283	49,101	146,384	8,847
Restricted cash and investments	554,458	6,800	561,258	6,012
Investments, noncurrent	4,912,816	17,548,126	22,460,942	123,891
Restricted investments, noncurrent	-	56,414	56,414	31,402
Restricted receivables, noncurrent	39,502	-	39,502	-
Other assets	26,760	337,926	364,686	130,148
Capital assets:				
Non-depreciable assets	25,970,585	169,192	26,139,777	74,489
Depreciable assets (net of accumulated depreciation)	10,404,649	2,680,954	13,085,603	765,278
Total capital assets	36,375,234	2,850,146	39,225,380	839,767
Total Assets	57,843,377	27,243,607	85,086,984	1,464,938
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflow on refundings	-	14,801	14,801	-
Total Deferred Outflows of Resources	-	14,801	14,801	-
Total Assets and Deferred Outflows of Resources	$ 57,843,377	$ 27,258,408	$ 85,101,785	$ 1,464,938

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

Statement of Net Position

June 30, 2014

(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	$ 1,390,863	$ 127,010	$ 1,517,873	$ 67,521
Contracts and retainage payable	165,083	31,546	196,629	9,040
Accrued liabilities	1,667,533	622,544	2,290,077	124,818
Obligations under security lending agreements	146,036	71,518	217,554	-
Due to other governments	1,301,613	273,891	1,575,504	-
Unearned revenues	371,589	63,585	435,174	14,038
Long-term liabilities:				
Due within one year	1,303,646	2,240,571	3,544,217	21,386
Due in more than one year	24,690,914	27,705,736	52,396,650	412,278
Total Liabilities	31,037,277	31,136,401	62,173,678	649,081
DEFERRED INFLOWS OF RESOURCES				
Deferred inflow on refundings	1,711	10	1,721	-
Total Deferred Inflows of Resources	1,711	10	1,721	-
NET POSITION				
Net investment in capital assets	19,816,512	624,901	20,441,413	419,725
Restricted for:				
Unemployment compensation	-	3,815,039	3,815,039	-
Nonexpendable permanent endowments	2,257,583	-	2,257,583	-
Expendable endowment funds	1,231,600	-	1,231,600	-
Wildlife and natural resources	889,016	-	889,016	-
Transportation	874,465	-	874,465	-
Budget stabilization	414,601	-	414,601	-
Capital projects	188,198	-	188,198	-
Loan programs	115,474	-	115,474	-
Higher education	115,072	-	115,072	-
Other purposes	502,740	-	502,740	21,771
Unrestricted	399,128	(8,317,943)	(7,918,815)	374,361
Total Net Position	26,804,389	(3,878,003)	22,926,386	815,857
Total Liabilities, Deferred Inflows of Resources, and Net Position	$ 57,843,377	$ 27,258,408	$ 85,101,785	$ 1,464,938

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

Statement of Activities

For the Fiscal Year Ended June 30, 2014

(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	$ 1,607,005	$ 869,498	$ 276,803	$ 2,494
Education - elementary and secondary (K-12)	8,914,440	25,620	1,096,209	-
Education - higher education	6,909,640	2,741,436	2,270,307	23,171
Human services	15,052,413	612,377	9,286,850	-
Adult corrections	911,055	8,325	2,002	-
Natural resources and recreation	1,136,795	510,286	196,830	44,073
Transportation	2,399,479	1,082,272	111,074	995,777
Interest on long-term debt	938,262	-	-	-
Total Governmental Activities	37,869,089	5,849,814	13,240,075	1,065,515
Business-Type Activities:				
Workers' compensation	3,142,195	2,237,212	8,403	-
Unemployment compensation	1,380,035	1,348,923	303,675	-
Higher education student services	2,079,556	1,987,473	13,376	-
Washington's lottery	463,202	594,511	-	-
Guaranteed education tuition program	185,002	138,095	-	-
Other	132,839	109,700	570	-
Total Business-Type Activities	7,382,829	6,415,914	326,024	-
Total Primary Government	$ 45,251,918	$ 12,265,728	$ 13,566,099	$ 1,065,515
COMPONENT UNITS	$ 859,215	$ 802,474	$ 95,322	$ -
Total Component Units	$ 859,215	$ 802,474	$ 95,322	$ -

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
$ (458,210)	$ -	$ (458,210)	
(7,792,611)	-	(7,792,611)	
(1,874,726)	-	(1,874,726)	
(5,153,186)	-	(5,153,186)	
(900,728)	-	(900,728)	
(385,606)	-	(385,606)	
(210,356)	-	(210,356)	
(938,262)	-	(938,262)	
(17,713,685)	-	(17,713,685)	
-	(896,580)	(896,580)	
-	272,563	272,563	
-	(78,707)	(78,707)	
-	131,309	131,309	
-	(46,907)	(46,907)	
-	(22,569)	(22,569)	
-	(640,891)	(640,891)	
(17,713,685)	(640,891)	(18,354,576)	
			$ 38,581
			38,581
8,364,679	-	8,364,679	-
3,267,401	-	3,267,401	-
1,974,354	-	1,974,354	16,342
1,215,398	-	1,215,398	-
716,609	22,434	739,043	-
443,185	-	443,185	-
463,807	-	463,807	-
467,351	-	467,351	-
936,812	-	936,812	729
620,777	1,617,829	2,238,606	(14,169)
18,470,373	1,640,263	20,110,636	2,902
756,688	999,372	1,756,060	41,483
66,356	-	66,356	-
93,799	(93,799)	-	-
916,843	905,573	1,822,416	41,483
25,887,546	(4,783,576)	21,103,970	815,857
$ 26,804,389	$ (3,878,003)	$ 22,926,386	$ 857,340

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Basic Financial Statements

Fund Financial Statements

Balance Sheet
GOVERNMENTAL FUNDS
June 30, 2014

(expressed in thousands)

	General	Higher Education Special Revenue	Higher Education Endowment	Nonmajor Governmental Funds	Total
ASSETS					
Cash and pooled investments	$ 944,101	$ -	$ 547,676	$ 3,470,082	$ 4,961,859
Investments	23,405	1,250,093	3,421,965	258,600	4,954,063
Taxes receivable (net of allowance)	3,154,782	18,908	-	126,076	3,299,766
Other receivables (net of allowance)	195,276	975,691	34,565	897,085	2,102,617
Due from other funds	223,442	915,864	6	410,179	1,549,491
Due from other governments	1,071,409	159,715	-	2,438,999	3,670,123
Inventories and prepaids	14,570	25,291	-	51,996	91,857
Restricted assets:					
Cash and investments	43,924	166	-	510,349	554,439
Receivables	997	19,728	-	6,453	27,178
Total Assets	$ 5,671,906	$ 3,365,456	$ 4,004,212	$ 8,169,819	$ 21,211,393
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES					
LIABILITIES					
Accounts payable	$ 855,672	$ 81,515	$ 33,112	$ 371,490	$ 1,341,789
Contracts and retainages payable	34,604	2,370	3,194	115,415	155,583
Accrued liabilities	208,449	365,249	558,062	83,729	1,215,489
Obligations under security lending agreements	64,757	3,018	422	66,383	134,580
Due to other funds	272,894	56,571	2,561	696,168	1,028,194
Due to other governments	877,920	2,138	-	179,785	1,059,843
Unearned revenue	83,640	211,974	582	74,000	370,196
Claims and judgments payable	26,281	-	-	9,956	36,237
Total Liabilities	2,424,217	722,835	597,933	1,596,926	5,341,911
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue	1,421,548	14,326	20,636	1,001,833	2,458,343
Total Deferred Inflows of Resources	1,421,548	14,326	20,636	1,001,833	2,458,343
FUND BALANCES					
Nonspendable fund balance	50,475	66,662	2,123,084	248,311	2,488,532
Restricted fund balance	416,652	160	1,262,559	2,745,442	4,424,813
Committed fund balance	142,586	2,561,473	-	2,577,307	5,281,366
Assigned fund balance	879,952	-	-	-	879,952
Unassigned fund balance	336,476	-	-	-	336,476
Total Fund Balances	1,826,141	2,628,295	3,385,643	5,571,060	13,411,139
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	$ 5,671,906	$ 3,365,456	$ 4,004,212	$ 8,169,819	$ 21,211,393

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, 2014

(expressed in thousands)

Total Fund Balances for Governmental Funds		$ 13,411,139
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:		
Non-depreciable assets	$ 25,946,178	
Depreciable assets	18,006,913	
Less: Accumulated depreciation	(8,327,059)	
Total capital assets		35,626,032
Some of the state's revenues will be collected after year-end, but are not available soon enough to pay for the current period's expenditures, and therefore are considered deferred inflows in the funds.		2,458,343
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.		18,400
Unmatured interest on general obligation bonds is not recognized in the funds until due.		(402,312)
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.		268,649
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	$ (20,853,721)	
Accreted interest on bonds	(415,936)	
Compensated absences	(513,750)	
Other postemployment benefits obligations	(1,632,479)	
Unfunded pension obligations	(398,897)	
Claims and judgments	(39,009)	
Pollution remediation obligations	(164,839)	
Other obligations	(557,231)	
Total long-term liabilities		(24,575,862)
Net Position of Governmental Activities		$ 26,804,389

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, 2014

(expressed in thousands)

	General	Higher Education Special Revenue	Higher Education Endowment	Nonmajor Governmental Funds	Total
REVENUES					
Retail sales and use taxes	$ 8,275,469	$ -	$ -	$ 89,210	$ 8,364,679
Business and occupation taxes	3,261,883	-	-	5,518	3,267,401
Property taxes	1,974,354	-	-	-	1,974,354
Excise taxes	650,134	27,189	-	39,286	716,609
Motor vehicle and fuel taxes	-	-	-	1,215,398	1,215,398
Other taxes	1,846,045	174,221	-	305,623	2,325,889
Licenses, permits, and fees	107,564	910	-	1,518,323	1,626,797
Timber sales	2,032	-	18,125	144,844	165,001
Other contracts and grants	238,897	785,499	-	113,461	1,137,857
Federal grants-in-aid	10,225,586	1,478,073	-	1,464,074	13,167,733
Charges for services	33,969	2,462,588	3	639,006	3,135,566
Investment income (loss)	7,322	49,939	479,145	84,371	620,777
Miscellaneous revenue	166,044	129,188	2,789	501,067	799,088
Unclaimed property	65,653	-	-	-	65,653
Contributions and donations	-	-	66,356	-	66,356
Total Revenues	26,854,952	5,107,607	566,418	6,120,181	38,649,158
EXPENDITURES					
Current:					
General government	832,570	-	127	447,115	1,279,812
Human services	14,919,504	-	-	813,647	15,733,151
Natural resources and recreation	408,840	-	-	628,535	1,037,375
Transportation	41,810	-	-	1,774,743	1,816,553
Education	9,753,820	4,837,498	2,470	536,253	15,130,041
Intergovernmental	114,081	-	-	341,553	455,634
Capital outlays	50,986	175,721	15,944	2,050,463	2,293,114
Debt service:					
Principal	9,099	20,625	-	838,395	868,119
Interest	3,428	13,674	-	921,643	938,745
Total Expenditures	26,134,138	5,047,518	18,541	8,352,347	39,552,544
Excess of Revenues Over (Under) Expenditures	720,814	60,089	547,877	(2,232,166)	(903,386)
OTHER FINANCING SOURCES (USES)					
Bonds issued	168,458	408	-	1,699,761	1,868,627
Refunding bonds issued	-	-	-	558,580	558,580
Payments to escrow agents for refunded bond debt	-	-	-	(633,580)	(633,580)
Issuance premiums	931	173	-	243,057	244,161
Other debt issued	314	4,264	-	40,700	45,278
Transfers in	518,000	1,189,017	528,254	2,121,031	4,356,302
Transfers out	(964,973)	(1,113,372)	(668,309)	(1,527,232)	(4,273,886)
Total Other Financing Sources (Uses)	(277,270)	80,490	(140,055)	2,502,317	2,165,482
Net Change in Fund Balances	443,544	140,579	407,822	270,151	1,262,096
Fund Balances - Beginning, as restated	1,382,597	2,487,716	2,977,821	5,300,909	12,149,043
Fund Balances - Ending	$ 1,826,141	$ 2,628,295	$ 3,385,643	$ 5,571,060	$ 13,411,139

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, 2014
(expressed in thousands)

Net Change in Fund Balances - Total Governmental Funds		$ 1,262,096
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	$ 1,591,600	
Less: Depreciation expense	(650,426)	941,174
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.		43,120
Pension trust funding in excess of annual required contributions uses current financial resources, but does not qualify as an expense.		(1,600)
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.		(2,636)
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	$ (2,467,776)	
Principal payments on bonds and other financing contracts	1,476,117	
Accreted interest on bonds	22,851	(968,808)
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	$ 16,044	
Other postemployment benefits obligations	(242,795)	
Unfunded pension obligations	(58,456)	
Pollution remediation obligations	6,977	
Claims and judgments	1,240	
Accrued interest	(22,368)	
Unclaimed property	5,877	
Other obligations	(63,022)	(356,503)
Change in Net Position of Governmental Activities		$ 916,843

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

Statement of Net Position
PROPRIETARY FUNDS
June 30, 2014
(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	$ 81,771	$ 3,207,116	$ 1,314,971	$ 1,048
Investments	4,418	-	31,093	67,100
Other receivables (net of allowance)	782,306	640,252	207,360	61,913
Due from other funds	1,294	4,341	3,358	1
Due from other governments	1,012	65,292	69,640	-
Inventories	304	-	41,425	-
Prepaid expenses	234	-	14,428	-
Restricted assets:				
Cash and investments	720	-	6,080	-
Total Current Assets	872,059	3,917,001	1,688,355	130,062
Noncurrent Assets:				
Investments, noncurrent	14,502,544	-	251,316	2,650,837
Restricted investments, noncurrent	1,951	-	54,463	-
Restricted receivables, noncurrent	-	-	-	-
Other noncurrent assets	3,511	-	103,534	216,000
Capital assets:				
Land and other non-depreciable assets	3,240	-	60,587	-
Buildings	65,134	-	3,185,920	-
Other improvements	1,289	-	94,107	-
Furnishings, equipment, and intangibles	88,926	-	555,616	89
Infrastructure	-	-	42,331	-
Accumulated depreciation	(102,598)	-	(1,270,279)	(89)
Construction in progress	10,661	-	93,164	-
Total Noncurrent Assets	14,574,658	-	3,170,759	2,866,837
Total Assets	15,446,717	3,917,001	4,859,114	2,996,899
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflow on refundings	-	-	14,801	-
Total Deferred Outflows of Resources	-	-	14,801	-
Total Assets and Deferred Outflows of Resources	$ 15,446,717	$ 3,917,001	$ 4,873,915	$ 2,996,899

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

Continued

Nonmajor Enterprise Funds	Total	Governmental Activities Internal Service Funds
$ 103,259	$ 4,708,165	$ 956,565
28,390	131,001	15,792
24,222	1,716,053	37,895
7,918	16,912	82,747
4,719	140,663	8,025
7,372	49,101	19,597
218	14,880	6,513
-	6,800	19
176,098	6,783,575	1,127,153
143,429	17,548,126	20,770
-	56,414	-
-	-	12,324
1	323,046	81
1,540	65,367	6,212
12,828	3,263,882	506,161
2,563	97,959	15,866
30,397	675,028	856,345
-	42,331	1,948
(25,280)	(1,398,246)	(655,525)
-	103,825	18,196
165,478	20,777,732	782,378
341,576	27,561,307	1,909,531
-	14,801	-
-	14,801	-
$ 341,576	$ 27,576,108	$ 1,909,531

Statement of Net Position
PROPRIETARY FUNDS
June 30, 2014
(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	$ 3,482	$ -	$ 110,855	$ 278
Contracts and retainages payable	10,440	66	20,875	173,000
Accrued liabilities	310,970	7,995	298,963	1,042
Obligations under security lending agreements	4,418	-	-	67,100
Bonds and notes payable	3,820	-	88,548	-
Due to other funds	6,298	17,063	470,609	139
Due to other governments	23	76,838	7	-
Unearned revenue	6,720	-	56,252	-
Claims and judgments payable	1,907,912	-	-	-
Total Current Liabilities	2,254,083	101,962	1,046,109	241,559
Noncurrent Liabilities:				
Claims and judgments payable	22,529,622	-	-	-
Bonds and notes payable	4,050	-	2,195,061	-
Other long-term liabilities	43,370	-	185,594	2,594,350
Total Noncurrent Liabilities	22,577,042	-	2,380,655	2,594,350
Total Liabilities	24,831,125	101,962	3,426,764	2,835,909
DEFERRED INFLOWS OF RESOURCES				
Deferred inflow on refundings	-	-	10	-
Total Deferred Inflows of Resources	-	-	10	-
NET POSITION				
Net investment in capital assets	58,781	-	550,036	1
Restricted for:				
Unemployment compensation	-	3,815,039	-	-
Unrestricted	(9,443,189)	-	897,105	160,989
Total Net Position	(9,384,408)	3,815,039	1,447,141	160,990
Total Liabilities, Deferred Inflows of Resources, and Net Position	$ 15,446,717	$ 3,917,001	$ 4,873,915	$ 2,996,899

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

Concluded

Nonmajor Enterprise Funds	Total	Governmental Activities Internal Service Funds
$ 12,395	$ 127,010	$ 49,074
164	204,545	1,100
68,434	687,404	68,534
-	71,518	11,456
442	92,810	84,011
18,329	512,438	108,448
2,287	79,155	27,186
613	63,585	1,393
1,988	1,909,900	191,221
104,652	3,748,365	542,423
7,957	22,537,579	496,466
5,525	2,204,636	468,963
140,207	2,963,521	131,319
153,689	27,705,736	1,096,748
258,341	31,454,101	1,639,171
-	10	1,711
-	10	1,711
16,083	624,901	239,555
-	3,815,039	-
67,152	(8,317,943)	29,094
83,235	(3,878,003)	268,649
$ 341,576	$ 27,576,108	$ 1,909,531

Statement of Revenues, Expenses, and Changes in Net Position
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2014
(expressed in thousands)

	Business-Type Activities Enterprise Funds			
	Workers' Compensation	Unemployment Compensation	Higher Education Student Services	Guaranteed Education Tuition Program
OPERATING REVENUES				
Sales	$ -	$ -	$ 98,180	$ -
Less: Cost of goods sold	-	-	62,291	-
Gross profit	-	-	35,889	-
Charges for services	18	-	1,747,438	136,949
Premiums and assessments	2,200,410	1,330,732	-	-
Federal aid for unemployment insurance benefits	-	303,675	-	-
Lottery ticket proceeds	-	-	-	-
Miscellaneous revenue	36,939	18,191	145,047	1,145
Total Operating Revenues	2,237,367	1,652,598	1,928,374	138,094
OPERATING EXPENSES				
Salaries and wages	145,431	-	727,557	2,446
Employee benefits	58,367	-	184,001	559
Personal services	5,660	-	32,234	1,106
Goods and services	76,389	-	776,114	903
Travel	4,047	-	25,547	39
Premiums and claims	2,810,658	1,380,035	-	-
Lottery prize payments	-	-	-	-
Depreciation and amortization	7,228	-	154,094	1
Guaranteed education tuition program expense	-	-	-	179,948
Miscellaneous expenses	33,954	-	21,736	-
Total Operating Expenses	3,141,734	1,380,035	1,921,283	185,002
Operating Income (Loss)	(904,367)	272,563	7,091	(46,908)
NONOPERATING REVENUES (EXPENSES)				
Earnings (loss) on investments	1,136,910	72,735	36,076	369,004
Interest expense	(461)	-	(95,991)	-
Tax and license revenue	81	-	-	-
Other revenues (expenses)	8,248	-	10,193	1
Total Nonoperating Revenues (Expenses)	1,144,778	72,735	(49,722)	369,005
Income (Loss) Before Contributions and Transfers	240,411	345,298	(42,631)	322,097
Capital contributions	-	-	-	-
Transfers in	-	-	382,670	-
Transfers out	-	-	(326,295)	-
Net Contributions and Transfers	-	-	56,375	-
Change in Net Position	240,411	345,298	13,744	322,097
Net Position - Beginning, as restated	(9,624,819)	3,469,741	1,433,397	(161,107)
Net Position - Ending	$ (9,384,408)	$ 3,815,039	$ 1,447,141	$ 160,990

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

Nonmajor Enterprise Funds	Total	Governmental Activities Internal Service Funds
$ 76,588	$ 174,768	$ 82,232
53,352	115,643	75,988
23,236	59,125	6,244
29,686	1,914,091	604,880
148	3,531,290	1,346,511
-	303,675	-
594,523	594,523	-
3,295	204,617	155,435
650,888	6,607,321	2,113,070
48,227	923,661	279,844
18,515	261,442	100,263
15,381	54,381	21,199
85,305	938,711	323,001
1,779	31,412	4,014
-	4,190,693	1,297,710
371,532	371,532	-
1,022	162,345	86,300
-	179,948	-
665	56,355	873
542,426	7,170,480	2,113,204
108,462	(563,159)	(134)
3,104	1,617,829	4,810
(263)	(96,715)	(22,869)
22,353	22,434	21
541	18,983	2,932
25,735	1,562,531	(15,106)
134,197	999,372	(15,240)
-	-	1,221
12,151	394,821	44,402
(162,325)	(488,620)	(33,019)
(150,174)	(93,799)	12,604
(15,977)	905,573	(2,636)
99,212	(4,783,576)	271,285
$ 83,235	$ (3,878,003)	$ 268,649

Statement of Cash Flows
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2014
(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	$ 2,121,621	$ 1,337,582	$ 1,847,547	$ 151,948
Payments to suppliers	(2,067,752)	(1,375,677)	(791,236)	(133,086)
Payments to employees	(197,425)	-	(885,172)	(2,925)
Other receipts	36,788	331,775	145,045	1,145
Net Cash Provided (Used) by Operating Activities	(106,768)	293,680	316,184	17,082
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers in	-	-	382,670	-
Transfers out	-	-	(326,295)	-
Operating grants and donations received	8,588	-	13,057	-
Taxes and license fees collected	81	-	-	-
Net Cash Provided (Used) by Noncapital Financing Activities	8,669	-	69,432	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Interest paid	(527)	-	(88,001)	-
Principal payments on long-term capital financing	(3,605)	-	(82,660)	-
Proceeds from long-term capital financing	-	-	252,827	-
Proceeds from sale of capital assets	2	-	11,824	-
Acquisitions of capital assets	(4,723)	-	(258,133)	-
Net Cash Provided (Used) by Capital and Related Financing Activities	(8,853)	-	(164,143)	-
CASH FLOWS FROM INVESTING ACTIVITIES				
Receipt of interest	813,876	72,735	13,724	81,846
Proceeds from sale of investment securities	7,197,551	-	37,245	344,145
Purchases of investment securities	(7,887,123)	-	(148,797)	(443,129)
Net Cash Provided (Used) by Investing Activities	124,304	72,735	(97,828)	(17,138)
Net Increase (Decrease) in Cash and Pooled Investments	17,352	366,415	123,645	(56)
Cash and Pooled Investments, July 1, as restated	65,139	2,840,701	1,197,406	1,104
Cash and Pooled Investments, June 30	$ 82,491	$ 3,207,116	$ 1,321,051	$ 1,048
CASH FLOWS FROM OPERATING ACTIVITIES				
Operating Income (Loss)	$ (904,367)	$ 272,563	$ 7,091	$ (46,908)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operations:				
Depreciation	7,228	-	154,094	1
Revenue reduced for uncollectible accounts	33,104	-	1,180	-
Change in Assets: Decrease (Increase)				
Receivables	(78,961)	16,758	(14,503)	14,999
Inventories	(120)	-	16,054	-
Prepaid expenses	(232)	-	(1,823)	-
Change in Liabilities: Increase (Decrease)				
Payables	836,580	4,359	154,091	48,990
Net Cash or Cash Equivalents Provided by (Used in) Operating Activities	$ (106,768)	$ 293,680	$ 316,184	$ 17,082

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

Continued

Nonmajor Enterprise Funds	Total	Governmental Activities Internal Service Funds
$ 701,275	$ 6,159,973	$ 2,049,352
(552,651)	(4,920,402)	(1,783,650)
(64,499)	(1,150,021)	(374,809)
3,288	518,041	167,223
87,413	607,591	58,116
12,151	394,821	44,402
(162,325)	(488,620)	(33,019)
570	22,215	332
22,353	22,434	21
(127,251)	(49,150)	11,736
(263)	(88,791)	(22,368)
(433)	(86,698)	(40,629)
-	252,827	28,734
78	11,904	5,081
(1,831)	(264,687)	(86,981)
(2,449)	(175,445)	(116,163)
59	982,240	3,391
37,945	7,616,886	198,030
(3,689)	(8,482,738)	(16,560)
34,315	116,388	184,861
(7,972)	499,384	138,550
111,231	4,215,581	818,034
$ 103,259	$ 4,714,965	$ 956,584
$ 108,462	$ (563,159)	$ (134)
1,022	162,345	86,300
51	34,335	56
(34)	(61,741)	16,973
725	16,659	1,195
334	(1,721)	(1,686)
(23,147)	1,020,873	(44,588)
$ 87,413	$ 607,591	$ 58,116

Statement of Cash Flows
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2014
(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	$ -	$ -	$ -	$ -
Acquisition of capital assets through capital leases	-	-	1,705	-
Amortization of annuity prize liability	-	-	-	-
Increase (decrease) in fair value of investments	325,109	-	247	286,935
Debt refunding deposited with escrow agent	-	-	28,995	-
Amortization of debt premium/discount	-	-	5,060	-
Increase in ownership of joint venture	-	-	13,539	-

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

Concluded

		Governmental Activities
Nonmajor Enterprise Funds	Total	Internal Service Funds
$ -	$ -	$ 1,221
-	1,705	-
8,866	8,866	-
3,045	615,336	1,874
-	28,995	43,435
-	5,060	-
-	13,539	-

Statement of Net Position
FIDUCIARY FUNDS
June 30, 2014
(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	$ 1,289	$ 4,935,323	$ 53,667	$ 87,568
Investments	-	2,977,583	-	-
Receivables, pension and other employee benefit plans:				
Employers	-	-	162,909	-
Members (net of allowance)	-	-	2,325	-
Interest and dividends	-	-	238,960	-
Investment trades pending	-	-	1,371,150	-
Due from other pension and other employee benefit funds	-	-	7,076	-
Other receivables, all other funds	-	582	-	5,613
Due from other governments	-	-	-	17,201
Total Current Assets	1,289	7,913,488	1,836,087	110,382
Noncurrent Assets:				
Investments, noncurrent, pension and other employee benefit plans:				
Public equity	-	-	37,470,297	-
Fixed income	-	-	18,399,286	-
Private equity	-	-	18,336,590	-
Real estate	-	-	9,929,236	-
Security lending	-	-	1,091,768	-
Liquidity	-	-	1,817,174	-
Tangible assets	-	-	1,366,904	-
Investments, noncurrent, all other funds	1,438	918,527	-	194
Other noncurrent assets	-	-	-	55,976
Capital assets:				
Furnishings, equipment, and intangibles	37	-	-	-
Accumulated depreciation	(18)	-	-	-
Total Noncurrent Assets	1,457	918,527	88,411,255	56,170
Total Assets	2,746	8,832,015	90,247,342	$ 166,552
LIABILITIES				
Accounts payable	114	-	-	$ 4,618
Contracts and retainages payable	-	-	-	27,419
Accrued liabilities	246	152,727	1,858,919	57,887
Obligations under security lending agreements	-	-	1,094,149	4,134
Due to other funds	-	70	-	-
Due to other pension and other employee benefit funds	-	-	7,076	-
Due to other governments	-	18,211	-	16,519
Unearned revenue	-	-	310	-
Other long-term liabilities	-	-	-	55,975
Total Liabilities	360	171,008	2,960,454	$ 166,552
NET POSITION				
Net position held in trust for:				
Pension benefits	-	-	83,709,133	
Deferred compensation participants	-	-	3,577,755	
Local government pool participants	-	8,661,007	-	
Individuals, organizations, and other governments	2,386	-	-	
Total Net Position	$ 2,386	$ 8,661,007	$ 87,286,888	

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, 2014
(expressed in thousands)

	Private-Purpose Trust	Local Government Investment Pool	Pension and Other Employee Benefit Plans
ADDITIONS			
Contributions:			
Employers	$ -	$ -	$ 1,538,957
Members	-	-	1,102,446
State	-	-	61,933
Participants	-	12,482,112	190,538
Total Contributions	-	12,482,112	2,893,874
Investment Income:			
Net appreciation (depreciation) in fair value	-	-	12,158,388
Interest and dividends	-	10,017	1,813,003
Less: Investment expenses	-	-	(316,706)
Net Investment Income (Loss)	-	10,017	13,654,685
Other Additions:			
Unclaimed property	60,539	-	-
Transfers from other pension plans	-	-	4,762
Other contracts, grants and miscellaneous	-	-	314
Total Other Additions	60,539	-	5,076
Total Additions	60,539	12,492,129	16,553,635
DEDUCTIONS			
Pension benefits	-	-	3,463,580
Pension refunds	-	-	452,732
Transfers to other pension plans	-	-	4,762
Administrative expenses	3,604	975	3,251
Distributions to participants	-	12,564,303	212,298
Payments to or on behalf of individuals, organizations and other governments in accordance with state unclaimed property laws	59,115	-	-
Total Deductions	62,719	12,565,278	4,136,623
Net Increase (Decrease)	(2,180)	(73,149)	12,417,012
Net Position - Beginning	4,566	8,734,156	74,869,876
Net Position - Ending	$ 2,386	$ 8,661,007	$ 87,286,888

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

Statement of Net Position
COMPONENT UNITS
June 30, 2014
(expressed in thousands)

	Public Stadium	Health Benefit Exchange	Valley Medical Center	Northwest Hospital
ASSETS				
Current Assets:				
Cash and pooled investments	$ 7,674	$ 12,441	$ 62,729	$ 18,689
Investments	-	-	10,104	1,026
Investments, restricted	3,818	-	-	2,194
Other receivables (net of allowance)	812	21,730	66,729	36,685
Inventories	-	-	4,083	4,764
Prepaid expenses	23	294	5,716	2,867
Total Current Assets	12,327	34,465	149,361	66,225
Noncurrent Assets:				
Investments, noncurrent	-	-	78,085	45,806
Restricted investments, noncurrent	7,322	-	15,379	8,701
Other noncurrent assets	-	-	-	4,022
Capital assets:				
Land	34,677	-	13,299	10,817
Buildings	460,637	-	416,426	130,747
Other improvements	-	637	18,699	19,443
Furnishings, equipment and intangible assets	19,557	44,699	220,899	199,432
Accumulated depreciation	(203,140)	(8,106)	(309,157)	(245,605)
Construction in progress	-	-	11,290	4,406
Total Noncurrent Assets	319,053	37,230	464,920	177,769
Total Assets	$ 331,380	$ 71,695	$ 614,281	$ 243,994
LIABILITIES				
Current Liabilities:				
Accounts payable	$ 32	$ -	$ 11,840	$ 14,392
Contracts and retainages payable	2,778	4,638	-	9,040
Accrued liabilities	4,319	29,828	71,188	35,337
Unearned revenue	-	-	-	-
Total Current Liabilities	7,129	34,466	83,028	58,769
Noncurrent Liabilities:				
Other long-term liabilities	7,400	-	319,360	85,518
Total Noncurrent Liabilities	7,400	-	319,360	85,518
Total Liabilities	14,529	34,466	402,388	144,287
NET POSITION				
Net investment in capital assets	299,647	37,229	43,156	39,583
Restricted for deferred sales tax	10,402	-	-	-
Restricted for other purposes	-	-	7,814	2,472
Unrestricted	6,802	-	160,923	57,652
Total Net Position	316,851	37,229	211,893	99,707
Total Liabilities and Net Position	$ 331,380	$ 71,695	$ 614,281	$ 243,994

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

Nonmajor Component Units	Total
$ 23,925	$ 125,458
57,629	68,759
-	6,012
4,698	130,654
-	8,847
191	9,091
86,443	348,821
-	123,891
-	31,402
117,035	121,057
-	58,793
-	1,007,810
-	38,779
1,708	486,295
(1,598)	(767,606)
-	15,696
117,145	1,116,117
$ 203,588	$ 1,464,938
$ 39,312	$ 65,576
-	16,456
61	140,733
14,038	14,038
53,411	236,803
-	412,278
-	412,278
53,411	649,081
110	419,725
-	10,402
1,083	11,369
148,984	374,361
150,177	815,857
$ 203,588	$ 1,464,938

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

For the Fiscal Year Ended June 30, 2014

(expressed in thousands)

	Public Stadium	Health Benefit Exchange	Valley Medical Center	Northwest Hospital
EXPENSES	$ 16,450	$ 61,218	$ 466,014	$ 295,160
PROGRAM REVENUES				
Charges for Services	3,310	-	470,732	290,122
Operating grants and contributions	-	88,388	-	-
Total Program Revenues	3,310	88,388	470,732	290,122
Net Program Revenues (Expense)	(13,140)	27,170	4,718	(5,038)
GENERAL REVENUES				
Earnings (loss) on investments	364	-	(15,025)	(107)
Taxes	-	-	16,342	-
Other	-	-	-	724
Total General Revenues	364	-	1,317	617
Change in Net Position	(12,776)	27,170	6,035	(4,421)
Net Position - Beginning, as restated	329,627	10,059	205,858	104,128
Net Position - Ending	$ 316,851	$ 37,229	$ 211,893	$ 99,707

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

Nonmajor Component Units	Total
$ 20,373	$ 859,215
38,310	802,474
6,934	95,322
45,244	897,796
24,871	38,581
599	(14,169)
-	16,342
5	729
604	2,902
25,475	41,483
124,702	774,374
$ 150,177	$ 815,857

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Index

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2014

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) issues general revenue bonds that are payable from general revenues, including student tuition and fees, grant indirect cost recovery, sales and services revenue, and investment income. All other revenue bonds issued by colleges and universities pledge the income derived from acquired or constructed assets such as housing, dining, and parking facilities. These revenue bonds are payable solely from, and secured by, fees and revenues derived from the operation of constructed facilities; the legal liability for the bonds and the ownership of the college and university assets reside with the state.

Colleges and universities do not have separate corporate powers and sue and are sued as part of the state with legal representation provided through the state Attorney General's Office. Since the colleges and universities are legally part of the state, their financial operations, including their blended component units, are reported in the state's financial statements using the fund structure prescribed by GASB.

Retirement Systems. The state of Washington, through the Department of Retirement Systems, administers eight retirement systems for public employees of the state and political subdivisions: the Public Employees' Retirement System, the Teachers' Retirement System, the School Employees' Retirement System, the Law Enforcement Officers' and Fire Fighters' Retirement System, the Washington State Patrol Retirement System, the Public Safety Employees' Retirement System, the Judicial Retirement System, and the Judges' Retirement Fund. The director of the Department of Retirement Systems is appointed by the Governor.

There are three additional retirement systems administered outside of the Department of Retirement Systems. The Volunteer Fire Fighters' and Reserve Officers' Relief and Pension Fund is administered through the 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 Office of Financial Management, Accounting Division, P.O. Box 43113, Olympia, WA, 98504-3113. 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.

TSB Properties, 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 $311.7 million. The state issued general obligation bonds for a portion of the cost of the stadium construction. The total public share of the stadium and exhibition center cost did not exceed $300 million from all state and local government funding sources, as required in statute.

Project costs in excess of $300 million were the responsibility of the project's private partner, First & Goal, Inc. The bonds are being repaid through new state lottery games, a state sales tax credit, extension of the local hotel/motel tax, and parking and admissions taxes at the new facility.

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

Washington State Public Stadium Authority
CenturyLink Field & Event Center
800 Occidental Avenue South, #700
Seattle, WA 98134

The **Washington Health Benefit Exchange (Exchange)** was created by the Legislature to implement a central marketplace for individuals, families, and small employers to shop for health insurance and access federal tax credits pursuant to the Patient Protection and Affordable Care Act of 2010. Federal grant funding is financing the Exchange design, development, and implementation phases as well as the first full year of operation during 2014. Beginning in 2015, the Exchange must be self-sustaining through state funding appropriations, premium tax assessments, and administrative fees.

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

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

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 $13.6 million was recorded in fiscal year 2014, bringing the total equity investment to $102.7 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 52 rollup funds. The state presents separate financial statements for governmental funds, proprietary funds, and fiduciary funds. Major individual governmental funds and major individual proprietary funds are reported in separate columns in the fund financial statements, with nonmajor funds being combined into a single column regardless of fund type. Internal service and fiduciary funds are reported by fund type. Major funds include:

Major Governmental Funds:

- **General Fund** is the state's primary operating fund. This fund accounts for all financial resources and transactions not accounted for in other funds.

- **Higher Education Special Revenue Fund** primarily accounts for tuition, student fees, and grants and contracts received for 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, or phone number (360) 902-9000. TTY users dial 711 to be connected to the state TTY operator.

Certain pension trust fund investments, including real estate and private equity, are reported at fair value based on appraisals or estimates in the absence of readily ascertainable fair values. At June 30, 2014, these alternative investments are valued at $29.64 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 generally valued at cost using the first-in, first-out method. Donated consumable inventories are recorded at fair market value.

All merchandise inventories are considered reportable for financial statement purposes. Merchandise inventories are generally valued at cost using the first-in, first-out method.

Inventories of governmental funds are valued at cost and recorded using the consumption method. Proprietary funds expense inventories when used or sold.

For governmental fund financial reporting, inventory balances are also recorded as a reservation of fund balance indicating that they do not constitute "available spendable resources" except for $8.1 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 2014, $103.3 million interest costs were incurred, and $11.7 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 state only has one item that qualifies for reporting in this category. It is the deferred outflow of resources reported in the government-wide and proprietary fund statements of net position related to debt refunding. A deferred outflow on refunding results when the 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.

In addition to liabilities, the Balance Sheet and Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of fund equity that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The state is reporting two types of deferred inflows: unavailable revenue and debt refunding.

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.

A deferred inflow on refunding results 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.

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 2014. 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 $546.5 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 2014 reporting, the state adopted the following new standards issued by the Governmental Accounting Standards Board (GASB):

Statement No. 67 *Financial Reporting for Pension Plans, amending GASB 25*. GASB Statement No. 67 relates to pension plans that are administered through trusts or equivalent arrangements that meet certain criteria. This statement addresses accounting and financial reporting for the activities of pension plans.

The Department of Retirement Systems (DRS) is the administrator for all but one of the state administered pension plans that are subject to Statement No. 67. The DRS Statement No. 67 compliant stand-alone financial report may be obtained by contacting the Washington State Department of Retirement Systems, PO Box 48380, Olympia, WA 98504-8380 or online at: http://www.drs.wa.gov.

Implementation of Statement No. 67 reporting requirements for the Volunteer Fire Fighters' and Reserve Officers' Relief and Pension Fund is reflected in Note 11 Retirement Plans.

Statement No. 69 *Government Combinations and Disposals of Government Operations*. GASB Statement No. 69 addresses mergers, acquisitions, and transfers of operations. This statement did not have an impact on the financial statements.

Statement No. 70 *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. GASB Statement No. 70 requires recognition of a liability when certain factors indicate that it is more likely than not that the state will be required to make a payment on a nonexchange financial guarantee. The statement also specifies information to be disclosed by the state when it extends nonexchange financial guarantees. The state has extended a nonexchange financial guarantee on certain debt issued by state school districts. Statement No. 70 required disclosure is reflected in Note 13 Commitments and Contingencies.

Fund Reclassification. During fiscal year 2014, it was determined that one special revenue fund no longer had a dedicated revenue source so beginning fund balances were restated by a reduction of $7 thousand in Nonmajor Governmental Funds and an increase of $7 thousand in the Administrative Accounts in the General Fund.

Prior Period Adjustment. The University of Washington (UW) recorded a prior period adjustment to properly report balances related to their Internal Lending Program which is reported within the Higher Education Student Services Fund. The adjustment impacted the Higher Education Special Revenue Fund, a major governmental fund, with a decrease of $276.1 million, and the Higher Education Student Services, a major enterprise fund, with an increase of $74.2 million. The adjustment also increased pooled cash in an agency fund by $134.6 million.

The UW also posted a beginning balance adjustment to correct for prior errors in recording of the investment of the UW non-endowed monies. The adjustment increased fund balance in the Higher Education Special Revenue Fund, a major governmental fund, by $401.1 million. The adjustment decreased fund balance of the Higher Education Endowment Fund, also a major governmental fund.

The Department of Corrections recorded a prior period adjustment to record unearned revenue associated with donations. The adjustment decreased fund balance in Nonmajor Governmental Funds by $44 thousand.

The state is also reporting for the first time two discrete component units of the University of Washington: Northwest Hospital and Valley Medical Center.

Governmental Capital Assets and Long-term Obligations. The UW recorded a prior period $67.3 million adjustment to governmental long-term obligations to properly report their Internal Lending Program.

The Department of Transportation recorded a prior period adjustment of $244.4 million to governmental long-term obligations to record a land bank agreement with Sound Transit. Activities associated with the land bank agreement are exchange-like transactions where Sound Transit provides funding for highway improvements in exchange for future lease credits or conveyance of land of approximately equal value.

Fund equity at July 1, 2013, has been restated as follows (expressed in thousands):

	Fund equity (deficit) at June 30, 2013, as previously reported	Fund Reclassification	Prior Period Adjustment	Fund equity (deficit) as restated, July 1, 2013
Governmental Funds:				
General	$ 1,382,590	$ 7	$ -	$ 1,382,597
Higher Education Special Revenue	2,362,726	-	124,990	2,487,716
Higher Education Endowment	3,378,871	-	(401,050)	2,977,821
Nonmajor Governmental	5,300,960	(7)	(44)	5,300,909
Proprietary Funds:				
Enterprise Funds:				
Workers' Compensation	(9,624,819)	-	-	(9,624,819)
Unemployment Compensation	3,469,741	-	-	3,469,741
Higher Education Student Services	1,359,209	-	74,188	1,433,397
Guaranteed Education Tuition Program	(161,107)	-	-	(161,107)
Nonmajor Enterprise	99,212	-	-	99,212
Internal Service Funds	271,285	-	-	271,285
Fiduciary Funds:				
Private Purpose Trust	4,566	-	-	4,566
Local Government Investment Pool	8,734,156	-	-	8,734,156
Pension and Other Employee Benefit Plans	74,869,876	-	-	74,869,876
Component Units:				
Public Stadium	329,627	-	-	329,627
Health Benefit Exchange	10,059	-	-	10,059
Valley Medical Center	-	-	205,858	205,858
Northwest Hospital	-	-	104,128	104,128
Nonmajor Component Units	124,702	-	-	124,702

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, 2014, $1.17 billion of the state's deposits with financial institutions were insured or collateralized, with the remaining $11.3 million uninsured/uncollateralized.

B. INVESTMENTS – PENSION AND OTHER EMPLOYEE BENEFIT TRUST FUNDS (PENSION TRUST FUNDS)

1. Summary of Investment Policies

Under RCW 43.33A.030, trusteeship of the pension trust funds is vested within the voting members of the Washington State Investment Board (WSIB). The Legislature has established a standard of care for investment of these funds in RCW 43.33A.140. Additionally, the WSIB and its staff must comply with other state laws, such as the Ethics in Public Service Act, chapter 42.52 RCW, in making investment decisions and seeking to meet investment objectives.

The pension trust funds consist of retirement contributions from employer and employee participants in the Washington State Retirement System and related earnings on those contributions. The Retirement System is administered by the Department of Retirement Systems. The WSIB has exclusive control of the investment of all money invested in the pension trust funds.

In accordance with RCW 43.33A.110, the WSIB manages the pension fund portfolio to achieve maximum return at a prudent level of risk. The WSIB establishes asset allocation targets that must be considered at all times when making investment decisions. The asset mix may deviate from the target. Deviations greater than predetermined acceptable levels require rebalancing back to the target. When an asset class exceeds its range, the goal of rebalancing is to meet the target allocation within consideration of the other remaining asset classes.

Eligible Investments. The WSIB is authorized by statute as having investment management responsibility for pension funds. The WSIB is authorized to invest as provided by statute (chapter 43.33A RCW) and WSIB policy in the following: U.S. treasury bills; discount notes; repurchase agreements; reverse repurchase agreements; banker's acceptances; commercial paper; guaranteed investment contracts; U.S. government and agency (government sponsored corporations eligible for collateral purposes at the Federal Reserve) securities; non-U.S. dollar bonds; investment grade corporate bonds; non-investment grade corporate bonds; publicly traded mortgage-backed securities; privately placed mortgages; private placements of corporate debt; U.S. and foreign common stock; U.S. preferred stock; convertible securities; private equity including but not limited to investment corporations, partnerships, and limited liability companies for venture capital, leveraged buy-outs, real estate, and other tangible assets, or other forms of private equity; asset-backed securities; and derivative securities including futures, options, options on futures, forward contracts, and swap transactions. There were no violations of these investment restrictions during fiscal year 2014.

Commingled Trust Fund. Pension trust funds are invested in the Commingled Trust Fund (CTF). The CTF is a diversified pool of investments used as an investment vehicle for 14 separate retirement plans and one supplemental pension funding account. These plans hold shares in the CTF which represent a percentage ownership in the pool of investments. Plans are allowed to purchase or sell shares in the CTF, based on the fair value of the underlying assets, on the first business day of each month.

In addition to share ownership in the CTF, each retirement plan holds short-term investments that are used to manage each plan's cash needs.

The CTF consists of the Public Employees' Retirement System (PERS) Plans 1 and 2/3, Teachers' Retirement System (TRS) Plans 1 and 2/3, School Employees' Retirement System (SERS) Plans 2/3, Law Enforcement Officers' and Fire Fighters' Retirement Plans 1 and 2, Washington State Patrol Retirement System Plans 1 and 2, Public Safety Employees' Retirement System Plan 2, Volunteer Fire Fighters' and Reserve Officers' Relief and Pension Fund, and the Higher Education Retirement Supplemental Benefit 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, 2014, the pension trust funds had unfunded commitments of $10.40 billion, $8.43 billion, $1.12 billion, and $26.8 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, 2014, was approximately $3.64 billion. The pension trust funds report securities on loan in their respective categories in the Statement of Net Position. At June 30, 2014, cash collateral received totaling $1.09 billion is reported as securities lending obligation, and the fair value of the reinvested cash collateral totaling $1.09 billion is reported as security lending collateral in the Statement of Net Position. Securities received as collateral for which the pension trust funds do not have the ability to pledge or sell unless the borrower defaults are not reported as assets and liabilities in the Statement of Net Position. Total securities received as collateral at June 30, 2014, was $2.63 billion.

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, 2014 (in thousands):

Mortgage-backed	$2,407,871
Cash equivalents and other	557,900
Repurchase agreements	555,295
Yankee CD	201,197
Total collateral held	$3,722,263

During fiscal year 2014, securities lending transactions could be terminated on demand by either the pension trust funds or the borrower. As of June 30, 2014, the cash collateral held had an average duration of 22.5 days and an average weighted final maturity of 82.2 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 2014, 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 2014 resulting from a default by either the borrowers or the securities lending agents.

4. Interest Rate Risk

Interest rate risk is the risk that changes in interest rates over time will adversely affect the fair value of an investment. The risk is managed within the portfolios using effective duration, which is the measure of a debt investment's exposure to fair value changes arising from changes in interest rates. Increases in prevailing interest rates generally translate into decreases in fair values of those investments.

While the pension trust funds do not have a formal policy relating to interest rate risk, the pension trust funds' fixed income investments are actively managed to meet or exceed the return of the Barclays Capital Universal Index, with a duration target within plus or minus 20 percent of the duration of the portfolio's performance benchmark. As of June 30, 2014, 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, 2014. 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, 2014
(expressed in thousands)

Investment Type	Fair Value	Maturity: Less than 1 Year	1-5 Years	6-10 Years	More than 10 Years	Effective Duration
Mortgage and other asset-backed securities	$ 1,623,712	$ 422,134	$ 1,125,775	$ 75,799	$ 4	2.91
Corporate bonds	8,397,009	371,688	3,739,741	3,028,328	1,257,252	5.86
U.S. government and agency securities	7,103,700	900,427	5,528,755	475,115	199,403	3.30
Foreign government and agency securities	1,279,590	96,606	415,249	568,977	198,758	5.01
Total investments categorized	18,404,011	$ 1,790,855	$ 10,809,520	$ 4,148,219	$ 1,655,417	4.59
Investments not required to be categorized						
Cash and cash equivalents	1,816,341					
Equity securities	29,790,983					
Alternative investments	29,640,342					
Total investments not categorized	61,247,666					
Total Investments	$ 79,651,677					

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

Pension Trust Funds
Investment Credit Ratings
June 30, 2014
(expressed in thousands)

Moody's Credit Rating	Investment Type: Mortgage and Other Asset-Backed Securities	Corporate Bonds	U.S. Government and Agency Securities	Foreign Government and Agency Securities	Total Fair Value
Aaa	$ 1,611,718	$ 579,365	$ 7,103,700	$ 275,224	$ 9,570,007
Aa1	-	18,064	-	69,428	87,492
Aa2	-	199,171	-	84,007	283,178
Aa3	-	383,106	-	105,696	488,802
A1	1,285	438,470	-	-	439,755
A2	-	536,466	-	-	536,466
A3	-	717,510	-	94,950	812,460
Baa1	1,385	1,059,033	-	47,116	1,107,534
Baa2	9,324	1,495,374	-	167,446	1,672,144
Baa3	-	1,887,630	-	345,006	2,232,636
Ba1 or lower	-	1,082,820	-	90,717	1,173,537
Total	$ 1,623,712	$ 8,397,009	$ 7,103,700	$ 1,279,590	$ 18,404,011

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, 2014, 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, 2014.

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 pension fund investments to foreign currency risk. The schedule provides information on deposits and investments held in various foreign currencies. Private equity and real estate are presented according to the financial reporting currency of the individual funds. This is not a presentation of currency exposure relating to the underlying holdings. The schedule is stated in U.S. dollars.

Pension Trust Funds
Foreign Currency Exposure by Country
June 30, 2014
(expressed in thousands)

	Investment Type				
Foreign Currency Denomination	**Cash and Cash Equivalents**	**Debt Securities**	**Equity Securities**	**Alternative Assets**	**Total**
Australia-Dollar	$ 9,232	$ 405,961	$ 522,681	$ 28,826	$ 966,700
Brazil-Real	357	358,166	105,818	-	464,341
Canada-Dollar	13,324	-	900,026	-	913,350
Chile-Peso	-	124,855	4,030	-	128,885
China-Yuan	278	168,980	-	-	169,258
Columbia-Peso	-	141,446	-	-	141,446
Denmark-Krone	64	-	152,082	-	152,146
E.M.U.-Euro	34,862	-	3,336,481	2,633,627	6,004,970
Hong Kong-Dollar	3,664	-	483,688	-	487,352
Hungary-Forint	113	-	7,295	-	7,408
India-Rupee	613	88,901	156,074	-	245,588
Indonesia-Rupiah	179	56,966	63,128	-	120,273
Israel-Shekel	1,479	-	39,670	-	41,149
Japan-Yen	16,239	-	1,938,908	-	1,955,147
Malaysia-Ringgit	187	66,274	37,493	-	103,954
Mexico-Peso	38	129,025	52,258	-	181,321
New Taiwan-Dollar	1,835	-	146,808	-	148,643
New Zealand-Dollar	992	-	14,411	-	15,403
Nigeria-Naira	-	47,740	-	-	47,740
Norway-Krone	3,520	-	86,444	-	89,964
Philippines-Peso	4	38,843	19,228	-	58,075
Poland-Zloty	-	-	9,961	-	9,961
Singapore-Dollar	566	-	169,637	-	170,203
South Africa-Rand	(21)	-	90,188	-	90,167
South Korea-Won	227	-	115,453	-	115,680
Sweden-Krona	2,865	-	346,171	-	349,036
Switzerland-Franc	216	-	1,019,159	-	1,019,375
Thailand-Baht	133	47,116	48,119	-	95,368
Turkey-Lira	163	68,863	65,084	-	134,110
United Kingdom-Pound	10,515	-	2,463,312	-	2,473,827
Uruguay-Peso	-	53,138	-	-	53,138
Total	$ 101,644	$ 1,796,274	$ 12,393,607	$ 2,662,453	$ 16,953,978

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, 2014, 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, 2014, 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 one of the counterparties. The maximum potential loss is the aggregate face value in U.S. dollars at the time the contract was opened; however, the likelihood of such loss is remote.

At June 30, 2014, the pension trust funds had outstanding forward currency contracts with a net unrealized gain of $14.8 million. The aggregate forward currency exchange contracts receivable and payable were $1.05 billion and $1.04 billion, respectively. The contracts have varying maturity dates ranging from July 31, 2014, to September 17, 2014.

At June 30, 2014, the pension trust funds' fixed income portfolio held derivative securities consisting of collateralized mortgage obligations with a fair value of $163.3 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, 2014, had a credit rating of no less than Baa1 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, 2014
(expressed in thousands)

	Changes in Fair Value - Included in Investment Income (Loss) Amount	Fair Value - Investment Derivative Amount	Notional
Futures Contracts:			
Bond index futures	$ 20,161	$ 3,391	$ 769,300
Equity index futures	18,310	(195)	541
Total	$ 38,471	$ 3,196	$ 769,841
Forward Currency Contracts:			
Australia-Dollar	$ (1,965)	$ (564)	$ 29,266
Canada-Dollar	5,102	7,107	247,924
Denmark-Krone	3,822	(50)	10,381
E.M.U.-Euro	(12,830)	(1,104)	190,459
Hong Kong-Dollar	(139)	3	17,526
Israel-Shekel	(230)	(52)	5,182
Japan-Yen	4,713	(1,045)	133,181
New Zealand-Dollar	19,092	4,537	152,364
Norway-Krone	(47)	341	16,290
Singapore-Dollar	757	(1)	68
Sweden-Krona	132	(3)	70,159
Switzerland-Franc	790	(255)	29,397
United Kingdom-Pound	11,695	2,292	133,849
Miscellaneous	37	-	-
Total	$ 30,929	$ 11,206	$ 1,036,046

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, 2014, was approximately $69.4 million. The Workers' Compensation Fund reports securities on loan in the Statement of Net Position in their respective categories. At June 30, 2014, cash collateral received totaling $4.1 million is reported as a securities lending obligation, and the fair value of the reinvested cash collateral totaling $4.1 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, 2014, was $66.9 million.

During fiscal year 2014, 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, 2014 (in thousands):

Mortgage-backed	$66,867
Repurchase agreements	2,093
Cash equivalents and other	1,264
Yankee CD	758
Total collateral held	$70,982

During fiscal year 2014, securities lending transactions could be terminated on demand by either the Workers' Compensation Fund or the borrower. As of June 30, 2014, the cash collateral held had an average duration of 22.5 days and an average weighted final maturity of 82.2 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 2014, 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 2014 resulting from a default by either the borrowers or the securities lending agents.

3. Interest Rate Risk

Interest rate risk is the risk that changes in interest rates over time will adversely affect the fair value of an investment. While the Workers' Compensation Fund does not have a formal policy relating to interest rate risk, the risk is managed within the Workers' Compensation Fund portfolio using effective duration which is the measure of a debt investment's exposure to fair value changes arising from changes in interest rates. Increases in prevailing interest rates generally translate into decreases in fair values of those investments. As of June 30, 2014, 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, 2014. 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, 2014
(expressed in thousands)

		Maturity				
Investment Type	**Fair Value**	**Less than 1 Year**	**1-5 Years**	**6-10 Years**	**More than 10 Years**	**Effective Duration**
Mortgage and other asset-backed securities	$ 2,066,899	$ 76,875	$ 1,667,484	$ 264,417	$ 58,123	3.63
Corporate bonds	8,660,211	275,063	3,494,935	1,668,569	3,221,644	7.59
U.S. government and agency securities	1,075,340	70,022	974,154	31,164	-	3.46
Foreign government and agencies	507,173	48,136	213,168	190,870	54,999	5.40
Total investments categorized	12,309,623	$ 470,096	$ 6,349,741	$ 2,155,020	$ 3,334,766	6.48
Investments not required to be categorized						
Commingled investment trusts	1,886,836					
Cash and cash equivalents	306,092					
Total investments not categorized	2,192,928					
Total Investments	$ 14,502,551					

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

Workers' Compensation Fund
Investment Credit Ratings
June 30, 2014
(expressed in thousands)

	Investment Type				
Moody's Equivalent Credit Rating	**Mortgage and Other Asset-Backed Securities**	**Corporate Bonds**	**U.S. Government and Agency Securities**	**Foreign Government and Agencies**	**Total Fair Value**
Aaa	$ 2,016,472	$ 381,324	$ 1,075,340	$ 212,325	$ 3,685,461
Aa2	-	52,623	-	95,857	148,480
Aa3	50,427	1,152,991	-	62,584	1,266,002
A1	-	791,003	-	38,805	829,808
A2	-	1,176,508	-	-	1,176,508
A3	-	1,293,549	-	-	1,293,549
Baa1	-	1,276,628	-	17,340	1,293,968
Baa2	-	1,502,409	-	10,865	1,513,274
Baa3	-	757,247	-	69,397	826,644
Ba1 or lower	-	275,929	-	-	275,929
Total	$ 2,066,899	$ 8,660,211	$ 1,075,340	$ 507,173	$ 12,309,623

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, 2014, 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, 2014.

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, 2014, the only securities held by the Workers' Compensation Fund with potential foreign currency exposure were $682.4 million invested in an international commingled equity index fund.

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, and thereby prohibiting the use of leverage or speculation. Credit risks arising from derivative transactions are mitigated by selecting and monitoring creditworthy counterparties and collateral issuers.

Domestic and foreign passive equity index fund managers may also utilize various derivative securities to manage exposure to risk and increase portfolio returns. Information on the extent of use and holdings of derivative securities by passive equity index fund managers is unavailable.

At June 30, 2014, the only derivative securities held directly by the Workers' Compensation Fund were collateralized mortgage obligations of $1.47 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, other than bank deposits, are valued at amortized cost. The bank deposits are valued at historical cost. Both valuation methods approximate fair value. Security transactions are reported on a trade date basis in accordance with generally accepted accounting principles.

Investment Objectives. The objectives of the LGIP investment policy, in priority order, are safety, liquidity, and return on investment.

Safety of principal is the primary objective. Investments shall be undertaken in a manner that seeks to ensure preservation of capital in the overall portfolio.

The investment portfolio will remain liquid to enable the state treasurer to meet all cash requirements that might reasonably be anticipated.

The LGIP will be structured with the objective of attaining a market rate of return throughout budgetary and economic cycles, commensurate with the investment risk parameters and the cash flow characteristics of the pool.

Eligible Investments. Eligible investments are only those securities and deposits authorized by statute (chapters 39.58, 39.59, and 43.84.080 RCW). Eligible investments include:

- Obligations of the U.S. government.
- Obligations of U.S. government agencies or of corporations wholly owned by the U.S. government.
- Obligations of government-sponsored corporations that are or may become eligible as collateral for advances to member banks as determined by the board of governors of the Federal Reserve.
- Banker's acceptances purchased on the secondary market rated with the highest short-term credit rating of any two Nationally Recognized Statistical Rating Organizations (NRSROs) at the time of purchase. If the banker's acceptance is rated by more than two NRSROs, it must have the highest rating from all of the organizations.
- Commercial paper provided that the OST adheres with policies and procedures of the Washington State Investment Board regarding commercial paper (RCW 43.84.080(7)).
- Certificates of deposit or demand deposits with financial institutions qualified by the Washington Public Deposit Protection Commission.
- Obligations of the state of Washington or its political subdivisions.

Investment Restrictions. To provide for safety and liquidity of funds, the LGIP policy places the following restrictions on the investment portfolio:

- Investments are restricted to fixed rate securities that mature in 397 days or less, except securities utilized in repurchase agreements and U.S. 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 fair value that approximates their amortized cost.
- The weighted average maturity of the portfolio will not exceed 60 days.
- The weighted average life of the portfolio will not exceed 120 days.
- The purchase of investments in securities other than those issued by the U.S. government or its agencies will be limited.
- Cash generated through securities lending or reverse repurchase agreement transactions will not increase the dollar amount of specified investment types beyond stated limits.

2. Securities Lending

State statutes permit the LGIP to lend its securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. The LGIP 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 fair value of the loaned securities, is priced daily and, if necessary, action is taken to maintain the collateralization level at 102 percent. Cash collateral received from the lending of non coupon-bearing securities shall not be valued at less than 102 percent of fair 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 2014, 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 2014, 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. The LGIP portfolio is invested in a manner generally consistent with the Securities and Exchange Commission's Rule 2a-7 of the Investment Company Act of 1940, as it currently stands, i.e., money market funds. To a great extent, the Rule 2a-7 investment guidelines and LGIP policy restrictions are directed towards limiting interest rate risk in order to maintain a stable net asset value. As of June 30, 2014, the LGIP had a weighted average maturity of 30 days and a weighted average life of 85 days.

The following schedule presents the LGIP investments and related maturities, and provides information about the associated interest rate risks as of June 30, 2014:

Local Government Investment Pool (LGIP)
June 30, 2014
(expressed in thousands)

Investment Type	Fair Value	Maturity: Less than 1 Year	Maturity: 1-5 Years
U.S. agency obligations	$ 8,286,216	$ 7,667,646	$ 618,570
U.S. government obligations	649,887	349,930	299,957
Repurchase agreements	1,200,000	1,200,000	-
Interest bearing bank accounts	958,200	958,200	-
Certificates of deposit and other	62,451	62,451	-
Total	$ 11,156,754	$ 10,238,227	$ 918,527

4. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The LGIP investment policy limits the types of securities available for investment to obligations of the U.S. government or its agencies, obligations of government-sponsored corporations, banker's acceptances, commercial paper, deposits with qualified public depositaries, and obligations of the state of Washington or its political subdivisions.

Banker's acceptances and commercial paper must be rated with the highest short-term credit rating of any two Nationally Recognized Statistical Rating Organizations at the time of purchase. The LGIP currently does not have any banker's acceptances, commercial paper, or municipal bonds in its portfolio.

Custodial Credit Risk. Custodial credit risk is the risk that, in the event 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 fair value of securities utilized in repurchase agreements must be at least 102 percent of the value of the repurchase agreement.

Concentration of Credit Risk. Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The LGIP mitigates concentration of credit risk by limiting the purchase of securities of any one issuer, with the exception of U.S. Treasury and U.S. Agency securities, to no more than 5 percent of the portfolio.

Repurchase agreements comprise 10.8 percent of the total portfolio as of June 30, 2014. 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, 2014, U.S. Treasury securities comprised 5.8 percent of the total portfolio. U.S. Agency securities comprised 74.3 percent of the total portfolio, including Federal Home Loan Bank (63.6 percent), Federal Home Loan Mortgage Corporation (0.9 percent), Federal Farm Credit Bank (8.9 percent), and Federal National Mortgage Association (0.9 percent).

5. Foreign Currency Risk - None.

6. Derivatives - None.

7. Repurchase and Reverse Repurchase Agreements

The fair value plus accrued income of mortgage-backed securities utilized in repurchase agreements with more than seven days remaining until maturity will be 105 percent of the value of the repurchase agreement. The fair value plus accrued income of 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, 2014, repurchase agreements totaled $1.20 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 fair value of the securities pledged as collateral by the LGIP underlying the reverse repurchase agreements normally exceeds the cash received, providing the dealers a margin against a decline in the fair value of the securities.

If the dealers default on their obligations to resell these securities to the LGIP or to provide equal value in securities or cash, the LGIP would suffer an economic loss equal to the difference between the fair value plus accrued interest of the underlying securities and the agreement obligation, including accrued interest. During fiscal year 2014, 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 71 percent of the total investments in Higher Education Special Revenue, Endowment, and Student Services Funds.

The Board of Regents of the University of Washington is responsible for the management of the University's investments. The board establishes investment policy, which is carried out by the Chief Investment Officer.

The University of Washington Investment Committee, comprised of board members and investment professionals, advises on matters relating to the management of the University's investment portfolios.

The majority of the University's investments are insured, registered, and held by the University's custodial bank as an agent for the University. Investments not held by the custodian include venture capital, private equity, opportunistic investments, marketable alternatives, mortgages, real assets, and miscellaneous investments.

The University combines most short-term cash balances in the Invested Funds Pool. At June 30, 2014, the Invested Funds Pool totaled $1.61 billion. The fund also owns units in the Consolidated Endowment Fund valued at $668.9 million on June 30, 2014.

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 2014. Endowment operating and gift accounts received 3 percent in fiscal year 2014 with the distributions directed to University Advancement. The difference between the actual earnings of the Invested Funds Pool and the calculated distributions is used to support activities benefiting all University departments.

The majority of the endowed funds are invested in a pooled fund called the Consolidated Endowment Fund (CEF). Individual endowments purchase units in the pool on the basis of a per unit valuation of the CEF at fair value on the last business day of the calendar quarter. Income is distributed based on the number of units held. Chapter 24.55 RCW and the Uniform Prudent Management of Institutional Funds Act allow for 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 $4.7 million at June 30, 2014.

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 $111.8 million at June 30, 2014. Income received from these trusts, which is included in investment income, was $2.3 million for the year ended June 30, 2014.

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 $58.7 million in 2014 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, 2014, was $397.9 million.

The following schedule presents the fair value of the University's investments by type at June 30, 2014:

University of Washington
June 30, 2014
(expressed in thousands)

Investment Type	Fair Value
Cash equivalents	$ 3,394
Fixed income	1,972,553
Equity	1,672,262
Non-marketable alternatives	349,778
Absolute return	509,476
Real assets	219,069
Miscellaneous	4,724
Total	$ 4,731,256

2. Funding Commitments

The University enters into contracts with investment managers to fund alternative investments. As of June 30, 2014, the University had outstanding commitments to fund alternative investments in the amount of $262.2 million.

3. Securities Lending

The University's investment policies permit it to lend its securities to broker dealers and other entities. As of June 30, 2014, 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 1.91 years at June 30, 2014.

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, 2014, along with credit quality and effective duration measures is summarized below. The schedule excludes $35.8 million of fixed income securities held outside the CEF and the Invested Funds Pool, which makes up 1.81 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, 2014
(expressed in thousands, duration in years)

Investments	U.S. Government	Investment Grade	Non-Investment Grade	Not Rated	Total	Duration (in years)
U.S. treasuries	$ 877,812	$ -	$ -	$ -	$ 877,812	1.94
U.S. government agency	597,761	-	-	-	597,761	1.91
Mortgage-backed	-	103,105	93,889	-	196,994	2.20
Asset-backed	-	178,075	8,495	1,281	187,851	0.94
Corporate and other	-	79,195	549	-	79,744	3.03
Total	$ 1,475,573	$ 360,375	$ 102,933	$ 1,281	$ 1,940,162	1.91

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, 2014, of $1.03 billion.

The following schedule details the market value of foreign denominated securities by currency type:

University of Washington
Consolidated Endowment Fund
Foreign Currency Risk
June 30, 2014
(expressed in thousands)

Foreign Currency	Amount
E.M.U.-Euro	$ 156,509
China-Renminbi	126,848
India-Rupee	100,451
Japan-Yen	65,017
Brazil-Real	56,611
Russia-Ruble	56,517
Britain-Pound	54,281
Hong Kong-Dollar	50,663
South Korea-Won	49,150
Canada-Dollar	41,888
Switzerland-Franc	39,900
Taiwan-Dollar	30,894
Philippines-Peso	18,974
Indonesia-Rupiah	14,732
Remaining currencies	166,883
Total	$1,029,318

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, 2014. 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, 2014
(expressed in thousands)

Category	Changes in Fair Value - Included in Investment Income (Loss) Amount	Fair Value - Investment Derivative Amount	Notional
Futures contracts	$ 766	$ 18,815	$ 18,049

8. Reverse Repurchase Agreements – None.

F. INVESTMENTS - OFFICE OF THE STATE TREASURER CASH MANAGEMENT ACCOUNT

1. Summary of Investment Policies

The Office of the State Treasurer (OST) operates the state's Cash Management Account for investing Treasury/Trust Funds in excess of daily requirements.

The overall objective of the OST investment policy is to construct, from eligible investments noted below, an investment portfolio that is optimal or efficient. An optimal or efficient portfolio is one that provides the greatest expected return for a given expected level of risk, or the lowest expected risk for a given expected return.

The emphasis on "expected" is to recognize that investment decisions are made under conditions of risk and uncertainty. Neither the actual risk nor return of any investment decision is known with certainty at the time the decision is made.

Eligible Investments. Eligible investments are only those securities and deposits authorized by statute (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 fair value of the loaned securities, is priced daily and, if necessary, action is taken to maintain the collateralization level at 102 percent.

The cash is invested by the lending agent in accordance with investment guidelines approved by the OST. The securities held as collateral and the securities underlying the cash collateral are held by the custodian. One option available to the lending agent is to invest cash collateral into an OST account in the LGIP. At June 30, 2014, cash collateral totaled $152.7 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, 2014, the fair value of securities on loan totaled $149.1 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 2014, 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, 2014:

Office of the State Treasurer (OST)
Cash Management Account
June 30, 2014
(expressed in thousands)

		Maturity	
Investment Type	**Fair Value**	**Less than 1 Year**	**1-5 Years**
U.S. agency obligations	$ 2,122,490	$ 421,760	$ 1,700,730
U.S. government obligations	956,999	55,794	901,205
Certificates of deposit	165,000	165,000	-
Investments with LGIP	2,024,072	2,024,072	-
Interest bearing bank accounts	180,929	180,929	-
Total	$ 5,449,490	$ 2,847,555	$ 2,601,935

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 2014, 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

The fair value plus accrued income of mortgage-backed securities utilized in repurchase agreements with more than seven days remaining until maturity will be 105 percent of the value of the repurchase agreement.

Treasury, agency, and money market securities will be priced at 102 percent of fair 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.

The 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. 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. There were no repurchase agreements as of June 30, 2014.

State law also permits the OST to enter into reverse repurchase agreements, which are, by contract, sales of securities with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest. The fair value of the securities pledged as collateral by the OST underlying the reverse repurchase agreements normally exceeds the cash received, providing the dealers a margin against a decline in the fair value of the securities.

If the dealers default on their obligations to resell these securities to the OST or to provide equal value in securities or cash, the OST would suffer an economic loss equal to the differences between the fair value plus accrued interest of the underlying securities and the agreement obligation, including accrued interest. The OST investment policy limits the amount of reverse repurchase agreements to 30 percent of the total portfolio. There were no reverse repurchase agreements during fiscal year 2014.

Note 4
Receivables, Unearned and Unavailable Revenues

A. GOVERNMENTAL FUNDS

Taxes Receivable
Taxes receivable at June 30, 2014, consisted of the following (expressed in thousands):

Taxes Receivable	General	Higher Education Special Revenue	Higher Education Endowment	Nonmajor Governmental Funds	Total
Property	$ 1,011,340	$ -	$ -	$ 216	$ 1,011,556
Sales	1,588,122	-	-	-	1,588,122
Business and occupation	574,684	-	-	-	574,684
Estate	1,004	18,602	-	-	19,606
Fuel	-	-	-	121,007	121,007
Liquor	-	-	-	5,004	5,004
Other	23,406	306	-	272	23,984
Subtotals	3,198,556	18,908	-	126,499	3,343,963
Less: Allowance for uncollectible receivables	43,774	-	-	423	44,197
Total Taxes Receivable	$ 3,154,782	$ 18,908	$ -	$ 126,076	$ 3,299,766

Other Receivables
Other receivables at June 30, 2014, consisted of the following (expressed in thousands):

Other Receivables	General	Higher Education Special Revenue	Higher Education Endowment	Nonmajor Governmental Funds	Total
Public assistance (1)	$ 772,908	$ -	$ -	$ -	$ 772,908
Accounts receivable	132,417	764,427	1,000	201,260	1,099,104
Interest	61	6,921	4,826	2,552	14,360
Investment trades pending	25,288	1,010	-	20,169	46,467
Loans (2)	6,269	134,155	-	454,974	595,398
Long-term contracts (3)	2,221	-	20,636	93,898	116,755
Miscellaneous	18,222	98,684	8,130	189,805	314,841
Subtotals	957,386	1,005,197	34,592	962,658	2,959,833
Less: Allowance for uncollectible receivables	762,110	29,506	27	65,573	857,216
Total Other Receivables	$ 195,276	$ 975,691	$ 34,565	$ 897,085	$ 2,102,617

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 $97.4 million in the Higher Education Special Revenue Fund for student loans and $443.8 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, 2014, consisted of the following (expressed in thousands):

Unearned Revenue	General	Higher Education Special Revenue	Higher Education Endowment	Nonmajor Governmental Funds	Total
Other taxes	$ 1,566	$ -	$ -	$ -	$ 1,566
Charges for services	49,504	201,251	582	26,620	277,957
Child support	19,745	-	-	-	19,745
Donable goods	-	-	-	8,086	8,086
Grants and donations	8,786	1,317	-	3,371	13,474
Prepaid tolls	-	-	-	13,057	13,057
Seizure of forfeited assets	-	-	-	3,453	3,453
Miscellaneous	4,039	9,406	-	19,413	32,858
Total Unearned Revenue	$ 83,640	$ 211,974	$ 582	$ 74,000	$ 370,196

Unavailable Revenue

Unavailable revenue at June 30, 2014, consisted of the following (expressed in thousands):

Unavailable Revenue	General	Higher Education Special Revenue	Higher Education Endowment	Nonmajor Governmental Funds	Total
Property taxes	$ 988,137	$ -	$ -	$ 112	$ 988,249
Other taxes	407,406	14,326	-	202	421,934
Timber sales	2,221	-	20,636	93,898	116,755
Charges for services	18,675	-	-	1,504	20,179
Loan programs	-	-	-	861,903	861,903
Miscellaneous	5,109	-	-	44,214	49,323
Total Unavailable Revenue	$ 1,421,548	$ 14,326	$ 20,636	$ 1,001,833	$ 2,458,343

B. PROPRIETARY FUNDS

Other Receivables

Other receivables at June 30, 2014, 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	$ 767,794	$ 826,479	$ 257,994	$ 55,004	$ 24,440	$ 1,931,711	$ 12,200
Financing reimbursement	-	-	-	-	-	-	19,025
Interest	106,896	-	9,140	6,327	-	122,363	11
Investment trades pending	41,221	-	-	582	-	41,803	4,919
Miscellaneous	10,269	-	13,192	-	6	23,467	2,224
Subtotals	926,180	826,479	280,326	61,913	24,446	2,119,344	38,379
Less: Allowance for uncollectible receivables	143,874	186,227	72,966	-	224	403,291	484
Total Other Receivables	$ 782,306	$ 640,252	$ 207,360	$ 61,913	$ 24,222	$ 1,716,053	$ 37,895

Unearned Revenue

Unearned revenue at June 30, 2014, 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	$ -	$ -	$ 52,976	$ -	$ -	$ 52,976	$ 1,311
Federal assistance	6,182	-	-	-	-	$ 6,182	-
Other taxes	154	-	-	-	-	154	-
Miscellaneous	384	-	3,276	-	613	4,273	82
Total Unearned Revenue	$ 6,720	$ -	$ 56,252	$ -	$ 613	$ 63,585	$ 1,393

C. FIDUCIARY FUNDS

Other Receivables

Other receivables at June 30, 2014, consisted of $6.2 million for interest and other miscellaneous amounts.

Unearned Revenue

Unearned revenue at June 30, 2014, consisted of $310 thousand 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, 2014, 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	$ -	$ 51,715	$ -	$ 153,703	$ 243
Higher Education Special Revenue	50,484	-	-	320,194	298
Higher Education Endowment	-	-	-	6	-
Nonmajor Governmental Funds	190,544	758	2,561	197,644	52
Workers' Compensation	1,289	-	-	5	-
Unemployment Compensation	1,378	1,951	-	846	81
Higher Education Student Services	796	1,050	-	1,216	220
Guaranteed Education Tuition Program	1	-	-	-	-
Nonmajor Enterprise Funds	6,283	60	-	638	18
Internal Service Funds	22,119	1,037	-	21,916	5,386
Fiduciary Funds	-	-	-	-	-
Totals	$ 272,894	$ 56,571	$ 2,561	$ 696,168	$ 6,298

Nearly all interfund balances are expected to be paid within one year from the date of the financial statements. These balances resulted from the time lag between the dates that (1) interfund goods and services were provided and when the payments occurred and (2) interfund transfers were accrued and when the liquidations occurred. Interfund balances include: (1) a $19.6 million loan from a nonmajor governmental fund to the General Fund which is expected to be paid over the next six years; and (2) a $7.2 million loan between nonmajor governmental funds which is expected to be paid over the next eight years.

In addition to the interfund balances noted in the schedule above, there are interfund balances of $7.1 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
$ 8	$ 4	$ 118	$ 17,245	$ 406	$ -	$ 223,442
1	470,428	1	282	74,108	68	915,864
-	-	-	-	-	-	6
17,047	7	3	65	1,498	-	410,179
-	-	-	-	-	-	1,294
-	37	-	17	31	-	4,341
-	-	-	-	76	-	3,358
-	-	-	-	-	-	1
7	22	7	402	479	2	7,918
-	111	10	318	31,850	-	82,747
-	-	-	-	-	-	-
$ 17,063	$ 470,609	$ 139	$ 18,329	$ 108,448	$ 70	$ 1,649,150

B. INTERFUND TRANSFERS

Interfund transfers as reported in the financial statements for the year ended June 30, 2014, 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	$ -	$ -	$ -	$ 950,452	$ -
Higher Education Special Revenue	59,588	-	527,133	133,490	-
Higher Education Endowment	-	633,936	-	34,370	-
Nonmajor Governmental Funds	323,617	212,587	1,121	988,092	-
Workers' Compensation	-	-	-	-	-
Unemployment Compensation	-	-	-	-	-
Higher Education Student Services	-	322,498	-	3,520	-
Guaranteed Education Tuition Program	-	-	-	-	-
Nonmajor Enterprise Funds	129,017	10,050	-	11,107	-
Internal Service Funds	5,778	9,946	-	-	-
Totals	$ 518,000	$ 1,189,017	$ 528,254	$ 2,121,031	$ -

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, 2014, $144.5 million was transferred from the General Fund Basic Account to the Budget Stabilization Account (BSA) in accordance with the provisions of the Constitution. The BSA is reported as an Administrative Account within the General Fund. The Constitution details a limited number of circumstances under which funds can be appropriated from the BSA, one of which is a favorable vote of at least three-fifths of the members of each house of the Legislature.

In addition to the transfers noted in the schedule above, there were transfers of $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
$ -	$ -	$ -	$ -	$ 14,521	$ 964,973
-	382,319	-	-	10,842	1,113,372
-	3	-	-	-	668,309
-	312	-	-	1,503	1,527,232
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	277	326,295
-	-	-	-	-	-
-	-	-	12,151	-	162,325
-	36	-	-	17,259	33,019
$ -	$ 382,670	$ -	$ 12,151	$ 44,402	$ 4,795,525

Note 6
Capital Assets

Capital assets at June 30, 2014, 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, 2014 (expressed in thousands):

Capital Assets	Balances July 1, 2013	Additions	Deletions/ Adjustments	Balances June 30, 2014
Capital assets, not being depreciated:				
Land	$ 2,387,561	$ 157,067	$ (65,075)	$ 2,479,553
Transportation infrastructure	21,679,896	777,435	-	22,457,331
Intangible assets - indefinite lives	2,766	227	-	2,993
Art collections, library reserves, and museum and historical collections	123,275	1,173	(1)	124,447
Construction in progress	933,732	349,747	(377,218)	906,261
Total capital assets, not being depreciated	25,127,230			25,970,585
Capital assets, being depreciated:				
Buildings	11,885,326	517,093	(71,261)	12,331,158
Accumulated depreciation	(4,275,463)	(375,418)	21,723	(4,629,158)
Net buildings	7,609,863			7,702,000
Other improvements	1,370,923	22,205	(4,314)	1,388,814
Accumulated depreciation	(631,946)	(52,302)	5,905	(678,343)
Net other improvements	738,977			710,471
Furnishings, equipment, and intangible assets	4,562,353	343,107	(200,286)	4,705,174
Accumulated depreciation	(3,082,698)	(279,501)	170,283	(3,191,916)
Net furnishings, equipment, and intangible assets	1,479,655			1,513,258
Infrastructure	932,470	34,155	(4,537)	962,088
Accumulated depreciation	(453,663)	(29,505)	-	(483,168)
Net infrastructure	478,807			478,920
Total capital assets, being depreciated, net	10,307,302			10,404,649
Governmental Activities Capital Assets, Net	$ 35,434,532			$ 36,375,234

B. BUSINESS-TYPE CAPITAL ASSETS

The following is a summary of business-type capital asset activity for the year ended June 30, 2014 (expressed in thousands):

Capital Assets	Balances July 1, 2013	Additions	Deletions/ Adjustments	Balances June 30, 2014
Capital assets, not being depreciated:				
Land	$ 60,566	$ 186	$ -	$ 60,752
Intangible assets - indefinite lives	4,580	-	-	4,580
Art collections	35	-	-	35
Construction in progress	441,827	50,870	(388,872)	103,825
Total capital assets, not being depreciated	507,008			169,192
Capital assets, being depreciated:				
Buildings	2,752,083	532,150	(20,351)	3,263,882
Accumulated depreciation	(764,472)	(101,183)	11,479	(854,176)
Net buildings	1,987,611			2,409,706
Other improvements	95,517	4,689	(2,247)	97,959
Accumulated depreciation	(35,465)	(5,229)	1,092	(39,602)
Net other improvements	60,052			58,357
Furnishings, equipment, and intangible assets	653,956	63,008	(41,936)	675,028
Accumulated depreciation	(471,547)	(54,684)	40,818	(485,413)
Net furnishings, equipment, and intangible assets	182,409			189,615
Infrastructure	41,944	387	-	42,331
Accumulated depreciation	(17,806)	(1,249)	-	(19,055)
Net infrastructure	24,138			23,276
Total capital assets, being depreciated, net	2,254,210			2,680,954
Business-Type Activities Capital Assets, Net	$ 2,761,218			$ 2,850,146

C. DEPRECIATION

Depreciation expense for the year ended June 30, 2014, was charged by the primary government as follows (expressed in thousands):

		Amount
Governmental Activities:		
General government	$	71,390
Education - elementary and secondary (K-12)		5,869
Education - higher education		388,207
Human services		79,445
Adult corrections		49,015
Natural resources and recreation		34,460
Transportation		108,340
Total Depreciation Expense - Governmental Activities *	$	736,726
Business-Type Activities:		
Workers' compensation	$	7,228
Unemployment compensation		-
Higher education student services		154,094
Guaranteed education tuition program		1
Other		1,022
Total Depreciation Expense - Business-Type Activities	$	162,345

* Includes $86.3 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, 2014, are as follows (expressed in thousands):

Agency / Project Commitments	Construction In Progress June 30, 2014	Remaining Project Commitments
Department of Commerce:		
Pacific Tower renovations	$ 539	$ 19,240
Consolidated Technology Services:		
State Data Center buildout	9,497	12,324
Department of Enterprise Services:		
Time, Leave, Attendance project	4,837	15,660
1063 Building project, Capitol Court roof and window upgrades, and other projects	489	69,100
Legislative building exterior repairs, hydronic loop repairs, and Transportation building preservation	19,946	16,815
Department of Labor and Industries:		
Occupational health, stay at work, and other small projects	10,661	13,011
Department of Social and Health Services:		
Residential housing unit renovations and other projects	34,889	14,436
Department of Veterans Affairs:		
Walla Walla Veterans Home	10,804	36,374
Department of Corrections:		
Correctional center units security and safety improvements, and other projects	1,788	37,078
Department of Transportation:		
State ferry vessels and terminals, and other projects	304,753	63,918
Transportation infrastructure	-	1,630,839
Department of Fish and Wildlife:		
Voights Creek hatchery, Issaquah hatchery intake, and other projects	29,664	57,036
University of Washington:		
Ethnic Cultural Center, UW Tacoma Y student center, ICA, and other projects	7,555	10,833
UW Medical Center expansion and renovation projects	36,548	18,065
Maple and Terry Hall renovations, Lander and Mercer Hall replacement, and Alder Hall phase one projects	25,916	86,672
Mountlake triangle, animal research and care facility, PLT-UW Tacoma station, and other projects	74,838	61,227
Burke Gilman trail, UW Tower garage, and other parking projects	2,251	1,362
Washington State University:		
Clean Technology Laboratory	32,903	112,144
Martin Stadium improvements and athletics press box projects	66,204	31,257
Chief Joseph Village renovation and North Side residence hall phase two projects	11,181	37,199
Pharmacy relocation and other projects	2,426	13
Eastern Washington University:		
Pence Union Building renovation, water system upgrade, and other projects	1,791	8,744
Central Washington University:		
New residence hall construction, and other projects	12,935	7,555
Science Hall phase two project	7,146	56,516
The Evergreen State College:		
Communication building and other projects	17,430	7,469
Western Washington University:		
Carver Hall renovation, housing and dining, and other projects	9,802	11,645
Community and Technical Colleges:		
ctcLink project	26,488	30,601
Green River Trades and Industry, and student center replacement projects	17,750	42,966
Lower Columbia Health and Science building, and gym renovation project	32,668	8,000
Seattle Community College District Employment Resource Center, Georgetown PSIEC, technology building, and wood construction replacement projects	52,774	3,711
South Puget Sound Building 22 renovation project	24,104	5,727
Tacoma Health Careers Center project	28,159	12,953
Other miscellaneous community college projects	81,900	171,988
Other Agency Projects	9,450	9,107
Total Construction in Progress	$ 1,010,086	$ 2,721,585

Note 7
Long-Term Liabilities

A. BONDS PAYABLE

Bonds payable at June 30, 2014, are reported by the state of Washington within governmental activities and business-type activities, as applicable.

The State Constitution and enabling statutes authorize the incurrence of state general obligation debt, to which the state's full faith, credit, and taxing power are pledged, either by the Legislature or by a body designated by statute (presently the State Finance Committee).

Legislative authorization arises from:

- An affirmative vote of 60 percent of the members of each house of the Legislature, without voter approval, in which case the amount of such debt is generally subject to the constitutional debt limitation described below;

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

- By the State Finance Committee without limitation as to amount, and without approval of the Legislature or approval of the voters.

The State Finance Committee debt authorization does not require voter approval; however, it is limited to providing for: (1) meeting temporary deficiencies of the state treasury if such debt is discharged within 12 months of the date of incurrence and is incurred only to provide for appropriations already made by the Legislature; or (2) refunding of outstanding obligations of the state.

Legal Debt Limitation

The State Constitution limits the amount of state debt that may be incurred by restricting the amount of general state revenues which may be allocated to pay principal and interest on debt subject to these limitations. More specifically, the constitutional debt limitation prohibits the issuance of new debt if it would cause the maximum annual debt service on all thereafter outstanding debt to exceed 9 percent of the arithmetic mean of general state revenues for the preceding three fiscal years. This limitation restricts the incurrence of new debt and not the amount of debt service that may be paid by the state in future years.

The State Constitution and current statutes require the State Treasurer to certify the debt service limitation for each fiscal year. In accordance with these provisions, the debt service limitation for fiscal year 2014 is $1.19 billion.

This computation excludes specific bond issues and types, which are not secured by general state revenues. Of the $18.96 billion general obligation bond debt outstanding at June 30, 2014, $11.21 billion is subject to the limitation.

Based on the debt limitation calculation, the debt service requirements as of June 30, 2014, 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_cdl2014.pdf or to Schedule 11 in the Statistical Section of this report.

Authorized But Unissued

The state had a total of $6.48 billion in general obligation bonds authorized but unissued as of June 30, 2014, 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 ranged from 0.2 to 7.0 percent. Interest rates on revenue bonds range from 1.64 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 2014. 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, 2014, are as follows (expressed in thousands):

	Governmental Activities		Business-Type Activities		Totals	
General Obligation Bonds	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**
By Fiscal Year:						
2015	$ 851,880	$ 902,748	$ 3,820	$ 325	$ 855,700	$ 903,073
2016	871,837	873,538	4,050	110	875,887	873,648
2017	899,179	859,082	-	-	899,179	859,082
2018	892,279	818,101	-	-	892,279	818,101
2019	892,864	781,423	-	-	892,864	781,423
2020-2024	4,444,356	3,212,508	-	-	4,444,356	3,212,508
2025-2029	4,341,268	2,160,703	-	-	4,341,268	2,160,703
2030-2034	3,582,016	1,021,914	-	-	3,582,016	1,021,914
2035-2039	1,764,200	305,022	-	-	1,764,200	305,022
2040-2044	414,438	29,193	-	-	414,438	29,193
Total Debt Service Requirements	$ 18,954,317	$ 10,964,232	$ 7,870	$ 435	$ 18,962,187	$ 10,964,667

Revenue Bonds

Revenue bonds are authorized under current state statutes, which provide for the issuance of bonds that are not supported, or not intended to be supported, by the full faith and credit of the state.

The University of Washington issues general revenue bonds that are payable from general revenues, including student tuition and fees, grant indirect cost recovery, sales and services revenue, and investment income. General revenue bonds outstanding as of June 30, 2014, include $162.5 million in governmental activities and $1.60 billion in business-type activities.

The remainder of the state's revenue bonds pledge income derived from acquired or constructed assets for retirement of the debt and payment of the related interest.

Total debt service requirements for revenue bonds to maturity as of June 30, 2014, are as follows (expressed in thousands):

	Governmental Activities		Business-Type Activities		Totals	
Revenue Bonds	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**
By Fiscal Year:						
2015	$ 44,590	$ 91,109	$ 82,108	$ 101,969	$ 126,698	$ 193,078
2016	102,200	87,585	55,742	99,539	157,942	187,124
2017	105,648	82,907	57,744	97,222	163,392	180,129
2018	103,865	77,734	58,011	94,850	161,876	172,584
2019	108,809	72,680	59,906	92,333	168,715	165,013
2020-2024	612,372	278,030	326,027	419,080	938,399	697,110
2025-2029	336,021	150,628	347,603	335,288	683,624	485,916
2030-2034	224,623	87,563	351,135	247,911	575,758	335,474
2035-2039	186,147	38,538	467,888	148,718	654,035	187,256
2040-2044	37,240	4,924	324,996	34,547	362,236	39,471
2045-2049	3,165	666	-	-	3,165	666
2050-2054	1,401	129	-	-	1,401	129
Total Debt Service Requirements	$ 1,866,081	$ 972,493	$ 2,131,160	$ 1,671,457	$ 3,997,241	$ 2,643,950

Governmental activities include revenue bonds outstanding at June 30, 2014, of $305.9 million issued by the Tobacco Settlement Authority (TSA), which is a blended component unit of the state. In November 2002, the TSA issued $517.9 million in bonds and transferred $450.0 million to the state to be used for increased health care, long-term care, and other programs.

These bonds do not constitute either a legal or moral obligation of the state, nor does the state pledge its full faith, credit, or taxing power for payment of these bonds. The bonds are obligations of the TSA and are secured solely by the TSA's right to receive 29.2 percent of the state's tobacco settlement revenues, restricted investments of the TSA, undistributed TSA bond proceeds, and the earnings thereon held under the indenture authorizing the bonds. Total principal and interest remaining on the bonds is $460.9 million, payable through 2033. For the current year, pledged revenue and debt service were $49.3 million and $49.7 million, respectively.

Governmental activities include grant anticipation revenue bonds outstanding at June 30, 2014, 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 $1.04 billion, payable through 2029. For the current year both pledged revenue and debt service were $30.8 million.

Governmental activities include the Transportation Infrastructure Finance and Innovation Act Bond (TIFIA Bond). In October 2012, the state issued a bond for the SR 520 Corridor Program which represents a draw-down loan from the Federal Highway Administration. As of June 30, 2014, the state had incurred $10.0 million in expenditures eligible under the program; however TIFIA Bond funds were not drawn until fiscal year 2015.

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 $18.2 million, payable through 2051.

Governmental activities include revenue bonds outstanding at June 30, 2014, of $257.8 million issued by Washington State University. The bonds were issued to fund various capital construction projects.

These bonds do not constitute either a legal or moral obligation of the state, nor does the state pledge its full faith, credit, or taxing power for payment of these bonds. Total principal and interest remaining on the bonds is $413.2 million, payable through 2038. For the current year, pledged revenue and debt service were $33.1 million and $15.7 million, respectively.

Governmental activities include revenue bonds outstanding at June 30, 2014, 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 $60.7 million, payable through 2028. For the current year, both pledged revenue and debt service were $3.9 million.

Governmental activities include revenue bonds outstanding at June 30, 2014, of $292.8 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 $539.1 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, 2014, of $7.3 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 $8.5 million, payable through 2022. For the current year, both pledged revenue and debt service were $1.5 million.

The state's colleges and universities issue bonds for the purpose of housing, dining, parking, and student facilities construction. These bonds are reported within business-type activities and are secured by a pledge of specific revenues. These bonds are not a general obligation of the state, nor does the state pledge its full faith, credit, or taxing power for payment of these bonds.

Total pledged specific revenues for the state's colleges and universities to repay the principal and interest of revenue bonds as of June 30, 2014, are as follows (expressed in thousands):

Source of Revenue Pledged	Housing and Dining Revenues (Net of Operating Expenses)	Student Facilities Fees and Earnings on Invested Fees	Parking Revenues (Net of Operating Expenses)	Bookstore Revenues
Current revenue pledged	$ 45,469	$ 37,987	$ 2,445	$ 214
Current year debt service	24,472	16,255	774	202
Total future revenues pledged *	552,022	363,034	7,762	4,044
Description of debt	Housing and dining bonds issued in 1998-2014	Student facilities bonds issued in 2002-2012	Parking system revenue bonds issued in 2005	Student union and recreation center bonds issued in 2004
Purpose of debt	Construction and renovation of student housing and dining projects	Construction, renovation and improvements to student activity facilities and sports stadium	Construction of parking garage and improvements	Construct new bookstore as part of new student union and recreation center building
Term of commitment	2026-2042	2030-2038	2024	2034
Percentage of debt service to pledged revenues (current year)	53.82%	42.79%	31.64%	94.28%

* Total future principal and interest payments.

B. CERTIFICATES OF PARTICIPATION

Certificates of participation at June 30, 2014, 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, 2014, are as follows (expressed in thousands):

	Governmental Activities		Business-Type Activities		Totals	
Certificates of Participation	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**
By Fiscal Year:						
2015	$ 109,515	$ 32,482	$ 4,493	$ 1,333	$ 114,008	$ 33,815
2016	61,096	18,867	4,092	1,264	65,188	20,131
2017	47,557	16,619	3,185	1,113	50,742	17,732
2018	43,438	14,831	2,909	993	46,347	15,824
2019	39,241	13,148	2,628	881	41,869	14,029
2020-2024	143,117	45,207	9,586	3,028	152,703	48,235
2025-2029	102,336	17,347	6,854	1,162	109,190	18,509
2030-2034	23,585	1,649	1,581	110	25,166	1,759
Total Debt Service Requirements	$ 569,885	$ 160,150	$ 35,328	$ 9,884	$ 605,213	$ 170,034

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 October 17, 2013, the Tobacco Settlement Authority (TSA) issued $334.7 million in TSA refunding bonds with an average interest rate of 5.0 percent to refund $369.9 million of TSA bonds with an average interest rate of 6.56 percent. The refunding resulted in an $89.3 million gross debt service savings over the next 20 years and an economic gain of $38.6 million.

On October 24, 2013, the state issued $106.0 million of motor vehicle fuel tax general obligation refunding bonds with an average interest rate of 4.82 percent to refund $117.0 million of motor vehicle fuel tax general obligation bonds with an average interest rate of 4.62 percent. The refunding resulted in a $15.8 million gross debt service savings over the next 8 years and a net present value savings of $14.5 million.

Also on October 24, 2013, the state issued $117.9 million of various purpose general obligation refunding bonds with an average interest rate of 4.82 percent to refund $130.5 million of various purpose general obligation bonds with an average interest rate of 4.74 percent. The refunding resulted in an $18.0 million gross debt service savings over the next 7 years and a net present value savings of $16.8 million.

On June 26, 2014, the Tumwater Office Properties (TOP), which is a blended component unit of the state, issued $43.4 million in lease revenue refunding bonds with an average interest rate of 4.52 percent to refund $50.2 million of lease revenue bonds with an average interest rate of 5.08 percent. The refunding resulted in a $9.8 million gross debt service savings over the next 14 years and an economic gain of $7.9 million.

Business-Type Activities.
On January 9, 2014, the University of Washington, through the Washington Economic Development Finance Authority, issued $29.0 million in business-type activity lease revenue refunding bonds with an average interest rate of 4.37 percent to refund $29.6 million of business-type activity lease revenue bonds with an average interest rate of 5.07 percent. The refunding resulted in a $3.5 million gross debt service savings over the next 21.5 years and an economic gain of $2.4 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, 2014, $2.26 billion of general obligation bonded debt outstanding is considered defeased.

Revenue Bond Debt

On June 30, 2014, $120.0 million of revenue bonded debt outstanding is considered defeased.

Certificates of Participation Debt

On June 30, 2014, $52.3 million of certificates of participation debt outstanding is considered defeased.

D. LEASES

Leases at June 30, 2014, 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, 2014, include the following (expressed in thousands):

	Governmental Activities	Business-Type Activities
Buildings	$ 1,705	$ 4,512
Equipment	17,727	15,864
Less: Accumulated depreciation	(9,200)	(10,807)
Totals	$ 10,232	$ 9,569

The following schedule presents future minimum payments for capital and operating leases as of June 30, 2014 (expressed in thousands):

	Capital Leases		Operating Leases	
Capital and Operating Leases	**Governmental Activities**	**Business-Type Activities**	**Governmental Activities**	**Business-Type Activities**
By Fiscal Year:				
2015	$ 2,939	$ 2,866	$ 133,621	$ 33,879
2016	1,555	2,837	105,859	27,243
2017	1,167	2,789	80,666	24,628
2018	607	2,002	67,340	11,121
2019	601	1,516	53,131	7,710
2020-2024	2,192	5,195	111,416	28,369
2025-2029	-	-	28,569	20,053
2030-2034	-	-	13,745	21,644
2035-2039	-	-	12,594	24,929
2040-2044	-	-	11,380	37,238
Total Future Minimum Payments	9,061	17,205	618,321	236,814
Less: Executory Costs and Interest Costs	(535)	(1,870)	-	-
Net Present Value of Future Minimum Lease Payments	$ 8,526	$ 15,335	$ 618,321	$ 236,814

The total operating lease rental expense for fiscal year 2014 for governmental activities was $294.5 million, of which $483 thousand was for contingent rentals. The total operating lease rental expense for fiscal year 2014 for business-type activities was $37.3 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, 2014, $35.32 billion of unpaid claims and claim adjustment expenses are presented at their net present and settlement value of $24.44 billion. These claims are discounted at assumed interest rates of 1.5 percent (non-pension and cost of living adjustments), 4.5 to 6.5 percent (pensions not yet granted), and 6.5 percent (granted pensions) to arrive at a settlement value.

The claims and claim adjustment liabilities of $24.44 billion as of June 30, 2014, include $11.52 billion for supplemental pension cost of living adjustments (COLAs) that by statute are not to be fully funded.

These COLA payments are funded on a pay-as-you-go basis, and the workers' compensation actuaries have indicated that future premium payments will be sufficient to pay these claims as they come due.

The remaining claims liabilities of $12.91 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 2013 and 2014 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
2013	$ 22,596,350	3,150,517	(2,119,307)	$ 23,627,560
2014	$ 23,627,560	2,953,508	(2,143,534)	$ 24,437,534

Risk Management

The Risk Management Fund administers tort and sundry claims filed against Washington state agencies, except the University of Washington and the Department of Transportation Ferries Division. The Fund reports a tort liability when it becomes probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an actuarially determined amount for tort claims that have been incurred but not reported. It also includes an actuarial estimate of loss adjustment expenses for tort defense.

Because actual liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, it should be recognized that future loss emergence will likely deviate, perhaps materially, from the actuarial estimates. Liabilities are re-evaluated annually to take into consideration recently settled claims, the frequency of claims, and other economic or social factors.

The state is a defendant in a significant number of lawsuits pertaining to general and automobile liability matters.

As of June 30, 2014, outstanding and actuarially determined claims against the state and its agencies, with the exception of the University of Washington, including actuarially projected defense costs were $550.0 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, 2014, the Risk Management Fund held $67.3 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 2013 and 2014 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
2013	$ 813,373	(187,481)	(65,548)	(17,635)	$ 542,709
2014	$ 542,709	74,760	(48,488)	(18,993)	$ 549,988

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, 2014, health insurance claims liabilities totaling $70.2 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 2013 and 2014 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
2013	$ 68,907	816,965	(825,999)	$ 59,873
2014	$ 59,873	856,230	(845,854)	$ 70,249

F. POLLUTION REMEDIATION

The state reports pollution remediation obligations in accordance with GASB Statement No. 49. The liability reported involves estimates of financial responsibility and amounts recoverable as well as remediation costs.

The liability could change over time as new information becomes available and as a result of changes in remediation costs, technology, and regulations governing remediation efforts. Additionally, the responsibilities and liabilities discussed in this disclosure are intended to refer to obligations solely in the accounting context. This disclosure does not constitute an admission of any legal responsibility or liability. Further, it does not establish or affect the rights or obligations of any person under the law, nor does this disclosure impose upon the state any new mandatory duties or obligations.

The state and its agencies are participating as potentially responsible parties in numerous pollution remediation projects under the provisions of the federal Comprehensive Environmental Response, Compensation, and Liability Act of 1980 (CERCLA, generally referred to as Superfund) and the state Model Toxics Control Act.

There are 28 projects in progress for which the state has recorded a liability of $49.6 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, 2014, the state has recorded a liability of $115.2 million for remaining project commitments.

Overall, the state has recorded a pollution remediation liability of $164.8 million, measured at its estimated amount, using the expected cash flow technique. The overall estimate is based on professional judgment, experience, and historical cost data. For some projects, the state can reasonably estimate the range of expected outlays early in the process because the site situation is common or similar to other sites with which the state has experience. In other cases, the estimates are limited to an amount specified in a settlement agreement, consent decree, or contract for remediation services.

The pollution remediation activity at some sites for which the state would otherwise have a reportable obligation is at a point where certain costs are not reasonably estimable. For example, a site assessment, remedial investigation, or feasibility study is in progress and the cleanup methodology has not yet been determined; consequently, associated future costs cannot be estimated.

The state's reported liability does not include remediation costs for future activities where costs are not yet reasonably estimable.

G. LONG-TERM LIABILITY ACTIVITY

Long-term liability activity at June 30, 2014, 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 2014 is as follows (expressed in thousands):

Governmental Activities:	Beginning Balance July 1, 2013 *	Additions	Reductions	Ending Balance June 30, 2014	Amounts Due Within One Year
Long-Term Debt:					
GO Bonds Payable:					
General obligation (GO) bonds	$ 17,603,895	$ 1,789,745	$ 996,265	$ 18,397,375	$ 813,595
GO - zero coupon bonds (principal)	595,809	-	38,867	556,942	38,285
Subtotal - GO bonds payable	18,199,704	1,789,745	1,035,132	18,954,317	851,880
Accreted interest - GO - zero coupon bonds	438,787	-	22,851	415,936	-
Revenue bonds payable	1,644,331	680,897	459,147	1,866,081	44,590
Plus: Unamortized issuance premiums	-	29,750	1,751	27,999	-
Less: Deferred issuance discounts	(5,844)	5,844	-	-	-
Total Bonds Payable	20,276,978	2,506,236	1,518,881	21,264,333	896,470
Other Liabilities:					
Certificates of participation	588,418	37,272	55,805	569,885	109,515
Claims and judgments	762,705	78,765	78,536	762,934	230,164
Installment contracts	2,317	-	132	2,185	-
Leases	10,154	4,490	6,118	8,526	2,730
Compensated absences	569,344	350,013	369,940	549,417	64,766
Unfunded pension obligations	340,441	58,456	-	398,897	-
Other postemployment benefits obligations	1,468,125	252,420	-	1,720,545	-
Pollution remediation obligations	171,816	21,901	28,878	164,839	-
Unclaimed property refunds	106,667	-	5,888	100,779	1
Other	387,827	83,113	18,720	452,220	-
Total Other Liabilities	4,407,814	886,430	564,017	4,730,227	407,176
Total Long-Term Debt	$ 24,684,792	$ 3,392,666	$ 2,082,898	$ 25,994,560	$ 1,303,646

* Beginning balances reflect the Department of Transportation prior period adjustment of $244.4 million to other governmental long-term obligations to record a land bank agreement with Sound Transit, along with the University of Washington prior period adjustment of $67.3 million to properly report their Internal Lending Program.

For governmental activities, certificates of participation are being repaid approximately 19 percent from the General Fund, 34 percent from the Higher Education Special Revenue Fund, and the balance from various governmental funds. The compensated absences liability will be liquidated approximately 43 percent by the General Fund, 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 72 percent by the Risk Management Fund (an internal service fund), 9 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 46 percent by the General Fund, 32 percent by the Higher Education Special Revenue Fund, and the balance by various other governmental funds. The pollution remediation liability will be liquidated approximately 78 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 2014 is as follows (expressed in thousands):

Business-Type Activities	Beginning Balance July 1, 2013 *	Additions	Reductions	Ending Balance June 30, 2014	Amounts Due Within One Year
Long-Term Debt:					
General obligation bonds payable	$ 11,475	$ -	$ 3,605	$ 7,870	$ 3,820
Revenue bonds payable	1,997,568	222,893	89,301	2,131,160	82,108
Plus: Unamortized issuance premiums	100,477	14,385	9,374	105,488	-
Less: Deferred issuance discounts	(269)	122	2	(149)	-
Total Bonds Payable	2,109,251	237,400	102,282	2,244,369	85,928
Other Liabilities:					
Certificates of participation	38,948	930	4,550	35,328	4,493
Plus: Deferred issuance premiums	2,693	-	279	2,414	-
Claims and judgments	23,638,770	945,702	136,993	24,447,479	1,909,900
Lottery prize annuities payable	176,030	41,689	67,879	149,840	27,437
Tuition benefits payable	2,716,000	337,890	286,890	2,767,000	173,000
Leases	15,488	1,705	1,858	15,335	2,389
Compensated absences	66,405	31,869	29,603	68,671	37,424
Other postemployment benefits obligations	145,650	28,372	-	174,022	-
Other	234	41,653	38	41,849	-
Total Other Liabilities	26,800,218	1,429,810	528,090	27,701,938	2,154,643
Total Long-Term Debt	$ 28,909,469	$ 1,667,210	$ 630,372	$ 29,946,307	$ 2,240,571

* Beginning balances reflect the University of Washington prior period adjustment of $67.3 million to properly report their Internal Lending Program.

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, 2014, balances for the "No Commitment" debt of the state's financing authorities (expressed in thousands):

Financing Authorities	Principal Balance
Washington State Housing Finance Commission	$ 3,411,461
Washington Higher Education Facilities Authority	766,485
Washington Health Care Facilities Authority	5,452,000
Washington Economic Development Finance Authority	702,442
Total No Commitment Debt	$ 10,332,388

Note 9
Governmental Fund Balances

A. GOVERNMENTAL FUND BALANCES

The state's governmental fund balances are reported according to the relative constraints that control how amounts can be spent. Net position restricted as a result of enabling legislation totaled $9.3 million. Classifications include nonspendable, restricted, committed, and assigned, which are further described in Note 1.D.9.

A summary of governmental fund balances at June 30, 2014, is as follows (expressed in thousands):

Fund Balances	General	Higher Education Special Revenue	Higher Education Endowment	Nonmajor Governmental Funds	Total
Nonspendable:					
Permanent funds	$ -	$ -	$ 2,053,827	$ 203,756	$ 2,257,583
Consumable inventories	14,561	11,348	-	43,682	69,591
Petty cash	580	2,696	-	758	4,034
Investments	-	52,618	69,257	115	121,990
Other receivables – long-term	35,334	-	-	-	35,334
Total Nonspendable Fund Balance	$ 50,475	$ 66,662	$ 2,123,084	$ 248,311	$ 2,488,532
Restricted for:					
Higher education	$ -	$ 160	$ 1,247,941	$ 112,249	$ 1,360,350
Education	-	-	14,288	24,752	39,040
Transportation	-	-	-	768,349	768,349
Other purposes	683	-	-	8,580	9,263
Human services	-	-	330	332,717	333,047
Wildlife and natural resources	712	-	-	892,513	893,225
Local grants and loans	-	-	-	266	266
School construction	656	-	-	51,877	52,533
State facilities	-	-	-	188,198	188,198
Budget stabilization	414,601	-	-	-	414,601
Debt service	-	-	-	68,776	68,776
Pollution remediation	-	-	-	115,289	115,289
Operations and maintenance	-	-	-	7,254	7,254
Repair and Replacement	-	-	-	3,750	3,750
Unspent GARVEE bond proceeds	-	-	-	168,674	168,674
Third tier debt service	-	-	-	2,198	2,198
Total Restricted Fund Balance	$ 416,652	$ 160	$ 1,262,559	$ 2,745,442	$ 4,424,813
Committed for:					
Higher education	$ 78,094	$ 2,561,421	$ -	$ 52,095	$ 2,691,610
Education	-	-	-	1,735	1,735
Transportation	-	-	-	238,429	238,429
Other purposes	11,010	-	-	191,103	202,113
Human services	5,352	-	-	303,846	309,198
Wildlife and natural resources	48,130	52	-	491,706	539,888
Local grants and loans	-	-	-	885,677	885,677
State facilities	-	-	-	8,929	8,929
Debt service	-	-	-	403,787	403,787
Total Committed Fund Balance	$ 142,586	$ 2,561,473	$ -	$ 2,577,307	$ 5,281,366
Assigned for:					
Working capital	$ 879,952	$ -	$ -	$ -	$ 879,952
Total Assigned Fund Balance	$ 879,952	$ -	$ -	$ -	$ 879,952

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, 2014, the Budget Stabilization Account had restricted fund balance of $414.6 million.

Note 10
Deficit Net Position

Risk Management Fund

The Risk Management Fund, an internal service fund, had a deficit net position of $486.2 million at June 30, 2014. The Risk Management Fund is used to administer the Self-Insurance Liability Program (SILP). The SILP was initiated in 1990 and is intended to provide funds for the payment of all tort claims and defense expenses. The program investigates, processes, and adjudicates tort and sundry claims filed against Washington state agencies, with the exception of the University of Washington and the Department of Transportation Ferries Division.

The Risk Management Fund is supported by premium assessments to state agencies. The state is restricted by law from accumulating funds in the SILP in excess of 50 percent of total outstanding and actuarially determined claims. As a consequence, when outstanding and incurred but not reported claims are actuarially determined and accrued, the result is a deficit net position.

The net position in the Risk Management Fund improved in the fiscal year ended June 30, 2014. The actuarial projection of the expected claims liability is based on actual experience for the past five years. The projected liability decreased due to the decrease in the number of claims filed and the relative stability in the severity of the claims.

The following schedule details the change in net position for the Risk Management Fund during the fiscal year ended June 30, 2014 (expressed in thousands):

Risk Management Fund	Net Position
Balance, July 1, 2013	$ (486,251)
Fiscal year 2014 activity	86
Balance, June 30, 2014	$ (486,165)

Note 11
Retirement Plans

A. GENERAL

The state Legislature establishes and amends laws pertaining to the creation and administration of all state public retirement systems.

Basis of Accounting

Pension plans administered by the state are accounted for using the accrual basis of accounting. Under the accrual basis of accounting, employee and employer contributions are recognized in the period in which employee services are performed; investment gains and losses are recognized as incurred; and benefits and refunds are recognized when due and payable in accordance with the terms of the applicable plan.

Investments

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

- Washington State Patrol Retirement System (WSPRS)
  - Plan 1 - defined benefit
  - Plan 2 - defined benefit

- Public Safety Employees' Retirement System (PSERS)
  - Plan 2 - defined benefit

- Judicial Retirement System (JRS)
  - Defined benefit plan

- Judges' Retirement Fund (Judges)
  - Defined benefit plan

Although some assets of the plans are commingled for investment purposes, each plan's assets may be used only for the payment of benefits to the members of that plan in accordance with the terms of the plan.

Administration of the PERS, TRS, SERS, LEOFF, WSPRS, and PSERS systems and plans was funded by an employer rate of 0.18 percent of employee salaries. Administration of the JRS and Judges plans is funded by means of legislative appropriations.

In January 2012, the DRS began collecting contributions from state institutions of higher education for deposit in the Higher Education Retirement Plan (HERP) Supplemental Benefit Fund. The contributions are to begin prefunding the unfunded future obligations related to the supplemental benefits of the HERP. The HERP Supplemental Benefit Fund was not created as a pension trust fund and is reported by the state as an administrative account in the General Fund.

Pursuant to RCW 41.50.770, the state offers its employees and employees of those political subdivisions that elect to participate, a deferred compensation program in accordance with Internal Revenue Code Section 457. The deferred compensation is not available to employees until termination, retirement, disability, death, or unforeseeable financial emergency. This deferred compensation plan is administered by the DRS.

The DRS prepares a stand-alone financial report that is compliant with the requirements of Statement 67 of the Governmental Accounting Standards Board. 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 are privately administered defined contribution plans with a supplemental defined benefit component.

Plan Disclosures

Participating members and employers, plan descriptions, benefits provided, contribution requirements, and legislative changes related to DRS administered plans follows in Note 11.B. Disclosures required by GASB Statement No. 67 for the plan administered by the State Board for Volunteer Fire Fighters and Reserve Officers follow in Note 11C. Contribution required and paid, funded status, and actuarial assumptions and methods for pension plans included in Notes 11.B and 11.C follow in Notes 11.D through 11.F. Annual pension cost and three year historical trend information for the state's single employer defined benefit plans are presented in Notes 11.G and 11.H, respectively. Information related to changes in actuarial assumptions and methods for Department of Retirement Systems and State Board for Volunteer Fire Fighters and Reserve Officer administered defined benefit plans is provided in Note 11.I. Disclosures related to the HERP Supplemental Defined Benefit Plan are presented in Note 11.J. Information related to defined contribution plans is presented in Note 11.K. Details on plan net position and changes in plan net position of pension plans and other employee benefit funds administered by the state are presented in Note 11.L.

B. PLANS ADMINISTERED BY THE DEPARTMENT OF RETIREMENT SYSTEMS

Membership of each plan administered by the Department of Retirement Systems (DRS) consisted of the following at June 30, 2013, the date of the latest actuarial valuation for all plans:

Number of Participating Members					
Plans	Retirees and Beneficiaries Receiving Benefits	Terminated Members Entitled To But Not Yet Receiving Benefits	Active Plan Members Vested	Active Plan Members Nonvested	Total Members
PERS 1	51,860	1,384	5,389	264	58,897
PERS 2	31,329	25,383	89,387	26,364	172,463
PERS 3	2,139	4,280	12,297	17,005	35,721
TRS 1	35,912	391	2,379	14	38,696
TRS 2	3,445	2,330	6,062	6,009	17,846
TRS 3	4,863	7,102	35,357	16,114	63,436
SERS 2	5,084	5,190	13,494	8,266	32,034
SERS 3	3,995	6,398	20,282	10,253	40,928
LEOFF 1	7,729	1	143	-	7,873
LEOFF 2	2,782	698	14,389	2,298	20,167
WSPRS 1	964	119	657	-	1,740
WSPRS 2	-	10	257	152	419
PSERS 2	43	119	2,784	1,729	4,675
JRS	114	-	-	-	114
Judges	12	-	-	-	12
JRA	1	151	5	-	157
Total	150,272	53,556	202,882	88,468	495,178

Following is a summary of the number of government employers participating in DRS administered retirement plans as of June 30, 2014:

Number of Participating Employers

Plans	State Agencies	School Districts	Counties/ Municipalities	Other Political Subdivisions	Total Employers
PERS 1	128	212	147	147	634
PERS 2	169	-	275	490	934
PERS 3	158	-	209	306	673
TRS 1	36	228	-	-	264
TRS 2	22	295	-	-	317
TRS 3	39	302	-	-	341
SERS 2	-	303	-	-	303
SERS 3	-	300	-	-	300
LEOFF 1	-	-	36	9	45
LEOFF 2	8	-	204	157	369
WSPRS 1	1	-	-	-	1
WSPRS 2	1	-	-	-	1
PSERS 2	9	-	65	1	75
JRS	1	-	-	-	1
Judges	1	-	-	-	1
JRA	5	-	-	-	5
Total	578	1,640	936	1,110	4,264

Employers can participate in multiple systems and/or plans. The actual total number of participating employers as of June 30, 2014, is 1,318, of which 171 are state agencies.

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. Approximately 49 percent of PERS salaries are accounted for by state employment.

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 K 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.

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.

PERS Plan 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity. The benefit amount is $350 a month or two-thirds of the monthly AFC, whichever is less. The benefit is payable as long as the member remains disabled or until the member attains the age of 60 at which time the benefit is converted to the member's service retirement amount.

A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the benefit amount is 2 percent of the AFC for each year of service. 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.

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.

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 Plan 2 and Plan 3 provide disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 monthly benefit amount is 2 percent of the AFC per year of service. For Plan 3, the monthly benefit amount is 1 percent of the AFC per year of service. There is no cap on years of service credit, and a COLA is granted based on the Consumer Price Index, capped at 3 percent annually.

PERS members meeting specific eligibility requirements have options available to enhance their retirement benefits. Some of these options are available to their survivors, with reduced benefits.

A one-time, duty-related death benefit is provided to the estate (or duly designated nominee) of a PERS member who dies as a result of injuries sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose out of the member's covered employment, if found eligible by the director of the Department of Labor and Industries.

From January 1, 2007, through December 31, 2007, judicial members of PERS were given the choice to elect participation in the Judicial Benefit Multiplier (JBM) Program enacted in 2006. Justices and judges in PERS Plan 1 and Plan 2 were able to make an irrevocable election to pay increased contributions that would fund a retirement benefit with a 3.5 percent multiplier, capped at 75 percent of AFC. Judges in PERS Plan 3 could elect a 1.6 percent of pay per year of service benefit, capped at 37.5 percent of AFC.

Newly elected or appointed justices and judges who chose to become PERS members on or after January 1, 2007, or who had not previously opted into PERS membership, were required to participate in the JBM Program.

Material changes, if any, in PERS benefit provisions for the fiscal year ended June 30, 2014, are listed at the end of this section.

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. Contribution requirements are established and amended by state statute.

Employee contributions to the PERS Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the director of DRS. During fiscal year 2014, the rate was 5.5 percent compounded quarterly. Members in PERS Plan 1 and Plan 2 can elect to withdraw total employee defined benefit contributions and interest thereon, in lieu of any retirement benefit, upon separation from PERS-covered employment.

As a result of the implementation of the Judicial Benefit Multiplier (JBM) Program in January 2007, a second tier of employer and employee rates was developed to fund, along with investment earnings, the increased retirement benefits of those justices and judges who participate in the program.

Required contribution rates for fiscal year 2014 are presented at the end of this section.

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 K 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.

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 1 members on temporary disability receive a monthly payment of $180 payable for up to two years, for the same occurrence. After five years of service, members on a disability retirement receive a benefit based on their salary and service to date of disability.

TRS Plan 2 retirement benefits are vested after completing five years of eligible service. Plan 2 members are eligible for normal retirement at the age of 65 with five years of service. The monthly benefit is 2 percent of the AFC per year of service. A COLA is granted based on the Consumer Price Index, capped at 3 percent annually. 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.

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 Plan 2 and Plan 3 provide disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 monthly benefit amount is 2 percent of the AFC per year of service. For Plan 3, the monthly benefit amount is 1 percent of the AFC per year of service. A COLA is granted based on the Consumer Price Index, capped at 3 percent annually.

TRS members meeting specific eligibility requirements, have options available to enhance their retirement benefits. Some of these options are available to their survivors, with reduced benefits.

A one-time, duty-related death benefit is provided to the estate (or duly designated nominee) of a TRS member who dies in the line of service, if found eligible by the director of the Department of Labor and Industries.

From January 1, 2007, through December 31, 2007, judicial members of TRS were given the choice to elect participation in the Judicial Benefit Multiplier (JBM) Program enacted in 2006. Justices and judges in TRS Plan 1 were able to make an irrevocable election to pay increased contributions that would fund a retirement benefit with a 3.5 percent multiplier. The benefit is capped at 75 percent of AFC.

Newly elected or appointed justices and judges who chose to become TRS members on or after January 1, 2007, were required to participate in the JBM Program.

Material changes, if any, in TRS benefit provisions for the fiscal year ended June 30, 2014, are listed at the end of this section.

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 the contribution requirements are established under state statute.

Employee contributions to the TRS Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the director of DRS. During fiscal year 2014, the rate was 5.5 percent compounded quarterly. Members in TRS Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest thereon upon separation from TRS-covered employment.

As a result of the implementation of the Judicial Benefit Multiplier (JBM) Program in January 2007, a second tier of employee rates was developed to fund the increased retirement benefits of those judges who participate in the program.

Required contribution rates for fiscal year 2014 are presented at the end of this section

School Employees' Retirement System

Plan Description. The Legislature established the School Employees' Retirement System (SERS) effective in 2000. SERS retirement benefit provisions are established in chapters 41.34 and 41.35 RCW and may be amended only by the Legislature. Membership in the system includes classified employees of school districts and educational service districts. SERS is comprised principally of non-state agency employees.

SERS is a cost-sharing multiple-employer retirement system comprised of two separate plans for membership purposes: Plan 2 is a defined benefit plan and Plan 3 is a defined benefit plan with a defined contribution component. 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.

As of September 1, 2000, the membership of classified school employees in PERS Plan 2 was transferred to SERS Plan 2. Those who joined on or after October 1, 1977, and by August 31, 2000, are SERS Plan 2 members unless they exercised an option to transfer their membership to Plan 3.

Until June 30, 2007, SERS members joining the system on or after September 1, 2000, became members of SERS Plan 3. Legislation passed in 2007 gives SERS members hired on or after July 1, 2007, 90 days to make an irrevocable choice to become a member of either SERS Plan 2 or Plan 3. At the end of the 90 days, any member who has not made a choice becomes a member of Plan 3.

Refer to section K of this note for a description of the defined contribution component of SERS Plan 3.

Benefits Provided. SERS plans provide retirement, disability, and death benefits to eligible members.

SERS Plan 2 members are vested after completing five years of eligible service. Plan 2 members are eligible for normal retirement at the age of 65 with five years of service. The monthly benefit is 2 percent of the average final compensation (AFC) per year of service. A cost of living allowance (COLA) is granted based on the Consumer Price Index, capped at 3 percent annually.

SERS Plan 2 members have the option to retire early with reduced benefits.

Effective June 7, 2006, SERS Plan 3 members are vested in the defined benefit portion of their plan after 10 years of service; or after five years of service, if 12 months of that service are earned after age 44; or after five service credit years earned in PERS Plan 2 by September 1, 2000. Plan 3 members are immediately vested in the defined contribution portion of their plan.

The defined benefit portion of SERS 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.

SERS Plan 3 members have the option to retire early with reduced benefits.

SERS Plan 2 and Plan 3 provide disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 monthly benefit amount is 2 percent of the AFC per year of service. For Plan 3, the monthly benefit amount is 1 percent of the AFC per year of service. A COLA is granted based on the Consumer Price Index, capped at 3 percent annually.

SERS members meeting specific eligibility requirements have options available to enhance their retirement benefits. Some of these options are available to their survivors, with reduced benefits.

A one-time, duty-related death benefit is provided to the estate (or duly designated nominee) of a SERS member who dies in the line of service, if found eligible by the director of the Department of Labor and Industries.

Material changes, if any, in SERS benefit provisions for the fiscal year ended June 30, 2014, are listed at the end of this section.

Contributions. SERS 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 and Plan 3 employer contribution rates. The methods used to determine the contribution requirements are established under state statute.

Employee contributions to the SERS Plan 2 defined benefit plan accrue interest at a rate specified by the director of DRS. During fiscal year 2014, the rate was 5.5 percent compounded quarterly. Members in SERS Plan 2 can elect to withdraw total employee contributions and interest thereon upon separation from SERS-covered employment.

Required contribution rates for fiscal year 2014 are presented at the end of this section.

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 1 disability benefit is 50 percent of the FAS plus 5 percent for each child up to a maximum of 60 percent. Upon recovery from disability before the age of 50, a member is restored to service with full credit for service while disabled. Upon recovery after the age of 50, the benefit continues at the greater of the member's disability benefit or service retirement benefit.

LEOFF Plan 1 death benefits for survivors of Plan 1 members on active duty consist of the following: (1) If eligible spouse, 50 percent of the FAS plus 5 percent of FAS for each eligible surviving child, with a limitation on the combined benefit of 60 percent of the FAS; or (2) If no eligible spouse, eligible children receive 30 percent of FAS for the first child plus 10 percent for each additional child, subject to a 60 percent limitation of FAS, divided equally.

A one-time, duty-related death benefit is provided to the estate (or duly designated nominee) of a LEOFF Plan 1 member who dies in the line of service, if found eligible by the director of the Department of Labor and Industries.

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. Members who retire prior to the age of 53 receive reduced benefits. A COLA is granted based on the Consumer Price Index, capped at 3 percent annually.

LEOFF Plan 2 provides disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 monthly benefit amount is 2 percent of the FAS for each year of service. Benefits are reduced to reflect the choice of a survivor option and for each year that the member's age is less than 53, unless the disability is duty-related.

Members of LEOFF Plan 2 who leave service because of a line of duty disability are eligible for additional benefits. A one-time, duty-related death benefit is provided to the estate (or duly designated nominee) of a LEOFF Plan 2 member who dies in the line of service, if found eligible by the director of the Department of Labor and Industries.

Benefits to eligible surviving spouses and dependent children of LEOFF Plan 2 members killed in the course of employment include the payment of eligible health care insurance premiums.

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.

Material changes, if any, in LEOFF benefit provisions for the fiscal year ended June 30, 2014, are listed at the end of this section.

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 the contribution requirements are established under state statute.

Employee contributions to the LEOFF Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the director of DRS. During fiscal year 2014, the rate was 5.5 percent compounded quarterly. Members in LEOFF Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest earnings upon separation from LEOFF-covered employment.

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.

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. For fiscal year 2014, the state contributed $55.6 million to LEOFF Plan 2.

Required contribution rates for fiscal year 2014 are presented at the end of this section.

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.

Benefits Provided. WSPRS provides 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. Members are eligible for retirement at the age of 55 with five years of service, or after 25 years of service, and must retire at age 65. This mandatory requirement does not apply to the Chief of the Washington State Patrol.

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 Plan 1 death benefits for survivors of Plan 1 members on active duty consist of the following: (1) If eligible spouse, 50 percent of the AFS, plus 5 percent of the AFS for each eligible surviving child, with a limitation on the combined benefit of 60 percent of the AFS; or (2) If no eligible spouse, 30 percent of AFS for the first child plus 10 percent for each additional child, subject to a 60 percent limitation of AFS, or (3) If no spouse or eligible children, beneficiary gets refund of contributions and interest.

At retirement, WSPRS Plan 2 members have the option of selecting an actuarially reduced benefit in order to provide for post-retirement survivor benefits.

WSPRS members meeting specific eligibility requirements have options available to enhance their retirement benefits. Some of these options are available to their survivors, generally with reduced benefits.

WSPRS provides no disability benefits. Disability benefits may be available from the Washington State Patrol. If disability benefits are received, the member may be eligible to acquire service credit for the period of disability.

A one-time, duty-related death benefit is provided to the estate (or duly designated nominee) of a WSPRS member who dies as a result of injuries or illness sustained in the course of employment, if found eligible by the director of the Department of Labor and Industries.

Benefits to eligible surviving spouses and dependent children of WSPRS members killed in the course of employment include the payment of ongoing eligible health care insurance premiums.

Compensation for members of WSPRS Plans 1 and 2 who become totally disabled in the line of duty includes any payments for premiums for employer-provided medical insurance.

Material changes, if any, in WSPRS benefit provisions for the fiscal year ended June 30, 2014, are listed at the end of this section.

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 the contribution requirements are established under state statute.

Employee contributions to WSPRS accrue interest at a rate specified by the director of DRS. During fiscal year 2014, the rate was 5.5 percent annually, compounded monthly. Members in WSPRS can elect to withdraw total employee contributions and interest earnings thereon upon separation from WSPRS-covered employment.

Required contribution rates for fiscal year 2014 are presented at the end of this section.

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 by 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. PSERS members who retire prior to the age of 60 receive reduced benefits.

PSERS Plan 2 provides disability benefits. There is no minimum amount of service credit required for eligibility. The monthly benefit amount is 2 percent of the AFC for each year of service. A COLA is granted based on the Consumer Price Index, capped at 3 percent annually.

PSERS members meeting specific eligibility requirements have options available to enhance their retirement benefits. Some of these options are available to their survivors, generally with reduced benefits.

A one-time, duty-related death benefit is provided to the estate (or duly designated nominee) of a PSERS member who dies as a result of injuries or illness sustained in the course of employment, if found eligible by the director of the Department of Labor and Industries.

Material changes, if any, in PSERS benefit provisions for the fiscal year ended June 30, 2014, are listed at the end of this section.

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 the contribution requirements are established under state statute.

Employee contributions to the plan accrue interest at a rate specified by the director of DRS. During fiscal year 2014, the rate was 5.5 percent compounded quarterly.

Members in PSERS Plan 2 can elect to withdraw total employee contributions and interest thereon upon separation from PSERS-covered employment.

Required contribution rates for fiscal year 2014 are presented at the end of this section.

Judges' Retirement Fund

Plan Description. The Judges' Retirement Fund was created by the Legislature on March 22, 1937, pursuant to chapter 2.12 RCW, to provide retirement benefits to judges elected or appointed to the Supreme Court, Court of Appeals, and Superior Courts of the state of Washington. 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.

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.

Material changes, if any, in benefit provisions for Judges for the fiscal year ended June 30, 2014, are listed at the end of this section.

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.

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.

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%

Death and disability benefits are also provided. Eligibility for death benefits while on active duty requires 10 or more years of service. A monthly spousal benefit is provided which is equal to 50 percent of the benefit that the member would have received if retired. If the member is retired, the surviving spouse receives the greater of 50 percent of the member's retirement benefit or 25 percent of the FAS. For members with 10 or more years of service, a disability benefit of 50 percent of FAS is provided.

Material changes, if any, in JRS benefit provisions for the fiscal year ended June 30, 2014, are listed at the end of this section.

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.

Employee contributions to the plan accrue interest at a rate specified by the director of DRS. During fiscal year 2014, the rate on employee contributions was 5.5 percent compounded quarterly. JRS members who are vested in the plan may not elect to withdraw their contributions upon termination.

The state guarantees the solvency of the Judicial Retirement System on a pay-as-you-go basis. Each biennium, the Legislature, through appropriations from the state General Fund, contributes amounts sufficient to meet benefit payment requirements. For fiscal year 2014, the state contributed $10.6 million.

Required contribution rates for fiscal year 2014 are presented at the end of this section.

Material Legislative Changes to DRS Administered Pension Plans

Material legislative changes to DRS administered pension plans for the fiscal year ended June 30, 2014, included:

System/Plan Affected	Effective Date	Description of the changes
LEOFF Plan 2	6/12/2014	The expiration date on the statutory provision in the LEOFF definition of fire fighter that includes emergency medical technicians (EMTs) is eliminated. This correction allows EMTs continued eligibility for membership in LEOFF.
LEOFF Plan 2	6/12/2014	Members of LEOFF Plan 2 may purchase an optional actuarially equivalent life annuity from the LEOFF Plan 2 Fund at the time of retirement.
TRS 3, PERS 3, SERS 3	6/12/2014	Currently, a TRS Plan 3 member has the option to change his or her contribution rate each year during the month of January. This bill would amend RCW 41.34.040 to remove this annual option, effective after January of 2015. While this statutory option applies to Plan 3 members of PERS and SERS as well, it has never been implemented in those plans. This modification is deemed necessary by the Internal Revenue Service in order to ensure the Plans 3 retain favorable tax qualification.
LEOFF Plan 2	7/28/2013	Allows catastrophically disabled LEOFF Plan 2 members to be reimbursed for premiums of medical insurance other than that which is provided by the employer, the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA), or Medicare A and/or B. The reimbursement would only be allowed for payments made after June 30, 2013, and would not exceed the amount reimbursed for premiums authorized by COBRA.

Required Contribution Rates

Required contribution rates (expressed as a percentage of current year covered payroll) for all retirement plans administered by DRS at the close of fiscal year 2014, were as follows:

Required Contribution Rates	Employer			Employee		
	Plan 1	Plan 2	Plan 3	Plan 1	Plan 2	Plan 3
PERS						
Members Not Participating in JBM						
State agencies*	9.21%	9.21%	9.21%	6.00%	4.92%	***
Local governmental units*	9.21%	9.21%	9.21%	6.00%	4.92%	***
State govt elected officials	13.73%	9.21%	9.21%	7.50%	4.92%	***
Members Participating in JBM						
State agencies*	11.71%	11.71%	11.71%	9.76%	9.80%	7.50%****
Local governmental units*	9.21%	9.21%	9.21%	12.26%	12.30%	7.50%****
TRS						
Members Not Participating in JBM						
State agencies*	10.39%	10.39%	10.39%**	6.00%	4.96%	***
Local governmental units*	10.39%	10.39%	10.39%**	6.00%	4.96%	***
State govt elected officials*	10.39%	10.39%	10.39%**	7.50%	4.96%	***
Members Participating in JBM						
State agencies*	10.39%	N/A	N/A	9.76%	N/A	N/A
SERS						
State agencies*	N/A	9.82%	9.82%	N/A	4.64%	***
Local governmental units*	N/A	9.82%	9.82%	N/A	4.64%	***
LEOFF						
Ports and universities*	N/A	8.59%	N/A	N/A	8.41%	N/A
Local governmental units*	0.18%	5.23%	N/A	N/A	8.41%	N/A
State of Washington	N/A	3.36%	N/A	N/A	N/A	N/A
WSPRS						
State agencies*	8.09%	8.09%	N/A	6.59%	6.59%	N/A
PSERS						
State agencies*	N/A	10.54%	N/A	N/A	6.36%	N/A
Local governmental units*	N/A	10.54%	N/A	N/A	6.36%	N/A
JRS						
State agencies*	7.50%	N/A	N/A	7.50%	N/A	N/A

* Includes an administrative expense rate of 0.18%.
** 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

Plan Administration. 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, 2014, there were 500 municipalities contributing to the plan. Additionally, the state, a non-employer 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, 2013 (the date of the latest valuation), VFFRPF membership consisted of the following:

Plan Membership	
Inactive plan members or beneficiaries currently receiving benefits	4,117
Inactive plan members entitled to but not yet receiving benefits	6,123
Active plan members	10,230
Total membership	20,470

Benefits: VFFRPF retirement benefits are established in chapter 41.24 RCW and may be amended only by the Legislature. VFFRPF also provides death and active duty disability benefits to all members.

Since retirement benefits cover volunteer service, benefits are paid based on years of service not salary. Employers 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, 2014.

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. For fiscal year 2014, the fire insurance premium tax contribution was $6.4 million.

The municipality rate for emergency medical service districts (EMSD) and law enforcement agencies are 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. 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 2014 are the following:

	Firefighters	EMSD & Reserve Officers
Member fee	$30.00	$30.00
Municipality fee	30.00	90.00
Total fee	$60.00	$120.00

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 3.F.

Rate of return. For the year ended June 30, 2014, the annual money-weighted rate of return on VFFRPF investments, net of pension plan investment expense, was 16.72 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. The components of the net pension liability of the participating VFFRPF municipalities at June 30, 2014, were as follows:

Pension Liability (in thousands)	
Total Pension Liability	$ 186,527
Plan Fiduciary Net Position	(204,195)
Participating Employers Net Pension Liability(Asset)	$ (17,668)
Plan fiduciary net position as a percentage of the total pension liability	109.47%

Actuarial assumptions. The total pension liability was determined by an actuarial valuation as of June 30, 2013, and rolled forward to June 30, 2014, using the following actuarial assumptions, applied to all prior periods included in the measurement:

Inflation	2.75%
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, 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 7.50 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:

Rates of Return	
Asset Class	Long-Term Expected Real Rate of Return
Fixed Income	0.08%
Tangible Assets	4.10%
Real Estate	5.30%
Global Equity	6.05%
Private Equity	9.05%

The inflation component used to create the above table is 2.70 percent, and represents WSIB's most recent long-term estimate of broad economic inflation.

As the VFFRPF has assets managed by both WSIB and OST, the long-term expected rate of return of 7.00% represents an approximate weighted-average of the assets managed by WSIB (7.50% expected return) and the assets managed by OST (4.00% expected return). In consultation with OST, OSA selected a 4.00% 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 3.00%.

Discount rate. The discount rate used to measure the total pension liability was 7.0 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 7.0 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 7.0 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 to changes in the discount rate. The following presents the net pension liability of the employers calculated using the discount rate of 7 percent, as well as what the municipalities' net pension liability 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.

Municipalities' Net Pension Liability(Asset) (in thousands)	
1% Decrease	8,632
Current Discount Rate	(17,668)
1% Increase	(38,820)

D. STATE CONTRIBUTIONS REQUIRED AND PAID

The following table presents the state of Washington's required contributions (dollars in millions) to cost-sharing plans in accordance with the funding policy. All contributions required by the funding method were paid.

Plans	2014	2013	2012
PERS Plan 1	$ 208.1	$ 125.6	$ 124.0
PERS Plan 2/3	203.7	182.9	182.8
TRS Plan 1	6.3	3.7	3.1
TRS Plan 2/3	1.1	1.2	1.1
PSERS Plan 2	8.2	7.5	7.4
LEOFF Plan 2	55.6	54.2	52.8
VFFRPF	6.4	6.0	5.6

There are no long-term contracts for contributions for any of the retirement plans administered by the state.

E. FUNDED STATUS

The funded status in accordance with the funding policy of each plan as of June 30, 2013, the most recent actuarial valuation date, is as follows (dollars in millions):

Plans	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
PERS Plan 1	$ 8,053.1	$ 12,873.9	$ 4,820.8	63%	$ 317.8	1517%
PERS Plan 2/3*	24,334.6	26,539.5	2,204.9	92%	8,339.2	26%
TRS Plan 1	6,717.1	9,429.3	2,712.1	71%	183.2	1481%
TRS Plan 2/3*	8,406.1	8,793.7	387.6	96%	4,222.9	9%
SERS Plan 2/3*	3,334.6	3,581.4	246.7	93%	1,514.2	16%
LEOFF Plan 1	5,516.4	4,408.6	(1,107.9)	125%	14.8	0%
LEOFF Plan 2*	7,862.3	7,219.5	(642.8)	109%	1,596.8	0%
WSPRS Plan 1/2*	1,009.4	987.0	(22.3)	102%	80.1	0%
PSERS Plan 2*	224.2	217.6	(6.6)	103%	253.1	0%
JRS	3.9	108.2	104.3	4%	N/A	N/A
Judges	1.4	3.5	2.1	40%	N/A	N/A
VFFRPF	182.5	183.6	1.1	99%	N/A	N/A

N/A indicates data not applicable.

Note: Figures may not total due to rounding. Percentages are calculated using unrounded totals.

* These plans use the aggregate actuarial cost method which does not identify or separately amortize unfunded actuarial liabilities. For this reason, the information shown above has been prepared using the entry age actuarial cost method and is intended to serve as a surrogate for the funded status and funding progress of these plans.

Source: Washington State Office of the State Actuary

F. ACTUARIAL ASSUMPTIONS AND METHODS

Defined Benefit Pension Plans Administered by the State

The information was determined as part of the actuarial valuations in accordance with the funding policy at the dates indicated below. Additional information as of the latest valuation follows:

	PERS Plan 1	PERS Plan 2/3	TRS Plan 1	TRS Plan 2/3	SERS Plan 2/3
Valuation date	6/30/2013	6/30/2013	6/30/2013	6/30/2013	6/30/2013
Actuarial cost method	Entry age normal (1)	Aggregate (2)	Entry age normal (1)	Aggregate (2)	Aggregate (2)
Amortization method					
Funding	Level % (4)	N/A	Level % (4)	N/A	N/A
GAAP reporting	Level $	N/A	Level $	N/A	N/A
Remaining amortization years (closed)	10-year rolling	N/A	10-year rolling	N/A	N/A
Remaining amortization period (closed)	N/A	N/A	N/A	N/A	N/A
Asset valuation method	8-year graded smoothed fair value (5)	8-year graded smoothed fair value (5)	8-year graded smoothed fair value (5)	8-year graded smoothed fair value (5)	8-year graded smoothed fair value (5)
Actuarial assumptions					
Investment rate of return (7)	7.80%	7.80%	7.80%	7.80%	7.80%
Projected salary increases					
Salary inflation at 3.75%, plus the merit increases described below:					
Initial salary merit (grades down to 0%)	6.0%	6.0%	5.1%	5.1%	6.6%
Merit period (years of service)	17 yrs	17 yrs	25 yrs	25 yrs	20 yrs
Includes inflation at	N/A	3.00%	N/A	3.00%	3.00%
cost of living adjustments	Minimum COLA (6)	CPI increase, maximum 3%	Minimum COLA (6)	CPI increase, maximum 3%	CPI increase, maximum 3%

N/A indicates data not applicable.

(1) PERS and TRS Plans 1 use a variation of the entry age normal (EAN) cost method, whereas LEOFF Plan 1 uses a variation of the frozen initial liability (FIL) cost method.

(2) The aggregate cost method does not identify or separately amortize unfunded actuarial accrued liabilities.

(3) Pay as you go basis for funding.

(4) Level percent of system payroll, including system growth.

(5) Asset Valuation Method - eight year smoothed fair value: The actuarial value of assets is calculated under an adjusted market value method by starting with the market value of assets. For subsequent years, the actuarial value of assets is determined by adjusting the market value of assets to reflect the difference between the actual investment return and the expected investment return during each of the last eight years or, if fewer, the completed years since adoption, at the following rates per year (annual recognition). The annual gain/loss for VFFRPF and LEOFF Plan 2 are centered around a 7.0 percent and 7.5 percent expected rate of return, respectively, instead of 7.8 percent.

Annual Gain/Loss			Annual Gain/Loss		
Rate of Return	**Smoothing Period**	**Annual Recognition**	**Rate of Return**	**Smoothing Period**	**Annual Recognition**
14.9% and Up	8 years	12.50%	5.9-6.9%	2 years	50.00%
13.9-14.9%	7 years	14.29%	4.9-5.9%	3 years	33.33%
12.9-13.9%	6 years	16.67%	3.9-4.9%	4 years	25.00%
11.9-12.9%	5 years	20.00%	2.9-3.9%	5 years	20.00%
10.9-11.9%	4 years	25.00%	1.9-2.9%	6 years	16.67%
9.9-10.9%	3 years	33.33%	0.9-1.9%	7 years	14.29%
8.9-9.9%	2 years	50.00%	0.9% and lower	8 years	12.50%
6.9-8.9%	1 year	100.00%			

LEOFF Plan 1	LEOFF Plan 2	PSERS Plan 2	WSPRS	JRS	Judges	VFFRPF
6/30/2013	6/30/2013	6/30/2013	6/30/2013	6/30/2013	6/30/2013	6/30/2013
Frozen initial liability (1)	Aggregate (2)	Aggregate (2)	Aggregate (2)	Entry age (3)	Entry age (3)	Entry age (7)
Level % (4)	N/A	N/A	N/A	N/A	N/A	Level $
Level $	N/A	N/A	N/A	Level $	Level $	Level $
11	N/A	N/A	N/A	5-year rolling	5-year rolling	15-year rolling
6/30/2024	N/A	N/A	N/A	N/A	N/A	N/A
8-year graded smoothed fair value (5)	8-year graded smoothed fair value (5)	8-year graded smoothed fair value (5)	8-year graded smoothed fair value (5)	Market	Market	8-year graded smoothed fair value (5)
7.80%	7.50%	7.80%	7.80%	4.00%	4.00%	7.00%
10.7%	10.7%	6.0%	8.5%	0.0%	0.0%	N/A
25 yrs	25 yrs	17 yrs	27 yrs	N/A	N/A	N/A
3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	N/A
CPI increase	CPI increase, maximum 3%	CPI increase, maximum 3%	CPI increase, maximum 3%	CPI increase, maximum 3%	None	None

(6) The PERS Plan 1 and TRS Plan 1 COLA: Qualifying retirees receive an increase in their monthly benefit once a year. The COLA on minimum benefit levels is calculated as the last unrounded minimum COLA amount increased by 3 percent, rounded to the nearest penny. These are some historical monthly COLA amounts per year of service:

Date	COLA Type	Amount
7/1/2009	Uniform	$1.83
7/1/2010	Uniform	$1.88
7/1/2011	Minimum	$1.94
7/1/2012	Minimum	$2.00
7/1/2013	Minimum	$2.06
7/1/2014	Minimum	$2.12

(7) VFFRPF uses the Entry Age Funding Method for Pensions, and the Aggregate Funding Method for the Relief Costs.

(8) The Legislature prescribes the assumed rate of investment return for all plans except JRS, Judges, and VFFRPF.

G. ANNUAL PENSION COST AND OTHER RELATED INFORMATION

Current year annual pension cost, net pension obligation (NPO) and related information for the current year for the state's single employer defined benefit plans are as follows (dollars in millions):

Annual Pension Cost and Net Pension Obligation	WSPRS	JRS	Judges
Annual required contribution	$7.3	$22.5	$0.5
Interest on NPO	(1.6)	2.8	0.0
Adjustment to annual required contribution	2.5	(15.1)	(0.0)
Annual pension cost	8.2	10.2	0.5
Less: Contributions made	6.6	10.6	0.0
Increase (decrease) in NPO	1.6	(0.4)	0.5
NPO at beginning of year	(20.0)	70.1	0.1
NPO at end of year	$(18.4)	$69.7	$0.6

H. THREE YEAR HISTORICAL TREND INFORMATION

The following table presents three-year trend information for the state's single employer defined benefit plans (dollars in millions):

Single Employer Plans	2014	2013	2012
WSPRS			
Annual pension cost	$8.2	$3.3	$3.6
% of APC contributed	80.5	197.0	180.6
NPO	$(18.4)	$(20.0)	$(16.8)
JRS			
Annual pension cost	$10.2	$9.2	$10.5
% of APC contributed	103.9	109.8	77.1
NPO	$69.7	$70.1	$71.0
Judges			
Annual pension cost	$0.5	$0.5	$0.4
% of APC contributed	0.0	0.0	0.0
NPO	$0.6	$0.1	$(0.4)

There are no long-term contracts for contributions for any of the retirement plans administered by the state.

I. CHANGES IN ACTUARIAL ASSUMPTIONS, METHODS, AND BENEFIT PROVISIONS

The assumed return on investment earnings decreased from 7.9 percent to 7.8 percent for all plans except LEOFF Plan 2, JRS, Judges and VFFRPF, which stayed at the current percentages.

Several changes were made to demographic assumption in fiscal year 2014. The demographic change with the largest impact was changing scales for the mortality improvement assumption.

The assumed administrative factors were changed to be consistent with those used by the Department of Retirement Systems.

There were no material method changes for fiscal year 2014.

There were no changes in benefit provisions for the fiscal year 2014 reporting period.

J. HIGHER EDUCATION RETIREMENT PLAN SUPPLEMENTAL DEFINED BENEFIT PLAN

The higher education defined contribution retirement plans have a supplemental payment component, which guarantees a minimum retirement benefit based upon a one-time calculation at each employee's retirement date. The supplemental component is financed on a pay-as-you-go basis. State institutions of higher education make direct payments to qualifying retirees when the retirement benefits provided by the fund sponsors do not meet the benefit goals.

An actuarial valuation of the supplemental component of the Higher Education Retirement plans was done at the end of fiscal year 2013. The previous valuation was performed in 2011.

The Unfunded Actuarial Accrued Liability (UAL) calculated as of June 30, 2013, and 2011, was $460.8 million and $357.4 million, respectively, and is amortized over an 11 year period. The Annual Required Contribution (ARC) of $63.8 million includes amortization of the UAL ($44.5 million) and normal cost or current cost ($18.1 million).

The UAL and ARC were established using the entry age normal cost method. The actuarial assumptions included an investment rate of return of 4.3 to 7.5 percent and projected salary increases ranging from 2 to 4 percent. Approximately $1.76 billion and $1.91 billion of payroll were covered under these plans during 2013 and 2011, respectively.

Beginning in January 2012, higher education employers were required to make contributions to the Higher Education Retirement Plan Supplemental Benefit Fund to begin prefunding the net pension obligation related to the supplemental benefits of the higher education retirement plans. The Higher Education Retirement Plan Supplemental Benefit Fund is administered by the Department of Retirement Systems and invested by the Washington State Investment Board. The contribution rate for fiscal year 2014 was 0.5 percent of pay for employees covered by higher education retirement plans. The Higher Education Retirement Plan Supplemental Benefit Fund was not created as a pension trust fund and is reported by the state as an administrative account in the General Fund.

The following table reflects the activity in the Net Pension Obligation (NPO) for the years ended June 30 (expressed in millions):

Net Pension Obligation	2014	2013	2012
Annual required contribution	$63.8	$63.8	$49.8
Payments to beneficiaries	(5.6)	(4.9)	(4.1)
Increase (decrease) in NPO	58.2	58.9	45.7
NPO at beginning of year	270.3	211.4	165.7
NPO at end of year	$328.5	$270.3	$211.4

K. DEFINED CONTRIBUTION PLANS

Public Employees' Retirement System Plan 3

The Public Employees' Retirement System (PERS) Plan 3 is a combination defined benefit/defined contribution plan administered by the state through the Department of Retirement Systems (DRS). Refer to section B of this note for PERS Plan descriptions.

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. As established by chapter 41.34 RCW, employee contribution rates to the defined contribution component range from 5 to 15 percent of salaries, based on member choice. 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 upon the results of investment activities. Members may elect to self-direct the investment of their contributions. Any expenses incurred in conjunction with self-directed investments are paid by members. Absent a member's self-direction, PERS Plan 3 contributions are invested in the retirement strategy fund that assumes the member will retire at age 65.

Members in PERS Plan 3 can elect to withdraw total employee contributions adjusted by earnings and losses from investments of those contributions upon separation from PERS-covered employment.

For fiscal year 2014, covered payroll was $1.61 billion, employee contributions required and made were $105.2 million, and plan refunds paid out were $83.4 million.

Teachers' Retirement System Plan 3

The Teachers' Retirement System (TRS) Plan 3 is a combination defined benefit/defined contribution plan administered by the state through the Department of Retirement Systems (DRS). Refer to section B of this note for TRS Plan descriptions.

TRS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. As established by chapter 41.34 RCW, employee contribution rates to the defined contribution component range from 5 to 15 percent of salaries, based on member choice. Members who do not choose a contribution rate default to a 5 percent rate. There are currently no requirements for employer contributions to the defined contribution component of TRS Plan 3.

TRS Plan 3 defined contribution retirement benefits are dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions. Any expenses incurred in conjunction with self-directed investments are paid by members. Absent a member's self-direction, TRS Plan 3 investments are made in the retirement strategy fund that assumes the member will retire at age 65.

TRS Plan 3 defined contribution benefits are financed from employee contributions and investment earnings.

Members in TRS Plan 3 can elect to withdraw total employee contributions adjusted by earnings and losses from investments of those contributions upon separation from TRS-covered employment.

For fiscal year 2014, covered payroll was $3.60 billion, employee contributions required and made were $273.7 million and plan refunds paid out were $238.7 million.

School Employees' Retirement System Plan 3

The School Employees' Retirement System (SERS) Plan 3 is a combination defined benefit/defined contribution plan administered by the state through the Department of Retirement Systems (DRS). Refer to section B of this note for SERS Plan descriptions.

SERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. As established by chapter 41.34 RCW, employee contribution rates to the defined contribution component range from 5 to 15 percent of salaries, based on member choice. Members who do not choose a contribution rate default to a 5 percent rate. There are currently no requirements for employer contributions to the defined contribution component of SERS Plan 3.

SERS Plan 3 defined contribution retirement benefits are dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions. Any expenses incurred in conjunction with self-directed investments are paid by members. Absent a member's self-direction, SERS Plan 3 investments are made in the retirement strategy fund that assumes the member will retire at age 65.

Members in SERS Plan 3 can elect to withdraw total employee contributions adjusted by earnings and losses from investments of those contributions upon separation from SERS-covered employment.

For fiscal year 2014, covered payroll was $928.5 million, employee contributions required and made were $60.8 million and plan refunds paid out were $74.7 million.

Judicial Retirement Account

The Judicial Retirement Account (JRA) Plan was established by the Legislature in 1988 to provide supplemental retirement benefits. It is a defined contribution plan administered by the state Administrative Office of the Courts (AOC), under the direction of the Board for Judicial Administration. Membership includes judges elected or appointed to the Supreme Court, Court of Appeals, and Superior Courts, and who are members of PERS for their services as a judge. Vesting is full and immediate. At June 30, 2014, there were five active members and 152 inactive members in JRA. The state, through the AOC, is the sole participating employer.

From January 1, 2007, through December 31, 2007, any judicial members of the Public Employees' Retirement System (PERS) and the Teachers' Retirement System (TRS) eligible to participate in JRA were able to make a one-time irrevocable election to discontinue future contributions to JRA, in lieu of prospective contributions to the Judicial Benefit Multiplier (JBM) Program. Beginning January 1, 2007, any newly elected or appointed Supreme Court justice, Court of Appeals judge, or Superior Court judge could no longer participate in JRA and would be enrolled in the JBM Program (enacted in 2006).

JRA Plan members are required to contribute 2.5 percent of covered salary. The state, as employer, contributes an equal amount on a monthly basis. The employer and employee obligations to contribute are established per chapter 2.14 RCW. Plan provisions and contribution requirements are established in state statute and may be amended only by the Legislature.

A JRA member who separates from judicial service for any reason is entitled to receive a lump-sum distribution of the accumulated contributions. The administrator of JRA may adopt rules establishing other payment options. If a member dies, the amount of accumulated contributions standing to the member's credit at the time of the member's death is to be paid to the member's estate, or such person or persons, trust or organization as the member has nominated by written designation.

For fiscal year 2014, covered payroll was $991 thousand and the contribution requirement was $50 thousand. Actual employer and employee contributions were $25 thousand and $25 thousand respectively. Plan benefits paid out for fiscal year 2014 totaled $668 thousand.

The Administrator of JRA has entered an agreement with DRS for accounting and reporting services, and the Washington State Investment Board (WSIB) for investment services. Under this agreement, DRS is responsible for all record keeping, accounting, and reporting of member accounts and the WSIB is granted the full power to establish investment policy, develop participant investment options and manage the investment funds for the JRA Plan, consistent with the provisions of RCW 2.14.080 and 43.84.150.

Higher Education Retirement Plans

The Higher Education Retirement Plans are privately administered defined contribution plans with a supplemental defined benefit plan component. The state and regional universities, the state college, the state community and technical colleges and the Student Achievement Council each participate in a plan. As authorized by chapter 28B.10 RCW, the plans cover faculty and other positions as designated by each participating employer.

Contributions to the plans are invested in annuity contracts or mutual fund accounts offered by one or more fund sponsors. Benefits from fund sponsors are available upon separation or retirement at the member's option. Employees have, at all times, a 100 percent vested interest in their accumulations.

RCW 28B.10.400, et. seq. assigns the authority to establish and amend benefit provisions to the board of regents of the state universities, the boards of trustees of the regional universities and the state college, the state board for community colleges, and the Student Achievement Council.

Employee contribution rates, based on age, range from 5 to 10 percent of salary. The employers match the employee contributions. The employer and employee obligations to contribute are established per chapter 28B.10 RCW.

For fiscal year 2014, covered payroll was $2.18 billion. Employer and employee contributions were $182.5 and $182.5 million respectively, for a total of $365.0 million. These contribution amounts represent approximately 8.38 and 8.38 percent of covered payroll for employers and employees, respectively.

L. PLAN NET POSITION AND CHANGES IN PLAN NET POSITION

The Combining Statement of Plan Net Position that follows presents the principal components of receivables, investments, and liabilities. The Combining Statement of Changes in Plan Net Position presents the additions and deductions to plan net position.

Combining Statement of Plan Net Position
Pension and Other Employee Benefit Funds

June 30, 2014

(expressed in thousands)

continued

	PERS Plan 1	PERS Plan 2/3 Defined Benefit	PERS Plan 3 Defined Contribution	TRS Plan 1	TRS Plan 2/3 Defined Benefit
ASSETS					
Cash and pooled investments	$ 681	$ 7,550	$ 277	$ 1,030	$ 11,591
Receivables:					
Employer accounts receivable	3,372	60,555	4,860	1,581	33,860
Member accounts receivable (net of allowance)	747	198	-	248	23
Due from other pension and other employee benefit funds	2,523	-	317	2,801	1,125
Interest and dividends	23,912	84,396	4,071	19,553	29,313
Investment trades pending	137,171	484,304	23,358	112,167	168,198
Total Receivables	167,725	629,453	32,606	136,350	$ 232,519
Investments, Noncurrent:					
Public equity	2,979,542	10,519,833	1,468,262	2,436,418	3,653,495
Fixed income	1,840,675	6,498,850	313,445	1,505,149	2,257,024
Private equity	1,834,403	6,476,705	312,376	1,500,020	2,249,334
Real estate	993,327	3,507,126	169,151	812,259	1,218,011
Security lending	109,221	385,626	18,599	89,312	133,926
Liquidity	177,402	626,197	35,952	146,489	228,979
Tangible assets	136,746	482,807	23,286	111,819	167,677
Total Investments, Noncurrent	8,071,316	28,497,144	2,341,071	6,601,466	9,908,446
Total Assets	8,239,722	29,134,147	2,373,954	6,738,846	10,152,556
LIABILITIES					
Obligations under security lending agreements	109,567	385,626	18,964	89,580	133,926
Accrued liabilities	188,558	647,196	34,870	155,006	225,340
Due to other pension and other employee benefit funds	-	2,272	-	-	2,801
Unearned revenues	41	243	-	25	-
Total Liabilities	298,166	1,035,337	53,834	244,611	362,067
NET POSITION					
Net position held in trust for:					
Pension Benefits	7,941,556	28,098,810	2,320,120	6,494,235	9,790,489
(Schedule of Funding Progress by Plan begins on Page 171)					
Deferred compensation participants	-	-	-	-	-
Total Net Position	$ 7,941,556	$ 28,098,810	$ 2,320,120	$ 6,494,235	$ 9,790,489

Combining Statement of Plan Net Position
Pension and Other Employee Benefit Funds

June 30, 2014

(expressed in thousands)

continued

	TRS Plan 3 Defined Contribution	SERS Plan 2/3 Defined Benefit	SERS Plan 3 Defined Contribution	LEOFF Plan 1	LEOFF Plan 2
ASSETS					
Cash and pooled investments	$ 5,096	$ 6,922	$ 1,149	$ 749	$ 1,585
Receivables:					
Employer accounts receivable	23,305	12,577	5,146	653	14,180
Member accounts receivable (net of allowance)	-	10	-	152	32
Due from other pension and other employee benefit funds	-	310	-	-	-
Interest and dividends	12,667	11,548	3,685	17,215	27,800
Investment trades pending	72,683	66,270	21,142	98,770	159,531
Total Receivables	108,655	90,715	29,973	116,790	201,543
Investments, Noncurrent:					
Public equity	4,296,255	1,439,462	879,100	2,145,450	3,465,287
Fixed income	975,330	889,258	283,707	1,325,397	2,140,754
Private equity	972,007	886,228	282,740	1,320,881	2,133,460
Real estate	526,340	479,891	153,103	715,255	1,155,265
Security lending	57,874	52,766	16,835	78,646	127,027
Liquidity	111,030	86,841	31,251	127,477	206,438
Tangible assets	72,458	66,064	21,077	98,465	159,039
Total Investments, Noncurrent	7,011,294	3,900,510	1,667,813	5,811,571	9,387,270
Total Assets	7,125,045	3,998,147	1,698,935	5,929,110	9,590,398
LIABILITIES					
Obligations under security lending agreements	58,380	52,766	17,077	78,750	127,110
Accrued liabilities	102,587	88,841	31,279	131,552	212,486
Due to other pension and other employee benefit funds	1,125	454	310	-	-
Unearned revenues	-	1	-	-	-
Total Liabilities	162,092	142,062	48,666	210,302	339,596
NET POSITION					
Net position held in trust for:					
Pension Benefits (Schedule of Funding Progress by Plan begins on Page 171)	6,962,953	3,856,085	1,650,269	5,718,808	9,250,802
Deferred compensation participants	-	-	-	-	-
Total Net Position	$ 6,962,953	$ 3,856,085	$ 1,650,269	$ 5,718,808	$ 9,250,802

Combining Statement of Plan Net Position
Pension and Other Employee Benefit Funds

June 30, 2014
(expressed in thousands)

continued

	WSPRS Plan 1/2	PSERS Plan 2	JRS	JRA
ASSETS				
Cash and pooled investments	$ 600	$ 454	$ 5,062	$ 12
Receivables:				
Employer accounts receivable	499	2,321	-	-
Member accounts receivable (net of allowance)	2	-	-	2
Due from other pension and other employee benefit funds	-	-	-	-
Interest and dividends	3,302	897	-	-
Investment trades pending	18,949	5,151	3	-
Total Receivables	22,752	8,369	3	2
Investments, Noncurrent:				
Public equity	411,606	111,884	-	13,020
Fixed income	254,278	69,119	-	-
Private equity	253,411	68,883	-	-
Real estate	137,222	37,300	-	-
Security lending	15,088	4,101	-	-
Liquidity	25,110	9,231	143	-
Tangible assets	18,891	5,135	-	-
Total Investments, Noncurrent	1,115,606	305,653	143	13,020
Total Assets	1,138,958	314,476	5,208	13,034
LIABILITIES				
Obligations under security lending agreements	15,120	4,115	146	-
Accrued liabilities	25,411	6,880	32	3
Due to other pension and other employee benefit funds	-	114	-	-
Unearned revenues	-	-	-	-
Total Liabilities	40,531	11,109	178	3
NET POSITION				
Net position held in trust for:				
Pension Benefits (Schedule of Funding Progress by Plan begins on Page 171)	1,098,427	303,367	5,030	13,031
Deferred compensation participants	-	-	-	-
Total Net Position	$ 1,098,427	$ 303,367	$ 5,030	$ 13,031

Combining Statement of Plan Net Position
Pension and Other Employee Benefit Funds

June 30, 2014

(expressed in thousands) concluded

	Judges	VFFRPF	Deferred Compensation	Total
ASSETS				
Cash and pooled investments	$ 958	$ 4,660	$ 5,291	$ 53,667
Receivables:				
Employer accounts receivable	-	-	-	162,909
Member accounts receivable (net of allowance)	-	-	911	2,325
Due from other pension and other employee benefit funds	-	-	-	7,076
Interest and dividends	-	601	-	238,960
Investment trades pending	-	3,451	2	1,371,150
Total Receivables	-	4,052	913	1,782,420
Investments, Noncurrent:				
Public equity	-	74,946	3,575,737	37,470,297
Fixed income	-	46,300	-	18,399,286
Private equity	-	46,142	-	18,336,590
Real estate	-	24,986	-	9,929,236
Security lending	-	2,747	-	1,091,768
Liquidity	26	4,495	113	1,817,174
Tangible assets	-	3,440	-	1,366,904
Total Investments, Noncurrent	26	203,056	3,575,850	88,411,255
Total Assets	984	211,768	3,582,054	90,247,342
LIABILITIES				
Obligations under security lending agreements	27	2,879	116	1,094,149
Accrued liabilities	1	4,694	4,183	1,858,919
Due to other pension and other employee benefit funds	-	-	-	7,076
Unearned revenues	-	-	-	310
Total Liabilities	28	7,573	4,299	2,960,454
NET POSITION				
Net position held in trust for:				
Pension Benefits (Schedule of Funding Progress by Plan begins on Page 171)	956	204,195	-	83,709,133
Deferred compensation participants	-	-	3,577,755	3,577,755
Total Net Position	$ 956	$ 204,195	$ 3,577,755	$ 87,286,888

Combining Statement of Changes in Plan Net Position
Pension and Other Employee Benefit Funds

For the Fiscal Year Ended June 30, 2014
(expressed in thousands)

continued

	PERS Plan 1	PERS Plan 2/3 Defined Benefit	PERS Plan 3 Defined Contribution	TRS Plan 1	TRS Plan 2/3 Defined Benefit
ADDITIONS					
Contributions:					
Employers	$ 448,895	$ 430,345	$ -	$ 200,674	$ 249,341
Members	28,087	368,252	$ 105,183	14,626	44,013
State	-	-	-	-	-
Participants	-	-	-	-	-
Total Contributions	476,982	798,597	105,183	215,300	293,354
Investment Income:					
Net appreciation (depreciation) in fair value	1,157,751	3,922,915	313,388	952,901	1,359,567
Interest and dividends	186,034	629,408	31,233	153,078	218,129
Less: investment expenses	(31,789)	(107,392)	(5,953)	(26,175)	(37,801)
Net investment income (loss)	1,311,996	4,444,931	338,668	1,079,804	1,539,895
Transfers from other pension plans	36	141	1,871	51	44
Other additions	-	-	-	-	-
Total Additions	1,789,014	5,243,669	445,722	1,295,155	1,833,293
DEDUCTIONS					
Pension benefits	1,189,496	567,096	-	925,975	149,522
Pension refunds	4,219	33,767	83,359	2,262	1,988
Transfers to other pension plans	-	2,440	326	-	445
Administrative expenses	506	617	2	143	76
Distributions to participants	-	-	-	-	-
Total Deductions	1,194,221	603,920	83,687	928,380	152,031
Net Increase (Decrease)	594,793	4,639,749	362,035	366,775	1,681,262
Net Position - Beginning	7,346,763	23,459,061	1,958,085	6,127,460	8,109,227
Net Position - Ending	$ 7,941,556	$ 28,098,810	$ 2,320,120	$ 6,494,235	$ 9,790,489

Combining Statement of Changes in Plan Net Position
Pension and Other Employee Benefit Funds

For the Fiscal Year Ended June 30, 2014
(expressed in thousands)

continued

	TRS Plan 3 Defined Contribution	SERS Plan 2/3 Defined Benefit	SERS Plan 3 Defined Contribution	LEOFF Plan 1	LEOFF Plan 2
ADDITIONS					
Contributions:					
Employers	$ -	$ 88,783	$ -	$ 98	$ 85,532
Members	273,656	31,857	60,766	844	151,042
State	-	-	-	-	55,550
Participants	-	-	-	-	-
Total Contributions	273,656	120,640	60,766	942	292,124
Investment Income:					
Net appreciation (depreciation) in fair value	966,000	536,742	222,334	824,335	1,285,184
Interest and dividends	96,246	86,098	27,954	132,383	206,190
Less: investment expenses	(18,206)	(14,858)	(4,951)	(22,594)	(36,103)
Net investment income (loss)	1,044,040	607,982	245,337	934,124	1,455,271
Transfers from other pension plans	1,116	42	682	-	265
Other additions	-	-	-	-	-
Total Additions	1,318,812	728,664	306,785	935,066	1,747,660
DEDUCTIONS					
Pension benefits	-	82,070	-	355,740	124,921
Pension refunds	238,719	1,879	74,680	248	9,028
Transfers to other pension plans	721	504	302	-	24
Administrative expenses	-	30	-	44	273
Distributions to participants	-	-	-	-	-
Total Deductions	239,440	84,483	74,982	356,032	134,246
Net Increase (Decrease)	1,079,372	644,181	231,803	579,034	1,613,414
Net Position - Beginning	5,883,581	3,211,904	1,418,466	5,139,774	7,637,388
Net Position - Ending	$ 6,962,953	$ 3,856,085	$ 1,650,269	$ 5,718,808	$ 9,250,802

Combining Statement of Changes in Plan Net Position
Pension and Other Employee Benefit Funds

For the Fiscal Year Ended June 30, 2014
(expressed in thousands)

continued

	WSPRS Plan 1/2	PSERS Plan 2	JRS	JRA
ADDITIONS				
Contributions:				
Employers	$ 6,587	$ 17,124	$ 10,600	$ 25
Members	6,554	17,446	-	25
State	-	-	-	-
Participants	-	-	-	-
Total Contributions	13,141	34,570	10,600	50
Investment Income:				
Net appreciation (depreciation) in fair value	156,073	39,842	15	1,349
Interest and dividends	25,055	6,387	10	41
Less: investment expenses	(4,272)	(1,086)	-	(20)
Net investment income (loss)	176,856	45,143	25	1,370
Transfers from other pension plans	509	5	-	-
Other additions	-	-	-	-
Total Additions	190,506	79,718	10,625	1,420
DEDUCTIONS				
Pension benefits	47,142	256	9,479	668
Pension refunds	367	2,194	-	-
Transfers to other pension plans	-	-	-	-
Administrative expenses	83	8	-	-
Distributions to participants	-	-	-	-
Total Deductions	47,592	2,458	9,479	668
Net Increase (Decrease)	142,914	77,260	1,146	752
Net Position - Beginning	955,513	226,107	3,884	12,279
Net Position - Ending	$ 1,098,427	$ 303,367	$ 5,030	$ 13,031

Combining Statement of Changes in Plan Net Position
Pension and Other Employee Benefit Funds

For the Fiscal Year Ended June 30, 2014
(expressed in thousands)
concluded

	Judges	VFFRPF	Deferred Compensation	Total
ADDITIONS				
Contributions:				
Employers	$ -	$ 953	$ -	$ 1,538,957
Members	-	95	-	1,102,446
State	-	6,383	-	61,933
Participants	-	-	190,538	190,538
Total Contributions	-	7,431	190,538	2,893,874
Investment Income:				
Net appreciation (depreciation) in fair value	6	28,144	391,842	12,158,388
Interest and dividends	2	4,516	10,239	1,813,003
Less: investment expenses	-	(768)	(4,738)	(316,706)
Net investment income (loss)	8	31,892	397,343	13,654,685
Transfers from other pension plans	-	-	-	4,762
Other additions	-	-	314	314
Total Additions	8	39,323	588,195	16,553,635
DEDUCTIONS				
Pension benefits	444	10,771	-	3,463,580
Pension refunds	-	22	-	452,732
Transfers to other pension plans	-	-	-	4,762
Administrative expenses	-	1,469	-	3,251
Distributions to participants	-	-	212,298	212,298
Total Deductions	444	12,262	212,298	4,136,623
Net Increase (Decrease)	(436)	27,061	375,897	12,417,012
Net Position - Beginning	1,392	177,134	3,201,858	74,869,876
Net Position - Ending	$ 956	$ 204,195	$ 3,577,755	$ 87,286,888

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, including establishment of eligibility criteria for both active and retired employees. PEBB programs 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), 60 of the state's K-12 schools and educational service districts (ESDs), and 221 political subdivisions and tribal governments. Additionally, the PEBB plan is available to the retirees of the remaining 237 K-12 schools and ESDs. As of June 2014, membership in the PEBB plan consisted of the following:

	Active Employees	Retirees [1]	Total
State	108,291	29,674	137,965
K-12 schools and ESDs [2]	2,138	31,642	33,780
Political subdivisions	12,079	1,547	13,626
Total	122,508	62,863	185,371

(1) Retirees include retired employees, surviving spouses, and terminated members entitled to a benefit.
(2) In fiscal year 2014, there were 101,445 full-time equivalent active employees in the 237 K-12 schools and ESDs that elected to limit participation in PEBB only to their retirees.

For fiscal year 2014, the estimated monthly cost for PEBB benefits for active employees (average across all plans and tiers) is as follows:

Required Premium [3]	
Medical	$ 930
Dental	81
Life	4
Long-term disability	2
Total	$1,017
Employer contribution	$ 880
Employee contribution	137
Total	$1,017

(3) Per 2014 Index Rate Model 3.

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 2013, the average weighted implicit subsidy was valued at $294 per member per month, and in calendar year 2014, the average weighted implicit subsidy is projected to be $291 per member per month.

Retirees who are enrolled in both Parts A and B of Medicare may participate in the state's Medicare community-rated health insurance risk pool. Medicare retirees receive an explicit subsidy in the form of reduced premiums. Annually, the HCA administrator recommends an amount for the next calendar year's explicit subsidy for inclusion in the Governor's budget. In calendar year 2013, the explicit subsidy was up to $150 per member per month, and it remained up to $150 per member per month in calendar year 2014.

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 fiscal year 2014, the cost of the subsidies was approximately 5.9 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 investments. 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 2014 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	$ 353,842
Interest on net OPEB obligation	64,551
Amortization of net OPEB obligation	(59,951)
Annual OPEB cost (expense)	358,442
Contributions made	(77,650)
Increase in net OPEB obligation	280,792
Net OPEB obligation - beginning of year	1,613,775
Net OPEB obligation - end of year*	$1,894,567
*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 2014, 2013, and 2012 were as follows (dollars expressed in thousands):

	2014	2013	2012
Annual OPEB cost	$ 358,442	$347,033	$330,286
% of annual OPEB cost contributed	21.7%	19.9%	23.8%
Net OPEB obligation	$1,894,567	$1,613,775	$1,279,381

Funded Status and Funding Progress

The funded status of the plan as of January 1, 2013, the latest date for which information is available, was as follows (expressed in thousands):

Actuarial accrued liability (AAL)	$3,706,856
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	$3,706,856
Funded ratio (actuarial value of plan assets/AAL)	0.0%
Covered payroll (active plan members)	$5,786,960
UAAL as a percentage of covered payroll	64.1%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trends.

Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the terms of the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Significant methods and assumptions were as follows:

Actuarial valuation date	January 1, 2013
Actuarial cost method	Projected Unit Credit (PUC)
Amortization method	Closed, level percentage of projected payroll amortization method
Remaining amortization period	30 years 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, 5.0% ultimate rate in 2093
Inflation rate	3.0%

Note 13

Commitments and Contingencies

A. CAPITAL COMMITMENTS

Outstanding commitments related to state infrastructure and facility construction, improvement, and/or renovation totaled $2.72 billion at June 30, 2014.

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 2014 are (in thousands):

General Fund	$ 1,629
Higher Education Special Revenue Fund	169
Nonmajor Governmental Funds	21,040

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 foster children, the disabled, and elderly; and inadequate funding for the provision of, daily personal care, medical and mental health services to children, the elderly, and the disabled. Collective claims in these programmatic and service cases exceed $142 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 in various stages of administrative and legal review. Cases involving claims for refunds currently total approximately $33 million, though an adverse ruling could result in additional claims being brought by similarly situated taxpayers. In addition, the state is defending cases challenging the constitutionality of certain taxes that fund discrete state programs.

The state is a defendant in a number of lawsuits related to: habitat restoration and environmental clean-up arising out of highway/roadway construction and maintenance, and historic mining activity. While estimates are not available for all lawsuits, claims for damages equate to approximately $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 in excess of $172 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 $127.6 million in fiscal year 2014. 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 2014 strategic contribution payment was approximately $37.1 million.

In 2006, 2007, 2008, and 2009, determinations were made that disadvantages experienced by manufacturers as a result of participating in the MSA were a "significant factor" contributing to market share losses by those manufacturers. These determinations related to sales data for the years 2003, 2004, 2005, and 2006. Washington faces a potential "nonparticipating manufacturer (NPM) adjustment" in its share of between $0 and $137 million for the year 2004, $0 and $131 million for the year 2005, $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 2012. Washington faces a potential NPM adjustment that puts 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.

With respect to 2003 sales data, Washington and 37 other states each filed court actions seeking declarations that they had diligently enforced their escrow statutes – a defense to the adjustment claim. Thirty-six of the 37 states are participating in a single national arbitration of the NPM adjustment dispute.

The arbitration panel issued a decision in Washington's favor, unanimously concluding that Washington proved that it diligently enforced the qualifying statute during calendar year 2003 and, therefore, for that calendar year is not subject to an NPM adjustment under the MSA. Of the 15 states that went to an arbitration hearing, only nine were found to have diligently enforced. 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.

Finally, the panel's decision addresses only the 2003 calendar year. Washington and other states are engaged in negotiations with participating manufacturers regarding potential arbitration proceedings involving the 2004 calendar year.

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 $8.98 billion at June 30, 2014. 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. 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, 2014, outstanding certificates of participation notes totaled $84.4 million for 159 local governments participating in LOCAL. The state estimates that the LOCAL program liability, if any, will be immaterial to its overall financial condition.

Note 14
Subsequent Events

A. BOND ISSUES

In July 2014, the state issued:

- $420.5 million in motor vehicle fuel tax general obligation refunding bonds for the purpose of refunding certain motor vehicle fuel tax general obligation bonds of the state.
- $420.1 million in general obligation refunding bonds for the purpose of refunding certain various purpose general obligation bonds of the state.
- $228.0 million in general obligation bonds for various state capital projects.
- $85.9 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 October 2014, the state issued:

- $301.8 million in motor vehicle fuel tax general obligation refunding bonds for the purpose of refunding certain motor vehicle fuel tax general obligation bonds of the state.
- $616.0 million in general obligation refunding bonds for the purpose of refunding certain various purpose general obligation bonds of the state.

Later in the calendar year, Washington State University is planning to issue approximately $15.0 million in refunding bonds and approximately $75.0 million in general revenue bonds to construct a digital classroom building, pay for public safety projects and renovate a building.

B. CERTIFICATES OF PARTICIPATION

In August 2014, the state issued $64.0 million in Certificates of Participation.

C. OTHER DEBT

In October 2014, the University of Washington plans to issue up to $36.0 million in short term commercial paper to buy out the lease of the Cobb Building.

D. GENERAL ELECTION

There is a measure on the state's November 4, 2014, general election ballot that addresses K-12 education. This measure, if passed, could impact the state fiscally.

Election results are not final or official until certified. By law December 4, 2014, 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.

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RSI
Required Supplementary Information

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BUDGETARY COMPARISON SCHEDULE
General Fund

Budgetary Comparison Schedule
General Fund
For the Fiscal Year Ended June 30, 2014
(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	$ 496,944	$ 496,944	$ 496,944	$ -
Resources				
Taxes	31,808,298	32,042,383	15,893,803	(16,148,580)
Licenses, permits, and fees	197,260	209,192	107,564	(101,628)
Other contracts and grants	529,972	529,101	238,875	(290,226)
Timber sales	5,040	4,278	2,032	(2,246)
Federal grants-in-aid	17,191,481	18,080,040	8,544,003	(9,536,037)
Charges for services	68,703	70,431	33,969	(36,462)
Investment income (loss)	(10,907)	(6,110)	(1,254)	4,856
Miscellaneous revenue	583,494	591,447	169,768	(421,679)
Unclaimed property	128,649	114,164	60,467	(53,697)
Transfers from other funds	1,370,652	1,413,469	742,576	(670,893)
Total Resources	52,369,586	53,545,339	26,288,747	(27,256,592)
Charges To Appropriations				
General government	3,474,379	3,494,982	1,585,766	1,909,216
Human services	26,375,585	27,213,661	13,275,755	13,937,906
Natural resources and recreation	633,909	638,415	296,422	341,993
Transportation	94,456	92,878	43,808	49,070
Education	20,010,213	20,060,318	9,759,149	10,301,169
Capital outlays	998,238	969,917	245,258	724,659
Transfers to other funds	561,776	572,618	339,854	232,764
Total Charges To Appropriations	52,148,556	53,042,789	25,546,012	27,496,777
Excess Available For Appropriation Over (Under) Charges To Appropriations	221,030	502,550	742,735	240,185
Reconciling Items				
Bond sale proceeds	138,792	424,650	168,458	(256,192)
Issuance premiums	-	-	891	891
Assumed reversions	140,000	140,000	-	(140,000)
Working capital adjustment	-	(44,800)	(44,800)	-
Allocations	50,001	45,001	-	(45,001)
Changes in reserves (net)	-	-	(1,558)	(1,558)
Entity adjustments (net)	-	-	29,305	29,305
Total Reconciling Items	328,793	564,851	152,296	(412,555)
Budgetary Fund Balance, June 30	$ 549,823	$ 1,067,401	$ 895,031	$ (172,370)

BUDGETARY COMPARISON SCHEDULE
General Fund - Budget to GAAP Reconciliation

General Fund
For the Fiscal Year Ended June 30, 2014
(expressed in thousands)

Sources/Inflows of Resources		
Actual amounts (budgetary basis) "Total Resources"		
from the Budgetary Comparison Schedule	$	26,288,747
Differences - budget to GAAP:		
The following items are inflows of budgetary resources but are not		
revenue for financial reporting purposes:		
Transfers from other funds		(742,576)
Budgetary fund balance at the beginning of the biennium		(496,944)
Appropriated loan principal repayment		(905)
The following items are not inflows of budgetary resources but are		
revenue for financial reporting purposes:		
Noncash commodities and electronic food stamp benefits		1,679,737
Revenues collected for other governments		114,101
Unanticipated receipts		6,275
Noncash revenues		(14,937)
Other		6,182
Biennium total revenues		26,839,680
Nonappropriated activity		15,272
Total Revenues (GAAP Basis) as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	$	26,854,952
Uses/Outflows of Resources		
Actual amounts (budgetary basis) "Total Charges to Appropriations"		
from the Budgetary Comparison Schedule	$	25,546,012
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		(1,195,731)
Other transfers to other funds		(339,854)
Appropriated loan disbursements		(4)
The following items are not outflows of budgetary resources but are		
recorded as current expenditures for financial reporting purposes:		
Noncash commodities and electronic food stamp benefits		1,679,737
Distributions to other governments		114,101
Certificates of participation and capital lease acquisitions		1,102
Expenditures related to unanticipated receipts		6,275
Other		6,345
Biennium total expenditures		25,817,983
Nonappropriated activity		316,155
Total expenditures (GAAP basis) as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds	$	26,134,138

BUDGETARY COMPARISON SCHEDULE
Higher Education Special Revenue Fund

Budgetary Comparison Schedule
Higher Education Special Revenue Fund
For the Fiscal Year Ended June 30, 2014
(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	$ 2,427,292	$ 2,427,292	$ 2,427,292	$ -
Resources				
Taxes	334,110	397,936	201,410	(196,526)
Charges for services	917	-	-	-
Investment income (loss)	95	-	84	84
Transfers from other funds	340,577	348,025	177,640	(170,385)
Total Resources	3,102,991	3,173,253	2,806,426	(366,827)
Charges To Appropriations				
Education	608,761	704,514	303,783	400,731
Transfers to other funds	52,150	51,888	28,969	22,919
Total Charges To Appropriations	660,911	756,402	332,752	423,650
Excess Available For Appropriation				
Over (Under) Charges To Appropriations	2,442,080	2,416,851	2,473,674	56,823
Reconciling Items				
Changes in reserves (net)	-	-	(6,237)	(6,237)
Entity adjustments (net)	-	-	94,196	94,196
Total Reconciling Items	-	-	87,959	87,959
Budgetary Fund Balance, June 30	$ 2,442,080	$ 2,416,851	$ 2,561,633	$ 144,782

BUDGETARY COMPARISON SCHEDULE
Higher Education Special Revenue Fund - Budget to GAAP Reconciliation

Higher Education Special Revenue Fund
For the Fiscal Year Ended June 30, 2014
(expressed in thousands)

Sources/Inflows of Resources		
Actual amounts (budgetary basis) "Total Resources"		
from the Budgetary Comparison Schedule	$	2,806,426
Differences - budget to GAAP:		
The following items are inflows of budgetary resources but are not		
revenue for financial reporting purposes:		
Transfers from other funds		(177,640)
Budgetary fund balance at the beginning of the biennium		(2,427,292)
The following items are not inflows of budgetary resources but are		
revenue for financial reporting purposes:		
Noncash revenues		55
Biennium total revenues		201,549
Nonappropriated activity		4,906,058
Total Revenues (GAAP Basis) as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	$	5,107,607
Uses/Outflows of Resources		
Actual amounts (budgetary basis) "Total Charges to Appropriations"		
from the Budgetary Comparison Schedule	$	332,752
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		(28,969)
Biennium total expenditures		272,429
Nonappropriated activity		4,775,089
Total expenditures (GAAP basis) as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds	$	5,047,518

BUDGETARY INFORMATION
Notes to Required Supplementary Information

GENERAL BUDGETARY POLICIES AND PROCEDURES

The Governor is required to submit a budget to the Legislature no later than December 20 of the year preceding odd-numbered year sessions of the Legislature.

The budget is a proposal for expenditures in the ensuing biennial period based upon anticipated revenues from the sources and rates existing by law at the time of submission of the budget. The Governor may additionally submit, as an appendix to the budget, a proposal for expenditures in the ensuing biennium from revenue sources derived from proposed changes in existing statutes.

The appropriated budget and any necessary supplemental budgets are legally required to be adopted through the passage of appropriation bills by the Legislature and approved by the Governor. Operating appropriations are generally made at the fund/account and agency level; however, in a few cases, appropriations are made at the fund/account and agency/program level. Operating appropriations cover either the entire biennium or a single fiscal year within the biennium. Capital appropriations are biennial and are generally made at the fund/account, agency, and project level.

The legal level of budgetary control is at the fund/account, agency, and appropriation level, with administrative controls established at lower levels of detail in certain instances. The accompanying budgetary schedule is not presented at the legal level of budgetary control. This is due to the large number of appropriations within individual agencies that would make such a presentation in the accompanying financial schedule extremely cumbersome. Section 2400.121 of the GASB Codification of Governmental Accounting and Financial Reporting Standards provides for the preparation of a separate report in these extreme cases.

For the state of Washington, a separate report has been prepared for the 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. A copy of this report is available at the Office of Financial Management, PO Box 43113, Olympia, Washington 98504-3113.

Legislative appropriations are strict legal limits on expenditures, 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 GAAP. However, the presentation in the accompanying budgetary schedules is different in certain respects from the corresponding Statements of Revenues, Expenditures, and Changes in Fund Balance (governmental operating statement). In the accompanying budgetary schedules, budget and actual expenditures are reported only for appropriated activities. Expenditures are classified based on whether the appropriation is from the operating or capital budget. Expenditures funded by operating budget appropriations are reported as current expenditures classified by the function of the agency receiving the appropriation. Expenditures funded by capital budget appropriations are reported as capital outlays.

However, in the governmental operating statements, all governmental funds are included and expenditures are classified according to what was actually purchased. Capital outlays are capital asset acquisitions such as land, buildings, and equipment. Debt service expenditures are principal and interest payments. Current expenditures are all other governmental fund expenditures classified based on the function of the agency making the expenditures.

Certain governmental activities are excluded from the budgetary schedules because they are not appropriated. These activities include activities designated as nonappropriated by the Legislature. 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 unassigned fund balance as reported on the Governmental Funds Balance Sheet. In all other funds except Wildlife and Natural Resources, Budgetary Fund Balance equals total fund balance less nonspendable fund balance as reported on the Governmental Funds Balance Sheet. The Budgetary Fund Balance in the Wildlife and Natural Resources fund is further reduced by a portion of restricted fund balance that is not available for budgeting.

PENSION PLAN INFORMATION
Schedules of Funding Progress

continued

Schedule of Funding Progress
Public Employees' Retirement System - Plan 1
Valuation Years 2013 through 2008
(dollars in millions)

	2013	2012	2011	2010	2009	2008
Actuarial valuation date	6/30/2013	6/30/2012	6/30/2011	6/30/2010	6/30/2009	6/30/2008
Actuarial value of plan assets	$ 8,053	$ 8,521	$ 8,883	$ 9,293	$ 9,776	$ 9,853
Actuarial accrued liability	12,874	12,360	12,571	12,538	13,984	13,901
Unfunded actuarial liability	4,821	3,839	3,688	3,245	4,209	4,048
Funded Ratio	63%	69%	71%	74%	70%	71%
Covered payroll	318	371	432	507	580	638
Unfunded actuarial liability as a percentage of covered payroll	1517%	1035%	854%	640%	725%	634%

Note: Figures may not total due to rounding. Percentages are calculated using unrounded totals.

Source: Washington State Office of the State Actuary.

Schedule of Funding Progress
Public Employees' Retirement System - Plan 2/3
Valuation Years 2013 through 2008
(dollars in millions)

	2013	2012	2011	2010	2009	2008
Actuarial valuation date	6/30/2013	6/30/2012	6/30/2011	6/30/2010	6/30/2009	6/30/2008
Actuarial value of plan assets	$ 24,335	$ 22,653	$ 20,997	$ 19,474	$ 18,260	$ 16,693
Actuarial accrued liability	26,540	22,780	21,627	20,029	18,398	16,508
Unfunded actuarial liability	2,205	127	630	555	137	(185)
Funded Ratio	92%	99%	97%	97%	99%	101%
Covered payroll	8,339	8,193	8,148	8,206	8,132	7,869
Unfunded actuarial liability as a percentage of covered payroll	26%	2%	8%	7%	2%	0%

PERS Plan 2/3 uses the aggregate actuarial cost method. The Schedule of Funding Progress is prepared using the entry age actuarial cost method and is intended to serve as a surrogate for the funded status and funding progress information of this plan as required by GASB Statement No. 50.

Note: Figures may not total due to rounding. Percentages are calculated using unrounded totals.

Source: Washington State Office of the State Actuary.

PENSION PLAN INFORMATION
Schedules of Funding Progress

continued

Schedule of Funding Progress
Teachers' Retirement System - Plan 1
Valuation Years 2013 through 2008
(dollars in millions)

	2013	2012	2011	2010	2009	2008
Actuarial valuation date	6/30/2013	6/30/2012	6/30/2011	6/30/2010	6/30/2009	6/30/2008
Actuarial value of plan assets	$ 6,717	$ 7,145	$ 7,485	$ 7,791	$ 8,146	$ 8,262
Actuarial accrued liability	9,429	9,038	9,232	9,201	10,820	10,754
Unfunded actuarial liability	2,712	1,894	1,747	1,410	2,674	2,492
Funded Ratio	71%	79%	81%	85%	75%	77%
Covered payroll	183	228	284	344	389	432
Unfunded actuarial liability as a percentage of covered payroll	1481%	829%	615%	410%	688%	576%

Note: Figures may not total due to rounding. Percentages are calculated using unrounded totals.

Source: Washington State Office of the State Actuary.

Schedule of Funding Progress
Teachers' Retirement System - Plan 2/3
Valuation Years 2013 through 2008
(dollars in millions)

	2013	2012	2011	2010	2009	2008
Actuarial valuation date	6/30/2013	6/30/2012	6/30/2011	6/30/2010	6/30/2009	6/30/2008
Actuarial value of plan assets	$ 8,406	$ 7,758	$ 7,141	$ 6,593	$ 6,160	$ 5,681
Actuarial accrued liability	8,794	7,478	7,194	6,558	6,048	5,264
Unfunded (assets in excess of) actuarial liability	388	(280)	53	(36)	(112)	(417)
Funded Ratio	96%	104%	99%	101%	102%	108%
Covered payroll	4,223	4,077	4,085	3,966	3,957	3,621
Unfunded actuarial liability as a percentage of covered payroll	9%	0%	1%	0%	0%	0%

TRS Plan 2/3 uses the aggregate actuarial cost method. The Schedule of Funding Progress is prepared using the entry age actuarial cost method and is intended to serve as a surrogate for the funded status and funding progress information of this plan as required by GASB Statement No. 50.

Note: Figures may not total due to rounding. Percentages are calculated using unrounded totals.

Source: Washington State Office of the State Actuary.

PENSION PLAN INFORMATION
Schedules of Funding Progress

continued

Schedule of Funding Progress
School Employees' Retirement System - Plan 2/3
Valuation Years 2013 through 2008

(dollars in millions)

	2013	2012	2011	2010	2009	2008
Actuarial valuation date	6/30/2013	6/30/2012	6/30/2011	6/30/2010	6/30/2009	6/30/2008
Actuarial value of plan assets	$ 3,335	$ 3,100	$ 2,872	$ 2,664	$ 2,503	$ 2,303
Actuarial accrued liability	3,581	3,103	2,956	2,706	2,493	2,207
Unfunded (assets in excess of) actuarial liability	247	3	84	41	(10)	(95)
Funded Ratio	93%	100%	97%	98%	100%	104%
Covered payroll	1,514	1,479	1,490	1,475	1,467	1,379
Unfunded actuarial liability as a percentage of covered payroll	16%	0%	6%	3%	0%	0%

SERS Plan 2/3 uses the aggregate actuarial cost method. The Schedule of Funding Progress is prepared using the entry age actuarial cost method and is intended to serve as a surrogate for the funded status and funding progress information of this plan as required by GASB Statement No. 50.

Note: Figures may not total due to rounding. Percentages are calculated using unrounded totals.

Source: Washington State Office of the State Actuary.

Schedule of Funding Progress
Law Enforcement Officers' and Fire Fighters' Retirement System - Plan 1
Valuation Years 2013 through 2008

(dollars in millions)

	2013	2012	2011	2010	2009	2008
Actuarial valuation date	6/30/2013	6/30/2012	6/30/2011	6/30/2010	6/30/2009	6/30/2008
Actuarial value of plan assets	$ 5,516	$ 5,562	$ 5,565	$ 5,561	$ 5,612	$ 5,592
Actuarial accrued liability	4,409	4,121	4,145	4,393	4,492	4,368
Unfunded (assets in excess of) actuarial liability	(1,108)	(1,441)	(1,420)	(1,168)	(1,120)	(1,225)
Funded Ratio	125%	135%	134%	127%	125%	128%
Covered payroll	15	19	25	29	33	37
Unfunded actuarial liability as a percentage of covered payroll	0%	0%	0%	0%	0%	0%

Note: Figures may not total due to rounding. Percentages are calculated using unrounded totals.

Source: Washington State Office of the State Actuary.

PENSION PLAN INFORMATION
Schedules of Funding Progress

continued

Schedule of Funding Progress
Law Enforcement Officers' and Fire Fighters' Retirement System - Plan 2
Valuation Years 2013 through 2008
(dollars in millions)

	2013	2012	2011	2010	2009	2008
Actuarial valuation date	6/30/2013	6/30/2012	6/30/2011	6/30/2010	6/30/2009	6/30/2008
Actuarial value of plan assets	$ 7,862	$ 7,222	$ 6,621	$ 6,043	$ 5,564	$ 5,053
Actuarial accrued liability	7,220	6,353	5,941	5,164	4,641	3,998
Unfunded (assets in excess of) actuarial liability	(643)	(869)	(679)	(879)	(923)	(1,054)
Funded Ratio	109%	114%	111%	117%	120%	126%
Covered payroll	1,597	1,560	1,535	1,490	1,442	1,345
Unfunded actuarial liability as a percentage of covered payroll	0%	0%	0%	0%	0%	0%

LEOFF Plan 2 uses the aggregate actuarial cost method. The Schedule of Funding Progress is prepared using the entry age actuarial cost method and is intended to serve as a surrogate for the funded status and funding progress information of this plan as required by GASB Statement No. 50.

Note: Figures may not total due to rounding. Percentages are calculated using unrounded totals.

Source: Washington State Office of the State Actuary.

Schedule of Funding Progress
Washington State Patrol Retirement System - Plan 1/2
Valuation Years 2013 through 2008
(dollars in millions)

	2013	2012	2011	2010	2009	2008
Actuarial valuation date	6/30/2013	6/30/2012	6/30/2011	6/30/2010	6/30/2009	6/30/2008
Actuarial value of plan assets	$ 1,009	$ 982	$ 949	$ 920	$ 900	$ 870
Actuarial accrued liability	987	884	859	812	790	745
Unfunded (assets in excess of) actuarial liability	(22)	(97)	(90)	(107)	(110)	(124)
Funded Ratio	102%	111%	110%	113%	114%	117%
Covered payroll	80	80	82	83	83	79
Unfunded actuarial liability as a percentage of covered payroll	0%	0%	0%	0%	0%	0%

WSPRS Plan 1/2 uses the aggregate actuarial cost method. The Schedule of Funding Progress is prepared using the entry age actuarial cost method and is intended to serve as a surrogate for the funded status and funding progress information of this plan as required by GASB Statement No. 50.

Note: Figures may not total due to rounding. Percentages are calculated using unrounded totals.

Source: Washington State Office of the State Actuary.

PENSION PLAN INFORMATION
Schedules of Funding Progress

continued

Schedule of Funding Progress
Public Safety Employees' Retirement System - Plan 2
Valuation Years 2013 through 2008
(dollars in millions)

	2013	2012	2011	2010	2009	2008
Actuarial valuation date	6/30/2013	6/30/2012	6/30/2011	6/30/2010	6/30/2009	6/30/2008
Actuarial value of plan assets	$ 224	$ 180	$ 141	$ 103	$ 69	$ 39
Actuarial accrued liability	218	159	126	94	64	37
Unfunded (assets in excess of) actuarial liability	(7)	(22)	(14)	(9)	(5)	(2)
Funded Ratio	103%	114%	111%	109%	108%	106%
Covered payroll	253	238	233	227	223	200
Unfunded actuarial liability as a percentage of covered payroll	0%	0%	0%	0%	0%	0%

PSERS Plan 2 uses the aggregate actuarial cost method. The Schedule of Funding Progress is prepared using the entry age actuarial cost method and is intended to serve as a surrogate for the funded status and funding progress information of this plan as required by GASB Statement No. 50.

Note: Figures may not total due to rounding. Percentages are calculated using unrounded totals.

Source: Washington State Office of the State Actuary.

Schedule of Funding Progress
Judicial Retirement System
Valuation Years 2013 through 2008
(dollars in millions)

	2013	2012	2011	2010	2009	2008
Actuarial valuation date	6/30/2013	6/30/2012	6/30/2011	6/30/2010	6/30/2009	6/30/2008
Actuarial value of plan assets	$ 4	$ 3	$ 5	$ 4	$ 2	$ 1
Actuarial accrued liability	108	104	109	84	89	92
Unfunded actuarial liability	104	101	104	80	87	91
Funded Ratio	4%	3%	5%	5%	2%	1%
Covered payroll	N/A	0.3	0.5	0.7	0.9	1.3
Unfunded actuarial liability as a percentage of covered payroll	N/A	33779%	22574%	11565%	9216%	7141%

N/A indicates that data is not applicable. Beginning with fiscal year 2013, there are no active members in this plan.

Note: Figures may not total due to rounding. Percentages are calculated using unrounded totals.

Source: Washington State Office of the State Actuary.

PENSION PLAN INFORMATION
Schedules of Funding Progress

concluded

Schedule of Funding Progress
Judges' Retirement Fund
Valuation Years 2013 through 2008
(dollars in millions)

	2013	2012	2011	2010	2009	2008
Actuarial valuation date	6/30/2013	6/30/2012	6/30/2011	6/30/2010	6/30/2009	6/30/2008
Actuarial value of plan assets	$ 1.4	$ 1.9	$ 2.3	$ 2.8	$ 3.3	$ 3.6
Actuarial accrued liability	3.5	3.6	3.9	3.2	3.4	3.5
Unfunded (assets in excess of) actuarial liability	2.1	1.7	1.5	0.4	0.1	(0.1)
Funded Ratio	40%	52%	61%	87%	97%	104%
Covered payroll *	N/A	N/A	N/A	N/A	N/A	N/A
Unfunded actuarial liability as a percentage of covered payroll	N/A	N/A	N/A	N/A	N/A	N/A

* Covered payroll is not applicable because there are no active plan members.

N/A indicates data not applicable.

Note: Figures may not total due to rounding. Percentages are calculated using unrounded totals.

Source: Washington State Office of the State Actuary.

Schedule of Funding Progress
Volunteer Fire Fighters' and Reserve Officers' Relief and Pension Fund
Valuation Years 2013 through 2008
(dollars in millions)

	2013	2012	2011	2010	2009	2008
Actuarial valuation date	6/30/2013	6/30/2012	6/30/2011	6/30/2010	6/30/2009	6/30/2008
Actuarial value of plan assets***	$ 182	$ 170	$ 168	$ 166	$ 166	$ 161
Actuarial accrued liability*	184	170	168	166	163	153
Unfunded (assets in excess of) actuarial liability	1	-	-	-	(3)	(8)
Funded Ratio	99%	100%	100%	100%	102%	105%
Covered payroll**	N/A	N/A	N/A	N/A	N/A	N/A
Unfunded actuarial liability as a percentage of covered payroll	N/A	N/A	N/A	N/A	N/A	N/A

* Pension plan liability only - excludes relief benefits.

**Covered payroll is not presented because it is not applicable since this is a volunteer organization.

*** State Board for Volunteer Fire Fighters and Reserve Officers adopted a new funding policy as of 2010 where assets above the accrued pension liability are allocated to fund relief benefits.

N/A indicates data not applicable.

Note: Figures may not total due to rounding. Percentages are calculated using unrounded totals.

Source: Washington State Office of the State Actuary.

PENSION PLAN INFORMATION

Schedules of Contributions from Employers and Other Contributing Entities (cont'd)

Schedules of Contributions from Employers and Other Contributing Entities
For the Fiscal Years Ended June 30, 2014 through 2009
(dollars in millions)

	2014	2013	2012	2011	2010	2009
PUBLIC EMPLOYEES' RETIREMENT PLAN SYSTEM - PLAN 1						
Employers' annual required contribution	$ 670.9	$ 534.2	$ 508.0	$ 439.3	$ 627.8	$ 620.2
Employers' actual contribution	448.9	266.3	257.2	145.6	154.0	325.2
Percentage contributed	67%	50%	51%	33%	25%	52%
PUBLIC EMPLOYEES' RETIREMENT PLAN SYSTEM - PLAN 2/3						
Employers' annual required contribution	$ 612.0	$ 408.3	$ 407.7	$ 408.6	$ 383.1	$ 369.7
Employers' actual contribution	430.3	389.0	385.3	328.3	327.5	439.7
Percentage contributed	70%	95%	94%	80%	85%	119%
TEACHERS' RETIREMENT SYSTEM - PLAN 1						
Employers' annual required contribution	$ 388.6	$ 275.4	$ 254.0	$ 205.9	$ 406.1	$ 391.0
Employers' actual contribution	200.7	118.6	111.9	96.8	112.7	178.9
Percentage contributed	52%	43%	44%	47%	28%	46%
TEACHERS' RETIREMENT SYSTEM - PLAN 2/3						
Employers' annual required contribution	$ 335.4	$ 231.6	$ 232.2	$ 232.3	$ 221.1	$ 186.9
Employers' actual contribution	249.3	229.0	213.9	168.3	165.0	160.8
Percentage contributed	74%	99%	92%	72%	75%	86%
SCHOOL EMPLOYEES' RETIREMENT SYSTEM - PLAN 2/3						
Employers' annual required contribution	$ 124.5	$ 86.6	$ 85.2	$ 88.6	$ 82.3	$ 71.5
Employers' actual contribution	88.8	78.4	74.6	62.3	62.1	63.5
Percentage contributed	71%	91%	88%	70%	75%	89%

The Annual Required Contribution (ARC) changes each year with the experience of the plans. Factors influencing the experience include changes in funding methods, assumptions, plan provisions, and economic and demographic experience gains and losses. The methods used to derive the ARC for this reporting disclosure are different from the methods used to derive the actual contributions required by law. These differences include the use of different actuarial valuations (actual contributions may be based on an earlier valuation), and different actuarial cost methods. For these reasons the actual contributions will not match the ARCs. Starting in 2009, the ARC for PERS and TRS Plans 1 was calculated using the Entry Age Normal cost method with a rolling 10-year amortization (excluding the temporary rate ceilings). Starting in 2011, the calculation of the ARC reflects the underlying actuarial cost method (excluding minimum contribution rates).

Note: Figures may not total due to rounding. Percentages are calculated using unrounded totals.

Source: Washington State Office of the State Actuary

PENSION PLAN INFORMATION
Schedules of Contributions from Employers and Other Contributing Entities (cont'd)

Schedules of Contributions from Employers and Other Contributing Entities
For the Fiscal Years Ended June 30, 2014 through 2009
(dollars in millions)

	2014	2013	2012	2011	2010	2009
LAW ENFORCEMENT OFFICERS' AND FIRE FIGHTERS' RETIREMENT SYSTEM - PLAN 1						
Employers' annual required contribution	$ -	$ -	$ -	$ -	$ -	$ -
Employers' actual contribution	0.1	0.6	-	-	-	-
Percentage contributed	N/A	N/A	N/A	N/A	N/A	N/A
State annual required contribution	$ -	$ -	$ -	$ -	$ -	$ -
State actual contribution	-	-	-	-	-	-
Percentage contributed	N/A	N/A	N/A	N/A	N/A	N/A
LAW ENFORCEMENT OFFICERS' AND FIRE FIGHTERS' RETIREMENT SYSTEM - PLAN 2						
Employers' annual required contribution*	$ 70.1	$ 56.8	$ 59.1	$ 50.4	$ 67.3	$ 63.2
Employers' actual contribution	85.5	82.4	80.5	79.7	77.0	77.8
Percentage contributed	122%	145%	136%	158%	114%	123%
State annual required contribution*	$ 46.8	$ 37.9	$ 38.2	$ 33.6	$ 44.4	$ 42.1
State actual contribution	55.6	52.8	52.0	51.4	51.1	45.9
Percentage contributed	121%	144%	137%	157%	114%	122%
WASHINGTON STATE PATROL RETIREMENT SYSTEM						
Employers' annual required contribution	$ 7.3	$ 2.5	$ 2.9	$ 2.3	$ 6.6	$ 5.0
Employers' actual contribution	6.6	6.5	6.5	5.3	5.3	6.4
Percentage contributed	90%	260%	224%	228%	80%	127%

N/A indicates data not applicable.

*The Annual Required Contribution (ARC) for the LEOFF Plan 2 presented is the Office of the State Actuary's recommended figure.

The Annual Required Contribution (ARC) changes each year with the experience of the plans. Factors influencing the experience include changes in funding methods, assumptions, plan provisions, and economic and demographic experience gains and losses. The methods used to derive the ARC for this reporting disclosure are different from the methods used to derive the actual contributions required by law. These differences include the use of different actuarial valuations (actual contributions may be based on an earlier valuation), and different actuarial cost methods. For these reasons the actual contributions will not match the ARCs. Starting in 2009, the ARC for PERS and TRS Plans 1 was calculated using the Entry Age Normal cost method with a rolling 10-year amortization (excluding the temporary rate ceilings). Starting in 2011, the calculation of the ARC reflects the underlying actuarial cost method (excluding minimum contribution rates).

Note: Figures may not total due to rounding. Percentages are calculated using unrounded totals.

Source: Washington State Office of the State Actuary

PENSION PLAN INFORMATION

Schedules of Contributions from Employers and Other Contributing Entities (concl'd)

Schedules of Contributions from Employers and Other Contributing Entities
For the Fiscal Years Ended June 30, 2014 through 2009
(dollars in millions)

	2014	2013	2012	2011	2010	2009
PUBLIC SAFETY EMPLOYEES' RETIREMENT SYSTEM - PLAN 2						
Employers' annual required contribution	$ 18.6	$ 15.1	$ 14.7	$ 14.7	$ 14.8	$ 14.3
Employers' actual contribution	17.1	15.6	15.3	15.6	15.2	14.5
Percentage contributed	92%	103%	104%	106%	103%	101%
JUDICIAL RETIREMENT SYSTEM						
Employers' annual required contribution	$ 22.5	$ 21.7	$ 22.6	$ 18.6	$ 20.4	$ 21.2
Employers' actual contribution	10.6	10.1	8.1	10.9	11.6	10.2
Percentage contributed	47%	47%	36%	59%	57%	49%
JUDGES' RETIREMENT FUND						
Employers' annual required contribution	$ 0.5	$ 0.4	$ 0.3	$ 0.1	$ -	$ -
Employers' actual contribution	-	-	-	-	-	-
Percentage contributed	N/A	N/A	N/A	N/A	N/A	N/A
VOLUNTEER FIRE FIGHTERS' AND RESERVE OFFICERS' RELIEF AND PENSION FUND						
Employers' annual required contribution	$ 1.0	$ 0.9	$ 1.0	$ 1.1	$ 1.0	$ 1.1
Employers' actual contribution	1.0	0.9	1.0	1.1	1.0	1.0
Percentage contributed	100%	100%	100%	100%	100%	91%
State annual required contribution	$ 5.2	$ 3.7	$ 3.7	$ 4.2	$ 1.8	$ 1.4
State actual contribution	6.4	6.0	5.6	5.8	5.7	5.2
Percentage contributed	123%	162%	151%	138%	317%	371%

N/A indicates data not applicable.

The Annual Required Contribution (ARC) changes each year with the experience of the plans. Factors influencing the experience include changes in funding methods, assumptions, plan provisions, and economic and demographic experience gains and losses. The methods used to derive the ARC for this reporting disclosure are different from the methods used to derive the actual contributions required by law. These differences include the use of different actuarial valuations (actual contributions may be based on an earlier valuation), and different actuarial cost methods. For these reasons the actual contributions will not match the ARCs. Starting in 2009, the ARC for PERS and TRS Plans 1 was calculated using the Entry Age Normal cost method with a rolling 10-year amortization (excluding the temporary rate ceilings). Starting in 2011, the calculation of the ARC reflects the underlying actuarial cost method (excluding minimum contribution rates).

Note: Figures may not total due to rounding. Percentages are calculated using unrounded totals.

Source: Washington State Office of the State Actuary

PENSION PLAN INFORMATION

Volunteer Fire Fighters' and Reserve Officers' Relief and Pension Fund

Schedule of Change in Net Pension Liability
Fiscal Years Ended June 30, 2014 through 2013
(dollars in thousands)

	2014	2013
Total Pension Liability		
Service cost	$ 1,240	N/A
Interest	12,480	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 member contributions	(10,771)	N/A
Net Change in Total Pension Liability	2,949	N/A
Total Pension Liability - Beginning	183,578	N/A
Total Pension Liability - Ending	$ 186,527	$ 183,578
Plan Fiduciary Net Position		
Contributions - Employer	$ 7,336	N/A
Contributions - Member	95	N/A
Net investment income	31,892	N/A
Benefit payments, Including refunds of member contributions	(10,771)	N/A
AdministrativeeExpense	(1,469)	N/A
Other	(22)	N/A
Net Change in Plan Fiduciary Net Position	27,061	N/A
Plan Fiduciary Net Position - Beginning	177,134	N/A
Plan Fiduciary Net Position - Ending	$ 204,195	$ 177,134
Plan's Net Pension Liability (Asset) - Ending	$ (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
Fiscal Years Ended June 30, 2014 through 2013
(dollars in thousands)

	2014	2013
Total Pension Liability - Ending	$ 186,527	$ 183,578
Plan Fiduciary Net Position - Ending	204,195	177,134
Plan's Net Pension Liability (Asset) - Ending	$ (17,668)	$ 6,444
Plan fiduciary net position as a percent of the total pension liability	109.47%	96.49%
Covered employee payroll	N/A	N/A
Net pension liability (asset) as a percent of covered employee payroll	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
Fiscal Years Ended June 30, 2014 through 2005
(dollars in thousands)

Year	Actuarially determined contribution	Contributions in relation to the actuarial determined contribution	Contribution deficiency (excess)
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)
2005	2,500	5,191	(2,691)

Neither covered payroll nor contributions as a percentage of covered payroll are applicable. This is a volunteer organization.

Prior to 2014, the Annual Required Contribution (ARC) amounts are presented for the Actuarially Determined Contributions. The ARC changes each year with the experience of the plans. Factors influencing the experience include changes in funding methods, assumptions, plan provisions, and economic and demographic gains and losses.

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
Fiscal Year Ended June 30, 2014

	2014
Annual money-weighted rate of return, net of investment expense	16.72%

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

Schedule of Funding Progress
Other Postemployment Benefits
Valuation Years 2013 through 2009
(dollars in millions)

	2013	2011	2009
Actuarial valuation date	1/1/2013	1/1/2011	1/1/2009
Actuarial value of plan assets	$ -	$ -	$ -
Actuarial accrued liability (AAL)*	3,707	3,492	3,787
Unfunded actuarial accrued liability (UAAL)	3,707	3,492	3,787
Funded ratio	0%	0%	0%
Covered payroll	5,787	5,937	5,678
UAAL as a percentage of covered payroll	64%	59%	67%

* Based on projected unit credit actuarial cost method.

Source: Washington State Office of the State Actuary

INFRASTRUCTURE ASSETS REPORTED USING THE MODIFIED APPROACH

Condition Assessment

The state of Washington reports certain networks of infrastructure assets under the modified approach of the Governmental Accounting Standards Board Statement No. 34. Expenditures to maintain and preserve these assets are budgeted, recorded, and reported in lieu of depreciation expense. The state must meet the following requirements to report networks of assets under the modified approach:

- Maintain an up-to-date inventory of eligible infrastructure assets in an asset management system.
- Disclose the condition level established by administrative or executive policy, or by legislative action at which assets are to be preserved or maintained.
- Perform condition assessments of eligible assets and summarize the results using a measurement scale.
- Document that assets are being preserved approximately at or above the disclosed condition level.
- Annually estimate the cost to maintain and preserve the assets at the established condition level.

Assets accounted for under the modified approach include the state's network of highway pavements, bridges, and rest areas. In fiscal year 2014, the state was responsible to maintain and preserve 20,692 pavement lane miles, 3,286 bridges and tunnels, and 48 rest areas.

PAVEMENT CONDITION

The Washington State Department of Transportation (WSDOT) performs highway pavement assessments over a two year cycle utilizing three measurements to develop a scaled condition assessment: Pavement Structural Condition (PSC), International Roughness Index (IRI), and rutting.

The WSDOT uses the following rating scale for PSC:

Category	PSC Range	Description
Very Good	80 – 100	Little or no distress. Example: Flexible pavement with 5 percent of wheel track length having "hairline" severity alligator cracking will have a PSC of 80.
Good	60 – 79	Early stage deterioration. Example: Flexible pavement with 15 percent of wheel track length having "hairline" alligator cracking will have a PSC of 70.
Fair	40 – 59	This is the threshold value for rehabilitation. Example: Flexible pavement with 25 percent of wheel track length having "hairline" alligator cracking will have a PSC of 50.
Poor	20 – 39	Structural deterioration. Example: Flexible pavement with 25 percent of wheel track length having "medium (spalled)" severity alligator cracking will have a PSC of 30.
Very Poor	0 – 19	Advanced structural deterioration. Example: Flexible pavement with 40 percent of wheel track length having "medium (spalled)" severity alligator cracking will have a PSC of 10. May require extensive repair and thicker overlays.

The IRI scale is measured in inches per mile. The WSDOT assesses pavements with a ride performance measure less than 221 inches per mile to be in fair or better condition.

Rutting is measured in inches with a measurement of 0.58 inches or less assessed at a condition of fair or better.

PSC, IRI, and rutting are combined to rate a section of pavement which is assigned the lowest condition of any of the three indices.

The WSDOT's policy is to maintain 90 percent of pavements at a condition level of fair or better. The following table shows the combined conditions and the ratings for each index:

Category	PSC	IRI	Rutting
Very Good	80 – 100	< 96	< 0.24
Good	60 – 79	96 – 170	0.24 – 0.41
Fair	40 – 59	171 – 220	0.42 – 0.58
Poor	20 – 39	221 – 320	0.59 – 0.74
Very Poor	0 – 19	> 320	> 0.74

The following table shows 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%

* The methodology for 2013 has 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)*					
	2014	**2013**	**2012**	**2011**	**2010**
Planned	$ 122,868	$ 137,779	$ 148,811	$ 122,203	$ 168,204
Actual	143,598	108,972	148,366	117,811	159,441
Variance	$ (20,730)	$ 28,807	$ 445	$ 4,392	$ 8,763
	(16.9%)	20.9%	0.3%	3.6%	5.2%

Actual expenditures may vary from planned amounts for a variety of reasons which include, but are not limited to, management's decision to accelerate, defer, or reduce preservation or maintenance activity in response to economic forecasts and other factors.

For more information about pavements, refer to the WSDOT's website at: http://www.wsdot.wa.gov/Business/MaterialsLab/Pavements/default.htm.

BRIDGE CONDITION

The WSDOT performs sample condition assessments on state owned bridges in excess of 20 feet in length each year with all bridges inspected over a two year cycle. Underwater bridge components are inspected at least once every five years in accordance with Federal Highway Administration (FHWA) requirements.

The WSDOT uses a performance measure which classifies a bridge as good, fair, or poor using the National Bridge Inspection Standards (NBIS) codes for bridge superstructure, substructure, and deck. The following categories for condition rating are based on the structural sufficiency standards established in FHWA's "Recording and Coding Guide for the Structural Inventory and Appraisal of the Nation's Bridges."

Category	National Bridge Inventory Code	Description
Good	6, 7, or 8	A range from no problems noted to some minor deterioration of structural elements.
Fair	5	All primary structural elements are sound but may have deficiencies such as minor section loss, deterioration, cracking, spalling, or scour.
Poor	4 or less	Advanced deficiencies such as section loss, deterioration, cracking, spalling, scour, or seriously affected primary structural components.

The WSDOT's policy is to maintain 95 percent of bridges at a condition level of fair or better. The following table shows condition ratings for state bridges:

Bridges Percentage in Fair or Better Condition* Two Year Cycle Ending Fiscal Year			
2013	2011	2009	Average of Last Three Assessments
91.4%	95.4%	97.7%	94.8%

* 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)*					
	2014	2013	2012	2011	2010
Planned	$ 92,192	$ 98,519	$ 66,510	$ 46,708	$ 54,490
Actual	87,271	87,306	61,026	43,709	44,436
Variance	$ 4,921	$ 11,213	$ 5,484	$ 2,999	$ 10,054
	5.3%	11.4%	8.2%	6.4%	18.5%

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 every two years. 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 Calendar Year			
2013	2011	2009	Average of Last Three Assessments
100.0%	100.0%	97.6%	99.2%

The following table reflects the state's estimated and actual expenditures necessary to preserve the safety rest areas at the established condition level:

Safety Rest Areas Preservation and Maintenance - Planned to Actual - Fiscal Year *(expressed in thousands)*					
	2014	2013	2012	2011	2010
Planned	$ 7,488	$ 6,607	$ 6,278	$ 6,259	$ 5,815
Actual	7,591	6,676	6,467	6,514	5,925
Variance	$ (103)	$ (69)	$ (189)	$ (255)	$ (110)
	(1.4%)	(1.0%)	(3.0%)	(4.1%)	(1.9%)

Actual expenditures may vary from planned amounts for a variety of reasons which include, but are not limited to, management's decision to accelerate, defer, or reduce preservation or maintenance activity in response to economic forecasts and other factors.

For more information about safety rest areas, refer to WSDOT's website at: http://www.wsdot.wa.gov/safety/restareas.

APPENDIX E

DTC AND ITS BOOK-ENTRY SYSTEM

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DTC AND ITS BOOK-ENTRY SYSTEM

The following information has been 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.