OFFICIAL STATEMENT DATED JUNE 25, 2014

NEW ISSUE, BOOK-ENTRY ONLY

STATE OF WASHINGTON

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

$205,380,000
VARIOUS PURPOSE GENERAL OBLIGATION BONDS, SERIES 2015A-1

$420,085,000
VARIOUS PURPOSE GENERAL OBLIGATION REFUNDING BONDS, SERIES R-2015A

$22,580,000
VARIOUS PURPOSE GENERAL OBLIGATION BONDS, SERIES 2015A-2

$420,545,000
MOTOR VEHICLE FUEL TAX GENERAL OBLIGATION REFUNDING BONDS, SERIES R-2015B

$85,920,000
GENERAL OBLIGATION BONDS, SERIES 2015T (TAXABLE)

Dated: Date of Initial Delivery

Due: Series 2015A-1, Series 2015A-2 and Series 2015T: August 1; Series R-2015A and Series R-2015B: July 1; all as shown herein

The Series 2015A-1 Bonds, the Series 2015A-2 Bonds, the Series 2015T Bonds, the Series R-2015A Bonds and the Series R-2015B 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 R-2015B Bonds are first payable from state excise taxes on motor vehicle and special fuels. See "SECURITY FOR THE BONDS."

Interest on the Series 2015A-1 Bonds, the Series 2015A-2 Bonds and the Series 2015T Bonds is payable semiannually on each February 1 and August 1, beginning February 1, 2015. Interest on the Series R-2015A Bonds and Series R-2015B Bonds is payable semiannually on each January 1 and July 1, beginning January 1, 2015. The principal of the Series 2015A-1 Bonds is payable in the stated maturity amounts on each August 1 as set forth on page i. The principal of the Series 2015A-2 Bonds is payable in the stated maturity amounts on each August 1 as set forth on page ii. The principal of the Series 2015T Bonds is payable in the stated maturity amounts on each August 1 as set forth on page iii. The principal of the Series R-2015A Bonds is payable in the stated maturity amounts on each July 1 as set forth on page iv. The principal of the Series R-2015B Bonds is payable in the stated maturity amounts on each July 1 as set forth on page 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. Individual purchases of the Bonds will be made in book-entry form only. The Bonds will be issued in the denomination of $5,000 each or any integral multiple thereof within a single maturity of each Series. Purchasers of the Bonds will not receive certificates representing their interest in the Bonds purchased. The principal of and interest on the Bonds are payable by the fiscal agency of the state, as paying agent, registrar, transfer agent, and authenticating agent (the "Bond Registrar") (currently The Bank of New York Mellon), to DTC, which in turn is obligated to remit such principal and interest to the DTC participants for subsequent disbursement to beneficial owners of the Bonds, as described herein under "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 2015A-1 Bonds, the Series 2015A-2 Bonds, the Series R-2015A Bonds and the Series R-2015B Bonds (together, 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 2015T 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."

This cover page contains certain information for quick reference only. It is not a summary of this issue. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision. The 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 July 9, 2014.

Bank of America Merrill Lynch, Managing Underwriter of the Series 2015A-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 continue to be repeated in the future.

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

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

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

STATE OF WASHINGTON
$205,380,000
VARIOUS PURPOSE GENERAL OBLIGATION BONDS,
SERIES 2015A-1

Due August 1	Principal Amounts	Interest Rates	Yields	Prices	CUSIP(1)
2025	$ 1,540,000	5.000%	2.630%	120.829%(2)	93974DGY8
2026	10,835,000	5.000	2.730	119.851(2)	93974DGZ5
2027	11,390,000	5.000	2.820	118.978(2)	93974DHA9
2028	11,975,000	5.000	2.910	118.114(2)	93974DHB7
2029	10,050,000	5.000	2.990	117.351(2)	93974DHC5
2030	13,185,000	5.000	3.070	116.594(2)	93974DHD3
2031	13,860,000	5.000	3.140	115.937(2)	93974DHE1
2032	14,575,000	5.000	3.200	115.377(2)	93974DHF8
2033	15,320,000	5.000	3.260	114.821(2)	93974DHG6
2034	14,565,000	5.000	3.310	114.359(2)	93974DHH4
2035	16,910,000	5.000	3.360	113.900(2)	93974DHJ0
2036	17,775,000	5.000	3.400	113.534(2)	93974DHK7
2037	18,685,000	5.000	3.440	113.170(2)	93974DHL5
2038	19,645,000	5.000	3.480	112.807(2)	93974DHM3
2039	15,070,000	5.000	3.510	112.536(2)	93974DHN1
Total	$205,380,000				

(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 2015A-1 Bonds. Neither the state nor the Underwriters take responsibility for the accuracy of the CUSIP numbers.

(2) Priced to the August 1, 2024, par call date.

STATE OF WASHINGTON
$22,580,000
VARIOUS PURPOSE GENERAL OBLIGATION BONDS,
SERIES 2015A-2

Due August 1	Principal Amounts	Interest Rates	Yields	Prices	CUSIP[1]
2015	$ 10,000	2.000%	0.120%	101.992%	93974DFK9
2016	510,000	3.000	0.350	105.437	93974DFL7
2017	895,000	4.000	0.680	110.040	93974DFM5
2018	1,700,000	5.000	1.060	115.620	93974DFN3
2019	3,090,000	2.000	1.380	103.020	93974DFP8
2020	3,025,000	3.000	1.670	107.635	93974DFQ6
2021	730,000	4.000	1.950	113.460	93974DFR4
2022	915,000	4.000	2.190	113.307	93974DFS2
2023	1,200,000	3.000	2.390	104.942	93974DFT0
2024	915,000	5.000	2.530	121.817	93974DFU7
2029	2,515,000	3.250	3.350	98.823	93974DFV5
2034	1,530,000	3.500	3.640	98.017	93974DFW3
2039	5,545,000	3.750	3.870	98.083	93974DFX1
Total	$22,580,000				

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STATE OF WASHINGTON
$85,920,000
GENERAL OBLIGATION BONDS, SERIES 2015T (TAXABLE)

Due August 1	Principal Amounts	Interest Rates	Yields	Prices	CUSIP(1)
2015	$ 8,335,000	0.150%	0.150%	100.000%	93974DHP6
2016	7,870,000	0.550	0.550	100.000	93974DHQ4
2017	7,570,000	1.000	1.000	100.000	93974DHR2
2018	6,910,000	1.400	1.400	100.000	93974DHS0
2019	5,700,000	1.890	1.890	100.000	93974DHT8
2020	5,960,000	2.190	2.190	100.000	93974DHU5
2021	8,485,000	2.540	2.540	100.000	93974DHV3
2022	8,560,000	2.740	2.740	100.000	93974DHW1
2023	8,550,000	2.840	2.840	100.000	93974DHX9
2024	9,135,000	3.020	3.020	100.000	93974DHY7
2025	8,845,000	3.120	3.120	100.000	93974DHZ4
Total	$85,920,000				

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STATE OF WASHINGTON
$420,085,000
VARIOUS PURPOSE GENERAL OBLIGATION REFUNDING BONDS,
SERIES R-2015A

Due July 1	Principal Amounts	Interest Rates	Yields	Prices	CUSIP[1]
2017	$ 13,410,000	5.000%	0.700%	112.649%	93974DGA0
2018	36,720,000	5.000	1.050	115.348	93974DGB8
2019	38,600,000	5.000	1.380	117.356	93974DGC6
2020	40,575,000	5.000	1.680	118.806	93974DGD4
2021	42,675,000	5.000	1.960	119.735	93974DGE2
2022	44,845,000	5.000	2.210	120.303	93974DGF9
2023	47,145,000	5.000	2.440	120.527	93974DGG7
2024	49,550,000	5.000	2.570	121.266	93974DGH5
2025	52,085,000	5.000	2.680	120.193[2]	93974DGJ1
2026	54,480,000	4.000	2.880	109.652[2]	93974DGK8
Total	$420,085,000				

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(2) Priced to the July 1, 2024, par call date.

STATE OF WASHINGTON
$420,545,000
MOTOR VEHICLE FUEL TAX GENERAL OBLIGATION
REFUNDING BONDS, SERIES R-2015B

Due July 1	Principal Amounts	Interest Rates	Yields	Prices	CUSIP[1]
2017	$ 18,610,000	4.000%	0.620%	109.957%	93974DGN2
2018	38,340,000	4.000	1.000	111.670	93974DGP7
2019	39,975,000	4.000	1.340	112.767	93974DGQ5
2020	41,360,000	5.000	1.670	118.869	93974DGR3
2021	43,575,000	5.000	1.950	119.807	93974DGS1
2022	46,515,000	5.000	2.190	120.465	93974DGT9
2023	49,035,000	5.000	2.460	120.348	93974DGU6
2024	51,660,000	5.000	2.580	121.168	93974DGV4
2025	54,370,000	5.000	2.710	119.902[2]	93974DGW2
2026	37,105,000	5.000	2.810	118.939[2]	93974DGX0
Total	$420,545,000				

(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-2015B Bonds. Neither the state nor the Underwriters take responsibility for the accuracy of the CUSIP numbers.

(2) Priced to the July 1, 2024, par call date.

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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

The availability of this Official Statement via the Internet will not under any circumstances create any implication that there has been no change in the affairs of the state since the date hereof, or that the statements and information herein are current as of any date after the date hereof.

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

CONTACT INFORMATION

State of Washington	Office of the State Treasurer Legislative Building Second Floor, Room 230 416 Sid Snyder Avenue SW Olympia, Washington 98501 Phone: (360) 902-9000
Bond Registrar and Paying Agent	The Bank of New York Mellon Global Corporate Trust – Public Finance 2001 Bryan Street, 11th Floor Dallas, Texas 75201 Phone: (800) 438-5473
Bond Counsel and Disclosure Counsel	Foster Pepper PLLC 1111 Third Avenue, Suite 3400 Seattle, Washington 98101 Phone: (206) 447-4400
Financial Advisors	Montague DeRose and Associates, LLC 2175 N. California Boulevard, Suite 745 Walnut Creek, California 94596 Phone: (925) 256-9797
	Piper Jaffray & Co., Seattle-Northwest Division 1420 Fifth Avenue, Suite 4300 Seattle, Washington 98101 Phone: (206) 628-2882

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OFFICIAL STATEMENT

STATE OF WASHINGTON

$205,380,000
VARIOUS PURPOSE GENERAL OBLIGATION BONDS, SERIES 2015A-1

$22,580,000
VARIOUS PURPOSE GENERAL OBLIGATION BONDS, SERIES 2015A-2

$85,920,000
GENERAL OBLIGATION BONDS, SERIES 2015T (TAXABLE)

$420,085,000
VARIOUS PURPOSE GENERAL OBLIGATION REFUNDING BONDS, SERIES R-2015A

$420,545,000
MOTOR VEHICLE FUEL TAX GENERAL OBLIGATION REFUNDING BONDS, SERIES R-2015B

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, 2013, are included as Appendix D—"THE STATE'S 2013 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 2015A-1 (the "Series 2015A-1 Bonds"), in the principal amount of $205,380,000, and the State of Washington Various Purpose General Obligation Bonds, Series 2015A-2 (the "Series 2015A-2 Bonds"), in the principal amount of $22,580,000, are being issued pursuant to Chapter 167, Laws of 2006; Chapter 49, Laws of 2011, 1st Sp. Sess.; Chapter 1, Laws of 2012, 2nd Sp. Sess.; Chapter 20, Laws of 2013, 2nd Sp. Sess.; Chapter 39.42 RCW; and Resolution No. 1148 of the Committee, and with respect to the Series 2015A-1 Bonds, Resolution No. 1155 of the Committee acting by and through the Treasurer (collectively, the "Series 2015A-1 Bond Resolution"), and with respect to the Series 2015A-2 Bonds, Resolution No. 1156 of the Committee acting by and through the Treasurer (collectively, the "Series 2015A-2 Bond Resolution"), to provide funds to pay and reimburse state expenditures for various capital projects and to pay for the costs of issuance of the Series 2015A-1 Bonds and Series 2015A-2 Bonds.

Examples of projects to be financed with proceeds of the Series 2015A-1 Bonds and Series 2015A-2 Bonds include K-12 school modernization and new construction 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 riparian protection.

The State of Washington General Obligation Bonds, Series 2015T (Taxable) (the "Series 2015T Bonds"), in the principal amount of $85,920,000, are being issued pursuant to Chapter 20, Laws of 2013, 2nd Sp. Sess.; Chapter 39.42 RCW; and Resolution No. 1148 of the Committee and Resolution No. 1157 of the Committee acting by and through the Treasurer (collectively, the "Series 2015T 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 2015T Bonds.

The State of Washington Various Purpose General Obligation Refunding Bonds, Series R-2015A (the "Series R-2015A Bonds"), in the principal amount of $420,085,000, are being issued pursuant to Chapters 39.42 and 39.53 RCW, and Resolution No. 1150 of the Committee and Resolution No. 1158 of the Committee acting by and through the Treasurer (collectively, the "Series R-2015A 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-2015A Bonds.

The State of Washington Motor Vehicle Fuel Tax General Obligation Refunding Bonds, Series R-2015B (the "Series R-2015B Bonds"), in the principal amount of $420,545,000, are being issued pursuant to Chapters 39.42 and 39.53 RCW, and Resolution No. 1150 of the Committee and Resolution No.1159 of the Committee acting by and through the Treasurer (collectively, the "Series R-2015B Bond Resolution"), for the purpose of refunding certain motor vehicle fuel tax general obligation bonds of the state for debt service savings and to pay the administrative costs of such refunding and the costs of issuance of the Series R-2015B Bonds.

Collectively, the Series 2015A-1 Bond Resolution, the Series 2015A-2 Bond Resolution, the Series 2015T Bond Resolution, the Series R-2015A Bond Resolution and the Series R-2015B Bond Resolution are referred to as the "Bond Resolutions."

The Series 2015A-1 Bonds, the Series 2015A-2 Bonds, the Series R-2015A Bonds and the Series R-2015B Bonds are collectively referred to as the "Tax-Exempt Bonds" and the Series 2015T Bonds are referred to as the "Taxable Bonds."

Together, the Series R-2015A Bonds and the Series R-2015B Bonds are 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 2015A-1 Bonds, the Series 2015A-2 Bonds and the Series 2015T Bonds will be payable semiannually on each February 1 and August 1, beginning February 1, 2015, at the rates shown on pages i, ii and iii, respectively. Interest on the Series R-2015A Bonds and the Series R-2015B Bonds will be payable semiannually on each January 1 and July 1, beginning January 1, 2015, at the rates shown on pages iv and v, respectively.

Principal of the Series 2015A-1 Bonds, the Series 2015A-2 Bonds and the Series 2015T Bonds is payable on each August 1 in the years and amounts shown on pages i, ii and iii, respectively. Principal of the Series R-2015A Bonds and the Series R-2015B Bonds is payable on each July 1 in the years and amounts shown on pages iv and v, respectively.

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 state is currently under contract with The Bank of New York Mellon to act as the fiscal agent for the state for a term that began February 1, 2007, and continues to January 31, 2015. Under the terms of the current fiscal agency contract, The Bank of New York Mellon will authenticate the Bonds for delivery to DTC and will remit payments received from the state as principal and interest to DTC. See "DESCRIPTION OF THE BONDS–Book-Entry Bonds."

Redemption Provisions

Optional Redemption. The state may redeem the Series 2015A-1 Bonds, the Series 2015A-2 Bonds or the Series 2015T Bonds maturing on or after August 1, 2025, as a whole or in part on any date on or after August 1, 2024 (with the maturities to be redeemed to be selected by the state and randomly within a maturity in such manner as the Bond Registrar shall determine), at par plus accrued interest to the date fixed for redemption.

The state may redeem the Series R-2015A Bonds or the Series R-2015B Bonds maturing on or after July 1, 2025, as a whole or in part on any date on or after July 1, 2024 (with the maturities to be redeemed to be selected by the state and randomly within a maturity in such manner as the Bond Registrar shall determine), at par plus accrued interest to the date fixed for redemption.

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

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:

	2015A-1	2015A-2	2015T	R-2015A	R-2015B	Total(1)
Sources						
Par Amount of Bonds	$205,380,000	$22,580,000	$85,920,000	$420,085,000	$420,545,000	$1,154,510,000
Original Issue Premium	31,168,177	1,020,310(2)	-	75,179,449	76,146,361	183,514,298
Total Sources(1)	$236,548,177	$23,600,310	$85,920,000	$495,264,449	$496,691,361	$1,338,024,298
Uses						
Deposit to Project Funds	$236,352,219	$23,385,040	$85,555,120	$ -	$ -	$ 345,292,379
Deposit to Escrow Funds	-	-	-	494,726,072	495,677,420	990,403,492
Costs of Issuance(3)	70,677	14,369	31,675	143,331	143,801	403,853
Underwriting Spread	125,282	200,901	333,205	388,675	866,323	1,914,386
Additional Proceeds	-	-	-	6,371	3,817	10,189
Total Uses(1)	$236,548,177	$23,600,310	$85,920,000	$495,264,449	$496,691,631	$1,338,024,298

(1) Totals may not add due to rounding.
(2) Net original issue premium, which includes original issue premium minus original issue discount.
(3) 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 U.S. Bank, National Association, as Escrow Agent. The Escrow Agreement will provide for the refunding of the various purpose general obligation bonds (the "Various Purpose Refunded Bonds") and for the refunding of the motor vehicle fuel tax general obligation bonds (the "Motor Vehicle Fuel Tax Refunded Bonds, and together with the Various Purpose Refunded Bonds, the "Refunded Bonds") shown in the tables set forth below. The 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 and/or invested in Government Obligations that will mature and bear interest at rates sufficient to pay the principal of and accrued interest coming due on the respective redemption dates of the Refunded Bonds.

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

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

The following tables list the Refunded Bonds.

VARIOUS PURPOSE REFUNDED BONDS

Bonds	Maturity Dates	Interest Rates (%)	Par Amounts ($)	Call Dates	Call Price (%)	CUSIP Numbers
Various Purpose GO Bonds, Series 2007A, dated August 1, 2006						
Serials	07/01/2017	5.000	13,825,000	07/01/2016	100	93974BQV7
Various Purpose GO Bonds, Series 2008A, dated September 26, 2007						
Serials	07/01/2018	5.000	19,820,000	07/01/2017	100	93974BN57
	07/01/2019	5.000	20,830,000	07/01/2017	100	93974BN65
	07/01/2020	5.000	21,905,000	07/01/2017	100	93974BN73
	07/01/2021	5.000	23,035,000	07/01/2017	100	93974BN81
	07/01/2022	5.000	24,205,000	07/01/2017	100	93974BN99
	07/01/2023	5.000	25,450,000	07/01/2017	100	93974BP22
	07/01/2024	5.000	26,745,000	07/01/2017	100	93974BP30
	07/01/2025	5.000	28,125,000	07/01/2017	100	93974BP48
	07/01/2026	5.000	29,565,000	07/01/2017	100	93974BP55
Subtotal			219,680,000			
Various Purpose GO Bonds, Series 2008C, dated January 22, 2008						
Serials	01/01/2019	5.000	18,590,000	01/01/2018	100	93974B2M3
	01/01/2020	5.000	19,525,000	01/01/2018	100	93974B2N1
	01/01/2021	5.000	20,490,000	01/01/2018	100	93974B2P6
	01/01/2022	5.000	21,525,000	01/01/2018	100	93974B2Q4
	01/01/2023	5.000	22,595,000	01/01/2018	100	93974B2R2
	01/01/2024	5.000	23,725,000	01/01/2018	100	93974B2S0
	01/01/2025	5.000	24,915,000	01/01/2018	100	93974B2T8
	01/01/2026	5.000	26,160,000	01/01/2018	100	93974B2U5
	01/01/2027	5.000	27,470,000	01/01/2018	100	93974B2V3
Subtotal			204,995,000			
Total			438,500,000			

MOTOR VEHICLE FUEL TAX REFUNDED BONDS

Bonds	Maturity Dates	Interest Rates (%)	Par Amounts ($)	Call Dates	Call Price (%)	CUSIP Numbers
Motor Vehicle Fuel Tax GO Bonds, Series2007B, dated August 1, 2006						
Serials	07/01/2017	5.000	5,975,000	07/01/2016	100	93974BRW4
Motor Vehicle Fuel Tax GO Bonds, Series2007D, dated February 6, 2007						
Serials	01/01/2018	4.500	13,670,000	01/01/2017	100	93974BXD9
	01/01/2019	4.500	14,350,000	01/01/2017	100	93974BXE7
	01/01/2020	4.500	15,070,000	01/01/2017	100	93974BXF4
	01/01/2021	4.500	15,820,000	01/01/2017	100	93974BXG2
	01/01/2022	4.500	16,615,000	01/01/2017	100	93974BXH0
	01/01/2023	4.500	17,450,000	01/01/2017	100	93974BXJ6
	01/01/2024	4.500	18,320,000	01/01/2017	100	93974BXK3
	01/01/2025	4.500	19,235,000	01/01/2017	100	93974BXL1
	01/01/2026	4.500	20,190,000	01/01/2017	100	93974BXM9
Subtotal			150,720,000			
Motor Vehicle Fuel Tax GO Bonds, Series 2008B, dated September 26, 2007						
Serials	07/01/2018	5.000	13,245,000	07/01/2017	100	93974BK43
	07/01/2019	5.000	13,920,000	07/01/2017	100	93974BK50
	07/01/2020	5.000	14,065,000	07/01/2017	100	93974BK68
	07/01/2021	5.000	14,790,000	07/01/2017	100	93974BK76
	07/01/2022	5.000	16,195,000	07/01/2017	100	93974BK84
	07/01/2023	5.000	17,075,000	07/01/2017	100	93974BK92
	07/01/2024	5.000	17,960,000	07/01/2017	100	93974BL26
	07/01/2025	5.000	18,860,000	07/01/2017	100	93974BL34
	07/01/2026	5.000	19,975,000	07/01/2017	100	93974BL42
Subtotal			146,085,000			
Motor Vehicle Fuel Tax GO Bonds, Series 2008D, dated January 22, 2008						
Serials	01/01/2019	5.000	12,760,000	01/01/2018	100	93974B3L4
	01/01/2020	5.000	13,400,000	01/01/2018	100	93974B3M2
	01/01/2021	5.000	14,070,000	01/01/2018	100	93974B3N0
	01/01/2022	5.000	14,775,000	01/01/2018	100	93974B3P5
	01/01/2023	5.000	15,515,000	01/01/2018	100	93974B3Q3
	01/01/2024	5.000	16,285,000	01/01/2018	100	93974B3R1
	01/01/2025	5.000	17,100,000	01/01/2018	100	93974B3S9
	01/01/2026	5.000	17,960,000	01/01/2018	100	93974B3T7
	01/01/2027	5.000	18,855,000	01/01/2018	100	93974B3U4
Subtotal			140,720,000			
Total			443,500,000			

SECURITY FOR THE BONDS

Pledge of Full Faith and Credit

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

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

Pledge of Excise Tax on Motor Vehicle and Special Fuels

The principal of and interest on the Series R-2015B Bonds are first payable from the proceeds of the state excise taxes on motor vehicle and special fuels imposed by Chapters 82.36 and 82.38 RCW and required to be deposited in the Motor Vehicle Fund. In the Series R-2015B Bond Resolution, the Committee on behalf of the state pledges to the payment of the Series R-2015B Bonds and the interest thereon the proceeds of such excise taxes and provides that the charge on such excise taxes for payment of Series R-2015B Bonds shall be equal to the charge on such excise taxes for the payment of the principal of and interest on any other general obligation bonds of the state to which motor vehicle and special fuel taxes are pledged on an equal basis. In the legislation authorizing the issuance of the Series R-2015B Bonds, the Legislature has agreed to continue to impose those excise taxes on motor vehicle and special fuels in amounts sufficient to pay, when due, the principal of and interest on all bonds issued under the authority of such legislation, including the Series R-2015B 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 $350 million motor vehicle fuel tax general obligation bonds in the first few months of 2015. 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, 2013, 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 2013 within 150 days of the fiscal year-end.

ECONOMIC AND REVENUE FORECASTS

Revenue, budgetary and economic information concerning the state government and Washington as a whole is contained in Appendix A—"GENERAL AND ECONOMIC INFORMATION." Pursuant to state law, the Office of Economic and Revenue Forecast Council (the "Forecast Council") provides state economic and revenue results and forecasts on a quarterly basis, generally in each March (February in even-numbered years), June, September and November. The Forecast Council's next economic and revenue forecast is scheduled to be released in September 2014. As described in Appendix A, state law requires that state budgets and any necessary budgetary actions of the Governor during a fiscal period be based upon the Forecast Council's official economic and revenue forecasts. The Forecast Council's most recent forecast was released in June 2014, and that forecast, as well as the February 2014 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 2013 AUDITED FINANCIAL STATEMENTS" and "RISK MANAGEMENT" and "LITIGATION" in Appendix A—"GENERAL AND ECONOMIC INFORMATION."

BALLOT MEASURES

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

Any initiative or referendum approved by a majority of the voters may not be amended or repealed by the Legislature within a period of two years following enactment, except by a vote of two-thirds of all the members elected to each house of the Legislature. After two years, the relevant statute is subject to amendment or repeal by the Legislature by a simple majority vote.

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

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

LEGAL MATTERS

Legal matters incident to the authorization, issuance and sale of the Bonds by the state are subject to the approving legal opinion of Foster Pepper PLLC, Bond Counsel to the state. The proposed forms of the opinions of such firm with respect to each Series of the Bonds are attached hereto as Appendix C. The opinions of Bond Counsel are given based on factual representations made to Bond Counsel and under existing law, as of the date of initial delivery of the Bonds, and Bond Counsel assumes no obligation to revise or supplement its opinions to reflect any facts or circumstances that may thereafter come to its attention, or any changes in law that may thereafter occur. The opinions of Bond Counsel are an expression of its professional judgment on the matters expressly addressed in its opinions and do not constitute a guarantee of result. Bond Counsel will be compensated only upon the issuance and sale of the Bonds. 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 2015A-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 2015A-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 2015A-2 Bonds maturing in the years 2029, 2034 and 2039 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. All of the Series 2015A-1 Bonds, Series R-2015A Bonds and Series R-2015B Bonds and the Series 2015A-2 maturing in the years 2015 through 2024 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 not 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, 2014, the state will provide or cause to be provided, either directly or through a designated agent, to the Municipal Securities Rulemaking Board (the "MSRB"), in an electronic format as prescribed by the MSRB, accompanied by identifying information as prescribed by the MSRB, an annual report (the "Annual Disclosure Report"), 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 identify clearly each document so included by reference. The MSRB has indicated that it intends to make continuing disclosure information submitted to it publicly available on the Internet on its Electronic Municipal Market Access system website.

The Annual Disclosure Report may be submitted as a single document or as separate documents comprising a package and may include by reference other information as provided herein; provided, that any audited financial statements may be submitted separately from the balance of the Annual Disclosure Report and later than the Submission Date if such statements are not available by the Submission Date.

If the state's fiscal year changes, the state may adjust the Submission Date by giving notice of such change in the same manner as notice is to be given of the occurrence of a Listed Event defined below.

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

Listed Events. The state agrees to provide or cause to be provided, in a timely manner, not in excess of 10 business days after the occurrence of the event, to the MSRB notice of the occurrence of any of the following events with respect to the 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. The state has complied in all material respects with all prior written undertakings under the Rule. However, on June 5, 2014, the state discovered that The Bank of New York Mellon, acting as escrow agent and fiscal agent for the state, failed to file with the MSRB a notice of the defeasance on March 23, 2010, of a portion ($1,740,000) of the state's then-outstanding Certificates of Participation, Series 2006C (State Board for Community and Technical Colleges), which had been issued in the original principal amount of $9,835,000. The state has subsequently filed the Notice of Defeasance on the MSRB's EMMA system.

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 2015A-1 Bonds are being purchased by Merrill Lynch, Pierce, Fenner & Smith Incorporated at a price of $236,422,895.60, and will be reoffered at a price of $236,548,177.40, as reflected by the prices and yields set forth on page i of this Official Statement.

The Series 2015T Bonds are being purchased by J.P. Morgan Securities LLC at a price of $85,586,794.68, and will be reoffered at a price of $85,920,000.00, as reflected by the prices and yields set forth on page iii of this Official Statement.

The Series R-2015A Bonds are being purchased by Merrill Lynch, Pierce, Fenner & Smith Incorporated at a price of $494,875,774.16, and will be reoffered at a price of $495,264,449.40, as reflected by the prices and yields set forth on page iv of this Official Statement.

The Series R-2015B Bonds are being purchased by Citigroup Global Markets Inc. at a price of $495,825,038.60, and will be reoffered at a price of $496,691,361.30, as reflected by the prices and yields set forth on page v of this Official Statement.

The Series 2015A-2 Bonds are being purchased by Merrill Lynch, Pierce, Fenner & Smith Incorporated. Subject to the provisions of a bond purchase contract, Merrill Lynch, Pierce, Fenner & Smith Incorporated has agreed to purchase all of the Series 2015A-2 Bonds at a price of $23,399,409.40, which represents the principal amount of the Bonds plus a net original issue premium of $1,020,310.15 and less an Underwriters' discount of $200,900.75. The Series 2015A-2 Bonds will be reoffered at a price of $23,600,310.15, 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 2015A-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, US 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 2015A-2 Bonds and Underwriter of the Series R-2015B Bonds, 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 2015A-2 Bonds and the Series R-2015B Bonds.

J.P. Morgan Securities LLC ("J.P. Morgan") has entered into a dealer agreement ("Dealer Agreement") with Charles Schwab & Co., Inc. ("CS&Co.") for the retail distribution of certain securities offerings, at the original issue prices. Pursuant to the Dealer Agreement, CS&Co. will purchase Series 2015A-2 Bonds and Series 2015T Bonds from J.P. Morgan at the original issue price less a negotiated portion of the selling concession applicable to any Series 2015A-2 Bonds and Series 2015T Bonds that CS&Co. sells.

Morgan Stanley, parent company of Morgan Stanley & Co. LLC, a co-managing Underwriter of the Series 2015A-2 Bonds, has entered into a retail distribution arrangement with 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 2015A-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 2015A-2 Bonds.

Wells Fargo Securities is the trade name for certain securities-related capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including Wells Fargo Bank, National Association. Wells Fargo Bank, National Association ("WFBNA"), one of the Underwriters of the Series 2015A-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 2015A-2 Bonds. Pursuant to the Distribution Agreement, WFBNA will share a portion of its underwriting compensation with respect to the Series 2015A-2 Bonds with WFA. WFBNA also utilizes the distribution capabilities of its affiliates, Wells Fargo Securities, LLC ("WFSLLC") and Wells Fargo Institutional Securities, LLC ("WFIS"), for the distribution of municipal securities offerings, including the Series 2015A-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, WFIS, 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 and iv, 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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INTRODUCTION

State Overview

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

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

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

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

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

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

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

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

State Government

Under the state Constitution (the “Constitution”), the legislative authority of the state is vested in the Legislature, and general elections are held on the first Tuesday in November in each even-numbered year. The state is divided into 49 legislative districts, each of which elects two representatives and one senator. Senators serve four-year terms, with one-half of the seats open in each general election. Representatives serve two-year terms, with every seat open in each general election. The Legislature convenes annual regular sessions (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, and the Legislature is required to appropriate, amounts sufficient to pay debt service on all of the state's outstanding general obligation bonds. See "GENERAL FUND–General Fund Expenditures–Payment of General Obligation Bonds" and "TRANSPORTATION-RELATED REVENUES AND EXPENDITURES–Transportation Expenditures–Payment of Bonds Payable from Excise Taxes on Motor Vehicle and Special Fuels."

Formulation of the state's biennial budget begins in May of even-numbered years, when the Office of Financial Management ("OFM") distributes instructions to all state agencies, establishing budget guidelines and information requirements. Formal budget requests from agencies are sent to OFM in late summer, after which they are analyzed and revised by OFM as appropriate to match the Governor's policy choices. Alternative methods of delivering services are examined and evaluated, and recommended budget levels and program and policy choices are prepared for the Governor by the Director of OFM. As described below, state revenues and expenditures are limited by statutes enacted by the Legislature and sometimes also are limited by initiatives or referenda approved by the voters. See "GENERAL FUND–Revenue and Expenditure Limitations" below and "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 providing for the payment of bond principal and interest requirements on each series of bonds normally are included in an omnibus appropriation act. Each operating and transportation budget enacted by the Legislature also includes an appropriation providing that, in addition to the specified dollar amounts appropriated for (among other things) bond retirement and interest, there also is appropriated such further amounts as may be required or available for those purposes under any proper bond covenant made under law.

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

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

Economic and Revenue Forecasting

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

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

Fiscal Monitoring and Controls

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

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

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

Accounting and Auditing

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

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

GENERAL FUND

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

General Fund Revenue

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

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

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

Table 1
State and Local Retail Sales and Use Tax Rates

	General	New and Used Vehicles
State	6.5%	6.8%
Local	0.5 to 3.1	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 0.138 percent to 1.8 percent of gross receipts; most are under 0.5 percent. See "General Fund–State Operating Budget" and Table 4.

The state imposes a real estate excise tax of 1.28 percent on sales of real property. Each county treasurer is required by statute to retain 1.3 percent of the proceeds of this tax to defray costs of collection and on a monthly basis to pay over to the Treasurer the balance of the proceeds. Of the proceeds received by the Treasurer, beginning July 1, 2013, and ending June 30, 2019, the Treasurer is required to deposit 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 2013, assessed value against which property taxes were levied averaged 91.2 percent of fair market value as determined by the county assessors.

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

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

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

Other State Tax Revenue. The state imposes a number of other taxes, including estate taxes, liquor taxes, rental car and telephone taxes, taxes on hazardous substances and taxes on cigarettes and other tobacco products. A recent initiative legalizing marijuana approved a 25 percent excise tax on producers and processors of and 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 2009, 2010 and 2011 included funds made available under the American Recovery and Reinvestment Act of 2009 ("ARRA"). Federal revenues may be deposited into the General Fund, but are not "general state revenue." See "General Fund Expenditures–Payment of General Obligation Bonds," "General Fund–State Operating Budget," and "TRANSPORTATION–RELATED REVENUES AND EXPENDITURES."

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

Tax and Other Revenue Collection. Four state agencies are responsible for administering the major state taxes: the Department of Revenue, the Department of Licensing, the Liquor Control Board, and the Office of the Insurance Commissioner. The Treasurer receives the revenues from the collecting agencies and is required to deposit and distribute the funds as directed by law. Nearly all state agencies collect some form of revenue. See Table 4.

General Fund Expenditures

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

Education. The state's expenditures for public schools are mandated by the constitutional requirement that the state support the common schools, and as shown in Table 5, a significant portion of the General Fund budget is used for supporting public schools.

The Supreme Court has interpreted the Constitution to require the state to ensure that each public school district receives the funds needed to provide a basic education. The Legislature enacted legislation in previous sessions intended to improve the stability and predictability of school funding, including legislation that (1) prescribes course offerings, teacher contract hours and core student/staff ratios; (2) limits local property tax levies and provides for the gradual equalization of levy capacity per student throughout the state; (3) limits local compensation increases to those authorized by the state; (4) provides for state assistance to equalize tax rates for local levies; (5) establishes a state-wide salary allocation schedule with mandated minimum salaries for teachers; and (6) requires school districts to maintain minimum teacher/student ratios. In the past, state voters, through the initiative process, have also affected school expenditures by passing I-732 to provide automatic cost of living adjustments for teachers and certain 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 then again suspended I-732. See "General Fund–State Operating Budget."

In 2012, the Supreme Court found that the state is not making ample provisions for the basic education of Washington's K-12 public school students. The 2013-15 Biennium Budget adopted in June 2013 funds approximately $1 billion in reforms for K-12 public education. In January 2014, the Supreme Court issued an order that states that although meaningful steps were taken in the 2013 legislative session, the state is not on target to meet the funding requirements by the 2017-2018 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 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. The 2014 Joint Select Committee report notes that the Legislature has fully funded the state's pupil transportation basic education commitment. Other commitments which require additional funding include: K-12 materials, supplies, and operating costs ("MSOC") (estimated at $746 million for the 2015-17 Biennium); state funding of all-day kindergarten (estimated at $311 million in the 2017-19 Biennium); and funding to reduce K-3 class size (estimated to cost an additional $1.08 billion in the 2017-19 Biennium above current levels). Taking into account projected enrollment growth, annual cost of living adjustments for state-funded K-12 employees and the total annual requirement for class size reduction, MSOC and full-day kindergarten, the projected K-12 funding need will total an estimated $1.9 billion in Fiscal Year 2019. 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 is scheduled for September 3, 2014. See "General Fund–State Operating Budget–*2013-15 Biennium Budget*" and "*Special Session and Supplemental 2013-15 Budget*." See also the discussion of the *McCleary* case in "LITIGATION" for a description of the Supreme Court's 2012 and January and June 2014 orders regarding funding K-12 education.

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

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

DSHS is also responsible for supporting community mental health programs and for operating state psychiatric hospitals, institutions for the developmentally disabled, nursing homes, institutions for juvenile rehabilitation, child welfare service programs, child support enforcement activities, drug and substance abuse treatment programs, foster care programs and vocational rehabilitation services.

Washington State Health Care Authority. This agency brings together the two largest purchasers of health care in state government – the Public Employees Benefits program and "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, financed through state and federal matching dollars, provides health care coverage for more than 1.5 million low-income Washington residents, including more than 300,000 new adult clients as a result of Medicaid expansion, which raised Medicaid's income eligibility ceiling to 138 percent of the federal poverty level. This change opened Apple Health coverage to a new population of childless adults not previously covered by Medicaid. Apple Health covers 40 percent of children in the state and 50 percent of childbirths in addition to coverage for traditionally vulnerable groups – low-income seniors, pregnant women, persons with disabilities, and children in middle class families unable to afford private insurance.

The Apple Health budget has grown significantly as a result of the Affordable Care Act, but the cost of covering the expanded population is minimal for the state because the federal government covers 100 percent of that expense in the current biennium. This influx of federal funding is estimated to save the state more than $300 million in the current biennium. The state estimates the combined Medicaid and Public Employee Benefit caseload at two million (nearly one in every three state residents) by 2020.

In addition to the Health Care Authority's purchasing duties, state law directs the agency, in collaboration with the private sector, to address health care cost containment, evidence based medicine, common performance measures, access to care, new financial incentives for the delivery system and adoption of health information technology and health information exchange. In late 2013, the Health Care Authority implemented a health care reform called State Health Care Innovation Plan and, in 2014, implemented a program for state employees that includes incentives for prevention and wellness.

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, 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. Dubbed "Healthplanfinder," the exchange enrolls Apple Health applicants as well as subsidized commercial insurance customers who qualify under income limits below 138 and 400 percent of the federal poverty level. As of May 1, 2014, more than 140,000 individuals had enrolled in qualified health plans, and the exchange began gearing up for the next open enrollment period, which begins November 15, 2014. Medicaid enrollments have no enrollment periods, and applicants can apply for and receive that coverage year-round.

Corrections. As of December 31, 2013, the Department of Corrections ("DOC") had 12 correctional institutions and 16 work release facilities and leased additional rental beds in-state. As of December 31, 2013, the offender population was approximately 18,000 in the prison system; the prison confinement was 102 percent of operational capacity. In 2010, the state closed Ahtanum View Corrections Center in Yakima and the Pine Lodge Corrections Center for Women in Medical Lake. In 2011, the state closed McNeil Island Corrections Center in south Puget Sound.

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

The state, through the Public Employees Benefits Board program, provides medical, dental, life and long-term disability coverage to eligible state employees as a benefit of employment. Coverage is provided through private health insurance plans and self-insured products. The state's share of the cost of coverage for state employees is based on a per capita amount determined annually by the Legislature and allocated to state agencies. State employees self-pay for coverage beyond the state's contribution. The average benefit was $1,001 in Fiscal Year 2013, with $865 paid by the state and $136 by the employee. State employees accrue vested vacation leave at a variable rate based on years of service, which in general cannot exceed 240 hours per year. It is the state's policy not to set aside funds for future payments for compensated absences. State employees accrue sick leave at the rate of one day per month without limitation. The state does not pay employees for unused sick leave upon termination except upon employee death or retirement. At death or retirement, the state is liable for 25 percent of the employee's accumulated sick leave. For a discussion of the state retirement plans and post-employment benefits, see "RETIREMENT SYSTEMS."

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

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

Expenditure Limitations

Since the passage of Initiative 601 in 1993, the state has been prohibited from increasing expenditures from the General Fund during any Fiscal Year by more than the fiscal growth factor. The fiscal growth factor is calculated annually and is defined as the average growth in state personal income for the prior 10 Fiscal Years, adjusted for actual expenditures in the previous year and for certain money transfers and program cost shifts (to take into account federal and local revenue). Under current law, voter approval would be required to exceed the expenditure limit, except in case of an emergency. If revenues collected exceed the amount of revenues that may be expended under the expenditure limitation, the excess revenues are to be deposited to the Budget Stabilization Account as described in the next subsection. 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 2013, the committee projected the spending limit for the 2013-15 Biennium at $32.7 billion.

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.

Budget Stabilization Account

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

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 February 19, 2014 (the "February 2014 Forecast"). This section includes certain economic data released after the February 2014 Forecast. The next forecast is expected to be released on June 17, 2014.

February 2014 Forecast. The February 2014 Forecast was based on the IHS Global Insight Model of the U.S. Economy issued in February 2014, 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 February 2014 Forecast is very similar to the previous three forecasts, including the November 2013 Forecast. The Washington economy continues to be slightly stronger than the overall U.S. economy, with above average growth in personal income, faster employment growth, and an unemployment rate below the national average. The forecast shows Washington employment growing in most sectors (with aerospace and the federal government the notable exceptions), growing residential construction, growth in exports, low inflation and higher personal income. Downside uncertainty is attributable to economic and financial strains in China and Europe, as well as concerns about the strength of the housing recovery; downside risks outweigh upside risks.

The February 2014 Forecast increased General Fund Revenues by $30 million and state General Fund Revenues are expected to grow 7.7 percent in the 2013-15 Biennium from the 2011-13 Biennium. Forecasted General Fund Revenues for the 2013-15 Biennium are $33.013 million.

Washington nonfarm employment grew 2.0 percent from March 2013 to March 2014. Administrative and support services grew by 4.2 percent over this period, followed by construction at 3.8 percent, software and retail trade at 2.9 percent and professional, scientific, and technical services and leisure and hospitality at 2.8 percent. Manufacturing employment growth has slowed, primarily because aerospace employment was reduced by 3,300 jobs since the peak in November 2012 due to improvements in productivity rather than reductions in production. The state's unemployment rate declined from 7.5 percent in January 2013 to 6.3 percent in March 2014. The

March 2014 unemployment rate in the Seattle metropolitan area decreased modestly to 5.2 percent from 5.3 percent in December 2013.

Washington personal income growth slowed to an annual rate of 3.2 percent in 2013 from the 4.7 percent pace in 2012 due to the negative impacts of the Federal budget sequestration process and income and dividends that were shifted to 2012 to avoid increased taxes. This was the eighth highest growth rate among the 50 states and the District of Columbia.

Washington exports grew 8 percent in 2013 compared to 2012 and rose to an all-time high of $22.5 billion in the fourth quarter of 2013. Exports of transportation equipment (mostly Boeing planes) increased 17 percent in 2013, compared to 36 percent growth for all of 2012.

Housing construction rebounded in the fourth quarter of 2013 after a slump in the middle of 2013 and after rising rapidly throughout 2012 and early 2013; housing permits rose to a seasonally adjusted annual rate of 34,600 units in the fourth quarter of 2013 from 27,900 in the third quarter and 27,800 in the second quarter of 2013. The housing permit forecast is for continued growth. The seasonally adjusted S&P/Case-Shiller Home Price Index for Seattle increased or remained constant in each of the 24 months ending in February 2014, and, in February 2014, was 12.8 percent higher than in February 2013. Seasonally adjusted Seattle area home prices in February 2014 were 14.2 percent below their May 2007 peak.

The following table summarizes some of the historical values and forecasts of the primary economic drivers upon which the February 2014 Forecast was based.

Table 2
Summary of Economic Factors
(% Annual Change)

						Forecast	
	2009	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
Personal Income[(1)]	(3.1)	2.1	5.7	4.7	3.1	4.7	5.3
Nonfarm Payroll Employment	(4.6)	(1.3)	1.3	1.7	2.3	2.0	2.1
Housing Units[(2)]	(41.2)	21.6	0.8	34.8	12.6	4.6	14.2

(1) In the fall of 2013, the Bureau of Economic Analysis released state personal income estimates with revisions extending back to 1929. The revised data increased 2012 Washington personal income by $2.9 billion.
(2) Reflects single-family and multi-family units authorized by permits.

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

Alternative February 2014 Economic Forecasts. As required by statute, the Forecast Council also adopts an optimistic and a pessimistic forecast. The level of uncertainty in the baseline forecast remains high and downside risks outweigh upside risks.

In the optimistic forecast scenario, Chinese economic growth is stronger than expected, housing market and construction activity are assumed to improve at a faster rate, hiring picks up and underlying pent-up demand continues to drive the recovery while economic growth continues to improve and other factors help the economy rebound more quickly. In the optimistic scenario, 2013-15 Biennium revenues would be $1.738 billion higher than the baseline forecast.

In the pessimistic forecast scenario, the Chinese economy slows even further, rising mortgage rates and house prices slow the housing recovery and construction activity, the recession in Europe worsens and a European banking crisis affect the U.S. financial sector, while unrest in the Middle East leads to an oil price spike. In the pessimistic scenario, 2013-15 Biennium revenues would be $1.722 billion below the baseline forecast.

June 2014 Forecast. On June 17, 2014, the Forecast Council released a revised revenue forecast, which recognizes continued improvements in the economic and revenue outlook for the state and is very similar to the February 2014 Forecast. The Forecast Council increased expected General Fund Revenue for the 2013-15 Biennium by $157 million and added another $238 million in expected General Fund Revenue for the 2015-17 Biennium.

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 resourses. The work group prepared its first budget outlook in November 2012, which was the starting point for developing the Governor's budget for the 2013-15 Biennium. In January 2013, the work group prepared a six-year outlook based on the Governor's budget for the 2013-15 Biennium and in July and November 2013 prepared a six-year outlook based on the enacted budget for the 2013-15 Biennium. In May 2014, the work group prepared a four-year outlook for the enacted 2014 Supplemental Budget. The outlooks are available on the Forecast Council's website (www.erfc.wa.gov). See "General Fund–Operating Budget."

General Fund-State Operating Budget

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

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

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

2011-13 Biennium Budget. The Legislature adopted a General Fund budget for the 2011-13 Biennium in the spring of 2011 that included expenditures of $31.7 billion and total resources (including the beginning fund balance) of

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

2013-15 Biennium Budget. The 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 Budget. During a special session held in November 2013, the Legislature authorized expansion of the state's investment in aerospace-related education and workforce development and aerospace tax incentives, which are designed to provide incentives to Boeing to assemble its new 777X jetliner in the state. Boeing recently announced that it will assemble the new 777X jetliner and build its new carbon fiber wing in the state.

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, including $89 million in expenditures to maintain current levels of service for additional caseload. The supplemental budget includes 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. The Supplemental Budget did not materially address the January 2014 Supreme Court order in the *McCleary* decision. See "THE GENERAL FUND—General Fund Expenditures—Education" and "LITIGATION."

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

Table 3
2013-15 General Fund-State Adjustments
February 2012 through March 2014
($ in millions)

	Adjustments
Beginning Balance[1]	168
Revenue	
February 2012 Forecast	32,429
June 2012 Forecast	197
September 2012 Forecast	23
November 2012 Forecast	(88)
March 2013 Forecast	(20)
June 2013 Forecast	121
September 2013 Forecast	345
November 2013 Forecast	16
Prior Period Adjustments	(41)
February 2014 Forecast	30
Transfer to Budget Stabilization Account	(312)
Total Revenue	32,701
Other Resource Changes	
Enacted Revenue Transfers	131
Adjustments Made by 2014 Legislature	7
Prior Period Adjustments	41
Total Other Resource Changes	179
Total Resources	33,047
Spending	
Enacted Budget	32,796
Governor's Vetoes	(1)
Aerospace Appropriations[2]	11
2014 Supplemental Budget	65
Estimated Reversions[3]	(140)
Total Spending	32,731
Ending Balance and Reserves	
Unrestricted Ending Fund Balance	316
Budget Stabilization Account Balance	582
Total Reserves	898

(1) Includes Unrestricted Fund Balance and Budget Stabilization Account Balance.
(2) See "Special Session and Supplemental 2013-15 Budget" above.
(3) Estimated spending authority that will not be used by the end of the 2013-15 Biennium.
Totals may not add due to rounding.

Source: Office of Financial Management.

Revenues and Expenditures. The state separates its General Fund revenues and expenditures into three categories: General Fund-State, General Fund-Federal and General Fund-Private/Local to indicate the general source of revenues. Tables 4 and 5 summarize such revenues and expenditures for the Fiscal Years 2009 through 2013 and budgeted expenditures for Fiscal Years 2014 through 2015. Table 4 is derived from the Forecast Council's forecast documents, which include forecasts of revenues through Fiscal Year 2015 (other than federal and local and private revenues and fund transfers, which are not part of the forecast). The information in Table 5 is extracted from the state's budget documents. The state budgets revenues on a cash basis and expenditures on a modified accrual basis.

Accordingly, revenues reported in the state's financial statement attached as Appendix D are on the modified accrual basis and will not match revenues shown on budgetary schedules. Additionally, certain governmental activities are excluded from budgetary schedules because they are not appropriated. Examples include federal surplus food commodities, electronic food stamp benefits, capital leases acquisitions and the distribution of resources collected on behalf of local governments. Further, certain debt service expenditures are appropriated as operating transfers. These transfers are reported as expenditures on the budgetary schedules and as transfers in the state's financial statement attached as Appendix D. The General Fund balance sheet shown in the financial statements attached as Appendix D has three revenue sources: state, federal and private/local. General Fund-State in Tables 4 and 5 is the portion supported by state revenues (taxes, fees, other state charges, transfers, and other revenues).

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Table 4
General Fund Revenues and Resources

Fiscal Years ended June 30

(Cash Receipts)

($ in millions)

	2009	2010	2011	2012	2013	Forecast 2014[6]	Forecast 2015[6]
Beginning Budget Stabilization Account Balance	303	21	95	1	130	270	414
Beginning General Fund Balance	805	279	(561)	(92)	(381)	168	272
General Fund State Revenues							
State Tax Revenues							
Retail Sales Tax	6,870	6,417	6,620	6,745	7,169	7,609	7,975
Business and Occupation Taxes	2,640	2,574	3,010	3,126	3,307	3,265	3,386
Use Taxes (General Fund portion)	460	423	534	480	518	547	560
Property Taxes	1,770	1,822	1,840	1,898	1,936	1,968	2,011
Real Estate Excise Taxes	389	380	373	399	535	583	545
Other Excise Taxes[1]	23	17	18	17	16	16	16
Other Taxes[2]	1,582	1,535	1,804	1,827	1,875	1,865	1,927
Subtotal State Tax Revenues	13,734	13,168	14,199	14,492	15,356	15,853	16,420
State Non-Tax Revenues							
Licenses, permits and other fees	95	84	87	99	105	106	107
Liquor profits and fees	69	71	117	49	141	115	61
Investment income	63	2	(12)	(10)	(10)	(3)	(4)
Lottery transfers	11	13	9	-	-	9	-
Other Non-Tax Revenue	186	233	248	244	191	180	168
Subtotal State Non-Tax Revenues	424	403	449	382	427	407	333
Adjustments and Transfers							
Enacted Transfers/Prior Period Adjustments	1,043	699	550	246	146	74	98
Adjustments Made by 2014 Legislature						3	4
Adjustment to Working Capital	-	-	-	-	238	-	-
Transfers from Budget Stabilization Account	-	45	223	-	-	-	-
Transfers to Budget Stabilization Account[3]	(115)	(119)	(129)	(130)	(139)	(144)	(169)
Subtotal Adjustment and Transfers	928	625	644	116	245	(67)	(67)
Total General Fund-State Resources	15,891	14,475	14,731	14,898	15,647	16,361	16,958
General Fund-State Resources	15,891	14,475	14,731	14,898	15,647	16,361	16,958
General Fund-Federal Revenues[4] [5]	6,498	8,339	7,975	7,114	7,037	8,428	9,268
General Fund-Private/Local Revenues[5]	220	225	250	273	260	280	285
Total General Fund Resources[5]	22,609	23,039	22,956	22,285	22,944	25,069	26,511

(1) Includes liquor, beer and wine, tobacco, boat and timber excise taxes, among others.
(2) Includes estate and inheritance taxes, public utility taxes and insurance premium and other taxes.
(3) The Emergency Reserve Account was abolished, and the Budget Stabilization Account was created, effective July 1, 2009. See "GENERAL FUND—Budget Stabilization Account."
(4) Includes ARRA funding in 2009, 2010 and 2011 of $1.0 billion, $2.1 billion, and $1.9 billion, respectively.
(5) Federal revenues and private/local revenues are not forecasted, but are based on funding levels.
(6) Based on February 2014 Revenue Forecast and 2014 Supplemental Budget.

Totals may not add due to rounding.

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

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

	2009	2010	2011	2012	2013	Forecast 2014[5]	Forecast 2015[5]
Education							
Public School	6,409	6,512	6,334	6,789	6,735	7,231	7,604
Higher Education	1,593	1,396	1,355	1,185	1,164	1,348	1,329
Other Education	93	82	39	40	42	55	73
Total Education	8,095	7,990	7,728	8,014	7,941	8,631	9,006
Human Services							
Dept. Social and Health Services[1]	4,433	4,303	4,425	2,683	2,648	2,847	2,908
Health Care Authority	285	207	106	2,029	2,071	2,145	2,162
Dept. Corrections	896	708	792	812	788	838	846
Other Human Services[1]	196	163	127	147	143	105	107
Total Human Services	5,810	5,381	5,450	5,671	5,650	5,945	6,023
Natural Resources Recreation	246	198	160	138	161	138	133
Government Operations	293	238	212	204	216	234	232
Transportation	38	40	34	36	41	37	33
Debt Service[2]	714	870	907	941	1,203	857	991
Other Expenditures[3]	416	319	332	275	267	247	224
Total General Fund-State Expenditures	15,612	15,036	14,823	15,279	15,479	16,089	16,642
Expenditures from Federal Funds	6,498	8,339	7,975	7,114	7,037	8,428	9,268
Expenditures from Private/Local Funds[4]	220	225	250	273	260	280	285
Total General Fund Expenditures	22,330	23,600	23,048	22,666	22,776	24,797	26,195
Total General Fund Resources	22,609	23,039	22,956	22,285	22,944	25,069	26,511
Total General Fund Expenditures	(22,330)	(23,600)	(23,048)	(22,666)	(22,776)	(24,797)	(26,195)
Unrestricted General Fund Ending Balance/	279	(561)	(92)	(381)	168	272	316
Budget Stabilization Balance	21	95	1	130	270	414	582
Total Reserves	300	(466)	(91)	(251)	438	686	898

(1) The Medical Assistance Program moved from DSHS to the Health Care Authority beginning in Fiscal Year 2012.
(2) Does not include debt service payments reimbursed from sources that are not general state revenues, including motor vehicle and special fuel taxes, tuition fees, patient fees, admission taxes, parking taxes and certain King County sales and use taxes. See Tables 11 and 12.
(3) Includes legislative and judicial agencies and other special appropriations. Fiscal Years 2014 and 2015 also assumes $70 million per year in state General Fund reversions.
(4) Includes spending from grants, contracts and other agreements from private/local sources.
(5) Based on February 2014 Revenue Forecast and 2014 Supplemental 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 percentage funded with bonds has ranged from 41.7 percent to 61.0 percent per biennium between 1993 and 2013. The budget includes money re-appropriated from previous biennia when projects are not completed before the end of that biennium.

Table 6 summarizes the capital budgets for the 2007-09, 2009-11, 2011-13 and 2013-15 Biennia. During the 2014 legislative session, the Legislature did not adopt a supplemental capital budget.

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

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

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

Source: Office of Financial Management.

TRANSPORTATION-RELATED REVENUES AND EXPENDITURES

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

Transportation Revenue

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

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

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

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

Source: Washington State Department of Transportation.

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

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

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

Transportation Revenue Forecast Council. The Transportation Revenue Forecast Council (the "Transportation Forecast Council"), comprised of technical staff of the Department of Licensing, WSDOT, OFM and the Economic and Revenue Forecast Council, prepares quarterly forecasts of transportation revenues (including revenues from excise taxes on motor vehicle and special fuels). The transportation 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 February 2014, the Transportation Forecast Council projects that gross transportation revenues for the 2013-15 Biennium will total $4.62 billion, an increase of 6.6 percent from the previous biennium's total revenue of $4.33 billion. The revenue forecast for the 2015-17 Biennium is $4.727 billion. The next forecast is expected to be released on June 19, 2014.

Transportation Expenditures

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

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

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

Payment of Bonds Payable from Excise Taxes on Motor Vehicle and Special Fuels. Each legislative act that authorizes the issuance and sale of motor vehicle fuel tax bonds provides that the principal of and interest on such bonds are secured by a pledge of the excise taxes levied on motor vehicle and special fuels. That pledge constitutes a charge against the revenues from such motor vehicle and special fuels excise taxes equal to the charge of any other general obligation bonds of the state that have been and may thereafter be authorized that also pledge, on an equal basis, excise taxes on motor vehicle and special fuels for their payment. By state law, the Legislature also covenants to continue to levy those excise taxes in amounts sufficient to pay, when due, the principal of and interest on all of the bonds issued under those legislative authorizations. All motor vehicle fuel tax general obligation bonds of the state are further secured by a pledge of the full faith, credit and taxing power of the state. See "INDEBTEDNESS AND OTHER OBLIGATIONS–General Obligation Debt–Motor Vehicle Fuel Tax General Obligation Bonds." Statutes authorizing the issuance of refunding bonds require that if the bonds to be refunded are secured by motor vehicle fuel taxes, in addition to the pledge of the state's full faith, credit and taxing power, the refunding bonds must also be secured by the same taxes.

Under motor vehicle fuel tax bond statutes enacted before 1993, at least one year prior to the date any interest is due and payable on those bonds or prior to the maturity date of any such bonds, the Committee estimates, subject to the provisions of the pledge of revenue, the percentage of the monthly receipts of the motor vehicle fund resulting from collection of excise taxes on motor vehicle and special fuels that will be necessary to meet interest or bond payments when due. Each month, as such funds are paid into the Motor Vehicle Fund, the Treasurer must transfer such percentage of the monthly receipts from excise taxes on motor vehicle and special fuels in the Motor Vehicle Fund to the Highway Bond Retirement Fund and the Ferry Bond Retirement Fund. Money in the Ferry Bond Retirement Fund is to be used for payment when due of the principal of and interest on state ferry bonds. If in any month it appears that the estimated percentage of money to be transferred is insufficient to meet the requirements for interest and bond retirement, the Treasurer must notify the Committee, and the Committee must adjust its estimates so that all requirements for interest and principal of all bonds issued will be fully met at all times. Motor vehicle fuel tax bond statutes enacted in 1993 and thereafter require that such transfers from the Motor Vehicle Fund to the Highway Bond Retirement Fund be made in accordance with the bond proceedings, which generally provide that the transfers be made on the date a debt service payment is due, although in practice amounts are set aside monthly in the Motor Vehicle Fund for debt service. See Table 9.

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

The state issued the second and fourth series of bonds for the SR 520 Corridor Program in June 2012 and September 2013, respectively, as GARVEE bonds, payable solely from Federal-Aid Highway Program funds, including federal reimbursements of debt service on the GARVEE bonds and federal reimbursements to the state for projects or portions of projects not financed with bond proceeds. The state issued the third series of bonds for the SR 520 Corridor Program in October 2012 as the Transportation Infrastructure Finance and Innovation Act Bond ("TIFIA Bond"), which represents a draw-down loan from the Federal Highway Administration. The state expects to begin drawing on the loan in the fall of 2014. The TIFIA Bond is payable solely from toll revenues. See "The SR 520 Corridor Program."

Transportation Capital Program. Since 2002, WSDOT has completed a series of large projects, including the Tacoma Narrows Bridge for approximately $735 million and the Hood Canal Floating Bridge for approximately $500 million. To date, WSDOT has completed 352 of 421 projects funded by the 2003-2005 gas tax, 88 percent of which projects were completed early or on time and 92 percent of which were on or under budget.

The state's transportation capital plan includes several mega-projects, including the SR 520 Corridor Program and the replacement of the Viaduct. Other major highway projects include the I-405 and SR 520 interchange in Bellevue, the U.S. 395 North Spokane corridor, and the I-5 and SR 16 interchange in Tacoma. Construction of approximately 200 smaller highway projects, including construction of new interchanges, lanes and bridges, is underway. Three 64-auto ferry boats have been constructed and delivered since 2010 and two 144-auto ferries are being constructed and are expected to be delivered in 2014 and be in service in 2014 and 2015. In the 2014 session, the Legislature authorized the construction of a third 144-auto ferry at an estimated cost of $123 million. Federal funds made available under the American Recovery and Reinvestment Act of 2009 ("ARRA") Inter-City High-Speed Passenger Rail Program will finance the capital improvements necessary to expand the Amtrak Cascades Service, including projects needed to provide two additional daily round trips between Seattle and Portland, reduce travel time between Seattle and Portland and improve on-time performance. As described under "LITIGATION–Other," in March 2013, a U.S. district court issued a permanent injunction that requires WSDOT to repair or replace approximately 847 fish barrier culverts by 2030, which WSDOT has estimated could cost $2.4 billion over the next 17 years. The injunction includes the potential for the state to defer culvert corrections comprising up to 10 percent of habitat gain. All fish blocking culverts, however, are required to be corrected at the end of their useful life.

The SR 520 Corridor Program. The SR 520 floating bridge provides a major east-west link across Lake Washington. It is 12.8 miles from I-5 in Seattle to the west and crossing Lake Washington to SR 202 in Redmond. Built in the 1960s, the bridge currently is vulnerable to failure in severe windstorms and earthquakes. The SR 520 Floating Bridge and the Eastside plus West Approach Bridge Project (a portion of the SR 520 Corridor Program) is underway and includes construction of a pontoon facility and pontoons for the new floating bridge, completion and reconfiguration of the HOV lane system on SR 520 to the east of Lake Washington, and construction of a new floating bridge to replace the Evergreen Point floating bridge that includes the construction of the permanent north half of the west approach bridge.

The Legislature has authorized funding for the SR 520 Floating Bridge and Eastside plus West Approach Bridge Project and preliminary design and selected right-of-way acquisition for the Westside Project. The state issued $518.8 million in Triple Pledge Bonds in October 2011, $500.4 million in GARVEE bonds in June 2012, a $300 million TIFIA Bond in October 2012 and $285.915 million in GARVEE bonds in September 2013, and expects to fund the remaining costs with additional bond proceeds, federal funds, toll revenue and excise taxes on motor vehicle and special fuels. It is expected that the total net proceeds of the various bond issues for the project will be approximately $1.9 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, which have been awarded. Construction progress continues: two-thirds of the 77 pontoons for the new bridge are now complete and 46 pontoons have been moved to Lake Washington. 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 is expected to be awarded in summer 2014. In addition, the new Eastside corridor improvements are expected to open in late summer 2014. The new floating bridge is expected to open to drivers in April 2016.

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.

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

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

The Alaskan Way Viaduct. The Viaduct was built in the 1950s and includes an elevated 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. On December 6, 2013, Seattle Tunnel Partners ("STP"), WSDOT's design-build contractor for the project, stopped tunneling after experiencing increased temperatures at the front of the tunneling machine. During the course of investigations, STP discovered damage to the seal system that protects the tunneling machine's main bearing. After conferring with experts, STP released a new schedule that shows the SR 99 tunneling machine will resume digging by the end of March 2015. The updated construction schedule delays tunnel boring by up to 16 months, but STP has stated a plan to recover as much as four months of schedule to meet the November 2016 tunnel opening date WSDOT established in its 2010 request for proposals. While the tunneling machine is being repaired, contractors will continue with work at the tunnel portals and elsewhere along the SR 99 corridor. It is not known at this time how this issue will affect the project's budget. The responsibility for additional costs and delays 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 2009 through 2013 and forecasted transportation-related revenues and other funding for Fiscal Years 2014 and 2015. The forecasted revenues displayed in the following table are revenues used by WSDOT and do not include forecasted revenues for other transportation agencies such as the Department of Licensing, the Washington State Patrol or local grant agencies. It includes forecast revenues and projected bond proceeds, based upon the current budget, and assumed federal and local funds. The federal funds shown in Table 8 include funds received from all federal transportation agencies that are appropriated by the Legislature. A portion of the funds received in the state's federal program is passed through to local entities and is not appropriated by the Legislature. Table 8 is presented on a state Fiscal Year, which produces different results than when presented on a federal fiscal year basis.

Table 9 summarizes transportation-related expenditures for Fiscal Years 2009 through 2013 and budgeted and projected expenditures for Fiscal Years 2014 and 2015. Expenditures reflected are for WSDOT programs only.

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

	2009	2010	2011	2012	2013	February 2014 Forecast 2014	February 2014 Forecast 2015
Beginning Balance	588	284	1,476	591	1,263	950	403
Gross Fuel Tax Collections include Non-Highway	1,247	1,234	1,255	1,242	1,246	1,262	1,269
Refunds for Non-Highway Use	(79)	(57)	(62)	(81)	(66)	(68)	(70)
Adjusted Gross Fuel Tax Collections	1,168	1,177	1,193	1,161	1,180	1,194	1,199
WSDOT Portion of Licenses, Permits and Fees	295	288	294	302	344	350	367
Ferry Fares	145	147	147	155	161	166	170
Tacoma Narrows Bridge Tolls(1)	46	47	45	47	64	66	73
State Route 167 Hot Lane Tolls(1)	-	1	1	1	1	1	1
SR 520 Corridor Tolls(1)	-	-	-	33	68	73	79
Other Revenues and Adjustments(2)	130	123	123	83	84	81	93
Total State Sources(3)	1,785	1,782	1,804	1,782	1,903	1,930	1,981
Other Funding(4)							
Bond Proceeds (Bonds sold in Fiscal Year)(5)	507	2,082	48	1,134	633	602	485
Bond Proceeds (GARVEE)(6)	-	-	-	602	-	324	-
Federal Aid Highway Funds(6)	-	-	-	-	18	31	39
TIFIA Loan(7)	-	-	-	-	-	-	216
Federal Stimulus Funds (ARRA)	-	195	129	37	36	-	-
Federal High Speed Rail Funds	-	-	2	3	27	199	199
Federal Highway Funds	453	362	385	555	625	678	678
Local Funds	45	48	54	25	40	90	90
Total Other Funding	1,005	2,687	618	2,355	1,379	1,923	1,707
Total Sources	3,378	4,753	3,898	4,727	4,544	4,803	4,091

(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 based on the appropriated levels of bond proceeds and federal expenditures for 2013-15 in the 2014 Supplemental Transportation Budget.
(5) The remaining bond authority for the SR 520 Corridor Program has been fully appropriated in the 2014 Supplemental Transportation Budget to allow for flexibility.
(6) The GARVEE bonds for 2013-15 were sold on September 17, 2013. Federal Aid Highway Program funds are used for GARVEE Bond debt service.
(7) The $300 million TIFIA Loan was appropriated in the in the 2014 Supplemental Transportation Budget. However, $84 million was placed in unallotted status.

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)

	2009	2010	2011	2012	2013	2014 Enacted Supplemental Budget [2] 2014	2015
Distributions and Transfers							
Debt Service Transfers – Motor Fuel Tax[3]	310	332	409	416	481	525	552
Debt Service Transfers – Toll Revenue[3]	-	-	-	17	26	26	26
Debt Service Transfers – GO[3]	4	8	9	11	11	13	13
Debt Service Transfers – Federal Aid Highway Funds[4]	-	-	-	-	18	31	39
Fuel Tax Distribution to Cities and Counties	233	235	238	231	235	239	239
Fuel Tax Distributions to Support Local Grant Programs[5]	127	128	130	126	128	130	130
Expenditures by Other Agencies[6]	47	45	47	57	57	53	53
Total Distributions and Transfers	722	747	833	858	957	1,018	1,053
WSDOT Operations							
Toll Maintenance and Operations	13	14	11	21	23	34	34
Highway Maintenance and Operations	232	198	214	211	219	230	230
Ferries Maintenance and Operations	215	209	225	231	227	242	242
Aviation, Public Transportation and Rail	74	73	82	65	74	84	84
Local Programs and Economic Partnerships	7	6	6	5	6	6	6
Operational Activities [7]	156	149	149	131	143	152	152
Operating Appropriations Placed in Unallotted Status	-	-	-	-	-	-	(9)
Total Operations	696	648	687	664	692	748	738
WSDOT Capital							
Highway Construction[8]	1,485	1,636	1,553	1,809	1,703	2,146	2,146
Traffic Operations and Facilities	10	6	8	9	8	19	19
Ferry Capital Construction	91	131	158	83	151	190	190
Rail Program	59	59	35	22	55	242	242
Highways and Local Programs	30	50	33	18	29	38	38
Capital Appropriations (Unallotted/Unexpended)[9]	-	-	-	-	-	-	(647)
Total Capital	1,675	1,881	1,787	1,942	1,945	2,634	1,988
Total WSDOT Transportation Uses	3,094	3,277	3,307	3,464	3,594	4,400	3,779
Ending Fund Balance	284	1,476	591	1,263	950	403	311

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

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

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.

Legislation and Ballot Measures

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, which is expected to be drawn upon beginning in the fall of 2014. The state expects to issue additional toll-backed bonds for the project in Fiscal Year 2016. See “TRANSPORTATION-RELATED REVENUES AND EXPENDITURES.”

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

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

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

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

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

Debt Service Within Constitutional Debt Limitation. The aggregate debt projected to be contracted by the state as of July 9, 2014, will not exceed that amount for which payments of principal and interest in any Fiscal Year would require the state to expend more than 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 2009 through 2014 is $14,827,211,288. The debt service limitation, 8.5 percent of this mean, is $1,260,312,960. The state's maximum annual debt service as of July 9, 2014, on debt service subject to the constitutional debt limitation is $1,116,012,466, or $144,300,494 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."

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 7/9/2014[1] General Obligation General State Revenues[3] Principal	Interest	Motor Vehicle Fuel Tax Revenues Principal	Interest[3]	Triple Pledge Principal	Interest	Limited Obligation GARVEEs Principal	Interest	2015A-1, 2015A-2, 2015T and R-2015A[2] General Obligation General State Revenues Principal	Interest	R-2015B[2] Motor Vehicle Fuel Tax Revenues Principal	Interest	Total Debt Service Requirements [2][3][4][5]
2015[5]	371,021,564	386,138,186	168,142,993	248,642,395	-	26,024,975	-	39,095,675	-	16,934,753	-	9,583,267	1,265,583,808
2016	614,252,077	504,396,119	261,634,493	299,880,978	-	26,024,975	62,600,000	37,544,175	8,345,000	33,212,929	-	20,058,000	1,867,948,746
2017	613,801,191	494,657,134	274,543,239	295,053,660	10,835,000	26,024,975	65,710,000	34,360,925	8,380,000	33,177,286	-	20,058,000	1,876,601,410
2018	587,024,950	463,814,623	260,409,188	285,951,789	11,375,000	25,483,225	68,975,000	31,026,150	21,875,000	32,756,993	18,610,000	19,685,800	1,826,987,718
2019	552,446,629	436,967,569	249,706,883	278,625,974	11,945,000	24,914,475	72,380,000	27,519,375	45,330,000	31,357,123	38,340,000	18,546,800	1,788,079,828
2020	546,078,868	414,497,337	255,538,119	270,654,194	12,540,000	24,317,225	75,985,000	23,819,250	47,390,000	29,298,488	39,975,000	16,980,500	1,757,073,980
2021	524,548,505	373,045,712	254,406,687	261,717,316	13,165,000	23,690,225	79,780,000	19,937,625	49,560,000	27,123,711	41,360,000	15,147,000	1,683,481,782
2022	519,755,000	324,164,283	260,267,106	255,200,055	13,825,000	23,031,975	83,750,000	15,869,938	51,890,000	24,809,465	43,575,000	13,023,625	1,629,161,446
2023	520,715,000	298,095,963	256,482,167	246,567,363	14,515,000	22,340,725	87,915,000	11,593,625	54,320,000	22,363,533	46,515,000	10,771,375	1,592,194,751
2024	519,555,000	272,436,163	261,074,322	239,128,954	15,240,000	21,614,975	92,305,000	7,092,125	56,895,000	19,788,801	49,035,000	8,382,625	1,562,547,965
2025	497,630,000	246,539,263	268,214,917	229,847,909	16,005,000	20,852,975	96,915,000	2,392,250	59,600,000	17,071,203	51,660,000	5,865,250	1,512,593,766
2026	482,745,000	221,475,138	275,905,654	218,673,558	16,805,000	20,052,725	-	-	62,470,000	14,193,032	54,370,000	3,214,500	1,369,904,606
2027	465,030,000	198,067,800	293,538,610	207,755,242	17,685,000	19,170,463	-	-	65,315,000	11,353,950	37,105,000	927,625	1,315,948,690
2028	505,865,000	177,149,500	322,561,468	198,065,055	18,615,000	18,242,000	-	-	11,390,000	9,708,725	-	-	1,261,596,748
2029	505,005,000	154,278,850	323,001,913	186,242,882	19,545,000	17,311,250	-	-	11,975,000	9,124,600	-	-	1,226,484,495
2030	485,270,000	131,986,538	319,155,835	173,263,915	20,525,000	16,334,000	-	-	12,565,000	8,533,106	-	-	1,167,633,394
2031	461,940,000	111,364,600	288,610,000	100,252,825	21,550,000	15,307,750	-	-	13,185,000	7,911,363	-	-	1,020,121,537
2032	447,785,000	90,315,275	269,630,000	87,371,923	22,625,000	14,230,250	-	-	13,860,000	7,235,238	-	-	953,052,685
2033	416,760,000	69,096,088	241,540,000	74,444,733	23,760,000	13,099,000	-	-	14,575,000	6,524,363	-	-	859,799,183
2034	339,220,000	49,797,025	198,700,000	63,139,205	24,945,000	11,911,000	-	-	15,320,000	5,776,988	-	-	708,809,218
2035	265,670,000	33,843,488	176,730,000	53,610,656	26,195,000	10,663,750	-	-	16,095,000	5,003,088	-	-	587,810,981
2036	201,940,000	21,673,438	155,365,000	45,448,106	27,505,000	9,354,000	-	-	16,910,000	4,189,438	-	-	482,384,981
2037	146,900,000	12,802,275	161,595,000	37,703,297	28,880,000	7,978,750	-	-	17,775,000	3,322,313	-	-	416,956,635
2038	99,925,000	6,732,825	167,905,000	29,796,372	30,325,000	6,534,750	-	-	18,685,000	2,410,813	-	-	362,314,760
2039	68,775,000	2,433,875	174,650,000	21,428,138	31,840,000	5,018,500	-	-	19,645,000	1,452,563	-	-	325,243,076
2040	-	-	142,965,000	13,183,012	33,430,000	3,426,500	-	-	20,615,000	480,719	-	-	214,100,231
2041	-	-	117,580,000	6,903,737	35,100,000	1,755,000	-	-	-	-	-	-	161,338,737
2042	-	-	55,245,000	2,957,081	-	-	-	-	-	-	-	-	58,202,081
2043	-	-	30,120,000	968,028	-	-	-	-	-	-	-	-	31,088,028
Total	10,759,658,784	5,495,769,063	6,485,218,596	4,432,478,351	518,775,000	454,710,413	786,315,000	250,251,113	733,965,000	385,114,578	420,545,000	162,244,367	30,885,045,264

(1) Does not include the Bonds or the Refunded Bonds. See "SOURCES AND USES OF FUNDS—Plan of Refunding" in the front portion of this Official Statement. Does not include the TIFIA Bond, which has not yet been drawn upon. See "TRANSPORTATION RELATED REVENUES AND EXPENDITURES–Transportation Expenditures–Payment of Bonds Payable from Toll Revenue and Other Funds."
(2) Current offerings dated July 9, 2014 (Series 2015A-1, Series 2015A-2, 2015T, R-2015A and R-2015B).
(3) The state may be reimbursed for some of these debt service payments from sources that are not general state revenues, including tuition fees, patient fees, admission taxes, parking taxes and certain King County sales and uses taxes. See Tables 11 and 12.
(4) Debt service does not take into account the receipts of the 35 percent federal credit payments applicable to bonds issued as Build America Bonds. See "GENERAL FUND–Impact of Federal Sequestration on the State."
(5) Remaining debt service on outstanding bonds as of July 9, 2014. Upon the issuance of the Bonds, estimated debt service requirements for entire Fiscal Year 2015 are: principal $855,699,557; interest $947,012,877; total debt service $1,802,712,434.

Totals may not add due to rounding.

Source: Office of the State Treasurer.

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

	6/30/2010	6/30/2011	6/30/2012	6/30/2013	6/30/2014
Outstanding by Source of Payment					
General Obligation Bonds					
General State Revenues and Other Sources [(1)]	10,410,327,277	10,763,996,170	10,980,895,035	10,980,397,783	11,433,123,784
Motor Vehicle Fuel Tax Revenue	6,189,623,828	6,004,454,495	6,353,055,881	6,712,006,137	7,010,288,596
Toll Revenue on the SR 520 Corridor	-	-	518,775,000	518,775,000	518,775,000
	16,599,951,104	16,768,450,665	17,852,725,916	18,211,178,920	18,962,187,380
Limited Obligation Bonds					
Pledged Federal Aid (GARVEE)	-	-	500,400,000	500,400,000	786,315,000
Total – Outstanding	16,599,951,104	16,768,450,665	18,353,125,916	18,711,578,920	19,748,502,380
Annual Debt Service Requirements by Fiscal Year					
General Obligation Bonds					
General State Revenues and Other Sources Debt Service[(1)]					
Payable from General State Revenues	866,032,566	904,457,910	936,976,816	969,603,360	1,000,139,367
Reimbursed from Other Sources[(1)]	91,743,874	88,239,461	86,327,135	83,775,821	87,737,679
	957,776,440	992,697,370	1,023,303,951	1,053,379,180	1,087,877,046
Motor Vehicle Fuel Tax Revenue Debt Service					
Payable from Excise Taxes on Motor Vehicle and Special Fuels	319,143,978	379,425,700	399,676,957	420,422,316	489,875,489
Reimbursed from Tolls on the Tacoma Narrows Bridge	34,925,419	42,200,419	43,266,544	45,329,581	54,344,250
	354,069,397	421,626,119	422,943,501	465,751,897	544,219,739
Toll Revenue Debt Service					
Payable from Toll Revenue on the SR 520 Corridor	-	-	15,253,527	26,024,975	26,024,975
Limited Obligation Bonds					
GARVEE Bond Debt Service	-	-	-	18,282,056	30,817,141
Total – Annual Debt Service by Fiscal Year	1,311,845,837	1,414,323,489	1,481,500,979	1,563,438,108	1,688,938,901

(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 July 9, 2014)
(in dollars)

General Obligation Bonds		
Various Purpose General Obligation Bonds		
Payable from General State Revenues		10,764,819,066
Reimbursed from Other Sources(2)		728,804,718
Sub Total		11,493,623,784
Motor Vehicle Fuel Tax General Obligation Bonds		
Payable from Excise Taxes on Motor Vehicle and Special Fuels		6,403,285,000
Payable from Tolls on the SR 520 Corridor		518,775,000
Reimbursed from Tolls on the Tacoma Narrows Bridge		502,478,596
Sub Total		7,424,538,596
	Total General Obligation Bonds	18,918,162,380
Limited Obligation Bonds		
Pledged Federal Aid (GARVEE Bonds)	**Total Limited Obligation Bonds**	786,315,000
	Total	19,704,477,380

(1) Includes the current offerings dated July 9, 2014 (Series 2015A-1, 2015A-2, 2015T, R-2015A and R-2015B, after defeasance of refunded bonds). Does not include the TIFIA Bond, which has not yet been drawn upon. See “TRANSPORTATION-RELATED REVENUES AND EXPENDITURES−Transportation Expenditures− Payment of Bonds Payable from Toll Revenue and Other Funds.”

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

Totals may not add due to rounding.

Source: Office of the State Treasurer.

Certificates of Participation/Financing Contracts for State and Local Agencies

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

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

The state also has entered into two long-term leases with separate nonprofit corporations that issued “63-20” lease revenue bonds on behalf of the state. The first lease, entered into in 2004 with Tumwater Office Properties, is for an office building being used as offices by WSDOT and DOC (now known as the “Edna Lucille Goodrich Building” and formerly the “Tumwater Office Building”); these bonds are expected to be 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.

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 May 31, 2014)
(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	
2015[2][3]	31,473,057	16,400,216	35,042,488	6,760,734	3,434,810	1,545,197	8,880,878	1,734,752	105,272,133
2016	32,974,795	15,147,437	32,642,408	5,939,211	3,505,118	1,421,055	7,607,382	1,460,348	100,697,755
2017	26,165,000	13,814,375	30,638,184	4,897,215	3,496,682	1,290,127	6,854,156	1,196,669	88,352,407
2018	25,440,000	12,779,717	23,545,743	3,957,977	2,832,758	1,161,396	6,034,719	938,478	76,690,788
2019	25,040,000	11,737,120	20,619,464	3,160,832	2,670,027	1,048,384	5,009,690	705,755	69,991,272
2020	24,690,000	10,714,343	16,523,472	2,476,244	2,600,013	937,169	4,174,162	506,462	62,621,865
2021	24,590,000	9,680,732	14,081,054	1,949,545	2,480,000	828,040	2,280,479	361,972	56,251,822
2022	23,835,000	8,653,026	5,517,584	1,573,464	2,275,000	722,333	1,857,416	267,848	44,701,671
2023	23,825,000	7,624,178	5,328,536	1,326,958	2,365,000	617,938	1,546,464	179,279	42,813,353
2024	22,790,000	6,602,073	5,286,172	1,077,603	1,960,000	521,875	1,373,828	108,697	39,720,248
2025	20,635,000	5,623,971	5,305,000	830,469	2,020,000	434,543	505,000	53,425	35,407,407
2026	20,185,000	4,705,750	5,165,000	589,513	2,110,000	341,153	450,000	32,300	33,578,715
2027	20,160,000	3,779,985	4,065,000	342,950	2,030,000	246,856	180,000	13,800	30,818,591
2028	16,840,000	2,897,274	3,940,000	180,900	2,080,000	153,216	105,000	5,950	26,202,340
2029	16,190,000	2,124,386	4,060,000	60,900	985,000	57,494	95,000	1,900	23,574,680
2030	16,595,000	1,360,614	-	-	230,000	22,936	-	-	18,208,550
2031	10,690,000	755,300	-	-	165,000	14,450	-	-	11,624,750
2032	5,820,000	355,069	-	-	155,000	8,144	-	-	6,338,213
2033	5,250,000	118,578	-	-	100,000	1,981	-	-	5,470,559
2034	295,000	6,822	-	-	-	-	-	-	301,822
Total	393,482,852	134,880,965	211,760,105	35,124,515	37,494,409	11,374,286	46,954,175	7,567,635	878,638,941

(1) Excludes payments on state leases supporting “63-20” lease revenue bonds. See Table 14.
(2) Total payments for Fiscal Year 2015 are $105,272,133.
(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 July 9, 2014)
(in dollars)

Fiscal Year	E.L. Goodrich Building		1500 Jefferson Building		Total Lease
	Principal	Interest	Principal	Interest	Revenue Bonds
2015	-	998,692	6,015,000	15,622,375	22,636,067
2016	1,565,000	1,904,275	6,310,000	15,321,625	25,100,900
2017	1,795,000	1,820,275	6,630,000	15,006,125	25,251,400
2018	2,010,000	1,725,150	6,965,000	14,674,625	25,374,775
2019	2,235,000	1,652,550	7,310,000	14,326,375	25,523,925
2020	2,415,000	1,606,050	7,675,000	13,960,875	25,656,925
2021	2,600,000	1,516,900	8,060,000	13,577,125	25,754,025
2022	2,875,000	1,380,025	8,460,000	13,174,125	25,889,150
2023	3,155,000	1,229,275	8,885,000	12,751,125	26,020,400
2024	3,460,000	1,063,900	9,350,000	12,284,663	26,158,563
2025	3,790,000	882,650	9,845,000	11,793,788	26,311,438
2026	4,140,000	684,400	10,360,000	11,276,925	26,461,325
2027	4,510,000	468,150	10,905,000	10,733,025	26,616,175
2028	4,930,000	256,800	11,450,000	10,187,775	26,824,575
2029	3,955,000	79,100	12,035,000	9,600,963	25,670,063
2030	-	-	12,665,000	8,969,125	21,634,125
2031	-	-	13,360,000	8,272,550	21,632,550
2032	-	-	14,095,000	7,537,750	21,632,750
2033	-	-	14,870,000	6,762,525	21,632,525
2034	-	-	15,690,000	5,944,675	21,634,675
2035	-	-	16,555,000	5,081,725	21,636,725
2036	-	-	17,465,000	4,171,200	21,636,200
2037	-	-	18,425,000	3,210,625	21,635,625
2038	-	-	19,440,000	2,197,250	21,637,250
2039	-	-	20,510,000	1,128,050	21,638,050
Total	43,435,000	17,268,192	293,330,000	247,566,988	601,600,179

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

Other Debt

See Appendix D—"THE STATE'S 2013 AUDITED FINANCIAL STATEMENTS–Note 7A." for a description of revenue bonds issued by certain colleges and universities; tobacco securitization debt; and certain other conduit debt issued by state agencies, all of which are not 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 June 1, 2014, the aggregate total principal amount outstanding on 482 voter-approved bond issues guaranteed under the program was $8.52 billion. The bonds were issued by 174 school districts.

Washington Guaranteed Education Tuition Program

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

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

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

INVESTMENTS

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

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 comingled 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 Cash Management Accounts of the Treasury and Treasurer's Trust Fund and how investments are valued and investments as of June 30, 2013, for the LGIP, Treasurer's Trust Funds, state pension plans and Workers' Compensation Funds, see Note 3 in Appendix D—"THE STATE'S 2013 AUDITED FINANCIAL STATEMENTS."

Treasury and Treasurer's Trust Funds

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

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

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

Core Portfolio. Cash not anticipated to be needed to meet cash flow requirements for the foreseeable future is invested in the Core Portfolio. The maximum maturity for this portfolio is 10 years with a target duration of about 2.1 years. Investment holdings of this portfolio include obligations of the U.S. Government and U.S. agencies. The performance benchmark of the Core Portfolio is the total return of a blended portfolio consisting of the Merrill Lynch 0-1 Year Treasury Index (20%); the Merrill Lynch 1-3 Year Treasury/Agency Index (50%); and the Merrill Lynch 3-5 Year Treasury/Agency Index (30%).

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

	May 2014		June 2013-May 2014[1]	
	$	%	$	%
U.S. Agency	1,602,105	38.7	1,781,037	41.6
U.S. Treasury	1,083,789	26.2	846,556	19.8
Repurchase Agreements	25,807	0.6	387,192	9.0
Bank Deposits	130,916	3.2	137,716	3.2
LGIP Deposit[2]	1,131,963	27.3	970,257	22.6
Certificates of Deposit	165,538	4.0	161,268	3.8
	4,140,118	100.0	4,284,026	100.0
Weighted Average Maturity:	523 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 2005 to Fiscal Year 2014, 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 provides its participants the opportunity to take advantage of the economies of scale inherent in pooling. The LGIP also is intended to offer participants safety of principal and the ability to achieve a higher investment yield than otherwise would be available to them. The more than 540 local governments that participate in the LGIP are allowed 100 percent liquidity on a daily basis. Although not regulated by the U.S. Securities and Exchange Commission (the "SEC"), the LGIP is invested in a manner generally consistent with the SEC guidelines for Rule 2a-7 money market funds; for example, currently it has a maximum weighted average maturity ("WAM") of 60 days and a maximum weighted average life of 120 days. The maximum final maturity is 397 days except for floating- and variable-rate securities and securities that are used for repurchase agreements. The WAM of the LGIP generally ranges from 30 to 60 days. Typical investment holdings of the LGIP are repurchase agreements, U.S. Treasury bills and notes, U.S. agency discount notes, coupons, floating- and variable-rate notes, reverse repurchase agreements and bank deposits. The benchmarks utilized for the LGIP are the Government and Agency money market net and gross yields reported by iMoneyNet. The net yield is utilized for external comparisons while the gross yield is used internally to assess portfolio manager performance.

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

	May 2014		June 2013-May 2014[1]	
	$	%	$	%
U.S. Agency	7,678,609	65.7	6,369,644	63.0
U.S. Treasury	854,588	7.3	1,124,466	11.1
Repurchase Agreements	1,975,551	16.9	1,690,346	16.7
Bank Deposits	1,118,159	9.6	877,330	8.7
Certificates of Deposit	62,450	0.5	53,540	0.5
	11,689,358	100.0	10,115,326	100.0
Weighted Average Maturity:	43 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, 2013, the Liability Account held $58.37 million designated for payment of tortious liability and certain federal due process claims. As of June 30, 2013, outstanding and actuarially determined claims against the state and its agencies (except for the University of Washington), including projected defense costs, that were payable from the Liability Account were $542.7 million.

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

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

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

Workers' Compensation Program

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

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

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

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

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

Washington State Unemployment Insurance Trust Fund

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

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

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

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

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

The average combined unemployment tax rates as a percentage of taxable wages for Fiscal Years 2009 to 2013 are shown in the following table.

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

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

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

The trust fund balance as of March 31, 2014, was $2.94 billion, which is estimated to be enough coverage to provide 13.7 months of benefits. The following table shows the unemployment compensation balances for Fiscal Years 2009 through 2013.

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

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

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

In March 2014, approximately 94,000 unemployed workers received unemployment insurance benefits. Beginning July 1, 2013, new claimants entering the program may receive up to 26 weeks of regular unemployment insurance benefits from the state, with a maximum state liability of $16,224 (which is the maximum weekly benefit amount times 26). The maximum weekly benefit amount is calculated based on 63 percent of Washington's average weekly wage per unemployed worker.

A state can qualify for extended federal benefits if the state's current year unemployment rate is higher than prior periods. Between February 2009 and April 2012, the state qualified for the federal Extended Benefits Program that allowed up to an additional 20 weeks of benefits. Between August 2013 and December 2013, a maximum of 28 additional weeks of Emergency Unemployment Compensation ("EUC") was available in the state, which was paid in two "tiers." The number of tiers was based on the state's unemployment rate. The state's unemployment rate rose late in the year allowing a third tier of EUC for part of December. Individuals who had already used all of the first two tiers without receiving the third, could receive the third tier until EUC ended at the end of December 2013.

Seismic Activity and Other Natural Disasters

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

RETIREMENT SYSTEMS

Retirement Plans

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

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

Table 19
Overview of Retirement Plans (1)

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

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

Funding Policies

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

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

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

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

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

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

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

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

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

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

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

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

Contribution Rates

The following table lists the contribution rates for the state and employees for the retirement plans adopted by the PFC and LEOFF 2 Board for the 2013-15 Biennium. The rates are expressed as a percentage of current year covered payroll (members' reportable salary, which generally is gross pay). OSA has projected that employers' and employees' contribution rates in most plans will increase in the 2015-17 Biennium under optimistic, expected and pessimistic scenarios. See the State's Actuary's website (http://osa.leg.wa.gov/Actuarial_Services/Funding/contribution_rates.htm).

Table 20
Contribution Rates
(in percentage)

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

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

Source: Department of Retirement Systems.

State Contributions

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

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

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

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

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

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

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

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

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

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

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

(1) These splits are used by OSA to model approximate cost allocations for employers by fund or type of employer in actuarial fiscal analysis. The reader should exercise caution when using numbers provided in this table for any other purpose. Estimates are based upon the June 30, 2012, actuarial valuation.
(2) The state has only a few employees in TRS and no employees in SERS.

Source: Office of the State Actuary.

Investments

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

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

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

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

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

Source: Washington State Investment Board.

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

Funded Status

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

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

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

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

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

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

Source: Office of the State Actuary.

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

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

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

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

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

Totals may not add due to rounding.

Source: Office of the State Actuary.

Preliminary June 30, 2013, Funded Status. It is expected that the June 30, 2013, actuarial valuation for the state's retirement plans will be issued in September 2014. On June 17, 2014, OSA prepared a preliminary June 30, 2013, actuarial valuation report that showed that the funded status of all of the state-administered plans combined was 94 percent (down from 101 percent at June 30, 2012). All open plans continue to show funded ratios over 100 percent. The two closed plans (PERS Plan 1 and TRS Plan 1) have funded ratios of 63 percent and 71 percent, respectively. PERS Plan 1 had an unfunded accrued liability of $4.831 billion and TRS Plan 1 had an unfunded accrued liability of $2.732 billion as of June 30, 2013. The decrease in the funded status and increase in the unfunded liability primarily reflects changed demographic assumptions, including projected improvements in mortality rates, and the statutory requirement that the assumed rate of return was reduced from 7.9 percent to 7.8 percent. These are preliminary results and are subject to change based on the rates adopted by the PFC in July 2014 and the results of an outside actuarial audit that is underway. If the PFC adopts the increased employer and employee contribution rates reflected in the preliminary valuation (without any phase-in of the increased contribution requirements), the increase for the state's employer contributions from the General Fund to the pension funds is estimated to be $482 million for the 2015-17 Biennium.

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

Actual Employer Contributions vs. ARC. The following table shows all employers' Annual Required Contributions ("ARC") for 2009-2013, employers' actual annual contributions over the same period and the percentage contributed. ARC is required under generally accepted accounting principles and is based on the most recent valuations. The methods used to derive the ARC for this reporting disclosure differ from the methods used to derive the contributions required by law shown above. These differences include the use of different actuarial valuations (actual contributions may be based on an earlier valuation), and different actuarial cost methods. For these reasons, the actual contributions will not match the ARCs.

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

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

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

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

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

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

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

Benefits; Recent Legislation

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

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

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

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

Bankruptcy of Participating Local Government

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

Federal Benefits

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

Other Post-Employment Benefits

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

LITIGATION

The state and its agencies are parties to numerous routine legal proceedings that occur as a consequence of regular government operations. At any given point, there are numerous lawsuits involving state agencies which could, depending on the outcome of the litigation or the terms of a settlement agreement, impact revenue or expenditures of the state. There are risk management funds reserved by the state for 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 on certain types of damage claims. The collective impact of these claims, however, is not likely to have a material impact on state revenues or expenditures.

In addition to the regular damages claims, there are currently a number of lawsuits challenging the management and administration of state programs, some arising as a result of recent state budget cuts. 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 2013 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 is scheduled for September 3, 2014. See "GENERAL FUND–General Fund Expenditures–Education" and "General Fund–State Operating Budget–2013-15 Biennial Budget" and "-Supplemental 2013-15 Budget."

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.

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. The Supreme Court issued a ruling on April 3, 2014, affirming a judgment awarding more than $57 million dollars to the plaintiffs, finding DSHS had breached its duties to the Plaintiffs. On April 23, 2014, the state asked the Supreme Court to reconsider part of its ruling and to vacate the trial court's judgment and the post-judgment interest and to remand the case for further proceedings.

Taxes

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

In the matter of *Wall v. State of Washington*, plaintiffs allege the Legislature transferred funds from the Education Legacy Trust Account in 2008 and 2010 into the General Fund in violation of Article VII, Section 5 of the Constitution. Plaintiff contends the amounts transferred exceed $100 million and asks that the money be restored to the Education Legacy Trust Account and the defendants enjoined from any further unconstitutional diversions. The court denied the state's motion for summary judgment; however, it held the Legislature's 2008 change to the statute is constitutional. This ruling limits the case to the factual determination of whether any funds transferred in June 2009 were collected before the 2008 statutory amendment. On October 2, 2013, the 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. Plaintiffs have filed a direct appeal to the Supreme Court of the trial court's order and the parties are in the process of briefing the court.

Employment and Pensions

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

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

The matter of *Moore v. Washington Health Care Authority* involves two related class action lawsuits alleging that the state has wrongfully denied medical benefits to current and former non-permanent employees by inconsistently applying eligibility standards, misclassifying employees to deny them benefits in alleged violation of the applicable statutes and regulations. A comprehensive ruling for plaintiffs on all issues in dispute could have a potentially significant impact. The trial court ruled against the state on most liability issues and in December 2011 certified a damages class on the breach of statute claim. Following the court's denial of plaintiffs' class certification on the breach of contract claim, plaintiffs dismissed the claim without prejudice. The 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, which is expected sometime in mid-2014. 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 addition, there is a second matter (Moore II) and 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. The matter is now set for trial in Thurston County Superior Court in September 2015.

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. Ninth Circuit's Court of Appeals. The Tribes filed a cross-appeal, which they subsequently moved to dismiss. Appellate briefs have been filed and the parties are awaiting scheduling of oral argument.

DEMOGRAPHIC AND ECONOMIC INFORMATION

Business in Washington

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

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

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

(1) North American Industry Classification System.

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

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

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

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

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

Trade

Washington is one of the most trade-intensive states in the nation and is an important gateway for trade with Asia and Canada and for domestic trade with Alaska and Hawaii. In 2013, Washington had $81.9 million in exports, and based on U.S. Department of Commerce Census Bureau statistics through September 2013, Washington was the 6th largest exporter in the United States.

Ports. Washington has seven deep-draft ports on the Puget Sound, one on the Pacific Coast and three on the Columbia River. The ports of Seattle and Tacoma, on Puget Sound, are the state's largest ports and are closer to Asian ports than is any other continental United States port. According to the U.S. Department of Commerce Bureau of Census, the port of Tacoma nationally ranked 15th and the port of Seattle nationally ranked 19th 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 15th busiest airport in the country in 2012 according to the Federal Aviation Administration Air Carrier Activity Information System database. The airport also ranks as the 19th busiest cargo airport in the United States based on all-cargo landed weight.

Aerospace

There are approximately 1,350 aerospace-related companies in the state employing over 131,000, with Boeing being the largest aerospace employer in the state with approximately 85,000 full-time employees. Washington aerospace companies produce more than 1,200 aircraft annually. Boeing recently announced that it expects to move approximately 4,300 engineering jobs out of the state. In 2012, aerospace and related industry employment was 4.6 percent of state non-farm employment and wages were 7.1 percent of state non-farm wages. Boeing is currently manufacturing five models of jets in the state. Boeing has opened a second 787 production line in South Carolina. Boeing will assemble the new 777X jetliner and build its new carbon fiber wing in the state.

Forest Products

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

Agriculture and Food Processing

The state's food and agriculture industry supports an estimated 131,000 jobs. Nearly 300 agricultural commodities are produced commercially in Washington, and in 2012 the state's top 10 agricultural commodities (in commodities value) were apples, wheat, milk, potatoes, hay, cattle, cherries, nursery, grapes and pears. Washington ranked first in United States production of apples and hops. The agricultural and food processing sector is export-oriented.

Information and Communications Technology

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

Global Health and Biotechnology

The state is a global center for the advancement of medicine and life sciences. More than 34,000 workers are directly employed in the nearly 400 life sciences and global health organizations in the state. The life sciences sector in Washington includes the development and manufacture of medical devices, cancer research, therapeutics and the prevention and treatment of infectious diseases. Washington is also home to some of the leading global health research institutes and non-profit organizations, including the Bill and Melinda Gates Foundation, PATH, Seattle BioMed and the Fred Hutchinson Cancer Research Center. The University of Washington Medical Center is the largest public university recipient of federal research dollars, receiving approximately $1.2 billion in federal grants and contacts each year.

Services/Tourism

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

Military

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

Construction

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

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

	Washington			
Year	**Single Family**	**Multi-Family**	**Total**	**United States**
2004	36,489	13,600	50,089	2,070,077
2005	41,407	11,581	52,988	2,155,316
2006	35,611	14,422	50,033	1,838,903
2007	30,390	17,007	47,397	1,398,415
2008	17,440	11,479	28,919	905,359
2009	12,991	4,020	17,011	582,963
2010	14,702	5,989	20,691	604,610
2011	13,159	7,705	20,864	624,061
2012	16,508	11,610	28,188	829,658
2013(1)	18,270	13,394	31,664	976,369

(1) Preliminary.
Source: U.S. Bureau of the Census.

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Other Employment Information

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

	2009	2010	2011	2012	2013
Resident Civilian Labor Force	3,523.5	3,515.2	3,473.1	3,484.7	3,461.1
Unemployment	329.5	348.5	319.2	281.3	242.7
WA Unemployment Rate (Percent)(2)	9.3	9.9	9.2	8.1	7.0
U.S. Unemployment Rate (Percent)(2)	9.3	9.6	8.9	8.1	7.4
Nonagricultural Wage and Salary Workers Employed in Washington					
Nonfarm Employment	2,822.4	2,786.4	2,821.3	2,871.3	2,987.0
Durable Manufacturing	190.6	184.3	193.5	204.5	209.4
Aerospace	82.9	80.8	86.6	94.2	96.1
Computer and Electronic Products	20.1	19.1	19.7	20.2	20.2
Nondurable Manufacturing	74.9	73.9	75.4	75.7	76.8
Mining and Logging	6.0	5.9	6.0	5.9	6.1
Construction	159.5	140.7	137.5	138.5	147.9
Trade, Transportation and Utilities	522.4	517.0	526.0	536.1	550.2
Information	103.9	103.0	103.7	104.7	106.2
Software Publishers	51.5	50.9	51.7	52.4	53.8
Financial	142.9	137.9	137.8	142.9	149.9
Professional and Business Services	324.4	326.4	338.2	348.5	360.4
Education and Health Services	372.4	375.4	381.7	385.7	438.7
Leisure and Hospitality	269.6	266.5	271.8	276.7	286.7
Other Services	106.3	105.5	107.5	110.8	111.4
Government	549.5	550.0	542.2	541.1	543.3

(1) Averages of monthly data (not seasonally adjusted).
(2) Seasonally adjusted. As reported by Washington Department of Employment Security in April 2014, the March 2014 unemployment rate (seasonally adjusted) was 6.3 percent in Washington and 6.7 percent in the U.S. as a whole.

Source: Department of Employment Security and U.S. Bureau of Labor Statistics as of April 16, 2014.

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

	State of Washington		United States	
	2003	**2013**	**2003**	**2013**
Manufacturing				
Nondurable Manufacturing				
Food Manufacturing	1.3	1.2	1.2	1.1
Pulp and Paper	0.5	0.3	0.4	0.3
Other	1.3	1.1	2.7	1.9
Subtotal	3.1	2.6	4.3	3.3
Durable Manufacturing				
Lumber and Wood	0.7	0.4	0.4	0.3
Primary and Fabricated Metals	0.8	0.9	1.5	1.3
Machinery	0.6	0.7	1.3	1.1
Computers	0.9	0.7	1.1	0.8
Transportation Equipment	2.9	3.6	1.4	1.1
Other	1.1	0.9	1.4	1.0
Subtotal	6.9	7.1	7.0	5.5
Total Manufacturing	10.1	9.7	11.3	8.8
Nonmanufacturing				
Natural Resources and Mining	0.3	0.2	0.4	0.6
Construction	5.9	5.0	5.2	4.3
Trade, Transportation and Utilities	19.2	18.8	19.4	19.1
Information	3.5	3.6	2.5	2.0
Financial	5.7	5.0	6.1	5.8
Professional and Business Services	10.9	12.2	12.4	13.6
Education and Health Services	11.7	13.4	12.7	15.2
Leisure and Hospitality	9.3	9.8	9.3	10.4
Other Services	3.8	3.8	4.1	4.0
Government	19.6	18.5	16.5	16.1
Total Nonmanufacturing	89.9	90.3	88.7	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 11.6 percent since 2004. Based upon the 2010 Census, the state is the thirteenth most populous in the nation. The following table summarizes the state's population for 2004-2013.

Table 34
State of Washington Population

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

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

Income Characteristics

The state's per capita income consistently has exceeded the national level and has increased approximately 28.1 percent since 2004. Table 35, derived from U.S. Bureau of Economic Analysis ("BEA") statistics, provides a comparison of personal income and per capita income for the state and the nation. BEA also calculates that per capita disposable personal income (personal income less personal taxes) in Washington ($42.328 in 2013) has consistently been higher than the average per capita disposable personal income in the United States as a whole ($39,299 in 2013).

Table 35
Personal Income Comparisons
Washington and United States

	Total Income ($ in billions)				Per Capita Income (in dollars)	
	Washington		United States			
Year	Amount	Percent Change	Amount	Percent Change	Washington	United States
2004	226.8	-	10,043.3	-	36,715	34,300
2005	235.6	3.9	10,605.6	5.6	37,651	35,888
2006	255.7	8.5	11,376.5	7.3	40,139	38,127
2007	276.8	8.3	11,990.2	5.4	42,845	39,804
2008	289.8	4.7	12,429.3	3.7	44,162	40,873
2009	280.8	-3.1	12,073.7	-2.9	42,112	39,357
2010	286.7	2.1	12,423.3	2.9	42,521	40,163
2011	303.1	5.7	13,179.6	6.1	44,420	42,298
2012	317.6	4.8	13,729.1	4.2	46,045	43,735
2013	327.9	3.2	14,081.2	2.6	47,031	44,543

Source: U.S. Department of Commerce, Bureau of Economic Analysis, 2004 through 2012 statistics were revised as of September 30, 2013; 2013 statistics were updated on March 25, 2014.

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APPENDIX B

BONDS OUTSTANDING

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Debt Authorization and Outstanding Debt
Various Purpose General Obligation Bonds
As of July 9, 2014

Subject to Constitutional Debt Limitation

Chapter and Laws	Bonds Authorized	Issued [1]	Bonds Outstanding [1]	Unissued [2]
Ch. 138 -- Laws of 1965 (R-93B).................................	230,950,000	230,950,000	22,220,000	-
Ch. 138 -- Laws of 1965 (R-2005A).............................	343,600,000	343,600,000	239,140,000	-
Ch. 138 -- Laws of 1965 (R-2006A).............................	405,650,000	405,650,000	251,775,000	-
Ch. 138 -- Laws of 1965 (R-2007A).............................	321,050,000	321,050,000	193,545,000	-
Ch. 138 -- Laws of 1965 (R-2007C).............................	375,895,000	375,895,000	177,825,000	-
Ch. 138 -- Laws of 1965 (R-2010A).............................	386,380,000	386,380,000	304,290,000	-
Ch. 138 -- Laws of 1965 (R-2010B).............................	215,500,000	215,500,000	182,960,000	-
Ch. 138 -- Laws of 1965 (R-2011A).............................	365,605,000	365,605,000	313,660,000	-
Ch. 138 -- Laws of 1965 (R-2011B).............................	401,435,000	401,435,000	370,530,000	-
Ch. 138 -- Laws of 1965 (R-2012A).............................	461,380,000	461,380,000	352,555,000	-
Ch. 138 -- Laws of 1965 (R-2012C).............................	733,705,000	733,705,000	733,705,000	-
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	648,645,000	-
Ch. 138 -- Laws of 1965 (R-2014A).............................	117,905,000	117,905,000	103,160,000	-
Ch. 138 -- Laws of 1965 (R-2015A).............................	420,085,000	420,085,000	420,085,000	-
Ch. 34 -- Laws of 1982 as amended............................	19,771,750	19,771,750	-	-
Ch. 14 -- Laws of 1989, 1st Ex. Sess., as amended......	578,839,431	547,670,000	62,645,000	31,169,431
Ch. 31 -- Laws of 1991, 1st Sp. Sess., as amended......	608,542,302	608,542,302	69,770,000	-
Ch. 12 -- Laws of 1993, 1st Sp. Sess..........................	330,344,716	330,344,716	12,720,696	-
Ch. 17 -- Laws of 1995, 2nd Sp. Sess., as amended.....	424,401,667	424,401,667	119,083,369	-
Ch. 456 -- Laws of 1997, Regular Sess..........................	18,340,000	18,340,000	4,690,000	-
Ch. 3 -- Laws of 2003, 1st Sp. Sess..........................	200,940,000	200,940,000	46,780,000	-
Ch. 18 -- Laws of 2003, 1st Sp. Sess..........................	381,550,000	323,010,000	233,590,000	58,540,000
Ch. 147 -- Laws of 2003, Regular Sess..........................	211,145,000	173,095,000	152,725,000	38,050,000
Ch. 487 -- Laws of 2005, Regular Sess..........................	696,335,000	696,335,000	539,030,000	-
Ch. 167 -- Laws of 2006, Regular Sess..........................	247,135,000	168,015,000	157,425,000	79,120,000
Ch. 521 -- Laws of 2007, Regular Sess..........................	1,705,360,000	1,705,360,000	1,435,040,000	-
Ch. 179 -- Laws of 2008, Regular Sess..........................	50,000,000	5,405,000	4,820,000	44,595,000
Ch. 6 -- Laws of 2009, Regular Sess..........................	133,000,000	124,325,000	108,615,000	8,675,000
Ch. 498 -- Laws of 2009, Regular Sess..........................	2,219,000,000	2,029,230,000	1,870,120,000	189,770,000
Ch. 49 -- Laws of 2011, 1st Sp. Sess..........................	1,122,000,000	984,830,000	973,705,000	137,170,000
Ch. 1 -- Laws of 2012, 1st Sp. Sess..........................	505,466,000	456,215,000	454,850,000	49,251,000
Ch. 20 -- Laws of 2013, 2nd Sp. Sess..........................	2,036,000,000	358,605,000	358,605,000	1,677,395,000
Subtotal...	17,286,210,865	14,972,475,434	11,268,674,065	2,313,735,431

(1) Includes current offering dated July 9, 2014 (2015A-1, 2015A-2, 2015T, and R-2015A) - 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	33,225,000	-
Ch. 220 -- Laws of 1997, Regular Sess..........................	217,074,718	217,074,718	101,904,718	-
Ch. 179 -- Laws of 2008, Regular Sess..........................	100,000,000	95,370,000	89,820,000	4,630,000
Subtotal..	395,369,718	390,739,718	224,949,718	4,630,000
Total...	17,681,580,582	15,363,215,151	11,493,623,783	2,318,365,431

Debt Authorization and Outstanding Debt

Motor Vehicle Fuel Tax General Obligation Bonds and Limited Obligation Bonds As of July 9, 2014

Motor Vehicle Fuel Tax Revenue

Chapter and Laws	Bonds Authorized	Issued [1]	Bonds Outstanding [1]	Unissued
Ch. 138 -- Laws of 1965 (R-2005B).............................	95,800,000	95,800,000	60,100,000	-
Ch. 138 -- Laws of 1965 (R-2007B).............................	63,810,000	63,810,000	36,265,000	-
Ch. 138 -- Laws of 1965 (R-2007D).............................	73,030,000	73,030,000	46,540,000	-
Ch. 138 -- Laws of 1965 (R-2010C).............................	121,235,000	121,235,000	103,145,000	-
Ch. 138 -- Laws of 1965 (R-2011C).............................	393,950,000	393,950,000	342,155,000	-
Ch. 138 -- Laws of 1965 (R-2012B).............................	42,330,000	42,330,000	40,720,000	-
Ch. 138 -- Laws of 1965 (R-2012D).............................	271,055,000	271,055,000	269,415,000	-
Ch. 138 -- Laws of 1965 (R-2013B).............................	380,390,000	380,390,000	369,305,000	-
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	92,645,000	-
Ch. 138 -- Laws of 1965 (R-2015B).............................	420,545,000	420,545,000	420,545,000	-
Ch. 83 -- Laws of 1967, 1st Ex. Sess..........................	103,890,000	61,320,000	6,765,000	42,570,000
Ch. 180 -- Laws of 1979, 1st Ex. Sess..........................	28,480,000	28,480,000	1,035,000	-
Ch. 315 -- Laws of 1981...	36,860,000	36,860,000	2,150,000	-
Ch. 316 -- Laws of 1981...	148,375,000	148,375,000	2,855,000	-
Ch. 293 -- Laws of 1990...	15,000,000	13,400,000	2,885,000	1,600,000
Ch. 431 -- Laws of 1993, as amended...........................	355,825,000	129,992,709	39,507,709	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	445,000	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...	1,210,140,000	1,120,046,712	702,418,674	90,093,288
Ch. 147 -- Laws of 2003...	2,368,930,000	1,949,803,877	1,605,053,877	419,126,123
Ch. 315 -- Laws of 2005...	5,109,715,000	2,776,553,336	2,602,408,336	2,333,161,664
Ch. 498 -- Laws of 2009 (2)..	1,163,685,000	518,775,000	518,775,000	644,910,000
Total...	12,792,565,000	8,946,356,634	7,424,538,596	3,846,208,366

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	786,315,000	-
Subtotal...	786,315,000	786,315,000	786,315,000	-
Total...	13,578,880,000	9,732,671,634	8,210,853,596	3,846,208,366

(1) Includes current offering dated July 9, 2014 (R-2015B) - after defeasance of the refunded bonds.

(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.

Grand Total.......................................	31,260,460,582	25,095,886,785	19,704,477,379	6,164,573,797

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APPENDIX C

PROPOSED FORMS OF LEGAL OPINIONS

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[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"):

$205,380,000
STATE OF WASHINGTON
VARIOUS PURPOSE GENERAL OBLIGATION BONDS, SERIES 2015A-1
DATED JULY 9, 2014

The Bonds are issued pursuant to Ch. 167, Laws of 2006; Ch. 49, Laws of 2011, 1st Sp. Sess.; Ch. 1, Laws of 2012, 2nd Sp. Sess.; and Ch. 20, Laws of 2013, 2nd Sp. Sess., of the State (collectively, the "Bond Act"), Ch. 39.42 RCW, Resolution No. 1148 of the State Finance Committee (the "Committee") of the State adopted on November 25, 2013, and Resolution No. 1155 of the Committee acting by and through the State Treasurer adopted on June 25, 2014 (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.

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SEATTLE WASHINGTON SPOKANE WASHINGTON

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"):

$22,580,000
STATE OF WASHINGTON
VARIOUS PURPOSE GENERAL OBLIGATION BONDS, SERIES 2015A-2
DATED JULY 9, 2014

The Bonds are issued pursuant to Ch. 167, Laws of 2006; Ch. 49, Laws of 2011, 1st Sp. Sess.; Ch. 1, Laws of 2012, 2nd Sp. Sess.; and Ch. 20, Laws of 2013, 2nd Sp. Sess., of the State (collectively, the "Bond Act"), Ch. 39.42 RCW, Resolution No. 1148 of the State Finance Committee (the "Committee") of the State adopted on November 25, 2013, and Resolution No. 1156 of the Committee acting by and through the State Treasurer adopted on June 25, 2014 (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.

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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,

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"):

$85,920,000
STATE OF WASHINGTON
GENERAL OBLIGATION BONDS, SERIES 2015T (TAXABLE)
DATED JULY 9, 2014

The Bonds are issued pursuant to Ch. 20, Laws of 2013, 2nd Sp. Sess., of the State (collectively, the "Bond Act"), Ch. 39.42 RCW, Resolution No. 1148 of the State Finance Committee (the "Committee") of the State adopted on November 25, 2013, and Resolution No. 1157 of the Committee acting by and through the State Treasurer adopted on June 25, 2014 (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,

TEL: 206.447.4400 FAX: 206.447.9700 1111 THIRD AVENUE, SUITE 3400 SEATTLE, WASHINGTON 98101-3299 WWW.FOSTER.COM
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"):

$420,085,000
STATE OF WASHINGTON
VARIOUS PURPOSE GENERAL OBLIGATION REFUNDING BONDS, SERIES R-2015A
DATED JULY 9, 2014

The Bonds are issued pursuant to Chapters 39.42 and 39.53 RCW (collectively, the "Refunding Bond Act"), Resolution No. 1150 of the State Finance Committee (the "Committee") of the State adopted on November 25, 2013, and Resolution No. 1158 of the Committee acting by and through the State Treasurer adopted on June 25, 2014 (collectively, the "Bond Resolution"), and other proceedings duly had and taken in conformity therewith. The Bonds are issued for the purpose of providing funds with which to pay the cost of refunding certain outstanding various purpose general obligation bonds of the State to provide a debt service savings to the State and to pay the administrative costs of such refunding and the costs of issuance and sale of the Bonds. Capitalized terms used in this opinion which are not otherwise defined shall have the meanings given to such terms in the Bond Resolution.

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

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

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

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

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

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

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

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

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

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

Respectfully submitted,

FOSTER PEPPER PLLC

[FORM OF APPROVING LEGAL OPINION]

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

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

$420,545,000
STATE OF WASHINGTON
MOTOR VEHICLE FUEL TAX GENERAL OBLIGATION REFUNDING BONDS, SERIES R-2015B
DATED JULY 9, 2014

The Bonds are issued pursuant to Chapters 39.42 and 39.53 RCW (collectively, the "Refunding Bond Act"), Resolution No. 1150 of the State Finance Committee (the "Committee") of the State adopted on November 25, 2013, and Resolution No. 1159 of the Committee acting by and through the State Treasurer adopted on June 25, 2014 (collectively, the "Bond Resolution"), and other proceedings duly had and taken in conformity therewith. The Bonds are issued for the purpose of providing funds with which to pay the cost of refunding certain outstanding motor vehicle fuel tax general obligation bonds of the State to provide a debt service savings to the State and to pay the administrative costs of such refunding and the costs of issuance and sale of the Bonds. Capitalized terms used in this opinion which are not otherwise defined shall have the meanings given to such terms in the Bond Resolution.

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

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

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

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

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

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

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

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

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 2013 AUDITED FINANCIAL STATEMENTS

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Washington State Auditor
Troy Kelley

INDEPENDENT AUDITOR'S REPORT

November 8, 2013

The Honorable Jay Inslee
Governor, State of Washington

REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate discretely presented component units and remaining fund information of the State of Washington, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the State's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Department of Retirement Systems, Local Government Investment Pool, University of Washington, and the funds managed by the State Investment Board. Those financial statements represent part or all of the total assets, net position, and revenues or additions of the governmental activities, the business-type activities, each major fund, and the aggregate discretely presented component units and remaining fund information as follows:

Opinion Unit	Percent of Total Assets	Percent of Net Position	Percent of Total Revenues/ Additions
Governmental Activities	12.3%	22.4%	8.9.%
Business-Type Activities	75.4%	100%	31.4%
Higher Education Special Revenue Fund	56.2%	52.0%	47.9%
Higher Education Endowment Fund	97.5%	96.0%	100.0%
Higher Education Student Services Fund	68.5%	71.7%	82.0%

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Workers' Compensation Fund	97.2%	100%	9.3%
Guaranteed Education Tuition Program Fund	82.4%	100%	52.4%
Aggregate Discretely Presented Component Units and Remaining Fund Information	91.9%	93.6%	70.8%

Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as it relates to the amounts included for the above mentioned entities and funds, are based solely on the reports of other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the State's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the State's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate discretely presented component units and remaining fund information of the State of Washington, as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As explained in Note 1.D.1, the financial statements include pension trust fund investments valued at $26.5 billion which comprise 27.0% of total assets and 29.7% of net position of the aggregate discretely presented component units and remaining fund information. The fair values of these investments have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on information provided by the fund managers or, in the case of investments in partnerships, the general partners. Our opinion is not modified with respect to this matter.

As described in Note 2, during the year ended June 30, 2013, the State has implemented the Governmental Accounting Standards Board Statement No. 61, The Financial Reporting Entity:

Omnibus - an amendment of GASB Statements No. 14 and No. 34, Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position and Statement No. 65, Items Previously Reported as Assets and Liabilities. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 25 through 37, budgetary comparison information on pages 163 through 166, information on postemployment benefits other than pensions on page 176, infrastructure modified approach information on pages 177 through 180 and pension trust fund information on pages 167 through 175 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We and other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State's basic financial statements. The accompanying information listed as combining financial statements and supplementary information on pages 183 through 239 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. This information has been subjected to auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us and other auditors. In our opinion, based on our audit, the procedures performed as described above, and the reports of the other auditors, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we will also issue our report dated November 8, 2013, on our consideration of the State's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report will be issued under separate cover in the State's Single Audit Report. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State's internal control over financial reporting and compliance.

Sincerely,

Troy X. Kelley

TROY KELLEY
STATE AUDITOR

MD&A
Management's Discussion and Analysis

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MD&A

Management's Discussion & Analysis

As managers of the state of Washington, we offer this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2013. We present this information in conjunction with the information included in our letter of transmittal, which can be found preceding this narrative, and with the state's financial statements, which follow. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

Financial Highlights

- Total assets and deferred outflows of the state of Washington exceeded its liabilities by $21.48 billion (reported as net position). Of this amount, $(8.96) billion was reported as "unrestricted net position." A negative balance indicates that no funds were available for discretionary purposes.

- The state of Washington's governmental funds reported a combined ending fund balance of $12.43 billion, an increase of 6.8 percent compared with the prior year.

- While the state's capital assets increased by $1.51 billion and total bond debt increased by $729.9 million during the current fiscal year, the state's net investment in capital assets is $20.45 billion.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the state of Washington's basic financial statements, which include three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The focus is on both the state as a whole (government-wide) and the major individual funds. The dual perspectives allow the reader to address relevant questions, broaden a basis for comparison (year-to-year or government-to-government), and enhance the state's accountability.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements are designed to provide readers with a broad overview of the state of Washington's finances, in a manner similar to a private sector business.

Statement of Net Position. The *Statement of Net Position* presents information on all of the state of Washington's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the state of Washington is improving or deteriorating.

Statement of Activities. The *Statement of Activities* presents information showing how the state's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave). The Statement of Activities is focused on both the gross and net cost of various activities (including governmental, business-type, and component unit). This is intended to summarize and simplify the reader's analysis of the revenues and costs of various state activities and the degree to which activities are subsidized by general revenues.

Both of these government-wide financial statements distinguish functions of the state of Washington that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities).

The governmental activities of the state of Washington include education, human services, transportation, natural resources, adult corrections, and general government.

The business-type activities of the state of Washington include the workers' compensation and unemployment compensation programs, as well as Washington's lottery, the guaranteed education tuition program and various higher education student services such as housing and dining.

The government-wide financial statements can be found on pages 41-43 of this report.

FUND FINANCIAL STATEMENTS

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

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

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

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

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

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

The internal service funds are combined for presentation purposes. Individual fund data for the state's nonmajor proprietary funds are provided in the form of combining statements elsewhere in this report. The proprietary fund financial statements can be found on pages 50-57 of this report.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the state of Washington's own programs. Washington's fiduciary funds include state administered pension plans. The accounting used for fiduciary funds is much like that used for proprietary funds. Individual fund data for the state's fiduciary funds are provided in the form of combining statements elsewhere in this report. The fiduciary fund financial statements can be found on pages 58-59 of this report.

Component Units. Component units that are legally separate from the state and primarily serve or benefit those outside the state are discretely presented. They are either financially accountable to the state, or have relationships with the state such that exclusion would cause the state's financial statements to be misleading or incomplete. The state discretely reports two major component units, the Washington State Public Stadium Authority and the Health Benefit Exchange, as well as four nonmajor component units. Refer to Note 1 on pages 65-66 for more detailed information. Individual fund data for the state's nonmajor component units are provided in the form of combining statements elsewhere in this report. The component unit financial statements can be found on pages 60-61 of this report.

NOTES TO THE FINANCIAL STATEMENTS

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 63-159 of this report.

OTHER REQUIRED INFORMATION

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

Required supplementary information can be found on pages 161-180 of this report.

The combining statements referred to earlier are presented immediately following the required supplementary information. Combining and individual fund statements and schedules can be found on pages 181-233 of this report.

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

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
ASSETS						
Current and other assets	$ 19,999	$ 18,354	$ 22,119	$ 21,429	$ 42,118	$ 39,783
Capital assets	35,435	34,298	2,761	2,390	38,196	36,688
Total assets	55,434	52,652	24,880	23,819	80,314	76,471
DEFERRED OUTFLOWS OF RESOURCES	-	-	16	-	16	-
LIABILITIES						
Current and other liabilities	4,585	3,446	912	527	5,497	3,973
Long-term liabilities outstanding	24,508	24,116	28,842	27,869	53,350	51,985
Total liabilities	29,093	27,562	29,754	28,396	58,847	55,958
NET POSITION						
Net Investment in capital assets	19,706	19,561	740	797	20,446	20,358
Restricted	6,524	5,296	3,469	3,225	9,993	8,521
Unrestricted	111	233	(9,067)	(8,599)	(8,956)	(8,366)
Total net position	$ 26,341	$ 25,090	$ (4,858)	$ (4,577)	$ 21,483	$ 20,513

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. For the state of Washington, total assets and deferred outflows of resources exceed liabilities by $21.48 billion at June 30, 2013, as compared to $20.51 billion as reported at June 30, 2012.

The largest portion of the state's net position (95.2 percent for fiscal year 2013 as compared to 99.2 percent for fiscal year 2012) reflects its net investment in capital assets (e.g., land, buildings, equipment and intangible assets), less any related debt used to acquire those assets that is still outstanding. The state of Washington uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

Although the state of Washington's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

A portion of the state of Washington's net position (46.5 percent for fiscal year 2013 as compared to 41.5 percent for fiscal year 2012) represents resources that are subject to external restrictions on how they may be used. The remaining balance of $(8.96) billion represents unrestricted net position. The state's overall negative balance in unrestricted net position is caused by deficits in business-type activities.

In governmental activities, net position increased from $25.09 billion in fiscal year 2012 to $26.34 billion in fiscal year 2013. The increase reflects increases in charges for services and tax revenues that outpaced the increases in expenses.

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

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

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

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

	Governmental Activities		Business-Type Activities		Total	
	2013	2012*	2013	2012	2013	2012
REVENUES						
Program revenues:						
Charges for services	$ 5,749	$ 5,032	$ 6,166	$ 6,393	$ 11,915	$ 11,425
Operating grants and contributions	12,027	11,984	870	1,443	12,897	13,427
Capital grants and contributions	997	944	-	1	997	945
General revenues:						
Taxes	17,072	16,341	23	72	17,095	16,413
Interest and investment earnings (loss)	397	169	523	1,150	920	1,319
Other general revenues	-	-	-	30	-	30
Total revenues	36,242	34,470	7,582	9,089	43,824	43,559
EXPENSES						
General government	(1,537)	(1,219)	-	-	(1,537)	(1,219)
Education - K-12	(8,238)	(8,257)	-	-	(8,238)	(8,257)
Education - Higher education	(6,992)	(6,526)	-	-	(6,992)	(6,526)
Human services	(13,181)	(13,168)	-	-	(13,181)	(13,168)
Adult corrections	(844)	(886)	-	-	(844)	(886)
Natural resources and recreation	(1,096)	(982)	-	-	(1,096)	(982)
Transportation	(2,379)	(2,396)	-	-	(2,379)	(2,396)
Interest on long-term debt	(955)	(911)	-	-	(955)	(911)
Workers' compensation	-	-	(3,330)	(1,919)	(3,330)	(1,919)
Unemployment compensation	-	-	(1,983)	(2,817)	(1,983)	(2,817)
Higher education student services	-	-	(1,927)	(1,834)	(1,927)	(1,834)
Liquor control	-	-	-	(566)	-	(566)
Washington's lottery	-	-	(437)	(407)	(437)	(407)
Guaranteed education tuition program	-	-	105	(96)	105	(96)
Other business-type activities	-	-	(126)	(115)	(126)	(115)
Total expenses	(35,222)	(34,345)	(7,698)	(7,754)	(42,920)	(42,099)
Excess (deficiency) of revenues over expenses before contributions to endowments and transfers	1,020	125	(116)	1,335	904	1,460
Contributions to endowments	63	47	-	-	63	47
Transfers	114	165	(114)	(165)	-	-
Increase (decrease) in net position	1,197	337	(230)	1,170	967	1,507
Net position - July 1, as restated	25,144	24,753	(4,628)	(5,747)	20,516	19,006
Net position - June 30	$ 26,341	$ 25,090	$ (4,858)	$ (4,577)	$ 21,483	$ 20,513

* Prior year balances restated for comparability

Governmental Activities. Governmental activities resulted in an increase in the state of Washington's net position of $1.20 billion. A number of factors contributed to the increase:

- Tax revenues increased by $731.0 million in fiscal year 2013 as compared to fiscal year 2012 reflecting positive growth in the economy. Sales and use taxes reported an increase of $360.5 million. Sales and use taxes are the main tax revenue for governmental activities. Business and occupation tax, the second largest source of tax revenue in governmental activities, increased by $144.8 million in fiscal year 2013 over 2012. It is a tax on the gross receipts of all businesses operating in Washington. Real estate excise tax revenue increased by $156.9 million. Real estate excise taxes are levied on the sale of real estate. These tax revenue increases reflect the slowly rebounding economy, recovering housing markets, and improving employment picture in Washington.

- Charges for services increased by $727.1 million in fiscal year 2013 compared to fiscal year 2012. Tuition and fee increases at higher education institutions accounted for $308.6 million of the increase.

- Operating and capital grants and contributions, and investment earnings in fiscal year 2013 were fairly consistent with fiscal year 2012.

- Expenses grew moderately in fiscal year 2013 as compared to fiscal year 2012. Higher education activities accounted for $466.2 million of the increase which is consistent with the tuition and fee revenue increase.

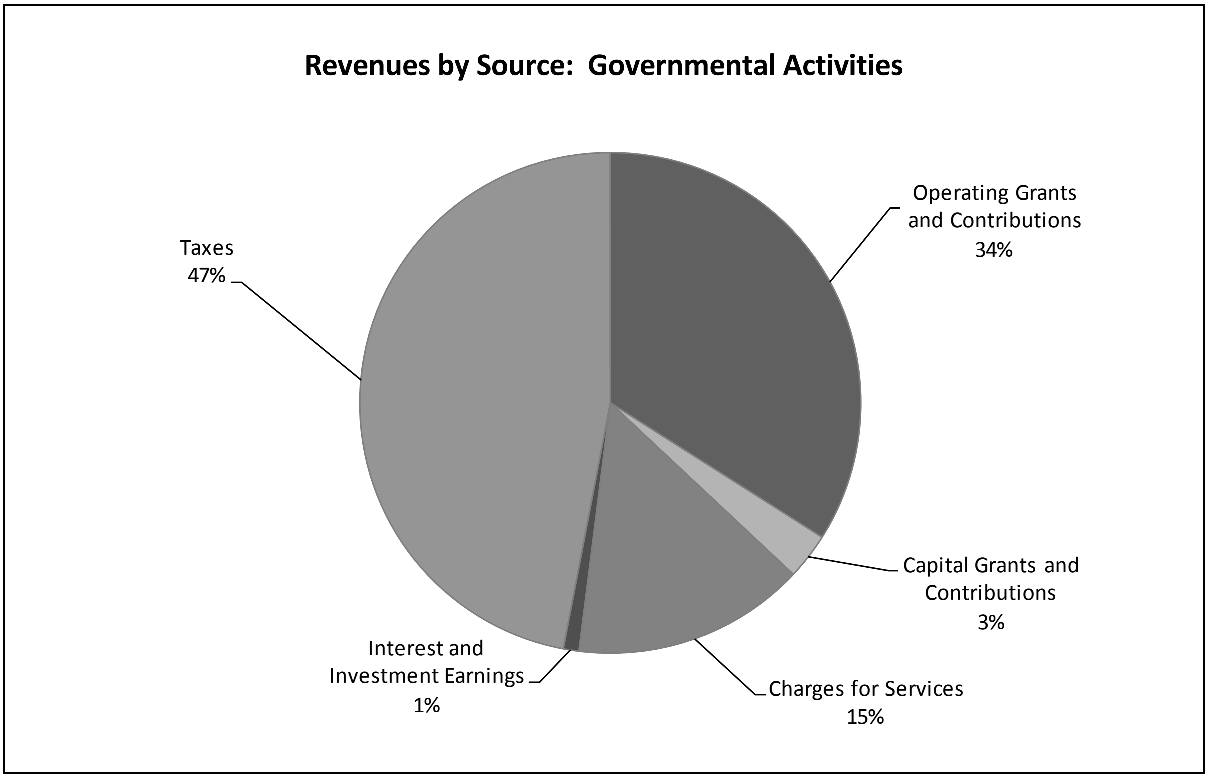
Business-Type Activities. Business-type activities decreased the state of Washington's net position by $230.1 million which was comprised of a decrease in the workers' compensation activity offset by gains in both the unemployment compensation and guaranteed education tuition activities. Key factors contributing to the operating results of business-type activities are:

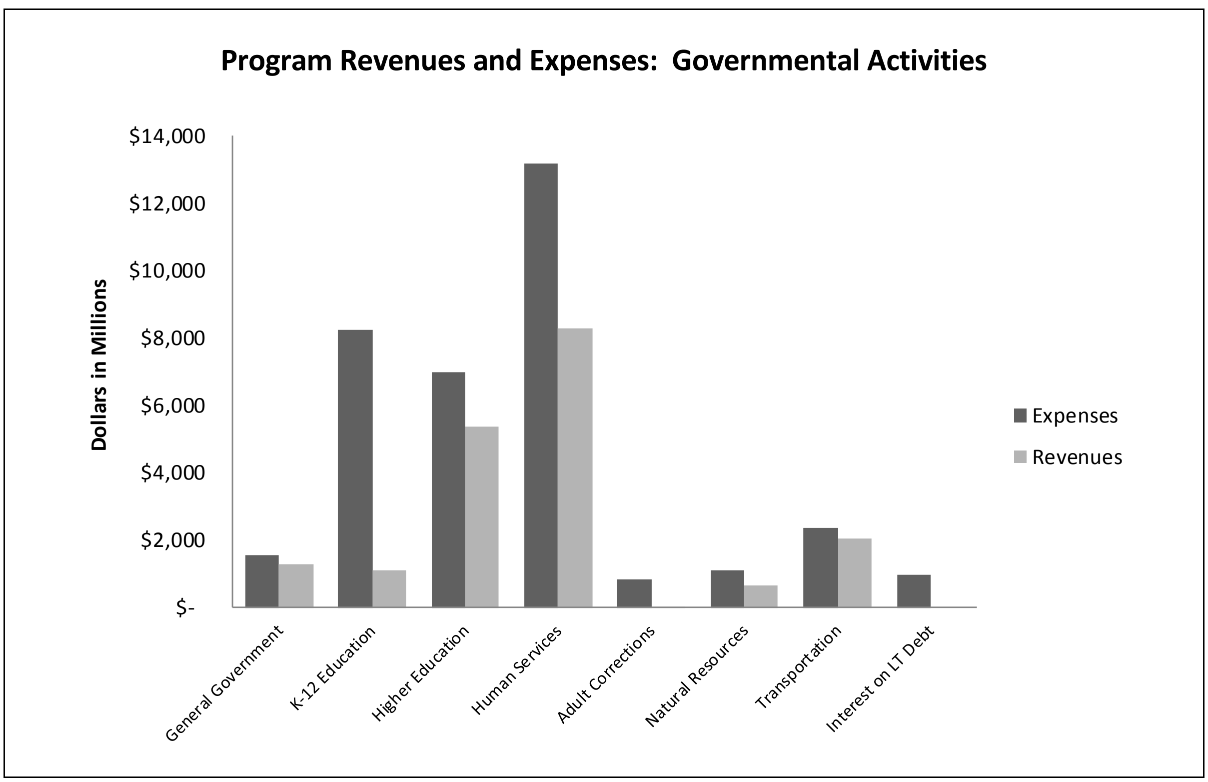
- The workers' compensation activity decrease in net position in fiscal year 2013 was $925.9 million compared to an increase of $1.16 billion in fiscal year 2012. Premium revenue increased by $108.6 million as a result of an increase in the number of hours reported by employers. Claim costs increased by $1.54 billion in fiscal year 2013 compared with fiscal year 2012 reflecting an increase in the actuarial valuation of the present value of future claims costs. Factors increasing the valuation of the supplemental pension plan included actual mortality experience exceeding expected mortality rates; higher actual cost-of-living increase than assumed coupled with a change in future cost-of-living escalation assumption; and a decrease in the discount rate. The key factor increasing the valuation of future obligations associated with the basic plan was an increase in the expected number of claimants receiving medical benefits at older ages. Nonoperating investment income decreased by $785.9 million due predominately to decreases in unrealized losses. While the equity markets experienced significant appreciation from the prior year, the fixed income market experienced significant depreciation. The workers' compensation portfolio is 85.4 percent fixed income investments.

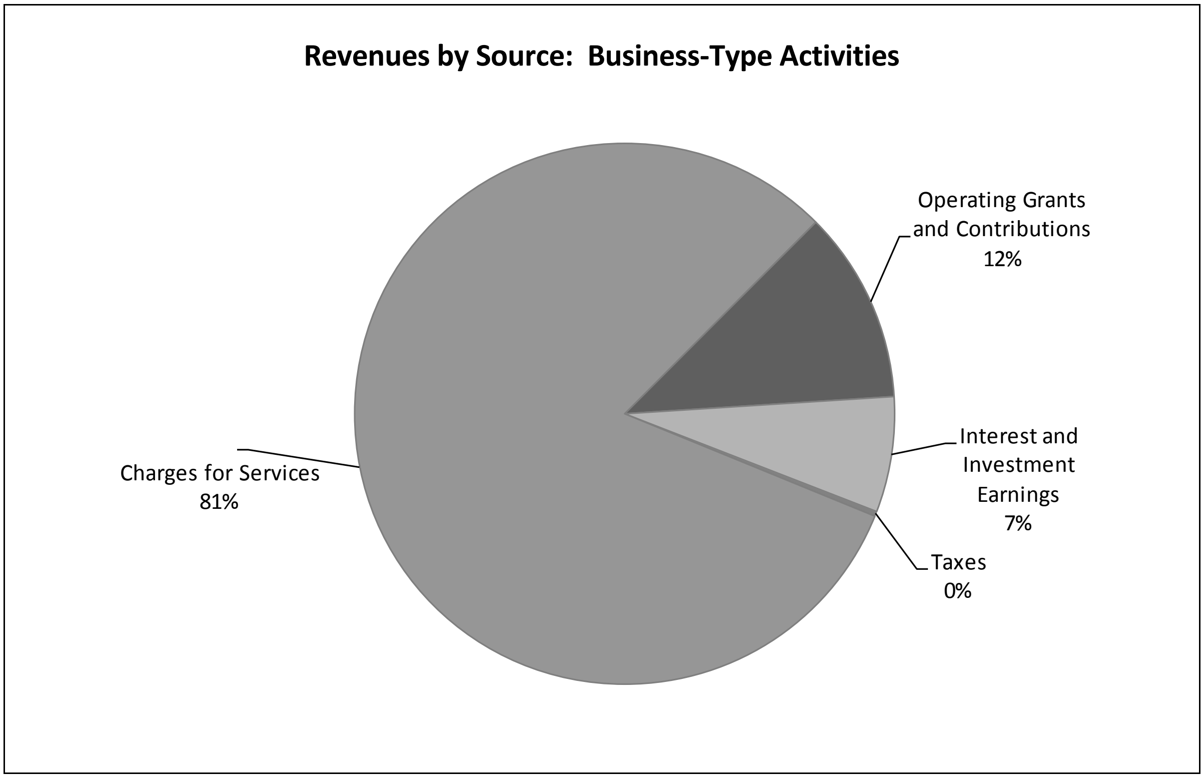
- The unemployment compensation activity reported an operating income in fiscal year 2013 of $174.3 million, compared to $51.8 million operating loss in fiscal year 2012. Washington's unemployment insurance program is an experience-based system with the largest part of an individual employer's tax rate being based on the employer's layoff history over the past four years. The economic recovery in the state has stabilized employment and resulted in a decline in unemployment insurance benefits of $833.6 million in fiscal year 2013 over fiscal year 2012. The decrease in benefit costs was the result of a decline in the number of claims and the duration of claims. The unemployment rate for the state for June 2013 was 7.0 percent, down from 8.4 percent in June 2012, and the insured rate declined to 2.2 percent in fiscal year 2013 from 2.4 percent in fiscal year 2012. Since the state's unemployment insurance premiums are experienced based, the declining unemployment rate resulted in a 2.8 percent decrease in premium revenue. The $569.4 million decline in federal aid also reflects the decrease in the unemployment rate.

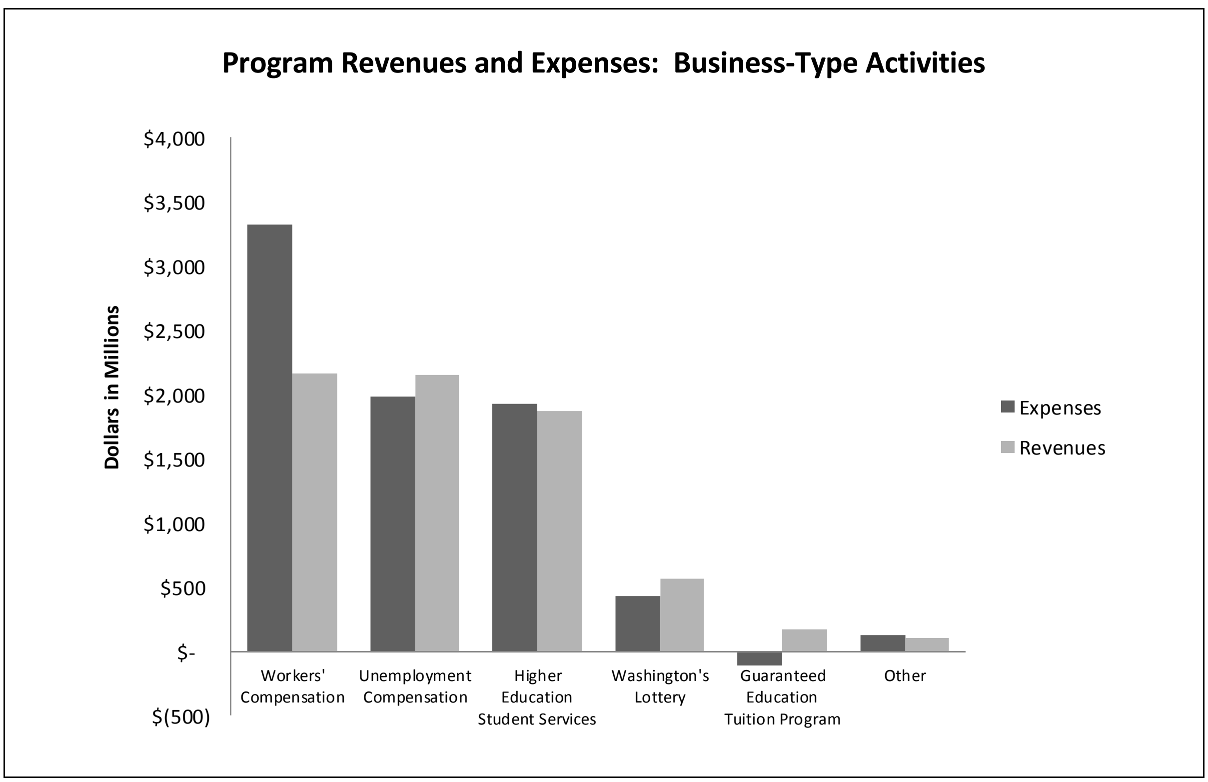
- The guaranteed education tuition activity reported an increase in net position of $470.4 million. The increase is the result of the actuarial reduction of the present value of the future tuition obligation. The reduction was caused by a number of factors including: (1) the actual investment rate of return of 9.6 percent exceeded the expected rate of 6.0 percent; (2) the actual annualized rate of tuition growth was 0.0 percent which was less than the assumed rate of 12.0 percent; and (3) tuition unit sales exceeded expectations by 12.0 percent.

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


Revenues by Source: Governmental Activities
Operating Grants and Contributions 34%
Capital Grants and Contributions 3%
Charges for Services 15%
Interest and Investment Earnings 1%
Taxes 47%


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


Revenues by Source: Business-Type Activities
Operating Grants and Contributions 12%
Interest and Investment Earnings 7%
Taxes 0%
Charges for Services 81%


Program Revenues and Expenses: Business-Type Activities
$4,000
$3,500
$3,000
$2,500
$2,000
$1,500
$1,000
$500
$-
$(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 Government's Funds

As noted earlier, the state of Washington uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. As previously discussed, the focus of the state of Washington's governmental funds is to provide information on near-term inflows, outflows, and fund balances. Such information is useful in assessing the state of Washington's financing requirements.

Adjustments to Beginning Fund Balances. As described in Note 2 to the financial statements on pages 75 and 76, beginning fund balances of governmental funds were adjusted, including the reclassification of the Liquor Revolving Fund from a business-type activity to a governmental activity.

Fund Balances. At June 30, 2013, the state's governmental funds reported combined ending fund balances of $12.43 billion. Of this amount, $2.34 billion or 18.8 percent is nonspendable, either due to its form or legal constraints, and $4.19 billion or 33.8 percent is restricted for specific programs by external constraints, constitutional provisions or contractual obligations. An additional $5.00 billion or 40 percent of total fund balance has been committed to specific purposes. Committed amounts cannot be used for any other purpose unless approved by the Legislature. An additional $835.2 million or 6.7 percent of total fund balance has been assigned to specific purposes by management.

The General Fund is the chief operating fund of the state of Washington. As noted in the table below, fund balance improved as a result of operations by $375.0 million in fiscal year 2013, as compared to a $214.0 million loss in fiscal year 2012. Increased tax revenue and relatively stable expenditures were the key contributing factors. Assigned fund balance of $835.2 million is reported for fiscal year 2013 and relates to certain accrued revenues which are not considered by management to be available for budgetary purposes.

STATE OF WASHINGTON

General Fund

(in millions of dollars)

	Fiscal Year		Difference Increase
	2013	2012	(Decrease)
REVENUES			
Taxes	$ 15,295	$ 14,547	$ 748
Federal grants	8,780	8,824	(44)
Investment revenue (loss)	(17)	(6)	(11)
Other	644	618	26
Total	24,702	23,983	719
EXPENDITURES			
Human services	13,235	13,209	26
Education	9,115	9,169	(54)
Other	1,392	1,350	42
Total	23,742	23,728	14
Net transfers in (out)	(716)	(560)	(156)
Other financing sources	131	91	40
Net increase (decrease) in fund balance	$ 375	$ (214)	$ 589

General Fund expenditures continue to be concentrated in services and programs most vital to citizens – primarily human services and public education.

In addition to the General Fund, the state reports the Higher Education Special Revenue and the Higher Education Endowment Funds as major governmental funds. Significant changes are as follows:

- The fund balance of the Higher Education Special Revenue Fund increased by $347.5 million in fiscal year 2013. Increases in charges for services offset the increased costs of higher education activities.

- The fund balance for the Higher Education Endowment Fund increased by $282.5 million compared to a decrease of $61.9 in fiscal year 2012. Support from donors increased by $15.4 million and investment earnings increased by $309.5 million compared to fiscal year 2012.

Proprietary Funds. The state of Washington's proprietary funds provides the same type of information found in the government-wide financial statements, but in more detail. Significant changes are as follows:

- The Workers' Compensation Fund reported a decrease in net position of $925.9 million in fiscal year 2013. Operating revenues increased by $107.9 million and operating expenses increased by $1.41 billion as compared to fiscal year 2012. As previously reported, operating revenues increased due to an increase in reported hours and claims expense increased due to the changes to actuarial projections. Investment income decreased as compared to fiscal year 2012 due to net realized and unrealized capital losses.

- Washington's Unemployment Compensation Fund reported an increase in net position of $244.8 million. As reported previously, the decrease in the unemployment rate impacted both revenues and expenses. Premium revenues decreased by $32.6 million in fiscal year 2013 over 2012, and federal aid decreased by $569.4 million over the same period. These were offset by a decrease in unemployment benefit claims by $833.6 million in fiscal year 2013 as compared to 2012.

- The Guaranteed Education Tuition (GET) Program Fund reported an increase in net position of $470.4 million in fiscal year 2013. As previously reported, the increase is largely the result of an actuarial reduction of the present value of the future tuition obligation.

- The Higher Education Student Services Fund reported increases to tuition and fee revenue, and operating expenses. While net operating income for fiscal year 2013 was $9.5 million higher than fiscal year 2012, the change in net position for fiscal year 2013 was $37.3 million less than fiscal year 2012 due to a reduction in transfers in from other funds.

- Nonmajor enterprise funds reported decreased revenue and expenses in fiscal year 2013 compared to fiscal year 2012 largely due to the transfer of liquor distribution and retail sales to the private sector at the end of fiscal year 2012. The net position of the nonmajor enterprise funds declined by $11.9 million in fiscal year 2013 after reporting an increase of $19.6 million in fiscal year 2012. The major contributing factor was the decrease in investment income reported by the Lottery Fund which was caused by market value adjustments. The Lottery Fund funds long term prize obligations with U.S. Treasury securities for which changes in interest rates can have a marked effect on current valuations.

General Fund Budgetary Highlights

Differences between the original budget of the General Fund and the final amended budget reflect adjustment to a slower paced economic recovery during the biennium ended June 30, 2013. Changes to estimates are summarized as follows:

- Estimated biennial resources decreased by $1.25 billion over the course of the biennium. The major decrease in estimated resources is reported in taxes reflecting that the pace of the economic recovery was slower than initially anticipated. Actual revenues are $929.2 million less than the revised estimates.

- Appropriated expenditure authority decreased by $583.1 million over the course of the biennium in response to the decline in estimated revenues. The major decrease in appropriation authority was in human services. Actual expenditures were $1.28 billion less than the final appropriation authority.

The state did not overspend its legal spending authority for the 2011-2013 biennium. Actual General Fund revenues and expenditures were 98.1 and 97.3 percent of final budgeted revenues and appropriations, respectively, for the 2011-2013 biennium.

Capital Assets, Infrastructure, Bond Debt Administration, and Economic Factors

Capital Assets. The state of Washington's investment in capital assets for its governmental and business-type activities as of June 30, 2013, totaled $38.20 billion (net of accumulated depreciation). This investment in capital assets includes land, infrastructure, museum and historical collections, buildings and other improvements, furnishings, equipment, and intangibles, as well as construction in progress.

Washington's fiscal year 2013 investment in capital assets, net of current year depreciation, increased $1.51 billion over fiscal year 2012, including increases to the state's transportation infrastructure of $812.4 million. The state's construction in progress includes both new construction and major improvements to state capital facilities and infrastructure. Remaining commitments on these construction projects total $2.82 billion.

Additional information on the state of Washington's capital assets can be found in Note 6 beginning on page 104 of this report.

Infrastructure. The state uses the modified approach for reporting selected infrastructure assets. The modified approach requires that the state meet certain requirements regarding the inventory and maintenance of eligible capital assets, including condition assessments. Under the modified approach, assets are not depreciated and certain maintenance and preservation costs associated with those assets are expensed. Assets accounted for under this approach include approximately 20,680 lane miles of pavement, 3,267 bridges, and 48 highway safety rest areas.

STATE OF WASHINGTON

Capital Assets - Net of Depreciation

(in millions of dollars)

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Land	$ 2,388	$ 2,358	$ 61	$ 63	$ 2,449	$ 2,421
Transportation infrastructure and other assets not depreciated	21,805	20,991	5	-	21,810	20,991
Buildings	7,610	7,511	1,988	1,402	9,598	8,913
Furnishings, equipment and intangible assets	1,480	1,480	182	162	1,662	1,642
Other improvements and infrastructure	1,218	1,145	83	81	1,301	1,226
Construction in progress	934	813	442	681	1,376	1,494
Total	$ 35,435	$ 34,298	$ 2,761	$ 2,389	$ 38,196	$ 36,687

The state's goal is to maintain 90 percent of pavement, 95 percent of bridges, and 95 percent of safety rest areas at a condition level of fair or better. The condition of these assets, along with the rating scales for pavement, bridges, rest areas, and additional detail comparing planned to actual preservation and maintenance spending are available in the required supplementary information beginning on page 177.

Pavement is assessed on a two year cycle. The most recent pavement condition assessment indicated that 91.2 percent of pavement was in fair or better condition. The condition of pavement has declined in the last three assessment periods. Over the past five fiscal years, the state has invested fewer resources on preservation and maintenance of pavement than was planned. The average variance between actual and planned was 8.2 percent over the five years, and 20.9 percent for fiscal year 2013.

Bridges are assessed on a two year cycle. The most recent bridge condition assessment indicated that 95.4 percent of bridges were in fair or better condition. The condition of bridges has declined over the last three assessment periods. Over the past five fiscal years, the state has invested fewer resources on preservation and maintenance of bridges than was planned. The average variance between actual and planned was 22.3 percent over the five years, and 11.4 percent for fiscal year 2013.

Bond Debt. At the end of fiscal year 2013, the state of Washington had general obligation bond debt outstanding of $18.21 billion, an increase of 2 percent from fiscal year 2012. This debt is secured by a pledge of the full faith and credit of the state. Additionally, the state had authorized $6.33 billion general obligation debt that remains unissued.

During fiscal year 2013, the state issued general obligation debt totaling $2.73 billion for various capital and transportation projects as well as to refund outstanding bonds. Bonds totaling $2.37 billion were retired during the year. Washington's refunding activity produced a savings of $213.9 million in future debt service costs.

General obligation debt is subject to the limitation prescribed by the State Constitution. The aggregate debt contracted by the state as of June 30, 2013, does not exceed that amount for which payments of principal and interest in any fiscal year would require the state to expend more than 9 percent of the arithmetic mean of its general state revenues for the three immediately preceding fiscal years. The arithmetic mean of its general state revenues for fiscal years 2011, 2012, and 2013 is $12.53 billion. The debt service limitation, 9 percent of this mean, is $1.13 billion. The state's maximum annual debt service as of June 30, 2013, subject to the constitutional debt limitation is $1.06 billion, or $71.6 million less than the debt service limitation.

For further information on the debt limit, refer to the Certification of the Debt Limitation of the State of Washington, available from the Office of the State Treasurer at: http://www.tre.wa.gov/documents/debt_cdl2013.pdf.

By statutory provision, the State Finance Committee (SFC) is authorized to supervise and control the issuance of all state bonds, notes, or other evidences of indebtedness. The SFC is composed of the Governor, Lieutenant Governor, and State Treasurer, the latter serving as chairman.

As of June 30, 2013, the state of Washington's general obligation debt was rated Aa1 by Moody's Investor Service, AA+ by Standard & Poor's Rating Group (S & P), and AA+ by Fitch Ratings.

STATE OF WASHINGTON
Bond Debt
(in millions of dollars)

	Governmental Activities		Business-Type Activities		Total	
	2013	**2012***	**2013**	**2012***	**2013**	**2012***
General obligation (GO) bonds	$ 18,200	$ 17,838	$ 11	$ 15	$ 18,211	$ 17,853
Accreted interest on zero interest rate GO bonds	439	415	-	-	439	415
Revenue bonds	1,705	1,650	2,031	1,738	3,736	3,388
Total	$ 20,344	$ 19,903	$ 2,042	$ 1,753	$ 22,386	$ 21,656

* Prior year balances restated for comparability

The state had revenue debt outstanding at June 30, 2013, of $3.74 billion, an increase of $347.4 million over fiscal year 2012. This increase is primarily related to revenue bonds issued by state colleges and universities. This debt is not supported or intended to be supported by the full faith and credit of the state. Revenue bond debt is generally secured by specific sources of revenue. The exception is the University of Washington which issues general revenue bonds that are payable from general revenues of the university.

Additional information on the state's bond debt obligations is presented in Note 7 beginning on page 108 of this report.

Additional information on the state's legal debt limit is presented in the statistical section on page 264 of this report.

Conditions with Expected Future Impact

Economic Outlook. The forecast for Washington for the 2013-2015 biennium reflects the continuation of moderate growth. The September 2013 state's revenue forecast of General Fund state revenue increased expected revenue for the 2013 – 2015 biennium by $222.0 million. Additionally, forecasted revenues increased by $123.0 million due to legislation passed in the June 2013 special session.

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

- The state's economy continues to be adversely impacted by violence in the Middle East and weak Asian and European economies.

- The political discord in the nation's capital and uncertainty surrounding U.S. tax and budget policy also threaten the U.S. and Washington economies. Political wrangling around the federal debt ceiling and the federal budget impasse have the potential to dampen recent gains in consumer confidence.

- As the federal stimulus winds down, government spending has been declining which puts additional pressure on state and local governments.

- The state's operating budget for the 2013-2015 biennium included a $1.03 billion increase in K-12 education funding to address the requirements of the January 2012 Washington Supreme Court's McCleary ruling for the state to fund basic education. The state will be challenged to fully meet the K-12 funding requirements in future biennia.

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

Rainy Day Account. In November 2007, Washington state voters ratified Engrossed Substitute Senate Joint Resolution 8206, amending the state's Constitution and establishing the Budget Stabilization Account (BSA). The Constitution details a limited number of circumstances under which funds can be appropriated from the BSA, one of which is a favorable vote of at least three-fifths of the members of each house of the Legislature.

On June 20, 2013, $139.2 million was transferred to the BSA from the General Fund in accordance with the provisions of the Constitution. The BSA has a fund balance of $269.7 million as of June 30, 2013.

Requests for Information

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

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Basic Financial Statements

Government-wide Financial Statements

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Statement of Net Position

June 30, 2013

(expressed in thousands)

	Primary Government			
	Governmental Activities	Business-Type Activities	Total	Component Units
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES				
ASSETS				
Cash and pooled investments	$ 4,846,863	$ 4,189,390	$ 9,036,253	$ 76,013
Taxes receivable (net of allowance for uncollectibles)	3,303,301	-	3,303,301	-
Other receivables (net of allowance for uncollectibles)	1,446,164	1,567,216	3,013,380	15,511
Internal balances	306,212	(306,212)	-	-
Due from other governments	4,076,147	155,206	4,231,353	-
Inventories	95,368	65,762	161,130	-
Restricted cash and investments	592,168	13,237	605,405	3,770
Investments, noncurrent	5,193,256	15,991,570	21,184,826	-
Restricted investments, noncurrent	-	54,873	54,873	10,963
Restricted receivables, noncurrent	111,197	-	111,197	-
Other assets	28,557	388,304	416,861	106,838
Capital assets:				
Non-depreciable assets	25,127,230	507,008	25,634,238	35,088
Depreciable assets (net of accumulated depreciation)	10,307,302	2,254,210	12,561,512	301,821
Total capital assets	35,434,532	2,761,218	38,195,750	336,909
Total Assets	55,433,765	24,880,564	80,314,329	550,004
DEFERRED OUTFLOWS OF RESOURCES				
Deferred charge on refunding	-	15,848	15,848	-
Total Deferred Outflows ofRresources	-	15,848	15,848	-
Total Assets and Deferred Outflows of Resources	$ 55,433,765	$ 24,896,412	$ 80,330,177	$ 550,004
LIABILITIES AND NET POSITION				
LIABILITIES				
Accounts payable	$ 1,543,845	$ 134,186	$ 1,678,031	$ 44,976
Contracts and retainage payable	192,792	28,068	220,860	4,364
Accrued liabilities	966,783	380,783	1,347,566	5,612
Obligations under security lending agreements	193,915	88,057	281,972	-
Due to other governments	1,376,191	234,272	1,610,463	-
Unearned revenues	311,801	46,613	358,414	17,458
Long-term liabilities:				
Due within one year	1,193,811	2,161,454	3,355,265	-
Due in more than one year	23,313,815	26,680,743	49,994,558	13,206
Total Liabilities	29,092,953	29,754,176	58,847,129	85,616
NET POSITION				
Net investment in capital assets	19,706,029	739,824	20,445,853	320,369
Restricted for:				
Unemployment compensation	-	3,469,741	3,469,741	-
Expendable endowment funds	1,455,021	-	1,455,021	-
Nonexpendable permanent endowments	2,121,711	-	2,121,711	-
Transportation	783,133	-	783,133	-
Wildlife and natural resources	875,766	-	875,766	-
Budget stabilization	269,651	-	269,651	-
Loan programs	135,655	-	135,655	-
Other purposes	882,395	-	882,395	13,429
Unrestricted	111,451	(9,067,329)	(8,955,878)	130,590
Total Net Position	26,340,812	(4,857,764)	21,483,048	464,388
Total Liabilities and Net Position	$ 55,433,765	$ 24,896,412	$ 80,330,177	$ 550,004

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

Statement of Activities

For the Fiscal Year Ended June 30, 2013

(expressed in thousands)

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions
PRIMARY GOVERNMENT				
Governmental Activities:				
General government	$ 1,536,943	$ 976,944	$ 298,393	$ 8,612
Education - elementary and secondary (K-12)	8,237,450	13,718	1,083,034	-
Education - higher education	6,992,422	2,760,015	2,567,009	25,570
Human services	13,181,579	544,435	7,744,199	-
Adult corrections	843,550	7,795	1,658	-
Natural resources and recreation	1,095,814	421,286	191,400	64,258
Transportation	2,378,860	1,025,183	141,328	898,246
Interest on long-term debt	955,158	-	-	-
Total Governmental Activities	35,221,776	5,749,376	12,027,021	996,686
Business-Type Activities:				
Workers' compensation	3,329,444	2,154,318	8,797	175
Unemployment compensation	1,982,958	1,308,089	849,214	-
Higher education student services	1,927,051	1,857,364	11,737	-
Washington's lottery	437,298	569,580	-	-
Guaranteed education tuition program	(105,192)	173,771	-	-
Other	126,100	102,760	337	-
Total Business-Type Activities	7,697,659	6,165,882	870,085	175
Total Primary Government	$ 42,919,435	$ 11,915,258	$ 12,897,106	$ 996,861
COMPONENT UNITS	$ 46,307	$ 32,898	$ 28,495	$ 2,481
Total Component Units	$ 46,307	$ 32,898	$ 28,495	$ 2,481

General Revenues:

Taxes, net of related credits:

Sales and use

Business and occupation

Property

Motor vehicle and fuel

Excise

Cigarette and tobacco

Public utilities

Insurance premium

Other

Interest and investment earnings

Total general revenues

Excess (deficiency) of revenues over expenses before contributions to endowments and transfers

Contributions to endowments

Transfers

Change in Net Position

Net Positon - Beginning, as restated

Net Position - Ending

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

Net (Expense) Revenue and Changes in Net Position			
Primary Government			
Governmental Activities	Business-Type Activities	Total	Component Units
$ (252,994)	$ -	$ (252,994)	
(7,140,698)	-	(7,140,698)	
(1,639,828)	-	(1,639,828)	
(4,892,945)	-	(4,892,945)	
(834,097)	-	(834,097)	
(418,870)	-	(418,870)	
(314,103)	-	(314,103)	
(955,158)	-	(955,158)	
(16,448,693)	-	(16,448,693)	
-	(1,166,154)	(1,166,154)	
-	174,345	174,345	
-	(57,950)	(57,950)	
-	132,282	132,282	
-	278,963	278,963	
-	(23,003)	(23,003)	
-	(661,517)	(661,517)	
(16,448,693)	(661,517)	(17,110,210)	
			$ 17,567
			17,567
7,709,900	-	7,709,900	-
3,294,179	-	3,294,179	-
1,939,883	-	1,939,883	-
1,194,910	-	1,194,910	-
651,458	22,605	674,063	-
465,148	-	465,148	-
439,731	-	439,731	-
436,118	-	436,118	-
940,255	-	940,255	-
397,068	523,071	920,139	386
17,468,650	545,676	18,014,326	386
1,019,957	(115,841)	904,116	17,953
62,589	-	62,589	-
114,266	(114,266)	-	-
1,196,812	(230,107)	966,705	17,953
25,144,000	(4,627,657)	20,516,343	446,435
$ 26,340,812	$ (4,857,764)	$ 21,483,048	$ 464,388

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Basic Financial Statements

Fund Financial Statements

Balance Sheet
GOVERNMENTAL FUNDS
June 30, 2013
(expressed in thousands)

	General	Higher Education Special Revenue	Higher Education Endowment	Nonmajor Governmental Funds	Total
ASSETS					
Cash and pooled investments	$ 640,834	$ -	$ 99,367	$ 3,279,464	$ 4,019,665
Investments	6,608	1,417,834	3,312,686	239,185	4,976,313
Taxes receivable (net of allowance)	3,170,338	14,655	-	118,308	3,303,301
Other receivables (net of allowance)	153,516	407,719	24,536	833,125	1,418,896
Due from other funds	154,362	871,008	703	503,431	1,529,504
Due from other governments	1,211,297	154,714	1	2,322,237	3,688,249
Inventories and prepaids	12,910	14,402	-	50,994	78,306
Restricted assets:					
Cash and investments	54,631	1,781	-	535,736	592,148
Receivables	1,748	77,336	-	10,775	89,859
Total Assets	$ 5,406,244	$ 2,959,449	$ 3,437,293	$ 7,893,255	$ 19,696,241
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES					
LIABILITIES					
Accounts payable	$ 862,305	$ 85,467	$ 42,581	$ 491,468	$ 1,481,821
Contracts and retainages payable	33,316	4,419	2,118	151,845	191,698
Accrued liabilities	184,394	291,745	182	63,881	540,202
Obligations under security lending agreements	73,830	1,143	1,068	101,296	177,337
Due to other funds	408,472	40,230	2,177	616,928	1,067,807
Due to other governments	857,470	12,457	-	177,442	1,047,369
Unearned revenue	79,276	149,544	385	80,265	309,470
Claims and judgments payable	32,173	-	-	7,994	40,167
Total Liabilities	2,531,236	585,005	48,511	1,691,119	4,855,871
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue	1,492,418	11,718	9,911	901,176	2,415,223
Total Deferred Inflows of Resources	1,492,418	11,718	9,911	901,176	2,415,223
Fund Balances (Deficits):					
Nonspendable fund balance	49,819	60,425	1,991,845	237,229	2,339,318
Restricted fund balance	299,165	-	1,387,026	2,507,991	4,194,182
Committed fund balance	59,579	2,302,301	-	2,635,027	4,996,907
Assigned fund balance	835,152	-	-	40	835,192
Unassigned fund balance	138,875	-	-	(79,327)	59,548
Total Fund Balances (Deficits)	1,382,590	2,362,726	3,378,871	5,300,960	12,425,147
Total Liabilities, Deferred Inflows of Resources, and Fund Balances (Deficits)	$ 5,406,244	$ 2,959,449	$ 3,437,293	$ 7,893,255	$ 19,696,241

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

Reconciliation of the Balance Sheet to the Statement of Net Position GOVERNMENTAL FUNDS

June 30, 2013

(expressed in thousands)

Total Fund Balances for Governmental Funds		$ 12,425,147
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:		
Non-depreciable assets	$ 25,079,284	
Depreciable assets	17,409,544	
Less: Accumulated depreciation	(7,803,972)	
Total capital assets		34,684,856
Some of the state's revenues will be collected after year-end, but are not available soon enough to pay for the current period's expenditures, and therefore are considered deferred inflows in the funds.		2,415,223
Certain pension trust funds have been funded in excess of the annual required contributions, creating a year-end asset. This asset is not a financial resource and therefore is not reported in the funds.		20,000
Unmatured interest on general obligation bonds is not recognized in the funds until due.		(379,945)
Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Position.		271,285
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:		
Bonds and other financing contracts payable	$ (19,957,617)	
Accreted interest on bonds	(438,787)	
Compensated absences	(529,793)	
Other postemployment benefits obligations	(1,389,683)	
Unfunded pension obligations	(340,441)	
Claims and judgments	(40,249)	
Pollution remediation obligations	(171,816)	
Other obligations	(227,368)	
Total long-term liabilities		(23,095,754)
Net Position of Governmental Activities		$ 26,340,812

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

Statement of Revenues, Expenditures, and Changes in Fund Balances
GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2013
(expressed in thousands)

	General	Higher Education Special Revenue	Higher Education Endowment	Nonmajor Governmental Funds	Total
REVENUES					
Retail sales and use taxes	$ 7,628,507	$ -	$ -	$ 81,393	$ 7,709,900
Business and occupation taxes	3,290,839	-	-	3,340	3,294,179
Property taxes	1,939,883	-	-	-	1,939,883
Excise taxes	581,861	-	-	69,597	651,458
Motor vehicle and fuel taxes	-	-	-	1,194,910	1,194,910
Other taxes	1,852,719	102,659	-	298,583	2,253,961
Licenses, permits, and fees	105,317	299	-	1,493,238	1,598,854
Timber sales	2,080	-	15,065	104,897	122,042
Other contracts and grants	242,955	815,191	-	76,765	1,134,911
Federal grants-in-aid	8,780,167	1,735,344	71	1,373,215	11,888,797
Charges for services	31,960	2,566,134	1	628,572	3,226,667
Investment income (loss)	(17,396)	23,871	330,476	60,117	397,068
Miscellaneous revenue	195,332	91,545	2,071	418,139	707,087
Unclaimed property	68,162	-	-	-	68,162
Contributions and donations	-	-	62,589	-	62,589
Total Revenues	24,702,386	5,335,043	410,273	5,802,766	36,250,468
EXPENDITURES					
Current:					
General government	721,375	-	105	440,842	1,162,322
Human services	13,235,429	385	-	721,162	13,956,976
Natural resources and recreation	419,911	-	1	622,964	1,042,876
Transportation	47,394	-	-	1,750,002	1,797,396
Education	9,114,825	4,901,076	3,447	531,874	14,551,222
Intergovernmental	108,341	-	-	331,455	439,796
Capital outlays	76,300	196,599	630	2,182,487	2,456,016
Debt service:					
Principal	18,251	35,032	-	730,483	783,766
Interest	118	11,609	-	908,871	920,598
Total Expenditures	23,741,944	5,144,701	4,183	8,220,140	37,110,968
Excess of Revenues Over (Under) Expenditures	960,442	190,342	406,090	(2,417,374)	(860,500)
OTHER FINANCING SOURCES (USES)					
Bonds issued	121,789	39,725	-	1,039,386	1,200,900
Refunding bonds issued	-	-	-	1,636,990	1,636,990
Payments to escrow agents for refunded bond debt	-	-	-	(1,893,883)	(1,893,883)
Issuance premiums	4,063	12,850	-	383,428	400,341
Other debt issued	4,469	108,876	-	44,135	157,480
Refunding COPs issued	-	10,590	-	-	10,590
Payments to escrow agents for refunded COP debt	-	(11,950)	-	-	(11,950)
Transfers in	596,496	217,936	1,299	2,335,874	3,151,605
Transfers out	(1,312,231)	(220,885)	(124,918)	(1,393,538)	(3,051,572)
Total Other Financing Sources (Uses)	(585,414)	157,142	(123,619)	2,152,392	1,600,501
Net Change in Fund Balances	375,028	347,484	282,471	(264,982)	740,001
Fund Balances - Beginning, as restated	1,007,562	2,015,242	3,096,400	5,565,942	11,685,146
Fund Balances - Ending	$ 1,382,590	$ 2,362,726	$ 3,378,871	$ 5,300,960	$ 12,425,147

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

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities
GOVERNMENTAL FUNDS

For the Fiscal Year Ended June 30, 2013
(expressed in thousands)

Net Change in Fund Balances - Total Governmental Funds		$ 740,001
Amounts reported for governmental activities in the Statement of Activities are different because:		
Capital outlays are reported as expenditures in governmental funds. However, in the Statement of Activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:		
Capital outlays	$ 1,700,805	
Less: Depreciation expense	(607,458)	1,093,347
Some revenues in the Statement of Activities do not provide current financial resources, and therefore, are unavailable in governmental funds. Also, revenues related to prior periods that became available during the current period are reported in governmental funds but are eliminated in the Statement of Activities. This amount is the net adjustment.		37,130
Pension trust funding in excess of annual required contributions uses current financial resources, but does not qualify as an expense.		2,800
Internal service funds are used by management to charge the costs of certain activities to individual funds. The change in net position of the internal service funds is reported with governmental activities.		242,627
Bond proceeds and other financing contracts provide current financial resources to governmental funds, while the repayment of the related debt principal consumes those financial resources. These transactions, however, have no effect on net position. In the current period, these amounts consist of:		
Bonds and other financing contracts issued	$ (3,006,835)	
Principal payments on bonds and other financing contracts	2,471,587	
Accreted interest on bonds	(24,068)	(559,316)
Some expenses/revenue reductions reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not recognized in governmental funds. Also payments of certain obligations related to prior periods are recognized in governmental funds but are eliminated in the Statement of Activities. In the current period, the net adjustments consist of:		
Compensated absences	$ (11,128)	
Other postemployment benefits obligations	(295,498)	
Unfunded pension obligations	(58,018)	
Pollution remediation obligations	(6,582)	
Claims and judgments	(1,161)	
Accrued interest	(10,595)	
Unclaimed property	22,546	
Other obligations	659	(359,777)
Change in Net Position of Governmental Activities		$ 1,196,812

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

Statement of Net Position
PROPRIETARY FUNDS
June 30, 2013
(expressed in thousands)

	Business-Type Activities Enterprise Funds		
	Workers' Compensation	Unemployment Compensation	Higher Education Student Services
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES			
ASSETS			
Current Assets:			
Cash and pooled investments	$ 64,403	$ 2,840,701	$ 1,043,445
Investments	27,592	-	6,050
Other receivables (net of allowance)	701,964	645,475	191,194
Due from other funds	20	4,442	4,302
Due from other governments	1,098	76,725	56,792
Inventories	185	-	57,480
Prepaid expenses	3	-	12,605
Restricted assets:			
Cash and investments	736	-	12,501
Total Current Assets	796,001	3,567,343	1,384,369
Noncurrent Assets:			
Investments, noncurrent	13,381,438	-	166,932
Restricted investments, noncurrent	2,781	-	52,092
Restricted receivables, noncurrent	-	-	-
Other noncurrent assets	-	-	89,146
Capital assets:			
Land and other non-depreciable assets	3,240	-	60,401
Buildings	65,134	-	2,674,121
Other improvements	1,289	-	91,631
Furnishings, equipment, and intangibles	92,218	-	531,974
Infrastructure	-	-	41,944
Accumulated depreciation	(98,921)	-	(1,164,988)
Construction in progress	6,202	-	435,625
Total Noncurrent Assets	13,453,381	-	2,978,878
Total Assets	14,249,382	3,567,343	4,363,247
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflow on refundings	-	-	15,848
Total Deferred Outflows of Resources	-	-	15,848
Total Assets and Deferred Outflows of Resources	$ 14,249,382	$ 3,567,343	$ 4,379,095
LIABILITIES			
Current Liabilities:			
Accounts payable	$ 6,260	$ -	$ 113,000
Contracts and retainages payable	6,706	51	21,312
Accrued liabilities	141,840	13,689	210,919
Obligations under security lending agreements	27,592	-	-
Bonds and notes payable	3,605	-	85,952
Due to other funds	7,247	1,058	430,024
Due to other governments	5	82,804	53
Unearned revenue	6,567	-	39,795
Claims and judgments payable	1,851,660	-	-
Total Current Liabilities	2,051,482	97,602	901,055
Noncurrent Liabilities:			
Claims and judgments payable	21,775,900	-	-
Bonds and notes payable	7,870	-	1,995,281
Other long-term liabilities	38,949	-	123,550
Total Noncurrent Liabilities	21,822,719	-	2,118,831
Total Liabilities	23,874,201	97,602	3,019,886
NET POSITION			
Net investment in capital assets	57,687	-	667,190
Restricted for:			
Unemployment compensation	-	3,469,741	-
Unrestricted	(9,682,506)	-	692,019
Total Net Position	(9,624,819)	3,469,741	1,359,209
Total Liabilities and Net Position	$ 14,249,382	$ 3,567,343	$ 4,379,095

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

Guaranteed Education Tuition Program	Nonmajor Enterprise Funds	Total	Governmental Activities Internal Service Funds
$ 1,104	$ 111,231	$ 4,060,884	$ 818,014
60,465	34,399	128,506	27,854
6,172	22,411	1,567,216	27,187
2	9,804	18,570	88,649
-	4,664	139,279	15,817
-	8,097	65,762	20,793
-	549	13,157	4,826
-	-	13,237	20
67,743	191,155	6,006,611	1,003,160
2,274,568	168,632	15,991,570	198,273
-	-	54,873	-
-	-	-	21,338
286,000	1	375,147	81
-	1,540	65,181	6,475
-	12,828	2,752,083	468,647
-	2,597	95,517	16,213
89	29,675	653,956	854,733
-	-	41,944	1,933
(88)	(25,293)	(1,289,290)	(639,796)
-	-	441,827	41,471
2,560,569	189,980	19,182,808	969,368
2,628,312	381,135	25,189,419	1,972,528
-	-	15,848	-
-		15,848	-
$ 2,628,312	$ 381,135	$ 25,205,267	$ 1,972,528
$ 2,193	$ 12,733	$ 134,186	$ 62,024
151,000	-	179,069	1,094
10,166	71,369	447,983	57,735
60,465	-	88,057	16,578
-	433	89,990	69,224
316	19,046	457,691	111,236
-	2,574	85,436	89,862
-	251	46,613	2,331
-	1,603	1,853,263	167,818
224,140	108,009	3,382,288	577,902
-	9,607	21,785,507	514,472
-	5,967	2,009,118	485,354
2,565,279	158,340	2,886,118	123,515
2,565,279	173,914	26,680,743	1,123,341
2,789,419	281,923	30,063,031	1,701,243
1	14,946	739,824	251,218
-	-	3,469,741	-
(161,108)	84,266	(9,067,329)	20,067
(161,107)	99,212	(4,857,764)	271,285
$ 2,628,312	$ 381,135	$ 25,205,267	$ 1,972,528

Statement of Revenues, Expenses, and Changes in Net Position
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2013
(expressed in thousands)

	Business-Type Activities Enterprise Funds		
	Workers' Compensation	**Unemployment Compensation**	**Higher Education Student Services**
OPERATING REVENUES			
Sales	$ -	$ -	$ 106,586
Less: Cost of goods sold	-	-	70,425
Gross profit	-	-	36,161
Charges for services	37	-	1,630,465
Premiums and assessments	2,123,483	1,286,170	-
Federal aid for unemployment insurance benefits	-	849,214	-
Lottery ticket proceeds	-	-	-
Miscellaneous revenue	30,863	21,919	121,975
Total Operating Revenues	2,154,383	2,157,303	1,788,601
OPERATING EXPENSES			
Salaries and wages	140,203	-	695,821
Employee benefits	44,598	-	196,461
Personal services	8,895	-	13,024
Goods and services	79,316	-	704,457
Travel	4,068	-	23,200
Premiums and claims	3,014,795	1,982,958	-
Lottery prize payments	-	-	-
Depreciation and amortization	8,428	-	127,404
Guaranteed education tuition program expense	-	-	-
Miscellaneous expenses	28,485	-	19,217
Total Operating Expenses	3,328,788	1,982,958	1,779,584
Operating Income (Loss)	(1,174,405)	174,345	9,017
NONOPERATING REVENUES (EXPENSES)			
Earnings (loss) on investments	240,161	70,506	24,470
Interest expense	(656)	-	(77,042)
Tax and license revenue	91	-	-
Other revenues (expenses)	8,732	-	10,075
Total Nonoperating Revenues (Expenses)	248,328	70,506	(42,497)
Income (Loss) Before Contributions and Transfers	(926,077)	244,851	(33,480)
Capital contributions	175	-	-
Transfers in	-	-	120,369
Transfers out	-	(61)	(94,402)
Net Contributions and Transfers	175	(61)	25,967
Change in Net Position	(925,902)	244,790	(7,513)
Net Position - Beginning, as restated	(8,698,917)	3,224,951	1,366,722
Net Position - Ending	$ (9,624,819)	$ 3,469,741	$ 1,359,209

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

Guaranteed Education Tuition Program	Nonmajor Enterprise Funds	Total	Governmental Activities Internal Service Funds
$ -	$ 68,794	$ 175,380	$ 110,930
-	49,168	119,593	104,225
-	19,626	55,787	6,705
173,771	29,358	1,833,631	617,270
-	1,329	3,410,982	1,303,370
-	-	849,214	-
-	569,587	569,587	-
-	3,246	178,003	118,280
173,771	623,146	6,897,204	2,045,625
2,203	47,396	885,623	275,856
518	17,603	259,180	101,574
127	12,067	34,113	20,306
1,620	83,508	868,901	346,806
40	1,436	28,744	3,571
-	-	4,997,753	965,310
-	339,366	339,366	-
4	1,466	137,302	80,950
(109,704)	-	(109,704)	-
-	362	48,064	2,058
(105,192)	503,204	7,489,342	1,796,431
278,963	119,942	(592,138)	249,194
191,480	(3,547)	523,070	1,913
-	(11,026)	(88,724)	(26,227)
-	22,514	22,605	21
-	364	19,171	1,095
191,480	8,305	476,122	(23,198)
470,443	128,247	(116,016)	225,996
-	-	175	2,398
-	13,164	133,533	70,424
-	(153,336)	(247,799)	(56,191)
-	(140,172)	(114,091)	16,631
470,443	(11,925)	(230,107)	242,627
(631,550)	111,137	(4,627,657)	28,658
$ (161,107)	$ 99,212	$ (4,857,764)	$ 271,285

Statement of Cash Flows
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2013
(expressed in thousands)

	Business-Type Activities Enterprise Funds		
	Workers' Compensation	Unemployment Compensation	Higher Education Student Services
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	$ 2,126,896	$ 1,211,376	$ 2,133,835
Payments to suppliers	(2,122,727)	(1,963,583)	(900,509)
Payments to employees	(186,823)	-	(864,892)
Other receipts	30,863	871,007	121,975
Net Cash Provided (Used) by Operating Activities	(151,791)	118,800	490,409
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers in	-	-	120,369
Transfers out	-	(61)	(94,402)
Operating grants and donations received	8,843	-	6,492
Taxes and license fees collected	91	-	-
Net Cash Provided (Used) by Noncapital Financing Activities	8,934	(61)	32,459
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Interest paid	(717)	-	(53,163)
Principal payments on long-term capital financing	(3,400)	-	(29,206)
Proceeds from long-term capital financing	-	-	245,328
Proceeds from sale of capital assets	-	-	4,941
Acquisitions of capital assets	(9,896)	-	(492,209)
Net Cash Provided (Used) by Capital and Related Financing Activities	(14,013)	-	(324,309)
CASH FLOWS FROM INVESTING ACTIVITIES			
Receipt of interest	568,442	70,506	17,533
Proceeds from sale of investment securities	5,240,820	-	134,714
Purchases of investment securities	(5,630,653)	-	(32,618)
Net Cash Provided (Used) by Investing Activities	178,609	70,506	119,629
Net Increase (Decrease) in Cash and Pooled Investments	21,739	189,245	318,188
Cash and Pooled Investments, July 1, as restated	43,400	2,651,456	737,758
Cash and Pooled Investments, June 30	$ 65,139	$ 2,840,701	$ 1,055,946
CASH FLOWS FROM OPERATING ACTIVITIES			
Operating Income (Loss)	$ (1,174,405)	$ 174,345	$ 9,017
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operations:			
Depreciation	8,428	-	127,404
Revenue reduced for uncollectible accounts	24,859	-	647
Change in Assets: Decrease (Increase)			
Receivables	4,496	(74,920)	392,910
Inventories	35	-	(6,932)
Prepaid expenses	(3)	-	(549)
Change in Liabilities: Increase (Decrease)			
Payables	984,799	19,375	(32,088)
Net Cash or Cash Equivalents Provided by (Used in) Operating Activities	$ (151,791)	$ 118,800	$ 490,409

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

Continued

			Governmental Activities
Guaranteed Education Tuition Program	Nonmajor Enterprise Funds	Total	Internal Service Funds
$ 171,774	$ 665,218	$ 6,309,099	$ 2,109,634
(116,293)	(529,308)	(5,632,420)	(1,576,751)
(2,631)	(62,112)	(1,116,458)	(361,449)
-	3,238	1,027,083	121,908
52,850	77,036	587,304	293,342
-	13,164	133,533	70,424
-	(153,336)	(247,799)	(56,191)
-	338	15,673	504
-	22,514	22,605	21
-	(117,320)	(75,988)	14,758
-	(283)	(54,163)	(26,275)
-	(658)	(33,264)	(44,821)
-	-	245,328	35,483
-	19	4,960	14,658
-	(1,336)	(503,441)	(96,907)
-	(2,258)	(340,580)	(117,862)
44,101	66	700,648	4,293
782,433	79,335	6,237,302	159,476
(878,831)	(39,867)	(6,581,969)	(362,400)
(52,297)	39,534	355,981	(198,631)
553	(3,008)	526,717	(8,393)
551	114,239	3,547,404	826,427
$ 1,104	$ 111,231	$ 4,074,121	$ 818,034
$ 278,963	$ 119,942	$ (592,138)	$ 249,194
4	1,466	137,302	80,950
-	74	25,580	455
(1,997)	(4,103)	316,386	77,434
-	409	(6,488)	(1,226)
-	182	(370)	247
(224,120)	(40,934)	707,032	(113,712)
$ 52,850	$ 77,036	$ 587,304	$ 293,342

Statement of Cash Flows
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2013
(expressed in thousands)

	Business-Type Activities Enterprise Funds		
	Workers' Compensation	Unemployment Compensation	Higher Education Student Services
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES			
Contributions of capital assets	$ 175	$ -	$ -
Acquisition of capital assets through Certificates of Participation/capital leases	-	-	36,419
Amortization of annuity prize liability	-	-	-
Increase (decrease) in fair value of investments	(327,470)	-	144
Debt refunding deposited with escrow agent	-	-	87,195
Amortization of debt premium/discount	-	-	13,476
Increase in ownership of joint venture	-	-	6,831

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

Concluded

			Governmental Activities
Guaranteed Education Tuition Program	Nonmajor Enterprise Funds	Total	Internal Service Funds
$ -	$ -	$ 175	$ 2,398
-	10	36,429	14,216
-	10,743	10,743	-
146,865	3,613	(176,848)	(2,797)
-	-	87,195	-
-	-	13,476	-
-	-	6,831	-

Statement of Net Position
FIDUCIARY FUNDS
June 30, 2013
(expressed in thousands)

	Private-Purpose Trust	Local Government Investment Pool	Pension and Other Employee Benefit Plans	Agency Funds
ASSETS				
Current Assets:				
Cash and pooled investments	$ 4,839	$ 3,017,843	$ 40,891	$ 88,344
Investments	-	5,464,589	-	-
Receivables, pension and other employee benefit plans:				
Employers	-	-	137,172	-
Members (net of allowance)	-	-	2,624	-
Interest and dividends	-	-	199,782	-
Investment trades pending	-	-	1,661,905	-
Due from other pension and other employee benefit funds	-	-	1,652	-
Other receivables, all other funds	-	691	-	7,991
Due from other funds	-	-	-	22
Due from other governments	-	-	-	19,533
Total Current Assets	4,839	8,483,123	2,044,026	115,890
Noncurrent Assets:				
Investments, noncurrent, pension and other employee benefit plans:				
Public equity	-	-	32,403,661	-
Fixed income	-	-	14,105,540	-
Private equity	-	-	16,064,517	-
Real estate	-	-	9,380,236	-
Security lending	-	-	1,196,761	-
Liquidity	-	-	1,581,812	-
Tangible assets	-	-	1,031,887	-
Investments, noncurrent, all other funds	-	478,132	-	156
Other noncurrent assets	-	-	-	55,479
Capital assets:				
Furnishings, equipment, and intangibles	33	-	-	-
Accumulated depreciation	(29)	-	-	-
Total Noncurrent Assets	4	478,132	75,764,414	55,635
Total Assets	4,843	8,961,255	77,808,440	$ 171,525
LIABILITIES				
Accounts payable	111	-	-	$ 8,140
Contracts and retainages payable	-	-	-	27,686
Accrued liabilities	166	204,097	1,736,344	54,921
Obligations under security lending agreements	-	-	1,199,842	5,871
Due to other funds	-	-	-	11
Due to other pension and other employee benefit funds	-	-	1,652	-
Due to other governments	-	23,002	-	19,417
Unearned revenue	-	-	726	-
Other long-term liabilities	-	-	-	55,479
Total Liabilities	277	227,099	2,938,564	$ 171,525
NET POSITION				
Net position held in trust for:				
Pension benefits	-	-	71,668,018	
Deferred compensation participants	-	-	3,201,858	
Local government pool participants	-	8,734,156	-	
Individuals, organizations, and other governments	4,566	-	-	
Total Net Position	$ 4,566	$ 8,734,156	$ 74,869,876	

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

Statement of Changes in Net Position
FIDUCIARY FUNDS
For the Fiscal Year Ended June 30, 2013
(expressed in thousands)

	Private-Purpose Trust	Local Government Investment Pool	Pension and Other Employee Benefit Plans
ADDITIONS			
Contributions:			
Employers	$ -	$ -	$ 1,197,445
Members	-	-	1,031,974
State	-	-	60,204
Participants	-	14,032,653	182,305
Total Contributions	-	14,032,653	2,471,928
Investment Income:			
Net appreciation (depreciation) in fair value	-	-	6,574,645
Interest and dividends	-	16,329	1,850,861
Less: Investment expenses	-	-	(258,468)
Net Investment Income (Loss)	-	16,329	8,167,038
Other Additions:			
Unclaimed property	72,472	-	-
Transfers from other pension plans	-	-	5,625
Other contracts, grants and miscellaneous	21	-	528
Total Other Additions	72,493	-	6,153
Total Additions	72,493	14,048,982	10,645,119
DEDUCTIONS			
Pension benefits	-	-	3,259,510
Pension refunds	-	-	368,806
Transfers to other pension plans	-	-	5,625
Administrative expenses	3,577	904	4,449
Distributions to participants	-	13,310,671	178,638
Payments to or on behalf of individuals, organizations and other governments in accordance with state unclaimed property laws	70,177	-	-
Total Deductions	73,754	13,311,575	3,817,028
Net Increase (Decrease)	(1,261)	737,407	6,828,091
Net Position - Beginning, as restated	5,827	7,996,749	68,041,785
Net Position - Ending	$ 4,566	$ 8,734,156	$ 74,869,876

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

Statement of Net Position
COMPONENT UNITS
June 30, 2013
(expressed in thousands)

	Public Stadium	Health Benefit Exchange	Nonmajor Component Units	Total
ASSETS				
Current Assets:				
Cash and pooled investments	$ 7,003	$ 41	$ 27,323	$ 34,367
Investments	-	-	41,646	41,646
Investments, restricted	3,770	-	-	3,770
Other receivables (net of allowance)	1,197	6,830	7,484	15,511
Prepaid expenses	22	40	117	179
Total Current Assets	11,992	6,911	76,570	95,473
Noncurrent Assets:				
Restricted investments, noncurrent	10,963	-	-	10,963
Other noncurrent assets	-	986	105,673	106,659
Capital assets:				
Land	34,677	-	-	34,677
Buildings	460,636	-	-	460,636
Furnishings, equipment and intangible assets	19,436	11,133	1,608	32,177
Accumulated depreciation	(187,928)	(1,485)	(1,579)	(190,992)
Construction in progress	-	411	-	411
Total Noncurrent Assets	337,784	11,045	105,702	454,531
Total Assets	$ 349,776	$ 17,956	$ 182,272	$ 550,004
LIABILITIES				
Current Liabilities:				
Accounts payable	$ 68	$ 4,851	$ 40,057	$ 44,976
Contracts and retainages payable	4,364	-	-	4,364
Accrued liabilities	3,497	2,060	55	5,612
Unearned revenue	-	-	17,458	17,458
Total Current Liabilities	7,929	6,911	57,570	72,410
Noncurrent Liabilities:				
Other long-term liabilities	12,220	986	-	13,206
Total Noncurrent Liabilities	12,220	986	-	13,206
Total Liabilities	20,149	7,897	57,570	85,616
NET POSITION				
Net investment in capital assets	310,281	10,059	29	320,369
Restricted for deferred sales tax	12,346	-	-	12,346
Restricted for other purposes	-	-	1,083	1,083
Unrestricted	7,000	-	123,590	130,590
Total Net Position	329,627	10,059	124,702	464,388
Total Liabilities and Net Position	$ 349,776	$ 17,956	$ 182,272	$ 550,004

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

Statement of Revenues, Expenses, and Changes in Net Position
COMPONENT UNITS
For the Fiscal Year Ended June 30, 2013
(expressed in thousands)

	Public Stadium	Health Benefit Exchange	Nonmajor Component Units	Total
OPERATING REVENUES				
Charges for services	$ 1,067	$ -	$ 31,831	$ 32,898
Total Operating Revenues	1,067	-	31,831	32,898
OPERATING EXPENSES				
Salaries and wages	403	1,256	4,277	5,936
Employee benefits	120	389	1,445	1,954
Personal services	194	7,945	1,465	9,604
Goods and services	304	239	2,288	2,831
Travel	2	-	20	22
Depreciation and amortization	15,231	1,485	45	16,761
Miscellaneous expenses	-	180	2,030	2,210
Total Operating Expenses	16,254	11,494	11,570	39,318
Operating Income (Loss)	(15,187)	(11,494)	20,261	(6,420)
NONOPERATING REVENUES (EXPENSES)				
Earnings (loss) on investments	304	-	82	386
Operating grants and contributions	-	18,116	8,249	26,365
Distributions of operating grants	-	-	(7,602)	(7,602)
Naming rights	2,130	-	-	2,130
Other	(15)	628	-	613
Total Nonoperating Revenues (Expenses)	2,419	18,744	729	21,892
Income (Loss) before Contributions	(12,768)	7,250	20,990	15,472
Capital grants and contributions	(328)	2,809	-	2,481
Total Contributions	(328)	2,809	-	2,481
Change in Net Position	(13,096)	10,059	20,990	17,953
Net Position - Beginning, as restated	342,723	-	103,712	446,435
Net Position - Ending	$ 329,627	$ 10,059	$ 124,702	$ 464,388

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

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Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2013

Note 1

Summary of Significant Accounting Policies

The accompanying financial statements of the state of Washington have been prepared in conformity with generally accepted accounting principles (GAAP). The Office of Financial Management (OFM) is the primary authority for the state's accounting and reporting requirements. OFM has adopted the pronouncements of the Governmental Accounting Standards Board (GASB), which is the accepted standard-setting body for establishing governmental accounting and financial reporting principles nationally. Following is a summary of the significant accounting policies:

A. REPORTING ENTITY

In defining the state of Washington for financial reporting purposes, management considers: all funds, organizations, institutions, agencies, departments, and offices that are legally part of the state (the primary government) and organizations for which the state is financially accountable. Additionally, other organizations that do not meet the financial accountability criteria may be included in the reporting entity if the nature and significance of their relationship with the state are such that exclusion would cause the state's financial statements to be misleading.

Financial accountability exists when the primary government appoints a voting majority of an organization's governing body and is either (1) able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government. The primary government is also financially accountable if an organization is fiscally dependent on and there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the primary government regardless of whether the organization has (1) a separately elected governing board, (2) a governing board appointed by a higher level of government, or (3) a jointly appointed board. An organization is fiscally dependent if it is unable to determine its budget without another government having the substantive authority to approve or modify that budget, to levy taxes or set rates or charges without substantive approval by another government, or to issue bonded debt without substantive approval by another government. The organization has a financial benefit or burden relationship with the primary government if, for example, any one of these conditions exists: (1) the primary government is legally entitled to or can access the organization's resources; (2) the primary government is legally obligated or has otherwise assumed the obligation to finance or provide financial support to the organization; (3) the primary government is obligated in some manner for the debt of the organization.

Based on these criteria, the following are included in the financial statements of the primary government:

State Agencies. Except as otherwise described herein, all state elected offices, departments, agencies, commissions, boards, committees, authorities, councils (agencies) and all funds and subsidiary accounts of the state are included in the primary government. Executives of these agencies are either elected, directly appointed by the Governor, appointed by a board which is appointed by the Governor, or appointed by a board which is in part appointed by the Governor. Additionally, a small number of board positions are established by statute or independently elected.

The Legislature creates these agencies, assigns their programs, approves operational funding, and requires financial accountability. The Legislature also authorizes all bond issuances for capital construction projects for the benefit of state agencies. The legal liability for these bonds and the ownership of agency assets resides with the state.

Colleges and Universities. The governing boards of the five state universities, the state college, and the 34 state community and technical colleges are appointed by the Governor. The governing board of each college and university appoints a president to function as chief administrator. The Legislature approves budgets and budget amendments for the appropriated funds of each college and university, which include the state's General Fund as well as certain capital projects funds. The State Treasurer issues general obligation debt for major campus construction projects. However, the colleges and universities are authorized to issue revenue bonds.

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

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

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

There are three additional retirement systems administered outside of the Department of Retirement Systems. The Volunteer Fire Fighters' and Reserve Officers' Relief and Pension Fund is administered through the Board for Volunteer Fire Fighters, which is appointed by the Governor. The Judicial Retirement Account is administered through the Administrative Office of the Courts under the direction of the Board for Judicial Administration. The Higher Education Retirement Plan Supplemental Defined Benefit Plans are administered by the state's colleges and universities.

The Legislature establishes laws pertaining to the creation and administration of all public retirement systems. The participants of the public retirement systems, together with the state, provide funding for all costs of the systems based upon actuarial valuations. The state establishes benefit levels and approves the actuarial assumptions used in determining contribution levels.

All of the aforementioned retirement systems are included in the primary government's financial statements.

Blended Component Units. Blended component units, although legally separate entities, are part of the state's operations in substance. Accordingly, they are reported as part of the state and blended into the appropriate funds. The following entities are blended in the state's financial statements:

Tobacco Settlement Authority. The Tobacco Settlement Authority (TSA) was created by the Legislature in March 2002 as a public instrumentality separate and distinct from the state. It is governed by a five-member board appointed by the Governor. It was created solely for the purpose of issuing bonds to securitize a portion of the state's future tobacco settlement revenue. Proceeds of the debt instrument were transferred to the state to help fund health care, long-term care, and other programs of the state. Refer to Note 7.A for additional information.

Financial reports for the TSA may be obtained from the authority at the following address:

Tobacco Settlement Authority
1000 Second Avenue, Suite 2700
Seattle, WA 98104-1046

Other Blended Component Units. Tumwater Office Properties, FYI Properties, the University of Washington (UW) Physicians, UW Medicine Neighborhood Clinics, TSB Properties, Washington Biomedical Research Properties I and II, and Washington Biomedical Research Facilities 3 are blended component units in the state's financial statements. All the aforementioned blended component units provide services entirely or almost entirely to the state. Financial information for these blended component units may be obtained from their respective administrative offices.

Discrete Component Units. Discretely presented component units are reported in a separate column in the government-wide financial statements. Discretely presented component units are legally separate from the state and primarily serve or benefit those outside of the state. They are financially accountable to the state, or have relationships with the state such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. These entities are reported as discrete component units because state officials either serve on or appoint the members of the governing bodies of the authorities. The state also has the ability to influence the operations of the authorities through legislation. The following entities are discretely presented in the financial statements of the state in the component unit's column:

The Washington State Housing Finance Commission, the Washington Higher Education Facilities Authority, the Washington Health Care Facilities Authority, and the Washington Economic Development Finance Authority (financing authorities) were created by the Legislature in a way that specifically prevents them from causing the state to be liable or responsible for their acts and obligations, including, but not limited to, any obligation to pay principal and interest on financing authority bonds. The financing authorities cannot obligate the state, either legally or morally, and the state has not assumed any obligation of, or with respect to, the financing authorities.

Financial reports of these financing authorities may be obtained from each authority at the following addresses:

Washington Health Care Facilities Authority
410 11th Avenue SE, Suite 201
PO Box 40935
Olympia, WA 98504-0935

Washington State Housing Finance Commission
Washington Higher Education Facilities Authority
Washington Economic Development Finance Authority
1000 Second Avenue, Suite 2700
Seattle, WA 98104-1046

The Washington State Public Stadium Authority (PSA) was created by the Legislature to acquire, construct, own, and operate a football/soccer stadium, exhibition center, and parking garage. Construction was completed in 2002. PSA capital assets, net of accumulated depreciation, total $327 million. The state issued general obligation bonds for a portion of the cost of the stadium construction. The total public share of the stadium and exhibition center cost did not exceed $300 million from all state and local government funding sources, as required in statute.

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

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

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

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

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

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

The state's component units each have a year-end of June 30 with the exception of the Washington Economic Development Finance Authority and the Washington Health Benefit Exchange which have a December 31 year-end.

Joint Venture. In 1998, the University of Washington Medical Center (Medical Center) entered into an agreement with Seattle Children's Hospital and Fred Hutchinson Cancer Research Center to establish the Seattle Cancer Care Alliance (SCCA). Each member of the SCCA has a one-third interest. The mission of the SCCA is to eliminate cancer as a cause of human suffering and death and to become recognized as the premier cancer research and treatment center in the Pacific Northwest. The SCCA integrates the cancer research, teaching, and clinical cancer programs of all three institutions to provide state-of-the-art cancer care. Under the agreement, the Medical Center provides the patient care to all adult inpatients of the SCCA.

Inpatient Services – The SCCA operates a 20-bed unit located within the Medical Center in which its adult inpatients receive care. The fiscal intermediary has determined that the 20-bed unit qualifies as a hospital within a hospital for Medicare reimbursement purposes. The SCCA provides medical oversight and management of the inpatient unit. Under agreements, the Medical Center provides inpatient care services to the SCCA including necessary personnel, equipment, and ancillary services.

Outpatient Services – The SCCA operates an ambulatory cancer care service facility in Seattle. The Medical Center provides various services to the SCCA's outpatient facility including certain pharmacy, laboratory, and pathology services as well as billing, purchasing, and other administrative services.

The state accounts for the Medical Center's interest in SCCA under the equity method of accounting. Income of $6.8 million was recorded in fiscal year 2013, bringing the total equity investment to $89.1 million which is recognized in the state's financial statements in the Higher Education Student Services Fund.

Separate financial statements for SCCA may be obtained from:

Seattle Cancer Care Alliance
825 Eastlake Avenue East
PO Box 19023
Seattle, WA 98109-1023

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Government-wide Financial Statements

The state presents two basic government-wide financial statements: the Statement of Net Position and the Statement of Activities. These government-wide financial statements report information on all non-fiduciary activities of the primary government and its component units. The financial information for the primary government is distinguished between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods and services.

Statement of Net Position. The Statement of Net Position presents the state's non-fiduciary assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position. As a general rule, balances between governmental and business-type activities are eliminated.

Statement of Activities. The Statement of Activities reports the extent to which each major state program is supported by general state revenues or is self-financed through fees and intergovernmental aid. For governmental activities, a major program is defined as a function. For business-type activities, a major program is an identifiable activity.

Program revenues offset the direct expenses of major programs. Direct expenses are those that are clearly identifiable within a specific function or activity. Program revenues are identified using the following criteria:

- Charges to customers for goods and services of the program. A customer is one who directly benefits from the goods or services or is otherwise directly affected by the program, such as a state citizen or taxpayer, or other governments or nongovernmental entities.

- Amounts received from outside entities that are restricted to one or more specific programs. These amounts can be operating or capital in nature.

- Earnings on investments that are restricted to a specific program are also considered program revenues.

General revenues consist of taxes and other items not meeting the definition of program revenues.

Generally the effect of internal activities is eliminated. Exceptions to this rule include charges between the workers' compensation insurance programs and various other state programs and functions. Elimination of these charges would distort the direct costs and revenues reported for the various activities involved.

Fund Financial Statements

The state uses 630 accounts that are combined into 52 rollup funds. The state presents separate financial statements for governmental funds, proprietary funds, and fiduciary funds. Major individual governmental funds and major individual proprietary funds are reported in separate columns in the fund financial statements, with nonmajor funds being combined into a single column regardless of fund type. Internal service and fiduciary funds are reported by fund type. Major funds include:

Major Governmental Funds:

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

- **Higher Education Special Revenue Fund** primarily accounts for tuition, student fees, and grants and contracts received for research and other educational purposes.

- **Higher Education Endowment Permanent Fund** accounts for gifts and bequests that the donors have specified must remain intact. Each gift is governed by various restrictions on the investment and use of the funds.

Major Enterprise Funds:

- **Workers' Compensation Fund** accounts for the workers' compensation program that provides medical, time-loss, and disability benefit payments to qualifying individuals sustaining work-related injuries.

- **Unemployment Compensation Fund** accounts for the unemployment compensation program. It accounts for the deposit of funds, requisitioned from the Federal Unemployment Trust Fund, to provide services to eligible participants within the state and to pay unemployment benefits.

- **Higher Education Student Services Fund** is used by colleges and universities principally for bookstore, cafeteria, parking, student housing, food service, and hospital business enterprise activities.

- **Guaranteed Education Tuition Program Fund** accounts for Washington's Guaranteed Education Tuition (GET) Program. GET is a qualified tuition program under Section 529 of the Internal Revenue Code.

The state includes the following governmental and proprietary fund types within nonmajor funds:

Nonmajor Governmental Funds:

- **Special Revenue Funds** account for the proceeds of specific revenue sources (other than trusts for individuals, private organizations, or other governments, or for major capital projects) that are restricted or committed to expenditures for specific purposes. These include a variety of state programs including public safety and health assistance programs; natural resource and wildlife protection and management programs; the state's transportation programs which include the operation of the state's ferry system, and maintenance and preservation of interstate and non-interstate highway systems; driver licensing, highway and non-highway operations, and capital improvements; K-12 school construction; and construction and loan programs for local public works projects.

- **Debt Service Funds** account for the accumulation of resources that are restricted or committed to expenditures for, and the payment of, principal and interest on the state's bonds issued in support of governmental activities.

- **Capital Projects Funds** account for financial resources that are restricted or committed to expenditures for the acquisition, construction, or improvement of major state-owned capital facilities (other than highway infrastructure or those financed by proprietary funds).

- **Common School Permanent Fund** accounts for the principal derived from the sale of timber. Interest earned is used for the benefit of common schools.

Nonmajor Proprietary Funds:

- **Enterprise Funds** account for the state's business type operations for which a fee is charged to external users for goods or services including: the state lottery; vocational/education programs at correctional institutions, and other activities.

Internal Service Funds account for the provision of legal, motor pool, data processing, risk management, health insurance, and other services by one department or agency to other departments or agencies of the state on a cost-reimbursement basis.

The state reports the following fiduciary funds:

- **Pension (and other employee benefit) Trust Funds** are used to report resources that are required to be held in trust by the state for the members and beneficiaries of defined benefit pension plans, defined contribution pension plans, and other employee benefit plans.

- **Investment Trust Fund** accounts for the external portion of the Local Government Investment Pool, which is reported by the state as the sponsoring government.

- **Private-Purpose Trust Fund** is used to report trust arrangements, other than pension and investment trusts, under which principal and income benefit individuals, private organizations, or other governments such as the administration of unclaimed property.

- **Agency Funds** account for resources held by the state in a custodial capacity for other governments, private organizations, or individuals.

Operating and Nonoperating Revenues and Expenses. The state's proprietary funds make a distinction between operating and nonoperating revenues and expenses. Operating revenues and expenses generally result from providing goods and services directly related to the principal operations of the funds. For example, operating revenues for the state's workers' compensation and health insurance funds consist of premiums and assessments collected. Operating expenses consist of claims paid to covered individuals, claims adjustment expenses, costs of commercial insurance coverage, and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating, including interest expense and investment gains and losses.

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

For government-wide reporting purposes, the state uses the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

For fund statement reporting purposes, the state uses the current financial resources measurement focus and modified accrual basis of accounting for governmental funds. With the current financial resources measurement focus, generally only current assets and current liabilities and deferred outflows of resources and deferred inflows of resources are included on the governmental funds balance sheet. Operating statements for these funds present inflows (i.e., revenues and other financing sources) and outflows (i.e., expenditures and other financing uses) of expendable financial resources.

Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be reasonably estimated. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Primary revenues that are determined to be susceptible to accrual include sales taxes, business and occupation taxes, motor fuel taxes, federal grants-in-aid, and charges for services.

Revenues from property taxes are determined to be available if collectible within 60 days. Taxes imposed on exchange transactions are accrued when the underlying exchange transaction occurs if collectible within one year. Revenue for timber cutting contracts is accrued when the timber is harvested. Revenues from licenses, permits, and fees are recognized when received in cash. Revenues related to expenditure-driven grant agreements are recognized when the qualifying expenditures are made, provided that the availability criteria is met. Expenditure-driven grant revenue is considered available if it can be collected by the state at the same time cash is disbursed to cover the associated grant expenditure. Pledges are accrued when the eligibility requirements are met and resources are available. All other accrued revenue sources are determined to be available if collectible within 12 months.

Property taxes are levied in December for the following calendar year. The first half-year collections are due by April 30, and the second half-year collections are due by October 31. Since the state is on a fiscal year ending June 30, the first half-year collections are recognized as revenue, if collectible within 60 days of the fiscal year end. The second half-year collections are recognized as receivables offset by unavailable revenue. The lien date on property taxes is January 1 of the tax levy year.

Under modified accrual accounting, expenditures are generally recognized when the related liability is incurred. However, unmatured interest on general long-term obligations is recognized when due, and certain liabilities including compensated absences, other postemployment benefits, and claims and judgments are recognized when the obligations are expected to be liquidated with available expendable financial resources.

The state reports both unavailable and unearned revenues on its governmental fund balance sheet. Unavailable revenues arise when a potential revenue does not meet both the "measurable" and the "available" criteria for revenue recognition in the current period. Unearned revenues arise when resources are received by the state before it has a legal claim to them, such as when grant monies are received prior to incurring qualifying expenditures/expenses.

All proprietary and trust funds are accounted for using the economic resources measurement focus. With this measurement focus, all assets and liabilities and deferred outflows of resources and deferred inflows of resources associated with the operations of these funds are included on their respective statements of net position. Operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in total net position.

Net position for trust funds is held in trust for external individuals and organizations.

All proprietary and trust funds are reported using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred.

D. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES AND NET POSITION/FUND BALANCE

1. Cash and Investments

Investments of surplus or pooled cash balances are reported on the accompanying Statements of Net Position, Balance Sheets and Statements of Cash Flows as "Cash and Pooled Investments." The Office of the State Treasurer invests state treasury cash surpluses where funds can be disbursed at any time without prior notice or penalty. For reporting purposes, pooled investments are stated at fair value or amortized cost, which approximates fair value. For purposes of reporting cash flows, the state considers cash and pooled investments to be cash equivalents. Pooled investments include short-term, highly-liquid investments that are both readily convertible to cash and are so near their maturity dates that they present insignificant risk of changes in value because of changes in interest rates.

The method of accounting for noncurrent investments varies depending upon the fund classification. Investments in the state's Local Government Investment Pool (LGIP), an external investment pool operated in a manner consistent with the Securities and Exchange Commission's Rule 2a-7 of the Investment Company Act of 1940, are reported at amortized cost which approximates fair value. The Office of the State Treasurer prepares a stand-alone LGIP financial report. A copy of the report is available from the Office of the State Treasurer, PO Box 40200, Olympia, Washington 98504-0200, phone number (360) 902-9000 or TTY (360) 902-8963.

Certain pension trust fund investments, including real estate and private equity, are reported at fair value based on appraisals or estimates in the absence of readily ascertainable fair values. At June 30, 2013, these alternative investments are valued at $26.48 billion. Because of the inherent uncertainties in the estimation of fair value, it is possible that the estimates will change.

All other noncurrent investments are reported at fair value. Fair values are based on published market prices, quotations from national security exchanges and security pricing services, or by the respective fund managers for securities that are not actively traded. Privately held mortgages are valued at cost, which approximates fair value. Additional disclosure describing investments is provided in Note 3.

2. Receivables and Payables

Receivables in the state's governmental fund type accounts consist primarily of taxes and federal revenues. Receivables in all other funds have arisen in the ordinary course of business. Receivables are recorded when either the asset or revenue recognition criteria (refer to Note 1.C) have been met. All receivables are reported net of an allowance for accounts estimated to be uncollectible.

For government-wide reporting purposes, amounts recorded as interfund/interagency receivables and payables are eliminated in the governmental and business-type activities columns on the Statement of Net Position, except for the net residual balances due between the governmental and business-type activities, which are reported as internal balances. Amounts recorded in governmental and business-type activities as due to or from fiduciary funds have been reported as due to or from other governments.

3. Inventories and Prepaids

Consumable inventories, consisting of expendable materials and supplies held for consumption, are valued and reported in the state's financial statements if the fiscal year-end balance on hand within an agency is estimated to be $25,000 or more. Consumable inventories are generally valued at cost using the first-in, first-out method. Donated consumable inventories are recorded at fair market value.

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

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

For governmental fund financial reporting, inventory balances are also recorded as a reservation of fund balance indicating that they do not constitute "available spendable resources" except for $6.3 million in federally donated consumable inventories, which are offset by unearned revenue because they are not earned until they are distributed to clients.

Prepaid items are those certain types of supplies and/or services (not inventory) that are acquired or purchased during an accounting period but not used or consumed during that accounting period.

In governmental fund type accounts, prepaid items are generally accounted for using the purchases method. Under the purchases method, prepaid items are treated as expenditures when purchased and residual balances, if any, at year end are not accounted for as assets.

In proprietary and trust fund type accounts, prepaid items are accounted for using the consumption method. The portion of supplies or services consumed or used during a period is recorded as an expense. The balance that remains is reported as an asset until consumed or used.

4. Restricted Assets

Certain cash, investments, and other assets are classified as restricted assets on the Statement of Net Position and Balance Sheet because their use is limited by bond covenants, escrow arrangements, or other regulations.

5. Capital Assets

Capital assets are tangible and intangible assets held and used in state operations, which have a service life of more than one year and meet the state's capitalization policy.

It is the state's policy to capitalize:

- All land, including land use rights with indefinite lives acquired with the purchase of the underlying land, and ancillary costs;
- The state highway system operated by the Department of Transportation;
- Infrastructure, other than the state highway system, with a cost of $100,000 or more;
- Buildings, building improvements, improvements other than buildings, and leasehold improvements with a cost of $100,000 or more;
- Intangible assets, either purchased or internally developed, with a cost of $1.0 million or more that are identifiable by meeting one of the following conditions:
  - The asset is capable of being separated or divided and sold, transferred, licensed, rented, exchanged;
  - The asset arises from contractual or other legal rights, regardless of whether those rights are transferable or separable;
- All capital assets acquired with Certificates of Participation, a debt financing program administered by the Office of the State Treasurer; and

All other capital assets with a unit cost (including ancillary costs) of $5,000 or greater, or collections with a total cost of $5,000 or greater except for assets held by the University of Washington (UW). The capitalization threshold for all other capital assets held by the UW is $2,000.

Assets acquired by capital leases are capitalized if the asset's fair market value meets the state's capitalization threshold described above.

Purchased capital assets are valued at cost where historical records are available and at estimated historical cost where no historical records exist. Capital asset costs include the purchase price plus those costs necessary to place the asset in its intended location and condition for use (ancillary costs). Normal maintenance and repair costs that do not materially add to the value or extend the life of the state's capital assets are not capitalized.

Donated capital assets are valued at their estimated fair market value on the date of donation, plus all appropriate ancillary costs. When the fair market value is not practically determinable due to lack of sufficient records, estimated cost is used. Where necessary, estimates of original cost and fair market value are derived by factoring price levels from the current period to the time of acquisition.

The value of assets constructed by agencies for their own use includes all direct construction costs and indirect costs that are related to the construction. In enterprise and trust funds, net interest costs (if material) incurred during the period of construction are capitalized. In fiscal year 2013, $21.8 million net interest costs were capitalized.

State agencies are not required to capitalize art collections, library reserve collections, and museum and historical collections that are considered inexhaustible, in that their value does not diminish over time, if all of the following conditions are met:

- The collection is held for public exhibition, education, or research in furtherance of public service, rather than financial gain.

- The collection is protected, kept unencumbered, cared for, and preserved.

- The collection is subject to policy requirements that the proceeds from sales of collection items be used to acquire other items for the collection.

Depreciation/amortization is calculated using the straight-line method over the estimated useful lives of the assets.

Generally, estimated useful lives are as follows:

Buildings & building components	5-50 years
Furnishings, equipment & collections	3-50 years
Other improvements	3-50 years
Intangibles	3-50 years
Infrastructure	20-50 years

The cost and related accumulated depreciation/amortization of disposed capital assets are removed from the accounting records.

The state capitalizes the state highway system as a network but does not depreciate it since the system is being preserved approximately at or above a condition level established by the state. That condition level is documented and disclosed. Additionally, the highway system is managed using an asset management system that includes:

- Maintenance of an up-to-date inventory of system assets;

- Performance of condition assessments of the assets at least every three years with summarization of the results using a measurement scale; and

- Annual estimation of the amount to maintain and preserve the assets at the condition level established and disclosed.

All state highway system expenditures that preserve the useful life of the system are expensed in the period incurred. Additions and improvements that increase the capacity or efficiency of the system are capitalized. This approach of reporting condition instead of depreciating the highway system is called the modified approach.

For government-wide financial reporting purposes, capital assets of the state are reported as assets in the applicable governmental or business-type activities column on the Statement of Net Position. Depreciation/amortization expense related to capital assets is reported in the Statement of Activities.

Capital assets and the related depreciation/amortization expense are also reported in the proprietary fund financial statements.

In governmental funds, capital assets are not capitalized in the accounts that acquire or construct them. Instead, capital acquisitions and construction are reflected as expenditures in the year assets are acquired or construction costs are incurred. No depreciation/amortization is reported.

6. Deferred Outflows/Inflows of Resources

In addition to assets, the Balance Sheet and Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of fund equity that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then. The state only has one item that qualifies for reporting in this category. It is the deferred outflow of resources on refunding reported in the government-wide and proprietary fund statements of net position. A deferred outflow on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the Balance Sheet and Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of fund equity that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The state is reporting as a deferred inflow unavailable revenue, which arises only under the modified accrual basis of accounting, and so is reported only on the governmental funds balance sheet. Governmental funds report unavailable revenues primarily from two sources: taxes and long-term receivables. These amounts are recognized as inflows of resources in the periods that the amounts become available.

7. Compensated Absences

State employees accrue vested vacation leave at a variable rate based on years of service. In general, accrued vacation leave cannot exceed 240 hours at the employee's anniversary date.

Employees accrue sick leave at the rate of one day per month without limitation on the amount that can be accumulated. Sick leave is not vested; i.e., the state does not pay employees for unused sick leave upon termination except upon employee death or retirement. At death or retirement, the state is liable for 25 percent of the employee's accumulated sick leave. In addition, the state has a sick leave buyout option in which, each January, employees who accumulate sick leave in excess of 480 hours may redeem sick leave earned but not taken during the previous year at the rate of one day's pay in exchange for each four days of sick leave.

It is the state's policy to liquidate unpaid compensated absences outstanding at June 30 with future resources rather than advance funding it with currently available expendable financial resources.

For government-wide reporting purposes, the state reports compensated absences obligations as liabilities in the applicable governmental or business-type activities columns on the Statement of Net Position.

For fund statement reporting purposes, governmental funds recognize an expenditure for annual and sick leave when it is payable, i.e., upon employee's use, resignation, or retirement. Proprietary and trust funds recognize the expense and accrue a liability for annual leave and estimated sick leave buyout, including related payroll taxes and benefits as applicable, as the leave is earned.

8. Long-Term Liabilities

In the government-wide and proprietary fund financial statements, long-term obligations of the state are reported as liabilities on the Statement of Net Position. Bonds payable are reported net of applicable original issuance premium or discount. When material, bond premiums, discounts, and issue costs are deferred and amortized over the life of the bonds.

For governmental fund financial reporting, the face (par) amount of debt issued is reported as other financing sources. Premiums and discounts on original debt issuance are also reported as other financing sources and uses, respectively. Issue costs are reported as debt service expenditures.

9. Fund Equity

In governmental fund type accounts, fund equity is called "fund balance." Fund balance is reported in classifications which reflect the extent to which the state is bound to honor constraints on the purposes for which the amounts can be spent. Classifications include:

- **Nonspendable** fund balance represents amounts that are either not in a spendable form or are legally or contractually required to remain intact.

- **Restricted** fund balance represents amounts for which constraints are placed on their use by the constitution, enabling legislation, or external resource providers such as creditors, grantors, or laws or regulations of other governments.

- **Committe**d fund balance represents amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the state Legislature through a statute or appropriation.

- **Assigned** fund balance represents amounts that are intended for a specific purpose by management, but are neither restricted nor committed. Generally assignment is expressed by joint legislative and executive staff action.

- **Unassigned** fund balance represents the residual amount for the General Fund that is not contained in the other classifications. Additionally, any deficit fund balance within the other governmental fund types is reported as unassigned.

When resources meeting more than one of the classifications (excluding nonspendable) are comingled in an account, assuming that an expenditure meets the constraints of the classification, the assumed order of spending is restricted first, committed second, and finally assigned.

For government-wide reporting as well as in proprietary funds, fund equity is called net position. Net position is comprised of three components: net investment in capital assets; restricted; and unrestricted.

- **Net investment in capital assets** consists of capital assets, net of accumulated depreciation and reduced by outstanding balances of bonds, notes and other debt that are attributed to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are included in this component of net position.

- **Restricted** net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Assets are reported as restricted when constraints are placed on asset use either by external parties or by law through constitutional provision or enabling legislation.

- **Unrestricted** net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that does not meet the definition of the two preceding categories.

When both restricted and unrestricted resources are available for use, it is the state's policy to use restricted resources first and then use unrestricted resources as they are needed.

E. OTHER INFORMATION

1. Insurance Activities

Workers' Compensation. Title 51 RCW establishes the state of Washington's workers' compensation program. The statute requires all employers to secure coverage for job-related injuries and diseases, with few exceptions, through the Workers' Compensation Fund or through self-insurance. Direct private insurance is not authorized, although self-insurers are permitted to reinsure up to 80 percent of their obligations through private insurers.

The Workers' Compensation Fund, an enterprise fund, is used to account for the workers' compensation program which provides time-loss, medical, vocational, disability, and pension benefits to qualifying individuals sustaining work-related injuries or illnesses. The main benefit plans of the workers' compensation program are funded based on rates that will keep these plans solvent in accordance with recognized actuarial principles. The supplemental pension plan supports cost-of-living adjustments (COLA) granted for time-loss and disability payments; however, these are funded on a pay-as-you-go basis. By statute, the state is only allowed to collect enough revenue to fund the current COLA payments.

Premiums are based on individual employers' reported payroll hours and insurance rates based on each employer's risk classification(s) and past experience, except for the Supplemental Pension Fund premiums which are based on a flat rate per hours worked independent of risk class or past experience. In addition to its regular premium plan which is required for all employers, the Workers' Compensation Fund offers a voluntary retrospective premium rating plan under which premiums are subject to three annual adjustments based on group and individual employers' loss experience. Initial adjustments to the standard premiums are paid to or collected from the groups and individual employers approximately ten months after the end of each plan year.

The Department of Labor and Industries, as administrator of the workers' compensation program, establishes claims liabilities based on estimates of the ultimate cost of claims (including future claims adjustment expenses) that have already occurred. The length of time for which such costs must be estimated varies depending on the benefit involved. Because actual claims costs depend on such complex factors as inflation, changes in doctrines of legal liabilities, claims adjudication, and judgments, the process used in computing claims liabilities does not necessarily result in an exact amount.

Claims payable are recomputed quarterly using a variety of actuarial and statistical techniques. These techniques are used to produce current estimates that reflect recent settlements, claim frequency, expected inflation, and other economic, legal, and social factors. Adjustments to claims payable are charged or credited to claims expense in the periods in which they are made.

Risk Management. The state of Washington operates a self-insurance liability program pursuant to RCW 4.92.130. The state manages its tort claims as an insurance business activity rather than a general governmental activity. The state's policy is generally not to purchase commercial insurance for the risk of losses to which it is exposed. Instead, the state's management believes it is more economical to manage its risks internally and set aside assets for claims settlement in the Risk Management Fund, an internal service fund. A limited amount of commercial insurance is purchased for liabilities arising from the operations of the Washington state ferries, employee bonds, and to limit the exposure to catastrophic losses. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past ten fiscal years. Otherwise, the self-insurance liability program services all claims against the state for injuries and property damage to third parties. The majority of state funds and agencies participate in the self-insurance liability program in proportion to their anticipated exposure to liability losses.

Health Insurance. The state of Washington administers and provides medical, dental, basic life, and basic long-term disability insurance coverage for eligible state employees. In addition, the state offers coverage to K-12 school districts, educational service districts, tribal governments, political subdivisions, and employee organizations representing state civil service workers. The state establishes eligibility requirements and approves plan benefits of all participating health care organizations. Because the state and its employees are the predominant participants in the employee health insurance program, it is accounted for in an internal service fund, the Employee Insurance Fund.

The state's share of the cost of coverage for state employees is based on a per capita amount determined annually by the Legislature and allocated to state agencies.

The Health Care Authority, as administrator of the health care benefits program, collects this monthly "premium" from agencies for each active employee enrolled in the program. State employees self-pay for coverage beyond the state's contribution. Cost of coverage for non-state employees is paid by their respective employers. Most coverage is available on a self-paid basis to former employees and employees who are temporarily not in pay status.

Most coverage is also available on a self-paid basis to eligible retirees. In accordance with the provisions of GASB Statement No. 43, an agency fund, the Retiree Health Insurance Fund, is used to account for the retiree health insurance program. For additional information, refer to Note 12.

The state secures commercial insurance for certain coverage offered, but self-insures the risk of loss for the Uniform Medical Plan. The Uniform Medical Plan enrolled 64 percent of the eligible subscribers in fiscal year 2013. Claims are paid from premiums collected, and claims adjudication is contracted through a third-party administrator.

Considerations in calculating liabilities include frequency of claims, administrative costs, industry inflation trends, advances in medical technology, and other social and economic factors. Liabilities include an amount for claims incurred but not reported.

2. Postemployment Benefits

COBRA. In compliance with federal law, the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA), the state offers health and dental benefits on a temporary basis to qualified beneficiaries whose benefit coverage would otherwise end because of a qualifying event such as loss of employment. COBRA coverage is available on a self-paid basis and is the same medical and dental coverage available to state employees.

Medical Expense Plan. As disclosed in Note 1.D, at the time of separation from state service due to retirement or death, the state offers a 25 percent buyout of an employee's accumulated sick leave. Individual state agencies may offer eligible employees a medical expense plan (MEP) that meets the requirements of the Internal Revenue Code. Agencies offering an MEP deposit the retiring employee's sick leave buyout in the MEP for reimbursement of medical expenses.

Retirement Benefits. Refer to Note 11 Retirement Plans and Note 12 Other Postemployment Benefits.

3. Interfund/Interagency Activities

The state engages in two major categories of interfund/ interagency activity: reciprocal and nonreciprocal. Reciprocal interfund/interagency activity is the internal counterpart to exchange and exchange-like transactions and includes both interfund loans and services provided and used. Nonreciprocal activity is nonexchange in nature and includes both transfers and reimbursements.

4. Donor-restricted Endowments

The state of Washington reports endowments in higher education endowment permanent accounts. These accounts are established outside of the state treasury for use by the higher education institutions. There is no state law that governs endowment spending; rather, the policies of individual university and college boards govern the spending of net appreciation on investments.

Under the current spending policy, distributions to programs approximate an annual percentage rate of 4 percent of a five-year rolling average of the endowment's market valuation.

The net appreciation available for authorization for expenditure by governing boards totaled $393.7 million. This amount is reported as restricted for expendable endowment funds on the government-wide Statement of Net Position.

Note 2
Accounting, Reporting, and Entity Changes

Reporting Changes. Effective for fiscal year 2013 reporting, the state adopted the following new standards issued by the Governmental Accounting Standards Board (GASB):

Statement No. 60 *Accounting and Financial Reporting for Service Concession Arrangements*. GASB Statement No. 60 addresses service concession arrangements (SCAs), which are a type of public-private or public-public partnership.

Statement No. 61 *The Financial Reporting Omnibus – an amendment of GASB Statements No. 14 and No. 34*. GASB Statement No. 61 modifies certain requirements for inclusion of component units in the financial reporting entity.

Statement No. 62 *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. GASB Statement No. 62 incorporates into the GASB's authoritative literature accounting and financial reporting guidance issued on or before November 30, 1989, which do not conflict with or contradict GASB pronouncements.

Statement No. 63 *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. GASB Statement No. 63 introduces and defines deferred outflows and deferred inflows of resources as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively.

Statement No. 65 *Items Previously Reported as Assets and Liabilities*. GASB Statement No. 65 reclassifies certain items that were previously reported as assets and liabilities and recognizes these items as outflows of resources or inflows of resources.

Fund Reclassification. During fiscal year 2013, it was determined that one activity reported in the Pension and Other Employee Benefit Plans Fund did not meet the definition of a pension plan and would be more appropriately reported as governmental activity in the General Fund. Accordingly, beginning fund balances were restated by a reduction of $2.9 million in Pension and Other Employee Benefit Plans and an increase of $2.9 million in the Administrative Account in the General Fund.

Due to the passage of Initiative 1183, the distribution and retail sale of spirits was transferred to the private sector on June 1, 2012. As a result, the remaining activities of the Liquor Revolving Fund include promoting public safety by enforcing laws and regulating alcohol and tobacco sales. Since these activities are not supported by charges for goods or services, the Liquor Revolving Fund was reclassified from the Nonmajor Enterprise Fund and reported in the Nonmajor Governmental Fund. Accordingly, fiscal year 2013 beginning fund balances were restated by a reduction of $50.9 million in Nonmajor Enterprise and an increase of $47.2 million in Nonmajor Governmental. The remaining amounts of $24.5 million and $20.7 million relate to governmental capital assets and long-term obligations, respectively, to effect proper fund classification of the activities.

Fund equity at July 1, 2012, has been restated as follows (expressed in thousands):

	Fund equity (deficit) at June 30, 2012, as previously reported	Fund Reclassification	Fund equity (deficit) as restated, July 1, 2012
Governmental Funds:			
General	$ 1,004,623	$ 2,939	$ 1,007,562
Higher Education Special Revenue	2,015,242	-	2,015,242
Higher Education Endowment	3,096,400	-	3,096,400
Nonmajor Governmental	5,518,784	47,158	5,565,942
Proprietary Funds:			
Enterprise Funds:			
Workers' Compensation	(8,698,917)	-	(8,698,917)
Unemployment Compensation	3,224,951	-	3,224,951
Higher Education Student Services	1,366,722	-	1,366,722
Guaranteed Education Tuition Program	(631,550)	-	(631,550)
Nonmajor Enterprise *	162,036	(50,899)	111,137
Internal Service Funds	28,658	-	28,658
Fiduciary Funds:			
Private Purpose Trust	5,827	-	5,827
Local Government Investment Pool	7,996,749	-	7,996,749
Pension and Other Employee Benefit Plans **	68,044,724	(2,939)	68,041,785
Component Units:			
Public Stadium	342,723	-	342,723
Nonmajor Component Units	103,712	-	103,712

* The Liquor Revolving Fund was reported in the Nonmajor Enterprise Fund in fiscal year 2012, but is reported in the Nonmajor Governmental Fund for fiscal year 2013.

** The Higher Education Retirement Plan Supplemental Benefit Account was reported in the Pension and Other Employee Benefit Plans Fund in fiscal year 2012, but is reported as an Administrative Account within the General Fund in fiscal year 2013.

Note 3
Deposits and Investments

A. DEPOSITS

Custodial Credit Risk. Custodial credit risk is the risk associated with the failure of a depository financial institution. In the event of a depository financial institution's failure, it is the risk that the state would not be able to recover its deposits or collateralized securities that are in the possession of the outside parties.

The state minimizes custodial credit risk by restrictions set forth in state law. Statutes require state agencies to deposit funds in financial institutions that are physically located in Washington unless otherwise expressly permitted by statute and authorized by the Washington Public Deposit Protection Commission (PDPC). The PDPC, established under chapter 39.58 of the Revised Code of Washington (RCW), makes and enforces regulations and administers a collateral pool program to ensure public funds are protected if a financial institution becomes insolvent. Securities pledged are held by a trustee agent for the benefit of the collateral pool.

At June 30, 2013, $1.12 billion of the state's deposits with financial institutions were insured or collateralized, with the remaining $13.8 million uninsured/ uncollateralized.

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

1. Summary of Investment Policies

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

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

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

Eligible Investments. The WSIB is authorized by statute as having investment management responsibility for pension funds. The WSIB is authorized to invest as provided by statute (chapter 43.33A RCW) and WSIB policy in the following: U.S. treasury bills; discount notes; repurchase agreements; reverse repurchase agreements; banker's acceptances; commercial paper; guaranteed investment contracts; U.S. government and agency (government sponsored corporations eligible for collateral purposes at the Federal Reserve) securities; non-U.S. dollar bonds; investment grade corporate bonds; non-investment grade corporate bonds; publicly traded mortgage-backed securities; privately placed mortgages; private placements of corporate debt; U.S. and foreign common stock; U.S. preferred stock; convertible securities; private equity including but not limited to investment corporations, partnerships, and limited liability companies for venture capital, leveraged buy-outs, real estate, and other tangible assets, or other forms of private equity; asset-backed securities; and derivative securities including futures, options, options on futures, forward contracts, and swap transactions. There were no violations of these investment restrictions during fiscal year 2013.

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

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

The CTF consists of the Public Employees' Retirement System (PERS) Plans 1 and 2/3; Teachers' Retirement System (TRS) Plans 1 and 2/3; School Employees' Retirement System (SERS) Plans 2/3; Law Enforcement Officers' and Fire Fighters' Retirement Plans 1 and 2; Washington State Patrol Retirement System Plans 1 and 2; Public Safety Employees' Retirement System Plan 2; Volunteer Fire Fighters' and Reserve Officers' Relief and Pension Fund; and the Higher Education Retirement Supplemental Benefit Account. PERS Plan 3, TRS Plan 3, and SERS Plan 3 are hybrid defined benefit/defined contribution plans. The participants of those plans have the option to direct their contributions to the CTF or invest their defined contributions in other external options not managed by the WSIB.

CTF Investment Policies and Restrictions. The CTF is comprised of public markets equities, fixed income securities, private equity investments, tangible assets, real estate, and an innovation portfolio. The CTF's performance objective is to exceed the return of two custom benchmarks, each consisting of public market indices weighted according to asset allocation targets.

The asset allocation for the CTF is formally reviewed at least every four years. The allocation policy is reviewed more frequently if there has been a fundamental change in the structure of the capital markets or in the underlying cash flow or liability structure of the pension trust funds.

When market values fall outside policy ranges, assets are rebalanced first by using normal cash flows and then through reallocations of assets across asset classes. In cases of a major rebalancing, the pension trust funds can utilize futures, forward contracts, and options in order to maintain exposure within each asset class and reduce transaction costs. Major rebalancing can occur to bring asset classes within their target ranges or when the pension trust funds are transitioning managers.

To achieve the performance and diversification objectives of the pension trust funds, the public markets equity program seeks to achieve the highest return possible from active management consistent with prudent risk management and the desire for downside protection with passive management as the default; provide diversification to the pension trust funds overall investment program; maintain liquidity in public equity; and maintain transparency into all public equity strategies to the extent possible.

The public markets equity portion of the pension trust funds invests in publicly traded equities globally, including equity securities in the U.S., developed non-U.S., and emerging markets. The program has a global benchmark, currently the Morgan Stanley Capital International All Country World Investable Market Index. A mix of external managers approved by the WSIB is used to manage the program. Passive management delivers broad diversified equity market exposure at low cost and is used when active managers cannot be identified and monitored with existing resources. Passive management is also used when it is considered an appropriate alternative to active management, typically in more efficient markets. Active management is used when the pension trust funds can identify, access, and monitor successful managers in markets that are less efficient. Active management seeks to enhance the risk/return profile of the program.

The fixed income segment is managed to achieve the highest return possible consistent with the desire to control asset volatility, emphasize high yield to maturity opportunities to add value through active management, provide diversification to the overall investment program, and to meet or exceed the return of the Barclays Capital Universal Bond Index, with volatility similar to or less than the index.

RCW 43.33A.140 prohibits a corporate fixed income issue cost from exceeding 3 percent of the CTF's market value at the time of purchase, and 6 percent of its market value thereafter. However, the WSIB manages with a more restrictive concentration constraint, limiting exposure to any corporate issuer to 3 percent of the CTF fixed income portfolio's market value at all times.

The fixed income portfolio is constrained by policy from investing more than 1 percent of the portfolio's par holdings in any single issuer with a quality rating below investment grade (as defined by Barclays Capital Global Family of Fixed Income Indices). Total market value of below investment grade credit bonds (as defined by Barclays Capital Global Family of Fixed Income Indices) shall not exceed 15 percent of the market value of the fixed income portfolio. Although below investment grade mortgage-backed, asset-backed, or commercial mortgage-backed securities may not be purchased, portfolio holdings that are downgraded to those levels or are no longer rated may continue to be held. The total market value of below investment grade mortgage-backed, asset-backed, and commercial mortgage-backed securities shall not exceed 5 percent of the market value of the fixed income portfolio. The duration of the portfolio (the sensitivity of the portfolio's fair value to changes in the level of interest rates) is targeted to be within plus or minus 20 percent of the duration of the Barclays Capital Universal Index.

The major sector allocations of the fixed income portfolio are limited to the following ranges: U.S treasuries and government agencies – 10 percent to 45 percent, credit bonds – 10 percent to 60 percent, asset-backed securities – 0 percent to 10 percent, commercial mortgage-backed securities – 0 percent to 10 percent, and mortgage-backed securities – 5 percent to 45 percent.

Pension trust funds can be invested in any appropriate private equity investment opportunity that has the potential for returns superior to traditional investment opportunities and which is not prohibited by the WSIB's policies or by law. These investment types include venture capital, corporate finance, growth equity, special situations, distressed, mezzanine, and other investments. Private equity investments are made through limited partnership or direct investment vehicles.

The private equity investment portfolio is managed to meet or exceed the returns of the Russell 3000 by 300 basis points in the long term. To meet the return and plan objectives, the private equity portfolio has diversified investments in companies in a variety of growth stages. The portfolio also includes a broad cross-section of opportunities in different industries and geographic regions.

The primary goal of the tangible asset portfolio is to generate a long-term, high quality, stable income stream. The secondary goal is to generate appreciation approximately commensurate with inflation. The structure of the investments are primarily targeted to those funds, separate accounts, or tangible asset operating companies providing the WSIB with the most robust governance provisions related to acquisitions, dispositions, debt levels, and ongoing operational decisions for annual capital expenditures. The tangible asset portfolio invests in a number of sectors, but the primary focus is infrastructure, timber, and natural resource rights (oil and natural gas).

The WSIB's current return objective for tangible assets calls for a target benchmark of 4 percent above the U.S. Consumer Price Index over a long-term investment horizon defined as at least five years.

The WSIB's real estate program is an externally managed pool of selected partnership investments, intended to provide alternative portfolio characteristics when compared to traditional stock and bond investments. The majority of the WSIB's partnerships invest in institutional-quality real estate assets that are leased to third parties. The income generated from bond-like lease payments coupled with the hard asset qualities of commercial real estate combine to generate returns that are expected to fall between the return expectations for fixed income and equities over the long term. The real estate portfolio is managed to deliver risk-adjusted returns that are consistent with the WSIB's long-term return expectations for the asset class.

The WSIB's real estate partnerships typically invest in private real estate assets that are held for long-term income and appreciation. Many of the WSIB's investment partnerships do not involve co-investment with other financial entities, thereby providing the WSIB with control provisions, related transactions, and ongoing operational decisions for annual capital expenditures.

Volatility in the real estate portfolio is minimized through a combination of factors. First, the majority of the WSIB's partners own real estate assets in a private investment form which are not subject to public market volatility. Second, real estate capital is diversified among a host of partners with varying investment styles. Third, partnership assets are invested in numerous economic regions, including foreign markets, and in various property types. Finally, the WSIB's partners invest at different points within the properties' capital structure and life cycle.

The WSIB's real estate portfolio current benchmark seeks to earn an 8 percent annual investment return over a rolling 10-year period.

The innovation portfolio investment strategy is to provide the WSIB with the ability to invest in assets that fall outside of traditional asset classes and to provide the WSIB with comfort and demonstrated success before committing large dollar amounts to the strategy. The overall benchmark for the innovation portfolio is the weighted average of the underlying benchmark for each asset in the portfolio.

Currently, there are three investment strategies in the innovation portfolio, two involving private partnerships and one investing in public equities.

2. Unfunded Commitments

The WSIB has entered into a number of agreements that commit the pension trust funds, upon request, to make additional investment purchases up to predetermined amounts. As of June 30, 2013, the pension trust funds had unfunded commitments of $10.16 billion, $7.77 billion, $783.4 million, and $52.3 million in private equity, real estate, tangible assets, and the innovation portfolio, respectively.

3. Securities Lending

State law and Board policy permit the pension trust funds to participate in securities lending programs to augment investment income. The WSIB has entered into an agreement with State Street Corporation to act as agent for the pension trust funds in securities lending transactions. As State Street Corporation is the custodian bank for the pension trust funds, it is counterparty to securities lending transactions.

The fair value of the securities on loan at June 30, 2013, was approximately $1.40 billion. The pension trust funds report securities on loan in their respective categories in the Statement of Net Position. At June 30, 2013, cash collateral received totaling $1.20 billion is reported as securities lending obligation, and the fair value of the reinvested cash collateral totaling $1.20 billion is reported as security lending collateral in the Statement of Net Position. Securities received as collateral for which the pension trust funds do not have the ability to pledge or sell unless the borrower defaults are not reported as assets and liabilities in the Statement of Net Position.

Fixed income securities were loaned during the fiscal year and collateralized by the pension trust funds' agent with cash, U.S. government or U.S. agency securities (exclusive of mortgage-backed securities and letters of credit). When the loaned securities had collateral denominated in the same currency, the collateral requirement was 102 percent of the fair value, including accrued interest, of the securities loaned. All other securities were required to be collateralized at 105 percent of the fair value, including accrued interest, of the loaned securities.

As of June 30, 2013, the pension trust funds held the following cash and securities as lending collateral (in thousands):

Cash and cash equivalents	$ 275,286
Commercial paper	217,356
Repurchase agreements	670,261
U.S. Treasury and agency securities	298,862
Miscellaneous	33,992
Total collateral held	$1,495,757

During fiscal year 2013, securities lending transactions could be terminated on demand by either the pension trust funds or the borrower. As of June 30, 2013, the collateral held had an average duration of 22.42 days and an average weighted final maturity of 57.44 days.

Because the securities lending agreements were terminable at will, their duration did not generally match the duration of the investments made with the cash collateral. Non-cash collateral could not be pledged or sold absent borrower default. No more than 20 percent of the total on loan value could be held by a specific borrower. There are no restrictions on the amount of securities that can be lent.

Securities were lent with the agreement that they would be returned in the future for exchange of the collateral. State Street Corporation indemnified the pension trust funds by agreeing to purchase replacement securities or return the cash collateral in the event a borrower failed to return the loaned securities or pay distributions thereon. State Street Corporation's responsibilities included performing appropriate borrower and collateral investment credit analyses, demanding adequate types and levels of collateral, and complying with applicable federal regulations concerning securities lending.

During fiscal year 2013, there were no significant violations of legal or contractual provisions and no failures by any borrowers to return loaned securities or to pay distributions thereon. Further, the pension trust funds incurred no losses during fiscal year 2013 resulting from a default by either the borrowers or the securities lending agents.

4. Interest Rate Risk

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

While the pension trust funds do not have a formal policy relating to interest rate risk, the pension trust funds' fixed income investments are actively managed to meet or exceed the return of the Barclays Capital Universal Index, with a duration target within plus or minus 20 percent of the duration of the portfolio's performance benchmark. As of June 30, 2013, the duration of the pension trust funds' fixed income investments was within the duration target of this index.

The schedule below provides information about the interest rate risks associated with the pension trust funds' investments as of June 30, 2013. The schedule displays various asset classes held by maturity in years and credit ratings. Residential mortgage-backed, commercial mortgage-backed, and asset-backed securities are reported using the average life within the portfolio. The average life is a calculated estimate of the average time (in years) until maturity for these securities taking into account possible prepayments of principal. All other securities on this schedule are reported using the stated maturity date. Certain foreign investments are recorded in U.S. dollars (USD), while others are recorded in non U.S. dollars (Non USD) but have been converted to U.S. dollars for reporting purposes.

Pension Trust Funds
Schedule of Maturities and Credit Quality
June 30, 2013
(expressed in thousands)

Investment Type	Fair Value	Maturity: Less than 1 Year	1-5 Years	6-10 Years	More than 10 Years	Credit Rating
Asset-backed securities	$ 11	$ -	$ -	$ -	$ 11	Multiple
Residential mortgage-backed securities	1,121,501	382,311	739,132	58	-	Multiple
Commercial mortgage-backed securities	213,136	-	203,617	9,519	-	Aaa
Corporate bonds - domestic (USD)	861,611	65,980	285,681	365,864	144,086	Multiple
Corporate bonds - domestic (Non USD)	54,629	36,341	18,288	-	-	Multiple
Corporate bonds - foreign (USD)	3,928,374	50,399	731,493	2,647,272	499,210	Multiple
Corporate bonds - foreign (Non USD)	270,496	-	186,658	53,409	30,429	Multiple
U.S. government treasuries	5,001,554	861,218	3,086,878	1,053,458	-	Aaa
Foreign government and agencies (USD)	1,247,989	27,128	159,094	867,914	193,853	Multiple
Foreign government and agencies (Non USD)	888,202	40,147	319,179	283,297	245,579	Multiple
Supranational securities (Non USD)	519,629	137,683	287,107	94,839	-	Aaa
Total investments categorized	14,107,132	$ 1,601,207	$ 6,017,127	$ 5,375,630	$ 1,113,168	
Investments not required to be categorized						
Corporate stock (USD)	3,461,808					
Corporate stock (Non USD)	10,792,860					
Commingled equity index funds	11,408,159					
Alternative investments	26,479,630					
Liquidity	1,579,719					
Total investments not categorized	53,722,176					
Total Investments	$ 67,829,308					

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

Pension Trust Funds
Investments with Multiple Credit Ratings
June 30, 2013
(expressed in thousands)

	Investment Type								
Moody's Equivalent Credit Rating	Asset-Backed Securities	Residential Mortgage-Backed Securities	Corporate Bonds - Domestic (USD)	Corporate Bonds - Domestic (Non USD)	Corporate Bonds - Foreign (USD)	Corporate Bonds - Foreign (Non USD)	Foreign Government and Agencies (USD)	Foreign Government and Agencies (Non USD)	Total
Aaa	$ -	$ 1,106,243	$ -	$ -	$ -	$ -	$ 8,883	$ 172,785	$ 1,287,911
Aa1	11	-	-	-	-	-	17,964	63,322	81,297
Aa2	-	-	16,833	-	27,860	-	28,000	-	72,693
Aa3	-	-	38,047	-	35,324	-	169,265	60,397	303,033
A1	-	1,855	19,392	-	75,686	10,538	246,563	40,146	394,180
A2	-	1,713	184,773	18,288	110,549	57,739	22,929	16,282	412,273
A3	-	-	52,881	-	257,644	-	25,195	96,051	431,771
Baa1	-	-	240,424	36,341	422,302	18,198	86,574	74,822	878,661
Baa2	-	11,690	152,218	-	1,058,678	84,984	259,732	80,193	1,647,495
Baa3	-	-	53,380	-	1,077,594	81,813	239,017	235,280	1,687,084
Ba1 or lower	-	-	103,663	-	862,737	17,224	143,867	48,924	1,176,415
Total	$ 11	$ 1,121,501	$ 861,611	$ 54,629	$ 3,928,374	$ 270,496	$ 1,247,989	$ 888,202	$ 8,372,813

5. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The pension trust funds' investment policies limit the fixed income securities to investment grade or higher at the time of purchase. Investment grade securities are those fixed income securities with a Moody's rating of Aaa to Baa or a Standard and Poor's rating of AAA to BBB. The rated debt investments of the pension trust funds as of June 30, 2013, were rated by Moody's and/or an equivalent national rating organization.

Concentration of Credit Risk. Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. The policy of the pension trust funds states no corporate fixed income issue cost shall exceed 3 percent of cost at the time of purchase or 6 percent of fair value thereafter of the fund, and no high yield issues shall exceed 1 percent of cost or 2 percent of fair value of the fund. There was no concentration of credit risk exceeding these policy guidelines as of June 30, 2013.

Custodial Credit Risk. Custodial credit risk is the risk that, in the event a depository institution or counterparty fails, the pension trust funds would not be able to recover the value of their deposits, investments, or collateral securities that are in the possession of an outside party. The pension trust funds do not have a policy relating to custodial credit risk. The WSIB mitigates custodial credit risk by having its investment securities (excluding cash and cash equivalents and repurchase agreements held as securities lending collateral) registered and held in the name of the WSIB for the benefit of the pension trust funds.

6. Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The pension trust funds do not have a formal policy to limit foreign currency risk. The pension trust funds manages their exposure to fair value loss by requiring their international securities investment managers to maintain diversified portfolios by sector and by issuer to limit foreign currency and security risk.

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

Pension Trust Funds
Foreign Currency Exposure by Country
June 30, 2013
(expressed in thousands)

Foreign Currency Denomination	Investment Type					
	Currency	Fixed Income	Common Stock	Private Equity	Real Estate	Total
Australia-Dollar	$ 4,464	$ 408,094	$ 565,325	$ -	$ -	$ 977,883
Brazil-Real	195	340,301	78,776	-	-	419,272
Canada-Dollar	12,409	-	725,351	-	-	737,760
Chile-Peso	-	155,555	421	-	-	155,976
Columbia-Peso	-	135,553	-	-	-	135,553
Denmark-Krone	50	-	86,011	-	-	86,061
E.M.U.-Euro	14,314	-	2,660,647	2,349,429	201,710	5,226,100
Hong Kong-Dollar	3,391	-	405,601	-	-	408,992
India-Rupee	384	135,355	100,154	-	-	235,893
Indonesia-Rupiah	118	63,812	72,289	-	-	136,219
Japan-Yen	28,318	-	1,995,729	-	-	2,024,047
Malaysia-Ringgit	345	67,808	18,253	-	-	86,406
Mexico-Peso	(25)	85,066	42,971	-	-	128,012
Singapore-Dollar	853	-	159,026	-	-	159,879
South Korea-Won	531	-	123,101	-	-	123,632
Sweden-Krona	4,474	-	280,693	-	-	285,167
Switzerland-Franc	133	-	855,134	-	-	855,267
Thailand-Baht	80	48,427	60,265	-	-	108,772
Turkey-Lira	227	93,795	78,912	-	-	172,934
United Kingdom-Pound	20,902	-	2,222,583	-	-	2,243,485
Other-Miscellaneous	5,195	199,190	261,618	-	-	466,003
Total	$ 96,358	$ 1,732,956	$ 10,792,860	$ 2,349,429	$ 201,710	$ 15,173,313

7. Derivatives

Pension trust funds are authorized to utilize various derivative financial instruments, including financial futures, forward contracts, interest rate swaps, credit default swaps, equity swaps, and options. Derivative transactions involve, to varying degrees, market and credit risk. In connection with the cash overlay program, at June 30, 2013, the pension trust funds held investments in financial futures and forward currency contracts that are recorded at fair value with changes in value recognized in investment income in the Statement of Changes in Net Position in the period of change. The derivative instruments are considered investments and not hedges.

Derivatives are generally used to achieve the desired market exposure of a security, index, or currency; adjust portfolio duration; or rebalance the total portfolio to the target asset allocation. Derivative contracts are instruments that derive their value from underlying assets, indices, reference interest rates, or a combination of these factors.

A derivative instrument could be a contract negotiated on behalf of the pension trust funds and a specific counterparty. This would typically be referred to as an "over the counter (OTC) contract" such as forward contracts. Alternatively, a derivative instrument, such as futures, could be listed and traded on an exchange and referred to as "exchange traded."

Inherent in the use of OTC derivatives, the pension trust funds are exposed to counterparty credit risk on all open OTC positions. Counterparty credit risk is the risk that a derivative counterparty may fail to meet its payment obligation under the derivative contract. As of June 30, 2013, the pension trust funds counterparty risk was not deemed to be significant.

Futures contracts are standardized, exchange-traded contracts to purchase or sell a specific financial instrument at a predetermined price. Gains and losses on futures contracts are settled daily based on a notional (underlying) principal value and do not involve an actual transfer of the specific instrument. The exchange assumes the risk that the counterparty will not pay and generally requires margin payments to minimize such risk. Futures are generally used to achieve the desired market exposure of a security or index or to rebalance the total portfolio.

Forward currency contracts are agreements to exchange the currency of one country for the currency of another country at an agreed-upon price and settlement date. These forward commitments are not standardized and carry counterparty credit risk due to the possible nonperformance by one of the counterparties. The maximum potential loss is the aggregate face value in U.S. dollars at the time the contract was opened; however, the likelihood of such loss is remote.

At June 30, 2013, the pension trust funds had outstanding forward currency contracts with a net unrealized gain of $9.2 million which is included in the Statement of Changes in Net Position. The contracts have varying maturity dates ranging from July 1, 2013, to September 18, 2013.

At June 30, 2013, the pension trust funds' fixed income portfolio held derivative securities consisting of collateralized mortgage obligations with a fair value of $312.0 million. Domestic and foreign passive equity index fund managers may also utilize various derivative securities to manage exposure to risk and increase portfolio returns. Information on the extent of use and holdings of derivative securities by passive equity index fund managers is unavailable.

Derivatives which are exchange traded are not subject to credit risk.

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

Pension Trust Funds
Derivative Investments
June 30, 2013
(expressed in thousands)

	Changes in Fair Value - Included in Investment Income (Loss) Amount	Fair Value - Investment Derivative Amount	Notional
Futures Contracts:			
Bond index futures	$ (19,140)	$ (8,137)	$ 565,700
Equity index futures	7,755	(689)	7,297
Total	$ (11,385)	$ (8,826)	$ 572,997
Forward Currency Contracts:			
Australia-Dollar	$ 3,286	$ 5,374	$ 87,700
Canada-Dollar	(2,556)	(2,746)	103,134
Denmark-Krone	(340)	(1,712)	141,820
E.M.U.-Euro	(4,967)	5,554	377,771
Hong Kong-Dollar	(38)	105	195,827
Israel-Shekel	(311)	17	2,674
Japan-Yen	6,978	3,241	148,777
Mexico-Peso	(61)	(72)	3,013
New Zealand-Dollar	(4,014)	(1,997)	87,298
Norway-Krone	287	340	8,473
Singapore-Dollar	(280)	(338)	21,581
South Africa-Rand	(101)	(124)	4,335
Sweden-Krona	336	753	45,162
Switzerland-Franc	549	493	42,005
United Kingdom-Pound	(1,144)	361	46,013
Total	$ (2,376)	$ 9,249	$ 1,315,583

8. Reverse Repurchase Agreements – None.

C. INVESTMENTS – WORKERS' COMPENSATION FUND

1. Summary of Investment Policies

Under RCW 43.33A.030, trusteeship of the Workers' Compensation Fund investments is vested in the voting members of the WSIB. The Legislature established a standard of care for investment of these funds in RCW 43.33A.140. Additionally, the WSIB and its staff must comply with other state laws, such as the Ethics in Public Service Act, chapter 42.52 RCW, in making investment decisions and seeking to meet investment objectives.

The Workers' Compensation Fund consists of contributions from employers and their employees participating in the state workers' compensation program and related earnings on those contributions. The workers' compensation program provides medical, time-loss, and disability benefit payments to qualifying individuals sustaining work-related injuries.

In accordance with state laws, the Workers' Compensation Fund investments are managed to limit fluctuations in the industrial insurance premiums and, subject to this purpose, achieve a maximum return at a prudent level of risk. Based on this requirement, the order of the objectives is:

- Maintain the solvency of the funds.
- Maintain premium rate stability.
- Ensure sufficient assets are available to fund the expected liability payments.
- Subject to the objectives above, achieve a maximum return at a prudent level of risk.

Eligible Investments. Eligible investments are securities and deposits that are in accordance with the WSIB's investment policy and chapter 43.33A RCW. Eligible investments include:

- U.S. equities.
- International equities.
- Treasury inflation protection securities (TIPS).
- U.S. treasuries and government agencies.
- Credit bonds.
- Mortgage-backed securities rated investment grade, as defined by Barclays Capital Global Family of Fixed Income Indices.
- Asset-backed securities rated investment grade, as defined by Barclays Capital Global Family of Fixed Income Indices.
- Commercial mortgage-backed securities rated investment grade, as defined by Barclays Capital Global Family of Fixed Income Indices.
- Investment grade non-U.S. dollar bonds.

Investment Restrictions. To meet stated objectives, investments of the Workers' Compensation Fund are subject to the following constraints:

- All assets under the management of the WSIB are to be invested to maximize return at a prudent level of risk in accordance with RCW 43.33A.110 and RCW 43.33A.140.
- No corporate fixed income issue cost shall exceed 3 percent of the fund's fair value at the time of purchase, nor shall its fair value exceed 6 percent of the fund's fair value at any time.
- Asset allocations are to be reviewed every three to four years or sooner if there are significant changes in funding levels or the liability durations.
- Assets are to be rebalanced across asset classes when the fair value of the assets falls outside the policy ranges. The timing of any rebalancing will be based on market opportunities, cash flows, and the consideration of transaction costs; therefore, they need not occur immediately.
- Sector allocation for U.S. equities should be within a range of 55 percent to 65 percent. Allocation for international equities should be within a range of 35 percent to 45 percent.
- The benchmark and structure for U.S. equities will be the broad U.S. stock market as defined by the Morgan Stanley Capital International (MSCI) U.S. Investable Market Index passive mandate. The benchmark and structure for international equities will be the MSCI All Country World Ex U.S. Investable Market Index. Both portfolios will be 100 percent passively managed in commingled index funds. The commingled funds may use futures for hedging or establishing a long position.
- TIPS will be managed to plus or minus 20 percent of the duration of the Barclays Capital U.S. TIPS Index.
- Sector allocation of fixed income investments must be managed within the following prescribed ranges: U.S. treasuries and government agencies – 5 percent to 25 percent, credit bonds – 20 percent to 70 percent, asset-

backed securities – 0 percent to 10 percent, commercial mortgage-backed securities – 0 percent to 10 percent and mortgage-backed securities – 0 percent to 25 percent. These targets are long-term in nature. Deviations may occur in the short term as a result of interim market conditions. However, if a range is exceeded the portfolios must be rebalanced to the target allocations as soon as it is practical.

- Total market value of below investment grade credit bonds (as defined by Barclays Capital Global Family of Fixed Income Indices) shall not exceed 5 percent of the total market value of the funds. Although below investment grade mortgage-backed, asset-backed, and commercial mortgage-backed securities may not be purchased, portfolio holdings that are downgraded to those levels or are no longer rated may continue to be held.

- Total holdings of below investment grade credit bonds (as defined by Barclays Capital Global Family of Fixed Income Indices) should not exceed 5 percent of total fixed income holdings.

2. Securities Lending

State law and WSIB policy permit the Workers' Compensation Fund to participate in securities lending programs to augment investment income. The WSIB has entered into an agreement with State Street Corporation to act as agent for the Workers' Compensation Fund in securities lending transactions. As State Street Corporation is the custodian bank for the Workers' Compensation Fund, it is counterparty to securities lending transactions.

The fair value of the securities on loan at June 30, 2013, was approximately $26.2 million. The Workers' Compensation Fund reports securities on loan in the Statement of Net Position in their respective categories. At June 30, 2013, cash collateral received totaling $26.4 million is reported as a securities lending obligation, and the fair value of the reinvested cash collateral totaling $26.4 million is reported as security lending collateral in the Statement of Net Position. Securities received as collateral for which the Workers' Compensation Fund does not have the ability to pledge or sell unless the borrower defaults are not reported as assets and liabilities in the Statement of Net Position.

During fiscal year 2013, fixed income securities were loaned and collateralized by the Workers' Compensation Fund's agent with cash and U.S. government or U.S. agency securities (exclusive of mortgage-backed securities and letters of credit). When the loaned securities had collateral denominated in the same currency, the collateral requirement was 102 percent of the fair value, including accrued interest, of the securities loaned. All other securities were required to be collateralized at 105 percent of the fair value, including accrued interest, of the loaned securities.

As of June 30, 2013, the Workers' Compensation Fund held the following cash and securities as lending collateral (in thousands):

Cash and cash equivalents	$ 6,068
Commercial paper	4,791
Repurchase agreements	14,773
Miscellaneous	749
Total collateral held	$26,381

Securities lending transactions could be terminated on demand by either the Workers' Compensation Fund or the borrower. As of June 30, 2013, the collateral held had an average duration of 22.42 days and an average weighted final maturity of 57.44 days. Because the securities lending agreements were terminable at will, their duration did not generally match the duration of the investments made with the cash collateral. Non-cash collateral could not be pledged or sold absent borrower default. No more than 20 percent of the total on loan value can be held by a specific borrower. There are no restrictions on the amount of securities that can be lent.

Securities were lent with the agreement that they would be returned in the future for exchange of the collateral. State Street Corporation indemnified the Workers' Compensation Fund by agreeing to purchase replacement securities or return the cash collateral in the event a borrower failed to return the loaned securities or pay distributions thereon. State Street Corporation's responsibilities included performing appropriate borrower and collateral investment credit analyses, demanding adequate types and levels of collateral, and complying with applicable federal regulations concerning securities lending.

During fiscal year 2013, there were no significant violations of legal or contractual provisions, no failures by any borrowers to return loaned securities or to pay distributions thereon. Further, the Workers' Compensation Fund incurred no losses during fiscal year 2013 resulting from a default by either the borrowers or the securities lending agents.

3. Interest Rate Risk

Interest rate risk is the risk that changes in interest rates over time will adversely affect the fair value of an investment.

While the Workers' Compensation Fund does not have a formal policy relating to interest rate risk, the risk is managed within the Workers' Compensation Fund portfolio using effective duration which is the measure of a debt investment's exposure to fair value changes arising from changes in interest rates. Increases in prevailing interest rates generally translate into decreases in fair values of those investments. As of June 30, 2013, the Workers' Compensation Fund portfolio durations were within the prescribed duration targets.

The schedule below provides information about the interest rate risks associated with the Workers' Compensation Fund investments as of June 30, 2013. The schedule displays various asset classes held by maturity in years and credit ratings. Residential mortgage-backed, commercial mortgage-backed, and asset-backed securities are reported using the average life within the portfolio. The average life is a calculated estimate of the average time (in years) until maturity for these securities taking into account possible prepayments of principal. All other securities on the schedule are reported using the stated maturity date.

Workers' Compensation Fund
Schedule of Maturities and Credit Quality
June 30, 2013
(expressed in thousands)

		Maturity				
Investment Type	**Fair Value**	**Less than 1 Year**	**1-5 Years**	**6-10 Years**	**More than 10 Years**	**Credit Rating**
Residential mortgage-backed securities	$ 1,571,705	$ 23,168	$ 1,133,536	$ 384,248	$ 30,753	Aaa
Commercial mortgage-backed securities	388,249	13,785	339,825	34,639	-	Multiple
Corporate bonds-domestic	2,915,263	59,546	569,409	972,528	1,313,780	Multiple
Corporate bonds-foreign (USD)	2,510,029	51,555	671,293	889,082	898,099	Multiple
Foreign government and agencies (USD)	1,042,639	1,006	431,110	332,664	277,859	Multiple
Supranational securities (USD)	161,055	-	161,055	-	-	Aaa
U.S. government treasuries	1,113,738	205,133	614,574	294,031	-	Aaa
U.S. treasury inflation protected securities	1,726,900	27,864	600,201	418,228	680,607	Aaa
Total investments categorized	11,429,578	$ 382,057	$ 4,521,003	$ 3,325,420	$ 3,201,098	
Investments not required to be categorized						
Commingled index funds-domestic	1,062,288					
Commingled index funds-foreign	668,182					
Money market funds	221,518					
Total investments not categorized	1,951,988					
Total	$ 13,381,566					

USD: Reported in U.S. dollars

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

Workers' Compensation Fund
Investments with Multiple Credit Ratings
June 30, 2013
(expressed in thousands)

	Investment Type				
Moody's Equivalent Credit Rating	**Commercial Mortgage-Backed Securities**	**Corporate Bonds - Domestic**	**Corporate Bonds-Foreign (USD)**	**Foreign Government and Agencies (USD)**	**Total**
Aaa	$ 336,369	$ 5,580	$ 1,012	$ 139,846	$ 482,807
Aa2	-	32,539	-	51,791	84,330
Aa3	51,880	170,665	266,429	251,228	740,202
A1	-	145,241	176,194	205,971	527,406
A2	-	720,940	48,543	-	769,483
A3	-	374,226	302,844	-	677,070
Baa1	-	671,081	424,204	58,376	1,153,661
Baa2	-	619,912	594,511	123,235	1,337,658
Baa3	-	129,744	541,891	135,867	807,502
Ba1 or lower	-	45,335	154,401	76,325	276,061
Total	$ 388,249	$ 2,915,263	$ 2,510,029	$ 1,042,639	$ 6,856,180

4. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Workers' Compensation Fund investment policies limit the fixed income securities to investment grade or higher at the time of purchase. Investment grade securities are those fixed income securities with a Moody's rating of Aaa to Baa or a Standard and Poor's rating of AAA to BBB.

The rated debt investments of the Workers' Compensation Fund as of June 30, 2013, were rated by Moody's and/or an equivalent national rating organization.

Concentration of Credit Risk. Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. The Workers' Compensation Fund policy states that no corporate fixed income issue cost shall exceed 3 percent of the fund's fair value at the time of purchase, nor shall its fair value exceed 6 percent of the fund's fair value at any time. There was no concentration of credit risk as of June 30, 2013.

Custodial Credit Risk. Custodial credit risk is the risk that, in the event a depository institution or counterparty fails, the Workers' Compensation Fund would not be able to recover the value of its deposits, investments, or collateral securities. The Workers' Compensation Fund does not have a policy relating to custodial credit risk. The WSIB mitigates custodial credit risk by having its investment securities (excluding cash and cash equivalents and repurchase agreements held as securities lending collateral) registered and held in the name of the WSIB for the benefit of the Workers' Compensation Fund.

5. Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The Workers' Compensation Fund does not have a formal policy to limit foreign currency risk. At June 30, 2013, the only security held by the Workers' Compensation Fund with foreign currency exposure consists of $668.2 million invested in an international commingled equity index fund.

6. Derivatives

The Workers' Compensation Fund is authorized to utilize various derivative financial instruments including collateralized mortgage obligations, financial futures, forward contracts, interest rate and equity swaps, and options to manage its exposure to fluctuations in interest and currency rates while increasing portfolio returns. Derivative transactions involve, to varying degrees, market and credit risk. The Workers' Compensation Fund mitigates market risks arising from derivative transactions by requiring collateral in cash and investments to be maintained equal to the securities positions outstanding, and thereby prohibiting the use of leverage or speculation. Credit risks arising from derivative transactions are mitigated by selecting and monitoring creditworthy counterparties and collateral issuers.

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

At June 30, 2013, the only derivative securities held directly by the Workers' Compensation Fund were collateralized mortgage obligations of $1.57 billion.

7. Reverse Repurchase Agreements – None.

D. INVESTMENTS – LOCAL GOVERNMENT INVESTMENT POOL

1. Summary of Investment Policies

The Local Government Investment Pool (LGIP) is managed and operated by the Office of the State Treasurer (OST). The State Finance Committee is the administrator of the statute that created the pool and adopts appropriate rules. The OST is responsible for establishing the investment policy for the pool and reviews the policy annually. Any proposed changes are reviewed by the LGIP Advisory Committee. The terms of the policy are designed to ensure the safety and liquidity of the funds deposited in the LGIP.

The state treasurer and designated investment officers shall adhere to all restrictions on the investment of funds established by law and by policy.

The LGIP portfolio is invested in a manner generally consistent with a Rule 2a-7 money market fund recognized by the Securities and Exchange Commission (17CFR.270.2a-7). Rule 2a-7 funds are limited to high quality obligations with limited maximum and average maturities, the effect of which is to minimize both market and credit risk.

Investments, other than bank deposits, are valued at amortized cost. The bank deposits are valued at historical cost. Both valuation methods approximate fair value. Security transactions are reported on a trade date basis in accordance with generally accepted accounting principles.

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

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

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

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

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

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

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

- Investments are restricted to fixed rate securities that mature in 397 days or less, except securities utilized in repurchase agreements and U.S. agency floating or variable rate notes which may have a maximum maturity of 762 days, provided they have reset dates within one year and that on any reset date can reasonably be expected to have a fair value that approximates their amortized cost.
- The weighted average maturity of the portfolio will not exceed 60 days.
- The weighted average life of the portfolio will not exceed 120 days.
- The purchase of investments in securities other than those issued by the U.S. government or its agencies will be limited.
- Cash generated through securities lending or reverse repurchase agreement transactions will not increase the dollar amount of specified investment types beyond stated limits.

2. Securities Lending

State statutes permit the LGIP to lend its securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. The LGIP, which has contracted with Citibank as a lending agent to lend securities in the LGIP, earns a fee for this activity. The lending agent lends securities and receives collateral, which can be in the form of cash or other securities. The collateral, which must be valued at 102 percent of the fair value of the loaned securities, is priced daily and, if necessary, action is taken to maintain the collateralization level at 102 percent. Cash collateral received from the lending of non coupon-bearing securities shall not be valued at less than 102 percent of market value, not to exceed par.

The cash is invested by the lending agent in accordance with investment guidelines approved by the LGIP. The securities held as collateral and the securities underlying the cash collateral are held by the LGIP's custodian. One option available to the lending agent is to invest cash collateral with the LGIP. Maturities of investments made with cash collateral are generally matched to maturities of securities loaned.

During fiscal year 2013, the LGIP lent U.S. treasury securities in exchange for cash collateral. The cash collateral was reinvested in repurchase agreements. At fiscal year end, there were no securities on loan.

The LGIP investment policy requires that any securities on loan be made available by the lending agent for next day liquidity at the option of the LGIP. During fiscal year 2013, the LGIP had no credit risk exposure to borrowers because the amounts owed to the borrowers exceeded the amounts the borrowers owed the LGIP. Furthermore, the contract requires the lending agent to indemnify the LGIP if the borrowers fail to return the securities (and if collateral is inadequate to replace the securities lent) or if the borrower fails to pay the LGIP for income distribution by the securities' issuers while the securities are on loan.

The LGIP cannot pledge or sell collateral securities received unless the borrower defaults. The LGIP investment policy limits the amount of reverse repurchase agreements and securities lending to 30 percent of the total portfolio. There were no violations of legal or contractual provisions and no losses resulting from a default of a borrower or lending agent during the year.

3. Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt instruments will adversely affect the fair value of an investment. The LGIP portfolio is invested in a manner generally consistent with the Securities and Exchange Commission's Rule 2a-7 of the Investment Company Act of 1940, i.e., money market funds. To a great extent, the Rule 2a-7 investment guidelines and LGIP policy restrictions are directed towards limiting interest rate risk in order to maintain a stable net asset value. As of June 30, 2013, the LGIP had a weighted average maturity of 58 days and a weighted average life of 98 days.

The following schedule presents the LGIP investments, deposits, and related maturities, by type, and provides information about the associated interest rate risks as of June 30, 2013:

Local Government Investment Pool (LGIP)
June 30, 2013
(expressed in thousands)

		Maturity	
Investment Type	**Fair Value**	**Less than 1 Year**	**1-5 Years**
U.S. agency obligations	$ 6,513,556	$ 6,035,424	$ 478,132
U.S. government obligations	1,399,598	1,399,598	-
Repurchase agreements	1,797,874	1,797,874	-
Interest bearing bank accounts	879,635	879,635	-
Certificates of deposit and other	42,738	42,738	-
Total	$ 10,633,401	$ 10,155,269	$ 478,132

4. Credit Risk

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

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

Custodial Credit Risk. Custodial credit risk is the risk that, in the event of a failure of the counterparty, the LGIP will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. The LGIP investment policy requires that securities purchased by the office be held by the master custodian, acting as an independent third party, in its safekeeping or trust department. Securities utilized in repurchase agreements are subject to additional restrictions. These restrictions are designed to limit the LGIP's exposure to risk and insure the safety of the investment. All securities utilized in repurchase agreements were rated AAA by Moody's and AA+ by Standard & Poor's. The fair value of securities utilized in repurchase agreements must be at least 102 percent of the value of the repurchase agreement.

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

Repurchase agreements comprise 16.9 percent of the total portfolio as of June 30, 2013. The LGIP limits the securities utilized in repurchase agreements to U.S. treasury and U.S. agency securities. The LGIP requires delivery of all securities utilized in repurchase agreements and the securities are priced daily.

As of June 30, 2013, U.S. treasury securities comprised 13.2 percent of the total portfolio. U.S. agency securities comprised 61.2 percent of the total portfolio, including Federal Home Loan Bank (31.9 percent), Federal Home Loan Mortgage Corporation (15.1 percent), Federal Farm

Credit Bank (7.5 percent), and Federal National Mortgage Association (6.7 percent).

5. Foreign Currency Risk - None.

6. Derivatives - None.

7. Repurchase and Reverse Repurchase Agreements

State law permits the LGIP to enter into reverse repurchase agreements which are, by contract, sales of securities with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest.

The fair value of the securities pledged as collateral by the LGIP underlying the reverse repurchase agreements normally exceeds the cash received, providing the dealers a margin against a decline in the fair value of the securities.

If the dealers default on their obligations to resell these securities to the LGIP or to provide equal value in securities or cash, the LGIP would suffer an economic loss equal to the difference between the fair value plus accrued interest of the underlying securities and the agreement obligation, including accrued interest. During fiscal year 2013, there was no credit risk for the LGIP due to the fair value plus accrued interest of the underlying securities being less than the fair value plus accrued interest of the reinvested cash. On June 30, 2013, there were no obligations under reverse repurchase agreements.

The fair value plus accrued income of mortgage-backed securities utilized in repurchase agreements with more than seven days remaining until maturity will be 105 percent of the value of the repurchase agreement. The fair value plus accrued income of securities utilized in all other repurchase agreements will be 102 percent of the value of the repurchase agreement.

The securities utilized in repurchase agreements are priced daily and held by the LGIP's custodian in the state's name. Collateralized Mortgage Obligations utilized in repurchase agreements must pass the Federal Financial Institutions Examination Council test, or not exceed a volatility rating of V-5 by Fitch Investor Services, or a similar rating of a nationally recognized rating agency. As of June 30, 2013, repurchase agreements totaled $1.80 billion.

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

1. Summary of Investment Policies

The investments of the University of Washington represent 71 percent of the total investments in Higher Education Special Revenue, Endowment, and Student Services Funds.

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

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

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

The University combines most short-term cash balances in the Invested Funds Pool. At June 30, 2013, the Invested Funds Pool totaled $1.56 billion. The fund also owns units in the Consolidated Endowment Fund valued at $468.2 million on June 30, 2013.

By University policy, departments with qualifying funds in the Invested Funds Pool receive distributions based on their average balances and on the type of balance. Campus depositors received 2 percent in fiscal year 2013. Endowment operating and gift accounts received 3 percent in fiscal year 2013 with the distributions directed to University Advancement. The difference between the actual earnings of the Invested Funds Pool and the calculated distributions is used to support activities benefiting all University departments.

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

Under the CEF spending policy approved by the Board of Regents, quarterly distributions to programs are based on an annual percentage rate of 4 percent applied to the five-year rolling average of the CEF's market valuation. Additionally, the policy allows for an administrative fee of 1 percent supporting campus-wide fundraising and stewardship activities and offsetting the internal cost of managing endowment assets.

The University records its permanent endowments at the lower of original gift value or current market value in the Restricted Nonexpendable Net Position category. For those endowments where the original gift value exceeded market value as of June 30, 2013, there was a net deficiency of $18.3 million from the original gift value.

Funds in irrevocable trusts managed by trustees other than the University are not reported in the financial statements. The fair value of these funds was $49.6 million at June 30, 2013. Income received from these trusts, which is included in investment income, was $2.2 million for the year ended June 30, 2013.

Net appreciation (depreciation) in the fair value of investments includes both realized and unrealized gains and losses on investments. The University realized net gains of $72.8 million in 2013 from the sale of investments.

The calculation of realized gains and losses is independent of the net appreciation of the fair value of investments. Realized gains and losses on investments that have been held in more than one fiscal year and are sold in the current year include the net appreciation of these investments reported in the prior year(s). The net appreciation in the fair value of investments during the year ended June 30, 2013, was $264.1 million.

The following schedule presents the fair value of the University's investments by type at June 30, 2013:

University of Washington
June 30, 2013
(expressed in thousands)

Investment Type	**Fair Value**
Cash equivalents	$ 256,781
Fixed income	1,655,711
Equity	1,287,084
Non-marketable alternatives	362,632
Absolute return	404,416
Real assets	165,792
Miscellaneous	5,917
Total	$ 4,138,333

2. Funding Commitments

The University enters into contracts with investment managers to fund alternative investments. As of June 30, 2013, the University had outstanding commitments to fund alternative investments in the amount of $191.7 million.

3. Securities Lending

The University's investment policies permit it to lend its securities to broker dealers and other entities. Due to market conditions, the University terminated this program in September 2008, and as of June 30, 2013, the University had no securities on loan.

4. Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of fixed income securities. The University manages interest rate risk through its investment policies and the investment guidelines established with each manager. Each fixed income manager is assigned a maximum boundary for duration as compared to the manager's relevant benchmark index. The goal is to allow ample freedom for the manager to perform while controlling the interest rate risk in the portfolio.

Effective duration is a commonly used measure of interest rate risk. The longer the duration, the more sensitive the portfolio is to changes in interest rates. The weighted average effective duration of the University's fixed income portfolio was 2.95 years at June 30, 2013.

5. Credit Risk

Fixed income securities are subject to credit risk, which is the risk that the issuer or other counterparty to a financial instrument will not fulfill its obligations, or negative perceptions of the issuer's ability to make these payments will cause prices to decline.

The University investment policies include guidelines for fixed income investments. In the case of the University's Invested Funds, the Cash Pool must maintain an average credit rating of "AA" as issued by a nationally recognized rating organization, while the Liquidity Pool must maintain an average credit rating of "A." Additionally, the Liquidity Pool must have at least 25 percent of its funds invested in obligations of the U.S. government and its agencies.

The CEF investments policy for fixed income specifies bonds and other high quality investment vehicles that support current spending needs and stability to protect capital in down markets. The investment policy for the CEF reflects its long-term nature by specifying average quality rating levels by individual manager, but still restricting investments to investment grade credits.

Custodial Credit Risk. Custodial credit risk is the risk that, in the event of a failure of the counterparty to a transaction, the University will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. The University does not have a formal policy regarding custodial credit risk. However, all University investments in the CEF and the Invested Funds Pool are held in the name of the University and are not subject to custodial credit risk.

Concentration of Credit Risk. Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. The CEF investment policy limits concentration by manager, country (other than U.S.), and market sector. The University further mitigates concentration of credit risk through the due diligence of each manager and careful monitoring of asset concentrations.

The composition of the fixed income securities at June 30, 2013, along with credit quality and effective duration measures is summarized below. The schedule excludes $53.5 million of fixed income securities held outside the CEF and the Invested Funds Pool, which makes up 2.80 percent of the University's investments.

University of Washington
Invested Funds Pool and Consolidated Endowment Fund
Fixed Income Credit Quality and Effective Duration
June 30, 2013
(expressed in thousands, duration in years)

Investments	U.S. Government	Investment Grade	Non-Investment Grade	Not Rated	Total	Duration (in years)
U.S. treasuries	$ 730,492	$ -	$ -	$ -	$ 730,492	2.42
U.S. government agency	661,159	-	-	-	661,159	3.41
Mortgage-backed	-	98,779	94,196	9,067	202,042	4.33
Asset-backed	-	164,394	9,743	3,908	178,045	2.44
Corporate and other	-	86,585	-	628	87,213	2.51
Total	$ 1,391,651	$ 349,758	$ 103,939	$ 13,603	$ 1,858,951	2.95

6. Foreign Currency Risk

Foreign currency risk is the risk that investments denominated in foreign currencies may lose value due to adverse fluctuations in the value of the U.S. dollar relative to foreign currencies. The University's investment policies permit investments in international equity and other asset classes that can include foreign currency exposure. To manage foreign currency exposure, the University also enters into foreign currency forward contracts, futures contracts, and options. The University held non-U.S. denominated securities at June 30, 2013, of $771.1 million.

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

University of Washington
Consolidated Endowment Fund
Foreign Currency Risk
June 30, 2013
(expressed in thousands)

Foreign Currency	Amount
E.M.U.-Euro	$ 114,213
China-Renminbi	73,109
India-Rupee	65,686
Britain-Pound	51,193
Brazil-Real	47,956
Russia-Ruble	47,302
Japan-Yen	45,735
Switzerland-Franc	36,888
South Korea-Won	29,477
Canada-Dollar	27,109
Hong Kong-Dollar	24,285
Taiwan-Dollar	23,796
Philippines-Peso	22,737
Indonesia-Rupiah	19,301
Remaining currencies	142,283
Total	$ 771,070

7. Derivatives

The University's investment policies allow investing in various derivative instruments, including futures, swaps, and forwards, to manage exposures within or across the portfolio and to improve the portfolio's risk/return profile. Futures are financial contracts obligating the buyer to purchase an asset at a predetermined future date and price. Total return swaps involve commitments to pay interest in exchange for a market linked return, both based on notional amounts. Derivative instruments are recorded on the contract date and are carried at fair value using listed price quotations or amounts that approximate fair value.

Credit exposure represents exposure to counterparties relating to financial instruments where gains exceed collateral held by the University or losses are less than the collateral posted by the University. There was no credit exposure as of June 30, 2013. No derivative instruments have been reclassified from a hedging instrument to an investment instrument.

Details on foreign currency derivatives are disclosed under Foreign Currency Risk.

The following schedule presents the significant terms for derivatives held as investments by the University:

University of Washington
Derivative Investments
June 30, 2013
(expressed in thousands)

Category	Changes in Fair Value - Included in Investment Income (Loss) Amount	Fair Value - Investment Derivative Amount	Notional
Futures contracts	$ 184	$ 34,278	$ 34,462

8. Reverse Repurchase Agreements – None.

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

1. Summary of Investment Policies

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

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

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

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

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

Investment Restrictions. To provide for the safety and liquidity of Treasury/Trust Funds, the Cash Management Account investment portfolio is subject to the following restrictions:

- The final maturity of any security will not exceed ten years.
- Purchase of collateralized mortgage obligations is not allowed.
- The allocation to investments subject to high price sensitivity or reduced marketability will not exceed 15 percent of the daily balance of the portfolio.

Additionally, investments in non-government securities, excluding collateral of repurchase agreements, must fall within prescribed limits.

2. Securities Lending

State statutes permit the OST to lend its securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. The OST, which has contracted with Citibank as a lending agent to lend securities, receives earnings for this activity.

The OST lending agent lends U.S. government and U.S. agency securities and receives collateral, which can be in the form of cash or other securities. The collateral, which must be valued at 102 percent of the fair value of the loaned securities, is priced daily and, if necessary, action is taken to maintain the collateralization level at 102 percent.

The cash is invested by the lending agent in accordance with investment guidelines approved by the OST. The securities held as collateral and the securities underlying the cash collateral are held by the custodian. One option available to the lending agent is to invest cash collateral into an OST account in the LGIP. At June 30, 2013, cash collateral totaled $204.0 million, all of which was invested in the LGIP.

The contract with the lending agent requires them to indemnify the OST if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or if the borrower fails to pay the OST for income distribution by the securities' issuers while the securities are on loan. The OST cannot pledge or sell collateral securities received unless the borrower defaults. At June 30, 2013, the fair value of securities on loan totaled $199.8 million.

The OST investment policy requires that any securities on loan be made available by the lending agent for next day liquidity at the option of the OST. During fiscal year 2013, the OST had no credit risk exposure to borrowers because the amounts owed to the borrowers exceeded the amounts the borrowers owed the OST.

There were no violations of legal or contractual provisions or any losses resulting from a default of a borrower or lending agent during the fiscal year.

3. Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the value of the investment. The Treasury/Trust investments are separated into portfolios with objectives based primarily on liquidity needs.

The OST's investment policy limits the weighted average maturity of its investments based on cash flow expectations. Policy also directs due diligence to be exercised with timely reporting of material deviation from expectations and actions taken to control adverse developments as may be possible.

The following schedule presents the fair value of the OST's investments by type at June 30, 2013:

Office of the State Treasurer (OST)
Cash Management Account
June 30, 2013
(expressed in thousands)

		Maturity	
Investment Type	**Fair Value**	**Less than 1 Year**	**1-5 Years**
U.S. agency obligations	$ 1,547,870	$ 303,903	$ 1,243,967
U.S. government obligations	560,632	-	560,632
Repurchase agreements	1,000,000	1,000,000	-
Certificates of deposit	154,266	154,266	-
Investments with LGIP	1,361,414	1,361,414	-
Interest bearing bank accounts	310,773	310,773	-
Total	$ 4,934,955	$ 3,130,356	$ 1,804,599

4. Credit Risk

The OST limits credit risk by adhering to the OST investment policy which restricts the types of investments the OST can participate in, such as: U.S. government and agency securities, banker's acceptances, commercial paper, and deposits with qualified public depositaries.

Custodial Credit Risk. The custodial credit risk for investments is the risk that, in the event of a failure of the counterparty, a government will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. The OST investment policy requires that securities purchased by the office be held by the master custodian, acting as an independent third party, in its safekeeping or trust department. Securities utilized in repurchase agreements are subject to additional restrictions. These restrictions are designed to limit the OST's exposure to risk and insure the safety of the investment.

Concentration of Credit Risk. Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. For non-governmental securities, the OST limits its exposure to concentration of credit risk by restricting the amount of investments to no more than 5 percent of the portfolio to any single issuer. During fiscal year 2013, the OST did not own any non-governmental securities subject to this restriction.

5. Foreign Currency Risk - None.

6. Derivatives - None.

7. Repurchase and Reverse Repurchase Agreements

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

If the dealers default on their obligations to resell these securities to the OST or to provide equal value in securities or cash, the OST would suffer an economic loss equal to the differences between the fair value plus accrued interest of the underlying securities and the agreement obligation, including accrued interest. The OST investment policy limits the amount of reverse repurchase agreements to 30 percent of the total portfolio. There were no reverse repurchase agreements during fiscal year 2013.

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

The market value, plus accrued income, of securities utilized in all other repurchase agreements will be 102 percent of the value of the repurchase agreement. The securities utilized in repurchase agreements are priced daily and held by the Treasury/Trust custodian in the state's name. Collateralized mortgage obligations utilized in repurchase agreements must pass the Federal Financial Institutions Examination Council test or not exceed a volatility rating of V-5 by Fitch Investor Services, or a similar rating of a nationally recognized rating agency. As of June 30, 2013, repurchase agreements totaled $1.0 billion.

Note 4
Receivables, Unearned and Unavailable Revenues

A. GOVERNMENTAL FUNDS

Taxes Receivable
Taxes receivable at June 30, 2013, consisted of the following (expressed in thousands):

Taxes Receivable	General	Higher Education Special Revenue	Higher Education Endowment	Nonmajor Governmental Funds	Total
Property	$ 994,026	$ -	$ -	$ 224	$ 994,250
Sales	1,554,619	-	-	-	1,554,619
Business and occupation	656,357	-	-	-	656,357
Estate	1,112	14,655	-	-	15,767
Fuel	-	-	-	108,742	108,742
Liquor		-	-	9,490	9,490
Other	10,576	-	-	641	11,217
Subtotals	3,216,690	14,655	-	119,097	3,350,442
Less: Allowance for uncollectible receivables	46,352	-	-	789	47,141
Total Taxes Receivable	$ 3,170,338	$ 14,655	$ -	$ 118,308	$ 3,303,301

Other Receivables
Other receivables at June 30, 2013, consisted of the following (expressed in thousands):

Other Receivables	General	Higher Education Special Revenue	Higher Education Endowment	Nonmajor Governmental Funds	Total
Public assistance (1)	$ 769,720	$ -	$ -	$ -	$ 769,720
Accounts receivable	29,379	203,473	630	97,091	330,573
Interest	2,157	8,327	4,386	5,619	20,489
Loans (2)	5,540	130,653	-	442,534	578,727
Long-term contracts (3)	1,003	-	9,911	77,046	87,960
Miscellaneous	120,593	92,895	9,612	236,350	459,450
Subtotals	928,392	435,348	24,539	858,640	2,246,919
Less: Allowance for uncollectible receivables	774,876	27,629	3	25,515	828,023
Total Other Receivables	$ 153,516	$ 407,719	$ 24,536	$ 833,125	$ 1,418,896

Notes:

(1) Public assistance receivables mainly represent amounts owed the state as a part of the Support Enforcement Program at the Department of Social and Health Services for the amounts due from persons required to pay support for individuals currently on state assistance, and have a low realization expectation. Accordingly, the receivable is offset by a large allowance for uncollectible receivables.

(2) Significant long-term portions of loans receivable include $104.7 million in the Higher Education Special Revenue Fund for student loans and $433.4 million in Nonmajor Governmental Funds for low income housing, public works, and economic development/revitalization loans.

(3) Long-term contracts in Nonmajor Governmental Funds are for timber sales contracts.

Unearned Revenue

Unearned revenue at June 30, 2013, consisted of the following (expressed in thousands):

Unearned Revenue	General	Higher Education Special Revenue	Higher Education Endowment	Nonmajor Governmental Funds	Total
Other taxes	$ 1,843	$ -	$ -	$ -	$ 1,843
Charges for services	37,488	143,096	385	37,849	218,818
Donable goods	-	-	-	6,283	6,283
Grants and donations	14,964	952	-	4,930	20,846
Loan programs		-	-	16	16
Seizure of forfeited assets	-	-	-	5,238	5,238
Miscellaneous	24,981	5,496	-	25,949	56,426
Total Unearned Revenue	$ 79,276	$ 149,544	$ 385	$ 80,265	$ 309,470

Unavailable Revenue

Unavailable revenue at June 30, 2013, consisted of the following (expressed in thousands):

Unavailable Revenue	General	Higher Education Special Revenue	Higher Education Endowment	Nonmajor Governmental Funds	Total
Property taxes	$ 972,650	$ -	$ -	$ 80	$ 972,730
Other taxes	514,807	11,718	-	364	526,889
Timber sales	1,003	-	9,911	77,046	87,960
Charges for services	3,857	-	-	1,065	4,922
Grants and donations	93	-	-	-	93
Loan programs	7	-	-	796,314	796,321
Miscellaneous	1	-	-	26,307	26,308
Total Unavailable Revenue	$ 1,492,418	$ 11,718	$ 9,911	$ 901,176	$ 2,415,223

B. PROPRIETARY FUNDS

Other Receivables

Other receivables at June 30, 2013, consisted of the following (expressed in thousands):

	Business-Type Activities Enterprise Funds						Governmental Activities
Other Receivables	**Workers' Compensation**	**Unemployment Compensation**	**Higher Education Student Services**	**Guaranteed Education Tuition Program**	**Nonmajor Enterprise Funds**	**Total**	**Internal Service Funds**
Accounts receivable	$ 150,933	$ -	$ 244,009	$ 1	$ 22,581	$ 417,524	$ 11,308
Interest	108,971	-	553	6,104	-	115,628	541
Miscellaneous	591,050	746,821	20,560	67	4	1,358,502	15,902
Subtotals	850,954	746,821	265,122	6,172	22,585	1,891,654	27,751
Less: Allowance for uncollectible receivables	148,990	101,346	73,928	-	174	324,438	564
Total Other Receivables	$ 701,964	$ 645,475	$ 191,194	$ 6,172	$ 22,411	$ 1,567,216	$ 27,187

Unearned Revenue

Unearned revenue at June 30, 2013, consisted of the following (expressed in thousands):

	Business-Type Activities Enterprise Funds						Governmental Activities
Unearned Revenue	**Workers' Compensation**	**Unemployment Compensation**	**Higher Education Student Services**	**Guaranteed Education Tuition Program**	**Nonmajor Enterprise Funds**	**Total**	**Internal Service Funds**
Charges for services	$ -	$ -	$ 37,188	$ -	$ 251	$ 37,439	$ 2,316
Other taxes	181	-	-	-	-	181	-
Miscellaneous	6,386	-	2,607	-	-	8,993	15
Total Unearned Revenue	$ 6,567	$ -	$ 39,795	$ -	$ 251	$ 46,613	$ 2,331

C. FIDUCIARY FUNDS

Other Receivables

Other receivables at June 30, 2013, consisted of the following (expressed in thousands):

Other Receivables	**Local Government Investment Pool**	**Agency Funds**
Interest	$ 691	$ 53
Other	-	12,290
Subtotals	691	12,343
Less: Allowance for uncollectible receivables	-	4,352
Total Other Receivables	$ 691	$ 7,991

Unearned Revenue

Unearned revenue at June 30, 2013, consisted of $726,000 for service credit restorations reported in Pension and Other Employee Benefit Plans.

Note 5
Interfund Balances and Transfers

A. INTERFUND BALANCES

Interfund balances as reported in the financial statements at June 30, 2013, consisted of the following (expressed in thousands):

	Due From				
Due To	General	Higher Education Special Revenue	Higher Education Endowment	Nonmajor Governmental Funds	Workers' Compensation
General	$ -	$ 34,657	$ -	$ 101,147	$ 254
Higher Education Special Revenue	47,361	-	-	318,698	516
Higher Education Endowment	-	-	-	703	-
Nonmajor Governmental Funds	326,973	696	2,177	169,215	891
Workers' Compensation	5	-	-	9	-
Unemployment Compensation	1,510	1,264	-	1,492	48
Higher Education Student Services	820	2,084	-	1,130	268
Guaranteed Education Tuition Program	2	-	-	-	-
Nonmajor Enterprise Funds	5,536	374	-	1,693	495
Internal Service Funds	26,265	1,147	-	22,835	4,775
Fiduciary Funds	-	8	-	6	-
Totals	$ 408,472	$ 40,230	$ 2,177	$ 616,928	$ 7,247

Nearly all interfund balances are expected to be paid within one year from the date of the financial statements. These balances resulted from the time lag between the dates that (1) interfund goods and services were provided and when the payments occurred and (2) interfund transfers were accrued and when the liquidations occurred. Interfund balances include: (1) a $24.5 million loan from a nonmajor governmental fund to the General Fund which is expected to be paid over the next six years; and (2) a $3.1 million loan between nonmajor governmental funds which is expected to be paid over the next eight years.

In addition to the interfund balances noted in the schedule above, there are interfund balances of $1.7 million within the state's Pension Trust Funds.

Due From						
Unemployment Compensation	Higher Education Student Services	Guaranteed Education Tuition Program	Nonmajor Enterprise Funds	Internal Service Funds	Fiduciary Funds	Totals
$ -	$ -	$ 111	$ 17,266	$ 927	$ -	$ 154,362
-	429,515	200	16	74,691	11	871,008
-	-	-	-	-	-	703
1,058	4	-	148	2,269	-	503,431
-	-	-	1	5	-	20
-	32	-	20	76	-	4,442
-	-	-	-	-	-	4,302
-	-	-	-	-	-	2
-	446	-	1,127	133	-	9,804
-	27	5	460	33,135	-	88,649
-	-	-	8	-	-	22
$ 1,058	$ 430,024	$ 316	$ 19,046	$ 111,236	$ 11	$ 1,636,745

B. INTERFUND TRANSFERS

Interfund transfers as reported in the financial statements for the year ended June 30, 2013, consisted of the following (expressed in thousands):

	Transferred To				
Transferred From	**General**	**Higher Education Special Revenue**	**Higher Education Endowment**	**Nonmajor Governmental Funds**	**Workers' Compensation**
General	$ -	$ 1,851	$ -	$ 1,295,354	$ -
Higher Education Special Revenue	26,122	-	420	67,790	-
Higher Education Endowment	-	95,702	-	29,216	-
Nonmajor Governmental Funds	440,129	20,066	879	932,464	-
Workers' Compensation	-	-	-	-	-
Unemployment Compensation	61	-	-	-	-
Higher Education Student Services	-	94,079	-	323	-
Guaranteed Education Tuition Program	-	-	-	-	-
Nonmajor Enterprise Funds	130,147	-	-	10,704	-
Internal Service Funds	37	6,238	-	23	-
Totals	$ 596,496	$ 217,936	$ 1,299	$ 2,335,874	$ -

Except as noted below, transfers are used to 1) move revenues from the fund that statute requires to collect them to the fund that statute requires to expend them, 2) move receipts designated for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, 3) move unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations, 4) move profits from the Lottery Fund as required by law, and 5) transfer amounts to and from the General Fund as required by law.

On June 20, 2013, $139.2 million was transferred from the General Fund Basic Account to the Budget Stabilization Account (BSA) in accordance with the provisions of the Constitution. The BSA is reported as an Administrative Account within the General Fund. The Constitution details a limited number of circumstances under which funds can be appropriated from the BSA, one of which is a favorable vote of at least three-fifths of the members of each house of the Legislature.

In addition to the transfers noted in the schedule above, there were transfers of $5.6 million within the state's Pension Trust Funds.

Transferred To					
Unemployment Compensation	Higher Education Student Services	Guaranteed Education Tuition Program	Nonmajor Enterprise Funds	Internal Service Funds	Totals
$ -	$ -	$ -	$ 679	$ 14,347	$ 1,312,231
-	120,369	-	-	6,184	220,885
-	-	-	-	-	124,918
-	-	-	-	-	1,393,538
-	-	-	-	-	-
-	-	-	-	-	61
-	-	-	-	-	94,402
-	-	-	-	-	-
-	-	-	12,485	-	153,336
-	-	-	-	49,893	56,191
$ -	$ 120,369	$ -	$ 13,164	$ 70,424	$ 3,355,562

Note 6
Capital Assets

Capital assets at June 30, 2013, are reported by the state of Washington within Governmental Activities and Business-Type Activities, as applicable.

A. GOVERNMENTAL CAPITAL ASSETS

The following is a summary of governmental capital asset activity for the year ended June 30, 2013 (expressed in thousands):

Capital Assets	Balances July 1, 2012*	Additions	Deletions / Adjustments	Balances June 30, 2013
Capital assets, not being depreciated:				
Land	$ 2,358,301	$ 48,944	$ (19,684)	$ 2,387,561
Transportation infrastructure	20,867,495	812,401	-	21,679,896
Intangible assets - indefinite lives	1,520	1,246	-	2,766
Art collections, library reserves, and museum and historical collections	122,672	616	(13)	123,275
Construction in progress	812,601	531,112	(409,981)	933,732
Total capital assets, not being depreciated	24,162,589			25,127,230
Capital assets, being depreciated:				
Buildings	11,490,063	456,631	(61,369)	11,885,326
Accumulated depreciation	(3,956,662)	(331,407)	12,608	(4,275,463)
Net buildings	7,533,401			7,609,863
Other improvements	1,266,062	105,919	(1,058)	1,370,923
Accumulated depreciation	(582,593)	(49,468)	115	(631,946)
Net other improvements	683,469			738,977
Furnishings, equipment and intangible assets	4,454,654	314,267	(206,569)	4,562,353
Accumulated depreciation	(2,973,048)	(278,151)	168,501	(3,082,698)
Net furnishings, equipment and intangible assets	1,481,606			1,479,655
Infrastructure	886,216	46,855	(601)	932,470
Accumulated depreciation	(424,474)	(29,381)	192	(453,663)
Net infrastructure	461,742			478,807
Total capital assets, being depreciated, net	10,160,218			10,307,302
Governmental Activities Capital Assets, Net	$ 34,322,807			$ 35,434,532

* Beginning balances reflect the prior period adjustment to reclassify the Liquor Revolving Fund from business-type to governmental, which resulted in an increase in capital assets of $46.4 million and an increase in accumulated depreciation of $21.9 million.

B. BUSINESS-TYPE CAPITAL ASSETS

The following is a summary of business-type capital asset activity for the year ended June 30, 2013 (expressed in thousands):

Capital Assets	Balances July 1, 2012*	Additions	Deletions / Adjustments	Balances June 30, 2013
Capital assets, not being depreciated:				
Land	$ 62,584	$ -	$ (2,018)	$ 60,566
Intangible assets - indefinite lives	-	4,580	-	4,580
Art collections	35	-	-	35
Construction in progress	681,414	135,832	(375,419)	441,827
Total capital assets, not being depreciated	744,033			507,008
Capital assets, being depreciated:				
Buildings	2,073,812	694,857	(16,586)	2,752,083
Accumulated depreciation	(694,283)	(84,860)	14,671	(764,472)
Net buildings	1,379,529			1,987,611
Other improvements	87,544	7,978	(5)	95,517
Accumulated depreciation	(31,502)	(3,966)	3	(35,465)
Net other improvements	56,042			60,052
Furnishings, equipment and intangible assets	600,490	69,181	(15,715)	653,956
Accumulated depreciation	(440,313)	(47,001)	15,767	(471,547)
Net furnishings, equipment and intangible assets	160,177			182,409
Infrastructure	41,682	262	-	41,944
Accumulated depreciation	(16,331)	(1,475)	-	(17,806)
Net infrastructure	25,351			24,138
Total capital assets, being depreciated, net	1,621,099			2,254,210
Business-Type Activities Capital Assets, Net	$ 2,365,132			$ 2,761,218

* Beginning balances reflect the prior period adjustment to reclassify the Liquor Revolving Fund from business-type to governmental, which resulted in a decrease in capital assets of $46.4 million and a decrease in accumulated depreciation of $21.9 million.

C. DEPRECIATION

Depreciation expense for the year ended June 30, 2013, was charged by the primary government as follows (expressed in thousands):

		Amount
Governmental Activities:		
General government	$	71,423
Education - elementary and secondary (K-12)		9,703
Education - higher education		403,564
Human services		25,477
Adult corrections		47,097
Natural resources and recreation		34,430
Transportation		96,713
Total Depreciation Expense - Governmental Activities *	$	688,407
Business-Type Activities:		
Workers' compensation	$	8,428
Unemployment compensation		-
Higher education student services		127,404
Guaranteed education tuition program		4
Other		1,466
Total Depreciation Expense - Business-Type Activities	$	137,302

* Includes $81.0 million internal service fund depreciation that was allocated to governmental activities as a component of net internal service fund activity.

D. CONSTRUCTION IN PROGRESS

Major construction commitments of the state at June 30, 2013, are as follows (expressed in thousands):

Agency / Project Commitments	Construction In Progress June 30, 2013	Remaining Project Commitments
Department of Enterprise Services:		
O'Brien Building improvement, legislative building improvements, Capitol Campus high voltage system, and other projects	$ 69,178	$ 4,131
Department of Labor and Industries:		
Data warehouse enhancement, occupational health, and stay at work projects	6,202	1,922
Department of Social and Health Services:		
Residential housing unit renovations, and other projects	31,201	8,741
Department of Veterans Affairs:		
Walla Walla Veterans Home	10,683	36,495
Department of Corrections:		
Prison intake center	-	252,226
Correctional center housing units and kitchen expansion, and other projects	52,077	-
Department of Transportation:		
State ferry vessels and terminals, and other projects	255,248	129,598
Transportation infrastructure	-	1,615,292
Department of Fish and Wildlife:		
Voights Creek Hatchery, Carpenter Creek Estuary, Deschutes Watershed Center, and other projects	20,946	88,021
Employment Security Department:		
Next generation TAXIS system project	38,622	4,702
University of Washington:		
Ethnic Cultural Center and HUB renovation	1,923	2,029
Husky ballpark and Husky stadium projects	254,505	10,333
UWMC expansion	14,715	28,673
Maple and Terry Hall renovations, Lander and Mercer Hall replacement, and new projects	134,151	63,329
UW Tacoma and Bothell campus, and other projects	75,714	71,428
Washington State University:		
Agricultural Animal Health Research Facility	250	22,150
Biomedical and Health Sciences Building	56,214	22,401
Martin Stadium improvements and athletics indoor practice facility	19,494	60,706
Clean Technology Laboratory	2,503	55,197
Chief Joseph village renovation	-	20,000
Smart Grid energy and other projects	7,742	25,628
Eastern Washington University:		
Patterson Hall renovation, residence hall project, and other projects	63,844	19,772
Central Washington University:		
New residence hall construction, and other projects	5,890	9,282
The Evergreen State College:		
Housing and other projects	15,638	6,358
Western Washington University:		
Carver and Fraser Hall renovation, housing and dining, and other projects	23,728	2,643
Community and Technical Colleges:		
Everett index replacement and CCEC renovation	32,321	2,904
Green River Trades and Industry, and SMT renovation	16,734	29,448
Seattle Community College District Employment Residence Center, Georgetown PSIEC, and wood construction replacement	32,900	873
South Puget Sound Building 22 renovation	24,021	5,810
Tacoma Health Careers Center	13,916	27,107
Other miscellaneous community college projects	81,812	169,774
Other Agency Projects	13,387	24,684
Total Construction in Progress	$ 1,375,559	$ 2,821,657

Note 7
Long-Term Liabilities

A. BONDS PAYABLE

Bonds payable at June 30, 2013, are reported by the state of Washington within governmental activities and business-type activities, as applicable.

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

Legislative authorization arises from:

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

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

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

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

Legal Debt Limitation

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

The State Constitution and current statutes require the State Treasurer to certify the debt service limitation for each fiscal year. In accordance with these provisions, the debt service limitation for fiscal year 2013 is $1.13 billion.

This computation excludes specific bond issues and types, which are not secured by general state revenues. Of the $18.21 billion general obligation bond debt outstanding at June 30, 2013, $10.73 billion is subject to the limitation.

Based on the debt limitation calculation, the debt service requirements as of June 30, 2013, did not exceed the authorized debt service limitation.

For further information on the debt limit refer to the Certification of the Debt Limitation of the State of Washington available from the Office of the State Treasurer at:
http://www.tre.wa.gov/documents/debt_cdl2013.pdf,
or to Schedule 11 in the Statistical Section of this report.

Authorized But Unissued

The state had a total of $6.33 billion in general obligation bonds authorized but unissued as of June 30, 2013, for the purpose of capital construction, higher education, and transportation projects throughout the state.

Interest Rates

Interest rates on fixed rate general obligation bonds ranged from 0.35 to 6.75 percent. Interest rates on revenue bonds range from 1.6 to 7.4 percent.

Debt Service Requirements to Maturity

General Obligations Bonds

General obligation bonds have been authorized and issued primarily to provide funds for:

- Acquisition and construction of state and common school capital facilities;
- Transportation construction and improvement projects;
- Assistance to local governments for public works capital projects; and
- Refunding of general obligation bonds outstanding.

Outstanding general obligation bonds are presented in the Washington State Treasurer's Annual Report for 2013. A copy of the report is available from the Office of the State Treasurer, PO Box 40200, Olympia, Washington 98504-0200, phone number (360) 902-9000 or TTY (360) 902-8963, or by visiting their website at:
http://www.tre.wa.gov/aboutUs/publications/annualReports.shtml

Total debt service requirements to maturity for general obligation bonds as of June 30, 2013, are as follows (expressed in thousands):

	Governmental Activities		Business-Type Activities		Totals	
General Obligation Bonds	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**
By Fiscal Year:						
2014	$ 787,632	$ 852,186	$ 3,605	$ 527	$ 791,237	$ 852,713
2015	817,385	832,051	3,820	325	821,205	832,376
2016	837,837	802,332	4,050	110	841,887	802,442
2017	864,744	788,311	-	-	864,744	788,311
2018	857,009	748,173	-	-	857,009	748,173
2019-2023	4,232,725	3,114,731	-	-	4,232,725	3,114,731
2024-2028	4,112,620	2,085,926	-	-	4,112,620	2,085,926
2029-2033	3,510,413	1,063,905	-	-	3,510,413	1,063,905
2034-2038	1,595,285	310,216	-	-	1,595,285	310,216
2039-2043	584,054	54,268	-	-	584,054	54,268
Total Debt Service Requirements	$ 18,199,704	$ 10,652,099	$ 11,475	$ 962	$ 18,211,179	$ 10,653,061

Revenue Bonds

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

The University of Washington issues general revenue bonds that are payable from general revenues, including student tuition and fees, grant indirect cost recovery, sales and services revenue, and investment income. General revenue bonds outstanding as of June 30, 2013, include $237.4 million in governmental activities and $1.42 billion in business-type activities.

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

Total debt service requirements for revenue bonds to maturity as of June 30, 2013, are as follows (expressed in thousands):

	Governmental Activities		Business-Type Activities		Totals	
Revenue Bonds	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**
By Fiscal Year:						
2014	$ 33,498	$ 96,138	$ 80,581	$ 85,778	$ 114,079	$ 181,916
2015	30,478	94,116	45,597	83,221	76,075	177,337
2016	80,141	91,618	47,859	81,275	128,000	172,893
2017	84,452	87,527	49,604	79,255	134,056	166,782
2018	83,341	83,199	49,970	77,201	133,311	160,400
2019-2023	484,871	367,181	274,884	397,409	759,755	764,590
2024-2028	394,221	237,354	285,385	315,657	679,606	553,011
2029-2033	296,605	141,475	287,951	233,411	584,556	374,886
2034-2038	100,734	72,575	386,688	146,079	487,422	218,654
2039-2043	123,262	14,701	421,777	40,479	545,039	55,180
Total Debt Service Requirements	$ 1,711,603	$ 1,285,884	$ 1,930,296	$ 1,539,765	$ 3,641,899	$ 2,825,649

Governmental activities include revenue bonds outstanding at June 30, 2013, of $369.9 million issued by the Tobacco Settlement Authority (TSA), which is a blended component unit of the state. In November 2002, the TSA issued $517.9 million in bonds and transferred $450.0 million to the state to be used for increased health care, long-term care, and other programs.

These bonds do not constitute either a legal or moral obligation of the state, nor does the state pledge its full faith, credit, or taxing power for payment of these bonds. The bonds are obligations of the TSA and are secured solely by the TSA's right to receive 29.2 percent of the state's tobacco settlement revenues, restricted investments of the TSA, undistributed TSA bond proceeds, and the earnings thereon held under the indenture authorizing the bonds. Total principal and interest remaining on the bonds is $647.8 million, payable through 2032. For the current year, pledged revenue and debt service were $44.2 million and $44.4 million, respectively.

Governmental activities include grant anticipation revenue bonds outstanding at June 30, 2013, of $500.4 million issued for the Washington State Department of Transportation. The bonds were issued to finance a portion of the costs of constructing the State Route 520 Floating Bridge and Eastside Project.

These bonds do not constitute either a legal or moral obligation of the state, nor does the state pledge its full faith, credit, or taxing power for payment of these bonds. Total principal and interest remaining on the bonds is $684.2 million, payable through 2025. For the current year both pledged revenue and debt service were $18.3 million.

Governmental activities include revenue bonds outstanding at June 30, 2013, of $245.1 million issued by Washington State University. The bonds were issued to fund various capital construction projects.

These bonds do not constitute either a legal or moral obligation of the state, nor does the state pledge its full faith, credit, or taxing power for payment of these bonds. Total principal and interest remaining on the bonds is $396.1 million, payable through 2038. For the current year, pledged revenue and debt service were $30.8 million and $12.3 million, respectively.

Governmental activities include revenue bonds outstanding at June 30, 2013, of $51.7 million issued by the Tumwater Office Properties (TOP), which is a blended component unit of the state. The bonds, issued in 2004, are payable solely from the trust estate pledged under the indenture, including rental payments. The bonds were used to construct an office building in Tumwater, Washington which the state occupied beginning in fiscal year 2006.

The bonds are not a general obligation of the state, nor does the state pledge its full faith, credit, or taxing power for payment of these bonds. Total principal and interest remaining on the bonds is $79.1 million, payable through 2028. For the current year, both pledged revenue and debt service were $4.1 million.

Governmental activities include revenue bonds outstanding at June 30, 2013, of $298.6 million issued by FYI Properties, a blended component unit of the state. The bonds, issued in 2009, are payable solely from the trust estate pledged under the indenture, including rental payments. The bonds were used to construct an office building in Olympia, Washington which the state occupied beginning in fiscal year 2012.

The bonds are not a general obligation of the state, nor does the state pledge its full faith, credit, or taxing power for payment of these bonds. Total principal and interest remaining on the bonds is $562.1 million, payable through 2039. For the current year, both pledged revenue and debt service were $21.2 million.

Additionally, governmental activities include revenue bonds outstanding at June 30, 2013, of $8.5 million issued by the City of Aberdeen. The bonds were used to extend utilities to the state Department of Corrections Stafford Creek Corrections Center (SCCC). The Department of Corrections entered into an agreement with the City of Aberdeen to pay a system development fee sufficient to pay the debt service on the bonds. The bonds were issued in 1998 and 2002, and refunded by the City in 2010, and are payable solely from current operating appropriations.

The bonds are not a general obligation of the state, nor does the state pledge its full faith, credit, or taxing power for payment of these bonds. Total principal and interest remaining on these bonds is $10.1 million, payable through 2022. For the current year, both pledged revenue and debt service were $1.5 million.

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

Total pledged specific revenues for the state's colleges and universities to repay the principal and interest of revenue bonds as of June 30, 2013, are as follows (expressed in thousands):

Source of Revenue Pledged	Housing and Dining Revenues (Net of Operating Expenses)	Student Facilities Fees and Earnings on Invested Fees	Parking Revenues (Net of Operating Expenses)	Bookstore Revenues
Current revenue pledged	$ 39,619	$ 42,189	$ 2,821	$ 184
Current year debt service	20,976	19,747	776	148
Total future revenues pledged *	448,449	438,564	8,535	3,570
Description of debt	Housing and dining bonds issued in 1998-2013	Student facilities bonds issued in 2002-2012	Parking system revenue bonds issued in 2005	Student union and recreation center bonds issued in 2004
Purpose of debt	Construction and renovation of student housing and dining projects	Construction, renovation and improvements to student activity facilities and sports stadium	Construction of parking garage and improvements	Construct new bookstore as part of new student union and recreation center building
Term of commitment	2026-2042	2030-2038	2024	2034
Percentage of debt service to pledged revenues (current year)	52.94%	46.81%	27.50%	80.16%

* Total future principal and interest payments.

B. CERTIFICATES OF PARTICIPATION

Certificates of participation at June 30, 2013, are reported by the state of Washington within governmental activities and business-type activities, as applicable.

Current state law authorizes the state to enter into long-term financing contracts for the acquisition of real or personal property and for the issuance of certificates of participation in the contracts. These certificates of participation do not fall under the general obligation debt limitations and are generally payable only from annual appropriations by the Legislature.

Other specific provisions could also affect the state's obligation under certain agreements. The certificates of participation are recorded for financial reporting purposes if the possibility of the state not meeting the terms of the agreements is considered remote.

Total debt service requirements for certificates of participation to maturity as of June 30, 2013, are as follows (expressed in thousands):

	Governmental Activities		Business-Type Activities		Totals	
Certificates of Participation	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**
By Fiscal Year:						
2014	$ 98,894	$ 32,399	$ 4,011	$ 1,314	$ 102,905	$ 33,713
2015	58,852	19,502	4,200	1,392	63,052	20,894
2016	55,112	17,520	3,933	1,250	59,045	18,770
2017	41,430	15,518	2,957	1,108	44,387	16,626
2018	37,959	14,008	2,709	1,000	40,668	15,008
2019-2023	149,068	50,233	10,639	3,585	159,707	53,818
2024-2028	109,220	21,786	7,795	1,555	117,015	23,341
2029-2033	37,883	3,102	2,704	221	40,587	3,323
Total Debt Service Requirements	$ 588,418	$ 174,068	$ 38,948	$ 11,425	$ 627,366	$ 185,493

C. DEBT REFUNDINGS

When advantageous and permitted by statute and bond covenants, the State Finance Committee authorizes the refunding of outstanding bonds and certificates of participation. Colleges and universities may also refund revenue bonds.

When the state refunds outstanding bonds, the net proceeds of each refunding issue are used to purchase U.S. government securities that are placed in irrevocable trusts with escrow agents to provide for all future debt service payments on the refunded bonds.

As a result, the refunded bonds are considered defeased and the liability is removed from the government-wide statement of net position.

Current Year Defeasances

Bonds

Governmental Activities.
On July 26, 2012, the state issued $78.3 million of taxable general obligation refunding bonds with an average interest rate of .47 percent to refund $77.9 million of various purpose general obligation bonds with an average interest rate of 5.4 percent. The refunding resulted in a $6.4 million gross debt service savings over the next 4 years and a net present value savings of $6.4 million.

On September 6, 2012, the state issued $380.4 million of motor vehicle fuel tax general obligation refunding bonds with an average interest rate of 4.26 percent to refund $388.1 million of motor vehicle fuel tax general obligation bonds with an average interest rate of 4.98 percent. The refunding resulted in a $50.6 million gross debt service savings over the next 18 years and a net present value savings of $39.7 million.

Also on September 6, 2012, the state issued $352.2 million of various purpose general obligation refunding bonds with an average interest rate of 4.33 percent to refund $357.6 million of various purpose general obligation bonds with an average interest rate of 5.0 percent. The refunding resulted in a $43.4 million gross debt service savings over the next 18 years and a net present value savings of $34.7 million.

On February 5, 2013, the state issued $159.4 million of motor vehicle fuel tax general obligation refunding bonds with an average interest rate of 3.93 percent to refund $158.3 million of motor vehicle fuel tax general obligation bonds with an average interest rate of 5 percent. The refunding resulted in a $23.2 million gross debt service savings over the next 19 years and a net present value savings of $18.5 million.

Also on February 5, 2013, the state issued $666.7 million of various purpose general obligation refunding bonds with an average interest rate of 4.22 percent to refund $703.9 million of various purpose general obligation bonds with an average interest rate of 4.72 percent. The refunding resulted in a $73.7 million gross debt service savings over the next 19 years and a net present value savings of $57.7 million.

Business-Type Activities.
On July 19, 2012, Western Washington University issued $9.2 million in business-type activity revenue refunding bonds with an average interest rate of 3.56 percent to refund $9.5 million of business-type activity revenue bonds with an average interest rate of 4.58 percent. The refunding resulted in a $877,313 gross debt service savings over the next 11 years and an economic gain of $760,746.

On March 28, 2013, Central Washington University issued $53.4 million in business-type activity revenue refunding bonds with an average interest rate of 3.76 percent to refund $53.8 million of business-type activity revenue bonds with an average interest rate of 5.25 percent. The refunding resulted in a $10.8 million gross debt service savings over the next 21 years and an economic gain of $7.9 million.

On April 2, 2013, Washington State University issued $9.8 million in general revenue bonds with an average interest rate 4.52 percent to refund $10.9 million of housing and dining revenue bonds with an average interest rate of 4.64 percent. The refunding resulted in $1.6 million gross debt service savings over the next 12 years and an economic gain of $1.3 million.

Certificates of Participation (COPs)

On March 19, 2013, the state issued $25.4 million in refunding certificates of participation with an average interest rate of 4.23 percent to refund $31.6 million of certificates of participation with interest rates between 4.18 and 4.34 percent. The refunding resulted in a $3.3 million gross debt service savings over the next 11 years and a net present value savings of $5.7 million.

Prior Year Defeasances

In prior years, the state defeased certain general obligation bonds, revenue bonds, and certificates of participation by placing the proceeds of new bonds and certificates in an irrevocable trust to provide for all future debt service payments on the prior bonds and certificates.

Accordingly, the trust account assets and the liability for the defeased bonds and certificates are not included in the state's financial statements.

General Obligation Bond Debt

On June 30, 2013, $2.95 billion of general obligation bonded debt outstanding is considered defeased.

Revenue Bond Debt

On June 30, 2013, $90.6 million of revenue bonded debt outstanding is considered defeased.

Certificates of Participation Debt

On June 30, 2013, $80.7 million of certificates of participation debt outstanding is considered defeased.

D. LEASES

Leases at June 30, 2013, are reported by the state of Washington within governmental activities and business-type activities, as applicable.

The state leases land, office facilities, office and computer equipment, and other assets under a variety of agreements. Although lease terms vary, most leases are subject to appropriation from the Legislature to continue the obligation. If the possibility of receiving no funding from the Legislature is remote, leases are considered noncancelable for financial reporting purposes. Leases that represent acquisitions are classified as capital leases, and the related assets and liabilities are recorded in the financial records at the inception of the lease.

Other leases are classified as operating leases with the lease payments recorded as expenditures or expenses during the life of the lease. Certain operating leases are renewable for specified periods. In most cases, management expects that the leases will be renewed or replaced by other leases.

Land, buildings, and equipment under capital leases as of June 30, 2013, include the following (expressed in thousands):

	Governmental Activities	Business-Type Activities
Land (non-depreciable)	$ 1,918	$ -
Buildings	14,022	4,512
Equipment	18,249	13,244
Less: Accumulated depreciation	(19,422)	(5,271)
Totals	$ 14,767	$ 12,485

The following schedule presents future minimum payments for capital and operating leases as of June 30, 2013 (expressed in thousands):

	Capital Leases		Operating Leases	
Capital and Operating Leases	Governmental Activities	Business-Type Activities	Governmental Activities	Business-Type Activities
By Fiscal Year:				
2014	$ 3,075	$ 2,304	$ 130,583	$ 33,528
2015	2,745	2,288	115,551	30,874
2016	1,442	2,274	90,497	22,509
2017	1,031	2,265	68,379	14,132
2018	470	2,002	53,885	7,934
2019-2023	1,979	6,711	153,596	27,572
2024-2028	-	-	82,842	18,055
2029-2033	-	-	63,994	20,921
2034-2038	-	-	64,399	24,242
2039-2043	-	-	65,132	22,645
Total Future Minimum Payments	10,742	17,844	888,858	222,412
Less: Executory Costs and Interest Costs	(588)	(2,356)	-	-
Net Present Value of Future Minimum Lease Payments	$ 10,154	$ 15,488	$ 888,858	$ 222,412

The total operating lease rental expense for fiscal year 2013 for governmental activities was $327.4 million, of which $582,391 was for contingent rentals. The total operating lease rental expense for fiscal year 2013 for business-type activities was $32.9 million, of which $61,385 was for contingent rentals.

E. CLAIMS AND JUDGMENTS

Claims and judgments are materially related to three activities: workers' compensation, risk management, and health insurance. Workers' compensation is a business-type activity, and risk management and health insurance are governmental activities. A description of the risks to which the state is exposed by these activities, and the ways in which the state handles the risks, is presented in Note 1.E.

Workers' Compensation

At June 30, 2013, $34.75 billion of unpaid claims and claim adjustment expenses are presented at their net present and settlement value of $23.63 billion. These claims are discounted at assumed interest rates of 1.5 percent (time loss and medical) to 6.5 percent (pensions) to arrive at a settlement value.

The claims and claim adjustment liabilities of $23.63 billion as of June 30, 2013, include $11.29 billion for supplemental pension cost of living adjustments (COLAs) that by statute are not to be fully funded.

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

The remaining claims liabilities of $12.34 billion are fully funded by long-term investments, net of obligations under securities lending agreements.

Changes in the balances of workers' compensation claims liabilities during fiscal years 2012 and 2013 were as follows (expressed in thousands):

Workers' Compensation Fund	Balances Beginning of Fiscal Year	Incurred Claims and Changes in Estimates	Claim Payments	Balances End of Fiscal Year
2012	$ 22,943,311	1,731,341	(2,078,302)	$ 22,596,350
2013	$ 22,596,350	3,150,517	(2,119,307)	$ 23,627,560

Risk Management

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

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

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

As of June 30, 2013, outstanding and actuarially determined claims against the state and its agencies, with the exception of the University of Washington, including actuarially projected defense costs were $542.7 million for which the state has recorded a liability. The state is restricted by law from accumulating funds in the Self Insurance Liability Program in excess of 50 percent of total outstanding and actuarially determined liabilities.

At June 30, 2013, the Risk Management Fund held $60.2 million in cash and pooled investments designated for payment of these claims under the state's Self Insurance Liability Program.

Changes in the balances of risk management claims liabilities during fiscal years 2012 and 2013 were as follows (expressed in thousands):

Risk Management Fund	Balances Beginning of Fiscal Year	Incurred Claims and Changes in Estimates	Claim Payments	Tort Defense Payments	Balances End of Fiscal Year
2012	$ 702,632	170,437	(42,747)	(16,949)	$ 813,373
2013	$ 813,373	(187,481)	(65,548)	(17,635)	$ 542,709

Health Insurance

The Health Insurance Fund establishes a liability when it becomes probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an actuarially determined amount for claims that have been incurred but not reported. Because actual claims liabilities depend on various complex factors, the process used in computing claims liabilities does not always result in an exact amount.

Claims liabilities are re-evaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors.

At June 30, 2013, health insurance claims liabilities totaling $59.9 million are fully funded with cash and investments, net of obligations under securities lending agreements.

Changes in the balances of health insurance claims liabilities during fiscal years 2012 and 2013 were as follows (expressed in thousands):

Health Insurance Fund	Balances Beginning of Fiscal Year	Incurred Claims and Changes in Estimates	Claim Payments	Balances End of Fiscal Year
2012	$ 84,990	771,328	(787,411)	$ 68,907
2013	$ 68,907	816,965	(825,999)	$ 59,873

F. POLLUTION REMEDIATION

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

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

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

There are 28 projects in progress for which the state has recorded a liability of $43.7 million.

The state has also voluntarily agreed to conduct certain remediation activities to the extent of funding paid to the state by third parties for such purposes. At June 30, 2013, the state has recorded a liability of $128.1 million for remaining project commitments.

Overall, the state has recorded a pollution remediation liability of $171.8 million, measured at its estimated amount, using the expected cash flow technique. The overall estimate is based on professional judgment, experience, and historical cost data. For some projects, the state can reasonably estimate the range of expected outlays early in the process because the site situation is common or similar to other sites with which the state has experience. In other cases, the estimates are limited to an amount specified in a settlement agreement, consent decree, or contract for remediation services.

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

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

G. LONG-TERM LIABILITY ACTIVITY

Long-term liability activity at June 30, 2013, is reported by the state of Washington within governmental activities and business-type activities, as applicable. Long-term liability activity for governmental activities for fiscal year 2013 is as follows (expressed in thousands):

Governmental Activities:	Beginning Balance July 1, 2012*	Additions	Reductions	Ending Balance June 30, 2013	Amounts Due Within One Year
Long-Term Debt:					
GO Bonds Payable:					
General obligation (GO) bonds	$ 17,206,550	$ 2,729,170	$ 2,331,825	$ 17,603,895	$ 748,765
GO - zero coupon bonds (principal)	631,301	-	35,492	595,809	38,867
Subtotal - GO bonds payable	17,837,851	2,729,170	2,367,317	18,199,704	787,632
Accreted interest - GO - zero coupon bonds	414,719	24,068	-	438,787	-
Revenue bonds payable	1,657,156	108,720	54,273	1,711,603	33,498
Less: Deferred issuance discounts	(6,684)	840	-	(5,844)	-
Total Bonds Payable	19,903,042	2,862,798	2,421,590	20,344,250	821,130
Other Liabilities:					
Certificates of participation	473,941	405,267	290,790	588,418	98,894
Claims and judgments	1,021,984	70,701	329,980	762,705	211,003
Installment contracts	6,799	-	4,482	2,317	-
Leases	7,151	6,143	3,140	10,154	2,854
Compensated absences	555,974	311,246	297,876	569,344	59,919
Unfunded pension obligations	282,423	58,018	-	340,441	-
Other postemployment benefits obligations	1,146,490	321,635	-	1,468,125	-
Pollution remediation obligations	165,234	21,723	15,141	171,816	-
Unclaimed property refunds	129,252	-	22,585	106,667	11
Other	131,096	45,956	33,663	143,389	-
Total Other Liabilities	3,920,344	1,240,689	997,657	4,163,376	372,681
Total Long-Term Debt	$ 23,823,386	$ 4,103,487	$ 3,419,247	$ 24,507,626	$ 1,193,811

* Beginning balances reflect the prior period adjustment to reclassify the Liquor Revolving Fund from business-type activity to a governmental, which resulted in an increase in certificates of participation of $5.3 million and an increase in compensated absences of $2.0 million.

For governmental activities, certificates of participation are being repaid approximately 49 percent from the General Fund, 33 percent from the Higher Education Special Revenue Fund, and the balance from various governmental funds. The compensated absences liability will be liquidated approximately 43 percent by the General Fund, 34 percent by the Higher Education Special Revenue Fund, and the balance by various other governmental funds. The claims and judgments liability will be liquidated approximately 71 percent by the Risk Management Fund (an internal service fund), 10 percent by the Higher Education Special Revenue Fund, and the balance by various other governmental funds. The other postemployment benefits obligations liability will be liquidated approximately 44 percent by the General Fund, 33 percent by the Higher Education Special Revenue Fund, and the balance by various other governmental funds. The pollution remediation liability will be liquidated approximately 75 percent by the Wildlife and Natural Resources Fund, a nonmajor governmental fund, and the balance by various other governmental funds. The unclaimed property refunds will be liquidated against future unclaimed property deposited to the General Fund. Leases, installment contract obligations, and other liabilities will be repaid from various other governmental funds.

Long-term liability activity for business-type activities for fiscal year 2013 is as follows (expressed in thousands):

Business-Type Activities	Beginning Balance July 1, 2012*	Additions	Reductions	Ending Balance June 30, 2013	Amounts Due Within One Year
Long-Term Debt:					
General obligation bonds payable	$ 14,875	$ -	$ 3,400	$ 11,475	$ 3,605
Revenue bonds payable	1,681,830	332,749	84,283	1,930,296	80,581
Plus: Unamortized issuance premiums	72,661	36,680	8,864	100,477	-
Less: Deferred issuance discounts	(416)	147	-	(269)	-
Total Bonds Payable	1,768,950	369,576	96,547	2,041,979	84,186
Other Liabilities:					
Certificates of participation	46,834	14,864	22,750	38,948	4,011
Plus: Deferred issuance premiums	1,248	1,581	136	2,693	-
Claims and judgments	22,607,953	2,040,428	1,009,611	23,638,770	1,853,263
Lottery prize annuities payable	206,579	50,835	81,384	176,030	33,438
Tuition benefits payable	2,942,000	195,002	421,002	2,716,000	151,000
Leases	5,722	10,311	545	15,488	1,793
Compensated absences	63,565	25,028	22,188	66,405	33,763
Other postemployment benefits obligations	132,891	29,389	16,630	145,650	-
Other	25,349	40	25,155	234	-
Total Other Liabilities	26,032,141	2,367,478	1,599,401	26,800,218	2,077,268
Total Long-Term Debt	$ 27,801,091	$ 2,737,054	$ 1,695,948	$ 28,842,197	$ 2,161,454

* Beginning balances reflect the prior period adjustment to reclassify the Liquor Revolving Fund from business-type activity to a governmental, which resulted in a decrease in certificates of participation of $5.3 million and a decrease in compensated absences of $2.0 million.

Note 8
No Commitment Debt

The Washington State Housing Finance Commission, Washington Higher Education Facilities Authority, Washington Health Care Facilities Authority, and Washington Economic Development Finance Authority (financing authorities) were created by the Legislature. For financial reporting purposes, they are discretely presented as component units. These financing authorities issue bonds for the purpose of making loans to qualified borrowers for capital acquisitions, construction, and related improvements.

These bonds do not constitute either a legal or moral obligation of the state or these financing authorities, nor does the state or these financing authorities pledge their full faith and credit for the payment of such bonds.

Debt service on the bonds is payable solely from payments made by the borrowers pursuant to loan agreements. Due to their no commitment nature, the bonds issued by these financing authorities are excluded from the state's financial statements.

The schedule below presents the June 30, 2013, balances for the "No Commitment" debt of the state's financing authorities (expressed in thousands):

Financing Authorities	Principal Balance
Washington State Housing Finance Commission	$ 3,490,997
Washington Higher Education Facilities Authority	706,243
Washington Health Care Facilities Authority	5,484,000
Washington Economic Development Finance Authority	758,663
Total No Commitment Debt	$ 10,439,903

Note 9
Governmental Fund Balances

A. GOVERNMENTAL FUND BALANCES

The state's governmental fund balances are reported according to the relative constraints that control how amounts can be spent. Net position restricted as a result of enabling legislation totaled $43.7 million. Classifications include nonspendable, restricted, committed, and assigned, which are further described in Note 1.D.9.

A summary of governmental fund balances at June 30, 2013, is as follows (expressed in thousands):

Fund Balances	General	Higher Education Special Revenue	Higher Education Endowment	Nonmajor Governmental Funds	Total
Nonspendable:					
Permanent funds	$ -	$ -	$ 1,929,641	$ 192,070	$ 2,121,711
Consumable inventories	12,904	11,332	-	44,050	68,286
Petty cash	565	2,660	-	744	3,969
Investments	-	46,433	62,204	365	109,002
Other receivables – long-term	36,350	-	-	-	36,350
Total Nonspendable Fund Balance	$ 49,819	$ 60,425	$ 1,991,845	$ 237,229	$ 2,339,318
Restricted for:					
Higher education	$ -	$ -	$ 1,361,921	$ 93,037	$ 1,454,958
Education	-	-	24,896	12,975	37,871
Transportation	-	-	-	783,142	783,142
Other purposes	683	-	-	9,472	10,155
Human services	-	-	209	251,275	251,484
Wildlife and natural resources	28,155	-	-	847,611	875,766
Local grants and loans	-	-	-	273	273
School construction	676	-	-	143,208	143,884
Budget stabilization	269,651	-	-	-	269,651
Debt service	-	-	-	86,231	86,231
Pollution remediation	-	-	-	127,703	127,703
Operations and maintenance	-	-	-	6,410	6,410
Repair and Replacement	-	-	-	1,875	1,875
Unspent GARVEE bond proceeds	-	-	-	142,593	142,593
Third tier debt service	-	-	-	2,186	2,186
Total Restricted Fund Balance	$ 299,165	$ -	$ 1,387,026	$ 2,507,991	$ 4,194,182
Committed for:					
Higher education	$ 20,981	$ 2,302,301	$ -	$ 49,338	$ 2,372,620
Education	-	-	-	2,036	2,036
Transportation	-	-	-	160,233	160,233
Other purposes	-	-	-	169,147	169,147
Human services	2,778	-	-	277,159	279,937
Wildlife and natural resources	35,820	-	-	466,629	502,449
Local grants and loans	-	-	-	996,518	996,518
State facilities	-	-	-	1,724	1,724
Debt service	-	-	-	512,243	512,243
Total Committed Fund Balance	$ 59,579	$ 2,302,301	$ -	$ 2,635,027	$ 4,996,907
Assigned for:					
Working capital	$ 835,152	$ -	$ -	$ -	$ 835,152
Other purposes	-	-	-	40	40
Total Assigned Fund Balance	$ 835,152	$ -	$ -	$ 40	$ 835,192

B. BUDGET STABILIZATION ACCOUNT

In accordance with Article 7, Section 12 of the Washington State Constitution, the state maintains the Budget Stabilization Account ("Rainy Day Fund"). The Budget Stabilization Account is reported in the General Fund.

By June 30 of each fiscal year, an amount equal to 1.0 percent of the general state revenues for that fiscal year is transferred to the Budget Stabilization Account.

The Budget Stabilization Account balance can only be used as follows: (a) If the governor declares a state of emergency resulting from a catastrophic event that necessitates government action to protect life or public safety, then for that fiscal year money may be withdrawn and appropriated from the Budget Stabilization Account, via separate legislation setting forth the nature of the emergency and containing an appropriation limited to the above-authorized purposes as contained in the declaration, by a favorable vote of a majority of the members elected to each house of the Legislature; (b) If the employment growth forecast for any fiscal year is estimated to be less than 1 percent, then for that fiscal year money may be withdrawn and appropriated from the Budget Stabilization Account by the favorable vote of a majority of the members elected to each house of the Legislature; (c) Any amount may be withdrawn and appropriated from the Budget Stabilization Account at any time by the favorable vote of at least three-fifths of the members of each house of the Legislature.

When the balance in the Budget Stabilization Account, including investment earnings, equals more than 10 percent of the estimated general state revenues in that fiscal year, the Legislature by the favorable vote of a majority of the members elected to each house of the Legislature may withdraw and appropriate the balance to the extent that the balance exceeds 10 percent of the estimated general state revenues. These appropriations may be made solely for deposit to the Education Construction Fund.

At June 30, 2013, the Budget Stabilization Account had restricted fund balance of $269.7 million.

Note 10
Deficit Net Position

Risk Management Fund

The Risk Management Fund, an internal service fund, had a deficit net position of $486.3 million at June 30, 2013. The Risk Management Fund is used to administer the Self-Insurance Liability Program (SILP). The SILP was initiated in 1990 and is intended to provide funds for the payment of all tort claims and defense expenses. The program investigates, processes, and adjudicates tort and sundry claims filed against Washington state agencies, with the exception of the University of Washington and the Department of Transportation Ferries Division.

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

The net position in the Risk Management Fund improved in the fiscal year ended June 30, 2013. The actuarial projection of the expected claims liability is based on actual experience for the past five years. The projected liability decreased due to the decrease in the number of claims filed and the relative stability in the severity of the claims.

The following schedule details the change in net position for the Risk Management Fund during the fiscal year ended June 30, 2013 (expressed in thousands):

Risk Management Fund	Net Position
Balance, July 1, 2012	$ (709,742)
Fiscal year 2013 activity	223,491
Balance, June 30, 2013	$ (486,251)

State Facilities Fund

The State Facilities Fund had a deficit fund balance of $79.3 million at June 30, 2013.

The State Facilities Fund is used to pay for various capital projects throughout the state. It is primarily supported by bond proceeds, income from property, and sales of property.

Costs were incurred during fiscal year 2013 but the bonds to support these projects were not issued until after June 30, 2013, resulting in a deficit fund balance.

The following schedule details the change in fund balance for the State Facilities Fund during the fiscal year ended June 30, 2013 (expressed in thousands):

State Facilities Fund	Fund Balance
Balance, July 1, 2012	$ 270,318
Fiscal year 2013 activity	(349,645)
Balance, June 30, 2013	$ (79,327)

Note 11
Retirement Plans

A. GENERAL

The state of Washington, through the Department of Retirement Systems, the Board for Volunteer Fire Fighters, and the Administrative Office of the Courts, administers 13 defined benefit retirement plans, three combination defined benefit/defined contribution retirement plans, and one defined contribution retirement plan covering eligible employees of the state and local governments.

Basis of Accounting

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

Investments

Pension plan investments are presented at fair value. Fair values are based on published market prices, quotations from national security exchanges and security pricing services, or by the respective fund managers for securities that are not actively traded. Privately held mortgages are valued at cost, which approximates fair value. Certain pension trust fund investments, including real estate and private equity, are valued based on appraisals or independent advisors. The pension funds have no investments of any commercial or industrial organization whose market value exceeds 5 percent of each plan's net position. Additional disclosure describing investments is provided in Note 3.

Department of Retirement Systems. As established in chapter 41.50 of the Revised Code of Washington (RCW), the Department of Retirement Systems (DRS) administers eight retirement systems comprising 12 defined benefit pension plans and three combination defined benefit/defined contribution plans as follows:

- Public Employees' Retirement System (PERS)
  Plan 1 - defined benefit
  Plan 2 - defined benefit
  Plan 3 - defined benefit/defined contribution

- Teachers' Retirement System (TRS)
  Plan 1 - defined benefit
  Plan 2 - defined benefit
  Plan 3 – defined benefit/defined contribution

- School Employees' Retirement System (SERS)
  Plan 2 - defined benefit
  Plan 3 - defined benefit/defined contribution

- Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF)
  Plan 1 - defined benefit
  Plan 2 - defined benefit

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

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

- Judicial Retirement System (JRS)
  Defined benefit plan

- Judges' Retirement Fund (Judges)
  Defined benefit plan

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

Administration of the PERS, TRS, SERS, LEOFF, WSPRS, and PSERS systems and plans was funded by an employer rate of 0.16 percent of employee salaries. Administration of the JRS and Judges plans is funded by means of legislative appropriations.

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

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

The Department of Retirement Systems prepares a stand-alone financial report. Copies of the report that include financial statements and required supplementary information may be obtained by writing to Washington

State Department of Retirement Systems, PO Box 48380, Olympia, Washington 98504-8380 or by visiting their website at: http:\\www.drs.wa.gov.

Board for Volunteer Fire Fighters. As established in chapter 41.24 RCW, the Washington Board for Volunteer Fire Fighters administers the Volunteer Fire Fighters' and Reserve Officers' Relief and Pension Fund (VFFRPF), a defined benefit plan. Administration of VFFRPF is funded through legislative appropriation.

Administrative Office of the Courts. As established in chapter 2.14 RCW, the Administrative Office of the Courts administers the Judicial Retirement Account (JRA), a defined contribution plan. Administration of JRA is funded through member fees.

Higher Education. As established in chapter 28B.10 RCW, eligible higher education state employees may participate in Higher Education Retirement Plans. These plans are privately administered defined contribution plans with a supplemental defined benefit component.

Plan Disclosures

Plan descriptions, funding policies, a table of employer contributions required and paid for defined benefit plans, schedules of funded status and funding progress, defined benefit pension plans valuations, annual pension cost, and three year trend information follow in Note 11.B through H, respectively. Information related to changes in actuarial assumptions and methods, and changes in benefit provisions are provided in Note 11.I and J. For information related to defined contribution plans, refer to Note 11.K. Details on plan net position and changes in plan net position of pension plans and other employee benefit funds administered by the state are presented in Note 11.L.

Membership of each state administered plan consisted of the following at June 30, 2012, the date of the latest actuarial valuation for all plans:

Number of Participating Members

Plans	Retirees and Beneficiaries Receiving Benefits	Terminated Members Entitled To But Not Yet Receiving Benefits	Active Plan Members Vested	Active Plan Members Nonvested	Total Members
PERS 1	52,672	1,594	6,275	360	60,901
PERS 2	27,820	24,953	88,630	27,247	168,650
PERS 3	1,750	3,968	11,412	16,666	33,796
TRS 1	36,054	477	2,989	30	39,550
TRS 2	3,060	2,348	5,431	5,418	16,257
TRS 3	3,804	6,720	34,558	16,931	62,013
SERS 2	4,437	4,992	13,209	7,637	30,275
SERS 3	3,214	5,928	20,139	10,573	39,854
LEOFF 1	7,845	-	186	-	8,031
LEOFF 2	2,344	689	14,087	2,633	19,753
WSPRS 1	915	120	712	-	1,747
WSPRS 2	-	8	195	159	362
PSERS 2	27	60	2,083	2,167	4,337
JRS	119	-	2	-	121
Judges	12	-	-	-	12
JRA	1	156	7	-	164
VFFRPF	3,971	6,174	3,955	6,477	20,577
Total	148,045	58,187	203,870	96,298	506,400

Following is a summary of the number of government employers participating in state administered retirement plans as of June 30, 2013:

Number of Participating Employers

Plans	State Agencies	School Districts	Counties/ Municipalities	Other Political Subdivisions	Total Employers
PERS 1	135	216	172	183	706
PERS 2	167	-	276	491	934
PERS 3	157	-	209	298	664
TRS 1	49	295	-	-	344
TRS 2	36	304	-	-	340
TRS 3	38	303	-	-	341
SERS 2	-	302	-	-	302
SERS 3	-	301	-	-	301
LEOFF 1	-	-	41	10	51
LEOFF 2	8	-	212	154	374
WSPRS 1	1	-	-	-	1
WSPRS 2	1	-	-	-	1
PSERS 2	9	-	65	1	75
JRS	1	-	-	-	1
Judges	1	-	-	-	1
JRA	3	-	-	-	3
VFFRPF	-	-	-	642	642
Total	606	1,721	975	1,779	5,081

Employers can participate in multiple systems and/or plans. The actual total number of participating employers as of June 30, 2013 is 1,958.

B. PLAN DESCRIPTIONS

Public Employees' Retirement System

The Legislature established the Public Employees' Retirement System (PERS) in 1947. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior Courts (other than judges currently in a judicial retirement system); employees of legislative committees; community and technical colleges, college and university employees not in national higher education retirement programs; judges of district and municipal courts; and employees of local governments. Approximately 49 percent of PERS salaries are accounted for by state employment. PERS retirement benefit provisions are established in chapters 41.34 and 41.40 RCW and may be amended only by the Legislature.

PERS is a cost-sharing multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a combination defined benefit/ defined contribution plan.

PERS members who joined the system by September 30, 1977, are Plan 1 members. Those who joined on or after October 1, 1977, and by either, February 28, 2002, for state and higher education employees, or August 31, 2002, for local government employees, are Plan 2 members unless they exercised an option to transfer their membership to Plan 3.

PERS participants joining the system on or after March 1, 2002, for state and higher education employees, or September 1, 2002, for local government employees, have the irrevocable option of choosing membership in either PERS Plan 2 or PERS Plan 3. The option must be exercised within 90 days of employment. Employees who fail to choose within 90 days default to PERS Plan 3.

PERS is comprised of and reported as three separate plans: Plan 1, Plan 2/3, and Plan 3. Plan 1 accounts for the defined benefits of Plan 1 members. Plan 2/3 accounts for the defined benefits of Plan 2 members and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members.

Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 defined benefit plan may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered to be a single plan for reporting purposes.

PERS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the PERS Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. During fiscal year 2013, the rate was 5.5 percent compounded quarterly. Members in PERS Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest thereon, in lieu of any retirement benefit, upon separation from PERS-covered employment.

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. PERS Plan 3 defined contribution retirement benefits are financed from employee contributions and investment earnings. Members in PERS Plan 3 can elect to withdraw total employee contributions adjusted by earnings and losses from the investment of those contributions upon separation from PERS-covered employment.

PERS Plan 1 members are vested after the completion of five years of eligible service. Plan 1 members are eligible for retirement after 30 years of service, or at the age of 60 with five years of service, or at the age of 55 with 25 years of service.

The monthly benefit is 2 percent of the average final compensation (AFC) per year of service capped at 60 percent. AFC is the monthly average of the 24 consecutive highest-paid service credit months. If a survivor option is chosen, the benefit is reduced.

PERS Plan 1 members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits. Plan 1 members may elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

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

A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the benefit amount is 2 percent of the AFC for each year of service reduced by 2 percent for each year that the member's age is less than 55. The total benefit is limited to 60 percent of the AFC and is actuarially reduced if a survivor option is chosen. Plan 1 members may elect to receive an optional COLA amount based on the Consumer Price Index, capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 2 members are vested after completing five years of eligible service. Plan 2 members are eligible for normal retirement at the age of 65 with five years of service. The monthly benefit is 2 percent of the AFC per year of service. AFC is the monthly average of the 60 consecutive highest-paid service credit months. There is no cap on years of service credit, and a COLA is granted based on the Consumer Price Index, capped at 3 percent annually.

PERS Plan 2 members who have at least 20 years of service credit and are 55 years of age or older are eligible for early retirement with a reduced benefit. The benefit is reduced by an early retirement factor (ERF) that varies according to age, for each year before age 65.

PERS Plan 2 members who have 30 or more years of service credit and are at least 55 years old, can retire under one of two provisions if hired prior to May 1, 2013:

- With a benefit that is reduced by 3 percent for each year before age 65; or
- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

PERS Plan 2 members hired on or after May 1, 2013, have the option to retire early by accepting a reduction of 5 percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service.

PERS Plan 2 benefits are actuarially reduced if a survivor option is chosen.

The defined benefit portion of PERS Plan 3 provides members a monthly benefit that is 1 percent of the AFC per year of service. AFC is the monthly average of the 60 consecutive highest-paid service credit months. There is no cap on years of service credit, and Plan 3 provides the same COLA as Plan 2.

Effective June 7, 2006, PERS Plan 3 members are vested in the defined benefit portion of their plan after 10 years of service; or after five years of service, if 12 months of that service are earned after age 44; or after five service credit years earned in PERS Plan 2 by June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan.

Vested Plan 3 members are eligible for normal retirement at age 65, or they may retire early with the following conditions and benefits:

- If they have at least 10 service credit years and are 55 years old, the benefit is reduced by an ERF that varies according to age, for each year before age 65;
- If they have 30 service credit years and are at least 55 years old, and were hired before May 1, 2013, they have the choice of a benefit that is reduced by 3 percent for each year before age 65; or a benefit with a smaller (or no) reduction factor (depending on age) that imposes stricter return-to-work rules.
- If they have 30 service credit years, are at least 55 years old, and were hired after May 1, 2013, they have the option to retire early by accepting a reduction of 5 percent for each year before age 65.

PERS Plan 3 retirement benefits are actuarially reduced if a survivor option is chosen.

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

PERS Plan 2 and Plan 3 provide disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 monthly benefit amount is 2 percent of the AFC per year of service. For Plan 3, the monthly benefit amount is 1 percent of the AFC per year of service. These disability benefit amounts are actuarially reduced for each year that the member's age is less than 65, and to reflect the choice of a survivor option. There is no cap on years of service credit, and a COLA is granted based on the Consumer Price Index, capped at 3 percent annually.

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

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

Portability of retirement benefits allows for PERS members' compensation that is reportable in all dual members' systems, except in WSPRS, to be included in the calculation of all dual members' benefits, and removing the "maximum benefit rule" for dual members who have less than 15 years of service in one capped plan and service in one uncapped plan.

Effective after the January 2008 distribution, gain sharing for PERS Plan 1 and Plan 3 members was discontinued.

Additional COLAs were provided to PERS Plan 1 retirees in July 2009 and new alternative early retirement provisions were created for PERS Plan 2 and Plan 3 members.

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

Judges in PERS Plan 3 could elect a 1.6 percent of pay per year of service benefit, capped at 37.5 percent of AFC.

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

Material changes, if any, in PERS benefit provisions for the fiscal year ended June 30, 2013, are listed in the table at the end of this section.

Teachers' Retirement System

The Legislature established the Teachers' Retirement System (TRS) in 1938. Eligibility for membership requires service as a certificated public school employee working in an instructional, administrative or supervisory capacity. TRS is comprised principally of non-state agency employees. TRS retirement benefit provisions are established in chapters 41.32 and 41.34 RCW and may be amended only by the Legislature.

TRS is a cost-sharing multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a defined benefit plan with a defined contribution component.

TRS members who joined the system by September 30, 1977, are Plan 1 members. Those who joined on or after October 1, 1977, and by June 30, 1996, are Plan 2 members unless they exercised an option to transfer their membership to Plan 3. TRS members joining the system on or after July 1, 1996, and those who exercised their transfer option, are members of TRS Plan 3.

Legislation passed in 2007 gives TRS members hired on or after July 1, 2007, 90 days to make an irrevocable choice to become a member of TRS Plan 2 or Plan 3. At the end of 90 days, any member who has not made a choice, becomes a member of Plan 3.

TRS is comprised of and reported as three separate plans: Plan 1, Plan 2/3, and Plan 3. Plan 1 accounts for the defined benefits of Plan 1 members. Plan 2/3 accounts for the defined benefits of Plan 2 members and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members.

Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 defined benefit plan may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered to be a single plan for reporting purposes.

TRS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the TRS Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. During fiscal year 2013, the rate was 5.5 percent compounded quarterly. Members in TRS Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest thereon upon separation from TRS-covered employment.

TRS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. TRS Plan 3 defined contribution benefits are financed from employee contributions and investment earnings. Employees in TRS Plan 3 can elect to withdraw total employee contributions adjusted by earnings and losses from the investment of those contributions upon separation from TRS-covered employment.

TRS Plan 1 members are vested after the completion of five years of eligible service. Plan 1 members are eligible for retirement at any age after 30 years of service, or at the age of 60 with five years of service, or at the age of 55 with 25 years of service. The monthly benefit is 2 percent of the average final compensation (AFC) for each year of service credit, up to a maximum of 60 percent. AFC is the total earnable compensation for the two consecutive highest-paid fiscal years, divided by two.

TRS Plan 1 members may elect to receive an optional COLA amount based on the Consumer Price Index, capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

TRS Plan 1 provides death, as well as, permanent and temporary disability benefits.

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

TRS Plan 2 retirement benefits are vested after completing five years of eligible service. Plan 2 members are eligible for normal retirement at the age of 65 with five years of service. The monthly benefit is 2 percent of the AFC per year of service. AFC is the monthly average of the 60 consecutive highest-paid service credit months. There is no cap on years of service credit; and a COLA is granted based on the Consumer Price Index, capped at 3 percent annually.

TRS Plan 2 members who have at least 20 years of service credit and are 55 years of age or older are eligible for early retirement with a reduced benefit. The benefit is reduced by an early retirement factor (ERF) that varies according to age, for each year before age 65.

TRS Plan 2 members who have 30 or more years of service credit, were hired prior to May 1, 2013, and are at least 55 years old, can retire under one of two provisions:

- With a benefit that is reduced by 3 percent for each year before age 65; or
- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

TRS Plan 2 members hired on or after May 1, 2013, have the option to retire early by accepting a reduction of 5 percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service.

TRS Plan 2 retirement benefits are actuarially reduced if a survivor option is chosen.

The defined benefit portion of TRS Plan 3 provides members a monthly benefit that is 1 percent of the AFC per year of service. AFC is the monthly average of the 60 consecutive highest-paid service credit months. There is no cap on years of service credit, and Plan 3 provides the same COLA as Plan 2.

TRS Plan 3 members are vested in the defined benefit portion of their plan after 10 years of service; or after five years of service, if 12 months of that service are earned after age 44; or after five service credit years earned in TRS Plan 2 by July 1, 1996. Plan 3 members are immediately vested in the defined contribution portion of their plan.

Vested TRS Plan 3 members are eligible for normal retirement at age 65, or they may retire early with the following conditions and benefits:

- If they have at least 10 service credit years and are 55 years old, the benefit is reduced by an ERF that varies according to age, for each year before age 65;

- If they have 30 service credit years, were hired prior to May 1, 2013, and are at least 55 years old, they have the choice of a benefit that is reduced 3 percent for each year before age 65, or a benefit with a smaller (or no) reduction factor (depending on age) that imposes stricter return-to-work rules.

- If they have 30 service credit years, are at least 55 years old, and were hired after May 1, 2013, they have the option to retire early by accepting a reduction of 5 percent for each year before age 65.

TRS Plan 3 retirement benefits are actuarially reduced if a survivor option is chosen.

TRS Plan 2 and Plan 3 provide disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 monthly benefit amount is 2 percent of the AFC per year of service. For Plan 3, the monthly benefit amount is 1 percent of the AFC per year of service. These disability benefit amounts are actuarially reduced for each year that the member's age is less than 65, and to reflect the choice of a survivor option. There is no cap on years of service credit, and a COLA is granted based on the Consumer Price Index, capped at 3 percent annually.

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

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

Portability of retirement benefits allows for TRS members' compensation that is reportable in all dual members' systems, except in WSPRS, to be included in the calculation of all dual members' benefits, and removing the "maximum benefit rule" for dual members who have less than 15 years of service in one capped plan and service in one uncapped plan.

Effective after the January 2008 distribution, gain sharing for TRS Plan 1 and Plan 3 members was discontinued.

Additional COLAs were provided to TRS Plan 1 retirees in July 2009 and new alternative early retirement provisions were created for TRS Plan 2 and Plan 3 members.

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

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

Material changes, if any, in TRS benefit provisions for the fiscal year ended June 30, 2013, are listed in the table at the end of this section.

School Employees' Retirement System

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

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

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

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

SERS is comprised of and reported as two separate plans: Plan 2/3 and Plan 3. Plan 2/3 accounts for the defined benefits of Plan 2 members and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members.

Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 defined benefit plan may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered to be single plan for reporting purposes.

SERS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the SERS Plan 2 defined benefit plan accrue interest at a rate specified by the Director of DRS. During fiscal year 2013, the rate was 5.5 percent compounded quarterly. Members in SERS Plan 2 can elect to withdraw total employee contributions and interest thereon upon separation from SERS-covered employment.

SERS Plan 2 members are vested after completing five years of eligible service. Plan 2 members are eligible for normal retirement at the age of 65 with five years of service. The monthly benefit is 2 percent of the average final compensation (AFC) per year of service. AFC is the monthly average of the 60 consecutive highest-paid service credit months. There is no cap on years of service credit and a COLA is granted based on the Consumer Price Index, capped at 3 percent annually.

SERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. SERS Plan 3 defined contribution benefits are financed from employee contributions and investment earnings. Employees in SERS Plan 3 can elect to withdraw total employee contributions adjusted by earnings and losses from the investment of those contributions upon separation from SERS-covered employment.

SERS Plan 2 members who have at least 20 years of service credit and are 55 years of age or older are eligible for early retirement with a reduced benefit. The benefit is reduced by an early retirement factor (ERF) that varies according to age, for each year before age 65.

SERS Plan 2 members hired prior to May 1, 2013, who have 30 service credit years and are at least 55 years old can retire under one of two provisions:

- With a benefit that is reduced by 3 percent for each year before age 65; or
- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

SERS Plan 2 members hired on or after May 1, 2013, have the option to retire early by accepting a reduction of five percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service.

SERS Plan 2 retirement benefits are actuarially reduced if a survivor option is chosen.

The defined benefit portion of SERS Plan 3 provides members a monthly benefit that is 1 percent of the AFC per year of service. AFC is the monthly average of the 60 consecutive highest-paid service credit months. There is no cap on years of service credit, and Plan 3 provides the same COLA as Plan 2.

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

Vested SERS Plan 3 members are eligible for normal retirement at age 65, or they may retire early with the following conditions and benefits:

- If they have at least 10 service credit years and are 55 years old, the benefit is reduced by an ERF that varies according to age, for each year before age 65;
- If they have 30 service credit years, are at least 55 years old, and hired before May 1, 2013, they have the choice of a benefit that is reduced by 3 percent for each year before age 65; or a benefit with a smaller (or

no) reduction factor (depending on age) that imposes stricter return-to-work rules.

- If they have 30 service credit years, are at least 55 years old, and were hired after May 1, 2013, they have the option to retire early by accepting a reduction of five percent for each year before age 65.

SERS Plan 3 retirement benefits are also actuarially reduced if a survivor option is chosen.

SERS Plan 2 and Plan 3 provide disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 monthly benefit amount is 2 percent of the AFC per year of service. For Plan 3, the monthly benefit amount is 1 percent of the AFC per year of service. These disability benefit amounts are actuarially reduced for each year that the member's age is less than 65, and to reflect the choice of a survivor option. There is no cap on years of service credit, and a COLA is granted based on the Consumer Price Index, capped at 3 percent annually.

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

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

Portability of retirement benefits allows for SERS members' compensation that is reportable in all dual members' systems, except in WSPRS, to be included in the calculation of all dual members' benefits, and removing the "maximum benefit rule" for dual members who have less than 15 years of service in one capped plan and service in one uncapped plan.

Material changes, if any, in SERS benefit provisions for the fiscal year ended June 30, 2013, are listed in the table at the end of this section.

Law Enforcement Officers' and Fire Fighters' Retirement System

The Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) was established in 1970 by the Legislature. Membership includes all full-time, fully compensated, local law enforcement commissioned officers, firefighters, and as of July 24, 2005, emergency medical technicians.

LEOFF membership is comprised primarily of non-state employees, with Department of Fish and Wildlife enforcement officers who were first included effective July 27, 2003, being an exception. LEOFF retirement benefit provisions are established in chapter 41.26 RCW and may be amended only by the Legislature.

LEOFF is a cost-sharing multiple-employer retirement system comprised of two separate defined benefit plans. LEOFF members who joined the system by September 30, 1977, are Plan 1 members. Those who joined on or after October 1, 1977, are Plan 2 members.

Effective July 1, 2003, the LEOFF Plan 2 Retirement Board was established by Initiative 790 to provide governance of LEOFF Plan 2. The Board's duties include adopting contribution rates and recommending policy changes to the Legislature.

LEOFF retirement benefits are financed from a combination of investment earnings, employer and employee contributions, and a special funding situation in which the state pays through legislative appropriations. Employee contributions to the LEOFF Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. During fiscal year 2013, the rate was 5.5 percent compounded quarterly. Members in LEOFF Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest earnings upon separation from LEOFF-covered employment.

LEOFF Plan 1 members are vested after the completion of five years of eligible service. Plan 1 members are eligible for retirement with five years of service at the age of 50. The benefit per year of service calculated as a percent of final average salary (FAS) is as follows:

Term of Service	Percent of FAS
20+	2.0%
10-19	1.5%
5-9	1.0%

The FAS is the basic monthly salary received at the time of retirement, provided a member has held the same position or rank for 12 months preceding the date of retirement. Otherwise, it is the average of the highest consecutive 24 months' salary within the last 10 years of service. A COLA is granted based on the Consumer Price Index.

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

A one-time duty-related death benefit is provided to the estate (or duly designated nominee) of a LEOFF Plan 1 member who dies as a result of injuries or illness sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by the Director of the Department of Labor and Industries.

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

LEOFF Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members are eligible for retirement at the age of 53 with five years of service, or at age 50 with 20 years of service. Plan 2 members receive a benefit of 2 percent of the FAS per year of service (FAS is based on the highest consecutive 60 months), actuarially reduced to reflect the choice of a survivor option. Members who retire prior to the age of 53 receive reduced benefits. If the member has at least 20 years of service and is age 50, the reduction is 3 percent for each year prior to age 53. Otherwise, the benefits are actuarially reduced for each year prior to age 53. A COLA is granted based on the Consumer Price Index, capped at 3 percent annually.

LEOFF Plan 2 provides disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 monthly benefit amount is 2 percent of the FAS for each year of service. Benefits are reduced to reflect the choice of a survivor option and for each year that the member's age is less than 53, unless the disability is duty-related. If the member has at least 20 years of service and is age 50, the reduction is 3 percent for each year prior to age 53.

Members of LEOFF Plan 2 who leave service because of a line of duty disability are allowed to withdraw 150 percent of accumulated member contributions. This withdrawal benefit is not subject to federal income tax. Alternatively, members of LEOFF Plan 2 who leave service because of a line of duty disability may be eligible to receive a retirement benefit of at least 10 percent of the FAS and 2 percent per year of service beyond five years. The first 10 percent of the FAS is not subject to federal income tax.

A disability benefit equal to 70 percent of their FAS, subject to offsets for workers' compensation and Social Security disability benefits received, is also available to those LEOFF Plan 2 members who are catastrophically disabled in the line of duty and incapable of future substantial gainful employment in any capacity. Effective June 2010, benefits to LEOFF Plan 2 members who are catastrophically disabled include payment of eligible health care insurance premiums.

LEOFF Plan 2 retirees may return to work in an eligible position covered by another retirement system, choose membership in that system and suspend their pension benefits, or not choose membership and continue receiving pension benefits without interruption.

Beginning in 2011, when state General Fund revenues increase by at least 5 percent over the prior biennium's revenues, the State Treasurer will transfer, subject to legislative appropriation, specific amounts into a Local Public Safety Enhancement Account. Half of this transfer will be proportionately distributed to all jurisdictions with LEOFF Plan 2 members. The other half will be transferred to a LEOFF Retirement System Benefits Improvement Account to fund benefit enhancements for LEOFF Plan 2 members.

A one-time duty-related death benefit is provided to the estate (or duly designated nominee) of a LEOFF Plan 2 member who dies as a result of injuries or illness sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by the Director of the Department of Labor and Industries.

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

Legislation passed in 2009 provides to the Washington-state-registered domestic partners of LEOFF Plan 2 members the same treatment as married spouses, to the extent that the treatment is not in conflict with federal laws.

LEOFF members meeting specific eligibility requirements have options available to enhance their retirement benefits. Some of these options are available to their survivors.

Portability of retirement benefits allows for LEOFF Plan 2 members' compensation that is reportable in all dual members' systems, except in WSPRS, to be included in the calculation of all dual members' benefits, and removing the "maximum benefit rule" for dual members who have less than 15 years of service in one capped plan and service in one uncapped plan.

Material changes, if any, in LEOFF benefit provisions for the fiscal year ended June 30, 2013, are listed in the table at the end of this section.

Washington State Patrol Retirement System

The Washington State Patrol Retirement System (WSPRS) was established by the Legislature in 1947. Any commissioned employee of the Washington State Patrol is eligible to participate. WSPRS benefits are established in chapter 43.43 RCW and may be amended only by the Legislature.

WSPRS is a single-employer defined benefit retirement system. WSPRS members who joined the system by December 31, 2002, are Plan 1 members. Those who joined on or after January 1, 2003, are Plan 2 members. For financial reporting and investment purposes, however, both plans are accounted for in the same pension fund.

WSPRS retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to WSPRS accrue interest at a rate specified by the Director of DRS. During fiscal year 2013, the rate was 5.364 percent annually, compounded monthly. Members in WSPRS can elect to withdraw total employee contributions and interest earnings thereon upon separation from WSPRS-covered employment.

WSPRS member contribution rates will be no more than 7 percent of pay plus half the cost of any future benefit improvements. The employer will pay the contribution rate required to cover all system costs that are not covered by the member contribution rate. Also a minimum total contribution rate is established for WSPRS, beginning July 1, 2010.

There is no vesting requirement for active WSPRS members. Inactive WSPRS members are vested after the completion of five years of eligible service. Members are eligible for retirement at the age of 55 with five years of service, or after 25 years of service, and must retire at age 65. This mandatory requirement does not apply to the Chief of the Washington State Patrol.

Effective June 7, 2012, those WSPRS members who have service credit within PERS Plan 2 have options to transfer their service credit earned as commercial vehicle enforcement officers or as communications officers into the WSPRS, provided the member pays the full actuarial cost of the transfer.

The monthly benefit is 2 percent of the average final salary (AFS) per year of service, capped at 75 percent. A cost-of-living allowance is granted, based on the Consumer Price Index, capped at 3 percent annually.

For WSPRS Plan 1 members, AFS is based on the average of the 24 highest-paid service credit months and excludes voluntary overtime. Death benefits for these members, if on active duty, consist of the following: (1) If eligible spouse, 50 percent of the AFS, plus 5 percent of the AFS for each eligible surviving child, with a limitation on the combined benefit of 60 percent of the AFS; or (2) If no eligible spouse, 30 percent of AFS for the first child plus 10 percent for each additional child, subject to a 60 percent limitation of AFS, or (3) If no spouse or eligible children, beneficiary gets refund of contributions and interest.

For WSPRS Plan 2 members, AFS is based on the average of the 60 consecutive highest-paid service credit months and excludes both voluntary overtime and cash-outs of annual and holiday leave. At retirement, these members also have the option of selecting an actuarially reduced benefit in order to provide for post-retirement survivor benefits.

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

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

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

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

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

Legislation passed in 2009 provides to the Washington-state-registered domestic partners of WSPRS members the same treatment as married spouses, to the extent that the treatment is not in conflict with federal laws.

Material changes, if any, in WSPRS benefit provisions for the fiscal year ended June 30, 2013, are listed in the table at the end of this section.

Public Safety Employees' Retirement System

The Public Safety Employees' Retirement System (PSERS) was created by the 2004 Legislature and became effective July 1, 2006. PSERS retirement benefit provisions are established by chapter 41.37 RCW and may be amended only by the Legislature.

PSERS is a cost-sharing multiple-employer retirement system comprised of a single defined benefit plan, PSERS Plan 2. PSERS membership includes:

- Full-time employees hired by a covered employer before July 1, 2006, who met at least one of the PSERS eligibility criteria and elected membership during the period of July 1, 2006, to September 30, 2006; and,

- Full-time employees hired on or after July 1, 2006, by a covered employer, that meet at least one of the PSERS eligibility criteria.

A "covered employer" is one that participates in PSERS. Covered employers include:

- State of Washington agencies: Department of Corrections, Department of Natural Resources, Gambling Commission, Liquor Control Board, Parks and Recreation Commission, and Washington State Patrol;

- Washington state counties;

- Corrections departments of Washington state cities except for Seattle, Tacoma, and Spokane; and,

- Correctional entities formed by PSERS employers under the Interlocal Cooperation Act.

To be eligible for PSERS, an employee must work on a full-time basis and:

- Have completed a certified criminal justice training course with authority to arrest, conduct criminal investigations, enforce the criminal laws of Washington, and carry a firearm as part of the job; or

- Have primary responsibility to ensure the custody and security of incarcerated or probationary individuals; or

- Function as a limited authority Washington peace officer, as defined in RCW 10.93.020; or

- Have primary responsibility to supervise eligible members who meet the above criteria.

PSERS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the plan accrue interest at a rate specified by the Director of DRS. During fiscal year 2013, the rate was 5.5 percent compounded quarterly. Members in PSERS Plan 2 can elect to withdraw total employee contributions and interest thereon upon separation from PSERS-covered employment.

PSERS members are vested after an employee completes five years of eligible service. PSERS members may retire with a monthly benefit of 2 percent of the average final compensation (AFC) at the age 65 with five years of service, or at the age of 60 with at least 10 years of PSERS service credit, or at age 53 with 20 years of service. AFC is the monthly average of the member's 60 consecutive highest-paid service credit months. There is no cap on years of service credit; and a COLA is granted based on the Consumer Price Index, capped at 3 percent annually.

PSERS members who retire prior to the age of 60 receive reduced benefits. If retirement is at age 53 or older with at least 20 years of service, a 3 percent per year reduction for each year between the age at retirement and age 60 applies.

PSERS Plan 2 provides disability benefits. There is no minimum amount of service credit required for eligibility. The monthly benefit amount is 2 percent of the AFC for each year of service. AFC is based on the member's 60 consecutive highest creditable months of service. Benefits are actuarially reduced for each year that the member's age is less than 60 (with 10 or more service credit years in PSERS), or less than 65 (with fewer than 10 service credit years). There is no cap on years of service credit and a COLA is granted based on the Consumer Price Index, capped at 3 percent annually.

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

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

Portability of retirement benefits allows for PSERS members' compensation that is reportable in all dual members' systems, except in WSPRS, to be included in the calculation of all dual members' benefits, and removing the "maximum benefit rule" for dual members who have less than 15 years of service in one capped plan and service in one uncapped plan.

Material changes, if any, in PSERS benefit provisions for the fiscal year ended June 30, 2013, are listed in the table at the end of this section.

Judges' Retirement Fund

The Judges' Retirement Fund was created by the Legislature on March 22, 1937, pursuant to chapter 2.12 RCW, to provide retirement benefits to judges elected or appointed to the Supreme Court, Court of Appeals, and Superior Courts of the state of Washington. The system was closed to new entrants on August 8, 1971, with new judges joining the Judicial Retirement System. Judges' retirement benefit provisions are established in chapter 2.12 RCW and may be amended only by the Legislature.

Judges' Retirement Fund is a single-employer defined benefit retirement system. There are currently no active members in this plan. Retirement benefits are financed on a pay-as-you-go basis from a combination of investment earnings and employer contributions.

Material changes, if any, in benefit provisions for Judges for the fiscal year ended June 30, 2013, are listed in the table at the end of this section.

Judicial Retirement System

The Judicial Retirement System (JRS) was established by the Legislature in 1971. Membership includes judges elected or appointed to the Supreme Court, Court of Appeals, and Superior Courts on or after August 9, 1971. The system was closed to new entrants on July 1, 1988, with new judges joining PERS. JRS retirement benefit provisions are established in chapter 2.10 RCW and may be amended only by the Legislature.

JRS is a single-employer defined benefit retirement system. JRS retirement benefits are financed on a pay-as-you-go basis from a combination of investment earnings, employer contributions, and employee contributions.

Employee contributions to the plan accrue interest at a rate specified by the Director of DRS. During fiscal year 2013, the rate on employee contributions was 5.5 percent compounded quarterly. JRS members who are vested in the plan may not elect to withdraw their contributions upon termination.

JRS members are eligible for retirement at the age of 60 with 15 years of service, or at the age of 60 after 12 years of service (if the member left office involuntarily) with at least 15 years after beginning judicial service.

The benefit per year of service calculated as a percent of final average salary (FAS) is shown in the table below. This benefit is capped at 75 percent of FAS, exclusive of cost-of-living increases.

Term of Service	Percent of FAS
15+	3.5%
10-14	3.0%

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

Material changes, if any, in JRS benefit provisions for the fiscal year ended June 30, 2013, are listed in the table at the end of this section.

The Volunteer Fire Fighters' and Reserve Officers' Relief and Pension Fund

The Volunteer Fire Fighters' Relief Act was created by the Legislature in 1935 and the pension portion of the act was added in 1945. Membership in the system requires volunteer firefighter service with a fire department of an electing municipality of Washington State, emergency work as an emergency medical technician with an emergency medical service district, or work as a commissioned reserve law enforcement officer. Retirement benefits are established in chapter 41.24 RCW and may be amended only by the Legislature.

The Volunteer Fire Fighters' and Reserve Officers' Relief and Pension Fund (VFFRPF) is a cost-sharing multiple-employer retirement system that provides death and active duty disability benefits to all members, and optional defined benefit pension plan payments.

VFFRPF retirement benefits are financed from a combination of investment earnings, member contributions, municipality contributions, and state contributions. Since retirement benefits cover volunteer service, benefits are paid based on years of service not salary. Members are vested after ten years of service. VFFRPF members accrue no interest on contributions and may elect to withdraw their contributions upon termination.

After 25 years of active membership, members having reached the age of 65 and who have paid their annual retirement fee for 25 years are entitled to receive a monthly benefit of $50 plus $10 per year of service. The maximum monthly benefit is $300. Reduced pensions are available for members under the age of 65 or with less than 25 years of service.

Death and active duty disability benefits are provided at no cost to the member. Death benefits in the line of duty consist of a lump sum of $214,000. Funeral and burial expenses are also paid in a lump sum of $2,000 for members on active duty. Members receiving disability benefits at the time of death shall be paid $500.

Members injured while on active duty shall receive disability payments of $2,550 per month for up to six months; thereafter, payments are reduced. Disabled members receive $1,275 per month, their spouse $255, and dependent children $110.

Effective July 1, 2001, the disability income benefits and the maximum survivor benefits under the Relief Plan are increased for increases in the Consumer Price Index.

Effective July 22, 2007, vocational rehabilitation may be paid for disabled members who are unable to return to their previous employment. Members who qualify are subject to a $4,000 maximum limit and are required to follow certain conditions established by the board and authorized by chapter 41.24 RCW.

Effective June 10, 2010, members of the VFFRPF retirement system with vested pensions who have reached age 65 may, under certain conditions, retire from service, draw their pensions, and return to service. Additional service does not count toward the pension, and members cannot draw disability compensation. Departments opting to allow their members to participate in the retire-rehire program agree to pay for annual physicals and an additional surcharge.

Effective June 7, 2012 at any time prior to retirement or at the time of retirement, a member of the VFFRPF may purchase retirement pension coverage for years of eligible service prior to the member's enrollment in the system or for years of service credit lost due to the withdrawal of the member's pension fee contributions. A member choosing to purchase such retirement pension coverage must make a contribution to the system equal to the actuarial value of the resulting benefit increase.

Material changes, if any, in VFFRPF benefit provisions for the fiscal year ended June 30, 2013, are listed in the table at the end of this section.

Material Legislative Changes to Pension Plans

For the Fiscal Year Ended June 30, 2013

System/Plan Affected	Effective Date	Description of the changes
All systems, plans	6/7/12*	This legislation allows same-gender couples to marry, and automatically converts certain domestic partnerships to marriages unless the couple marries or dissolves the partnership before June 30, 2014. Under the provisions of this bill, survivor benefits may be available to certain members of the state's retirement systems sooner than under current law. (Chapter 3, Laws of 2012) * This law was on hold pending the results of the referendum which passed in November, 2012.

C. FUNDING POLICIES

All employers are required to contribute at the level established by the Legislature. The table at the end of this section provides the required contribution rates for all plans (expressed as a percentage of current year covered payroll) at the close of fiscal year 2013.

Public Employees' Retirement System

Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates, Plan 2 employer and employee contribution rates, and Plan 3 employer contribution rates. The methods used to determine the contribution requirements are established under state statute in accordance with chapters 41.40 and 41.45 RCW.

- Plan 1 - Employee contribution rates are established by statute at 6 percent for state agencies and local government unit employees, and at 7.5 percent for state government elected officials.

- Plan 2/3 - The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3.

- Plan 3 – The employee contribution rates range from 5 to 15 percent, based on member choice.

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

Teachers' Retirement System

Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates, Plan 2 employer and employee contribution rates, and Plan 3 employer contribution rates. The methods used to determine the contribution requirements are established under state statute in accordance with chapters 41.32 and 41.45 RCW.

- Plan 1 - Employee contribution rates are established by statute at 6 percent for state agencies and local government unit employees, and at 7.5 percent for state government elected officials.
- Plan 2/3 – The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3.
- Plan 3 – The employee contribution rates range from 5 to 15 percent, based on member choice.

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

School Employees' Retirement System

Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 employer contribution rates. The methods used to determine the contribution requirements are established under state statute in accordance with chapters 41.35 and 41.45 RCW.

- Plan 2/3 – The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3.
- Plan 3 – The employee contribution rates range from 5 to 15 percent, based on member choice.

Law Enforcement Officers' and Fire Fighters' Retirement System

Employer and employee contribution rates are developed by the Office of the State Actuary to fully fund the plans. Starting on July 1, 2000, Plan 1 employers and employees contribute zero percent, as long as the plan remains fully funded. Plan 2 employers and employees are required to pay at the level adopted by the LEOFF Plan 2 Retirement Board.

The Legislature, by means of a special funding arrangement, appropriates money from the state General Fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the recommendations of the Pension Funding Council and the LEOFF Plan 2 Retirement Board.

However, this special funding situation is not mandated by the State Constitution and this funding requirement could be returned to the employers by a change of statute. For fiscal year 2013, the state contributed $54.2 million to LEOFF Plan 2.

Washington State Patrol Retirement System

Each biennium, the state Pension Funding Council adopts the employee and the state contribution rates, subject to revision by the Legislature. The methods used to determine the contribution requirements are established under state statute in accordance with chapters 43.43 and 41.45 RCW.

The preliminary employee and the state contribution rates are developed by the Office of the State Actuary to fully fund the plan. State statute also requires employees to contribute at a rate of at least 4.85 percent.

Public Safety Employees' Retirement System

Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates. The methods used to determine the contribution requirements are established under state statute in accordance with chapters 41.37 and 41.45 RCW.

The employer and employee contribution rates for Plan 2 are developed by the Office of the State Actuary to fully fund Plan 2.

Judges' Retirement Fund

There are no active members remaining in the Judges' Retirement Fund. Past contributions were made based on rates set in chapter 2.12 RCW. By statute, employees were required to contribute 6.5 percent with an equal amount contributed by the state.

The state guarantees the solvency of the Judges' Retirement Fund on a pay-as-you-go basis. Each biennium, the Legislature, through appropriations from the state General Fund, contributes amounts sufficient to meet benefit payment requirements. For fiscal year 2013, no such appropriations or contributions were made.

Judicial Retirement System

There are no active members remaining in the Judicial Retirement System. Past contributions were made based on rates set in chapter 2.10 RCW. By statute, employees were required to contribute 7.5 percent with an equal amount contributed by the state.

The state guarantees the solvency of the Judicial Retirement System on a pay-as-you-go basis. Each biennium, the Legislature, through appropriations from the state General Fund, contributes amounts sufficient to meet benefit payment requirements. For fiscal year 2013, the state contributed $10.1 million.

The Volunteer Fire Fighters' and Reserve Officers' Relief and Pension Fund

The retirement provisions of Volunteer Fire Fighters' and Reserve Officers' Relief and Pension Fund (VFFRPF) are funded through member contributions of $30 per year, varying employer contributions, and 40 percent of the Fire Insurance Premium Tax, per chapter 41.24 RCW. For fiscal year 2013, the insurance premium tax contribution was $6.0 million.

Employers consist of fire departments, emergency medical service districts and law enforcement agencies. The contribution rate for fire districts is set by the Legislature and was $30 per member for the years 2011, 2012, and 2013. The rate for emergency medical service districts and law enforcement agencies is set each year by the State Board for Volunteer Fire Fighters' and Reserve Officers' Relief and Pension, based on the actual cost of participation as determined by the Office of the State Actuary. For the year 2013, the rate was $90 per member. Employers may opt to pay the member's fee on their behalf.

VFFRPF members earn no interest on contributions and may elect to withdraw their contributions upon termination.

Administrative expenses are funded through fire insurance premium taxes and are maintained in a separate fund. Amounts not needed for administrative expenses are transferred to VFFRPF.

Required contribution rates (expressed as a percentage of current year covered payroll) for all retirement plans at the close of fiscal year 2013 were as follows:

Required Contribution Rates	Employer			Employee		
	Plan 1	Plan 2	Plan 3	Plan 1	Plan 2	Plan 3
PERS						
Members Not Participating in JBM						
State agencies*	7.21%	7.21%	7.21%**	6.00%	4.64%	***
Local governmental units*	7.21%	7.21%	7.21%**	6.00%	4.64%	***
State govt elected officials*	10.74%	7.21%	7.21%**	7.50%	4.64%	***
Members Participating in JBM						
State agencies*	9.71%	9.71%	9.71%**	9.76%	9.10%	7.50%****
Local governmental units*	7.21%	7.21%	7.21%**	12.26%	11.60%	7.50%****
TRS						
Members Not Participating in JBM						
State agencies*	8.05%	8.05%	8.05%**	6.00%	4.69%	***
Local governmental units*	8.05%	8.05%	8.05%**	6.00%	4.69%	***
State govt elected officials*	8.05%	8.05%	8.05%**	7.50%	4.69%	***
Members Participating in JBM						
State agencies*	8.05%	N/A	N/A	9.76%	N/A	N/A
SERS						
State agencies*	N/A	7.59%	7.59%**	N/A	4.09%	***
Local governmental units*	N/A	7.59%	7.59%**	N/A	4.09%	***
LEOFF						
Ports and universities*	N/A	8.62%	N/A	N/A	8.46%	N/A
Local governmental units*	0.16%	5.24%	N/A	N/A	8.46%	N/A
State of Washington	N/A	3.38%	N/A	N/A	N/A	N/A
WSPRS						
State agencies*	8.07%	8.07%	N/A	6.59%	6.59%	N/A
PSERS						
State agencies*	N/A	8.87%	N/A	N/A	6.36%	N/A
Local governmental units*	N/A	8.87%	N/A	N/A	6.36%	N/A
JRS						
State agencies*	7.50%	N/A	N/A	7.50%	N/A	N/A

* Includes an administrative expense rate of 0.16%.
** Plan 3 defined benefit portion only.
*** Variable from 5% to 15% based on rate selected by the member.
**** Minimum rate.
N/A indicates data not applicable.

D. EMPLOYER CONTRIBUTIONS REQUIRED AND PAID

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

Plans	2013	2012	2011
PERS Plan 1	$ 125.6	$ 124.0	$ 72.3
PERS Plan 2/3	182.9	182.8	158
TRS Plan 1	3.7	3.1	4.4
TRS Plan 2/3	1.2	1.1	0.7
PSERS Plan 2	7.5	7.4	8.0
LEOFF Plan 2	54.2	52.8	52.9
VFFRPF	6.0	5.6	5.7

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

E. FUNDED STATUS AND FUNDING PROGRESS

The funded status of each plan as of June 30, 2012, the most recent actuarial valuation date, is as follows (dollars in millions):

Plans	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
PERS Plan 1	$ 8,520.6	$ 12,359.7	$ 3,839.0	69%	$ 370.8	1035%
PERS Plan 2/3*	22,652.6	22,779.9	127.4	99%	8,192.6	2%
TRS Plan 1	7,144.5	9,038.4	1,893.9	79%	228.5	829%
TRS Plan 2/3*	7,757.9	7,478.2	(279.7)	104%	4,076.9	0%
SERS Plan 2/3*	3,100.3	3,103.3	3.0	100%	1,478.8	0%
LEOFF Plan 1	5,561.6	4,120.3	(1,441.2)	135%	18.8	0%
LEOFF Plan 2*	7,221.9	6,352.9	(869.0)	114%	1,560.1	0%
WSPRS Plan 1/2*	981.7	884.2	(97.5)	111%	80.2	0%
PSERS Plan 2*	180.5	158.7	(21.8)	114%	238.0	0%
JRS	3.5	104.0	100.5	3%	0.3	33779%
Judges	1.9	3.6	1.7	52%	N/A	N/A
VFFRPF	170.3	170.3	-	100%	N/A	N/A

N/A indicates data not applicable.

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

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

Source: Washington State Office of the State Actuary

Defined Benefit Pension Plans Administered by the State

For the Fiscal Year Ended June 30, 2013

The information was determined as part of the actuarial valuations at the dates indicated below. Additional information as of the latest valuation follows.

	PERS Plan 1	PERS Plan 2/3	TRS Plan 1	TRS Plan 2/3	SERS Plan 2/3
Valuation date	6/30/2012	6/30/2012	6/30/2012	6/30/2012	6/30/2012
Actuarial cost method	Entry age normal (1)	Aggregate (2)	Entry age normal (1)	Aggregate (2)	Aggregate (2)
Amortization method					
Funding	Level % (4)	N/A	Level % (4)	N/A	N/A
GASB	Level $	N/A	Level $	N/A	N/A
Remaining amortization years (closed)	10-year rolling	Open plan	10-year rolling	Open plan	Open plan
Remaining amortization period (closed)	N/A	N/A	N/A	N/A	N/A
Asset valuation method	8-year graded smoothed fair value (5)	8-year graded smoothed fair value (5)	8-year graded smoothed fair value (5)	8-year graded smoothed fair value (5)	8-year graded smoothed fair value (5)
Actuarial assumptions					
Investment rate of return (7)	7.90%	7.90%	7.90%	7.90%	7.90%
Projected salary increases					
Salary inflation at 3.75%, plus the merit increases described below:					
Initial salary merit (grades down to 0%)	6.1%	6.1%	5.8%	5.8%	6.9%
Merit period (years of service)	17 yrs	17 yrs	26 yrs	26 yrs	20 yrs
Includes inflation at	N/A	3.00%	N/A	3.00%	3.00%
cost of living adjustments	Minimum COLA (6)	CPI increase, maximum 3%	Minimum COLA (6)	CPI increase, maximum 3%	CPI increase, maximum 3%

N/A indicates data not applicable.

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

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

(3) Pay as you go basis for funding.

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

(5) Asset Valuation Method - 8 year smoothed fair value: The actuarial value of assets is calculated under an adjusted market value method by starting with the market value of assets. For subsequent years, the actuarial value of assets is determined by adjusting the market value of assets to reflect the difference between the actual investment return and the expected investment return during each of the last 8 years or, if fewer, the completed years since adoption, at the following rates per year (annual recognition). The VFFRPF annual gain/loss is centered around a 7% expected rate of return instead of 8% and LEOFF Plan 2 around 7.5%.

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

LEOFF Plan 1	LEOFF Plan 2	PSERS Plan 2	WSPRS	JRS	Judges	VFFRPF
6/30/2012	6/30/2012	6/30/2012	6/30/2012	6/30/2012	6/30/2012	6/30/2012
Frozen initial liability (1)	Aggregate (2)	Aggregate (2)	Aggregate (2)	Entry age (3)	Entry age (3)	Entry age
Level % (4)	N/A	N/A	N/A	N/A	N/A	Level $
Level $	N/A	N/A	N/A	Level $	Level $	Level $
12	Open plan	Open plan	Open plan	5-year rolling	5-year rolling	Open plan
6/30/2024	N/A	N/A	N/A	N/A	N/A	15-year rolling
8-year graded smoothed fair value (5)	8-year graded smoothed fair value (5)	8-year graded smoothed fair value (5)	8-year graded smoothed fair value (5)	Market	Market	8-year graded smoothed fair value (5)
7.90%	7.50%	7.90%	7.90%	4.00%	4.00%	7.00%
11.0%	11.0%	6.1%	7.1%	0.0%	0.0%	N/A
21 yrs	21 yrs	17 yrs	26 yrs	N/A	N/A	N/A
3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	N/A
CPI increase	CPI increase maximum 3%	CPI increase, maximum 3%	CPI increase, maximum 3%	CPI increase, maximum 3%	None	None

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

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

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

F. ANNUAL PENSION COST AND OTHER RELATED INFORMATION

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

Annual Pension Cost and Net Pension Obligation	WSPRS	JRS	Judges
Annual required contribution	$2.5	$21.7	$0.4
Interest on NPO	(1.3)	2.8	(0.0)
Adjustment to annual required contribution	2.1	(15.3)	0.1
Annual pension cost	3.3	9.2	0.5
Less: Contributions made	6.5	10.1	0.0
Increase (decrease) in NPO	(3.2)	(0.9)	0.5
NPO at beginning of year	(16.8)	71.0	(0.4)
NPO at end of year	$(20.0)	$70.1	$0.1

G. THREE YEAR HISTORICAL TREND INFORMATION

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

Single Employer Plans	2013	2012	2011
WSPRS			
Annual pension cost	$3.3	$3.6	$2.8
% of APC contributed	197.0	180.6	187.5
NPO	$(20.0)	$(16.8)	$(13.9)
JRS			
Annual pension cost	$9.2	$10.5	$7.7
% of APC contributed	109.8	77.1	141.6
NPO	$70.1	$71.0	$68.6
Judges			
Annual pension cost	$0.5	$0.4	$0.3
% of APC contributed	0.0	0.0	0.0
NPO	$0.1	($0.4)	($0.8)

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

H. HIGHER EDUCATION RETIREMENT PLAN SUPPLEMENTAL DEFINED BENEFIT PLAN

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

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

The Unfunded Actuarial Accrued Liability (UAL) calculated as of June 30, 2013, and 2011, was $459.5 million and $357.4 million, respectively, and is amortized over an 11 year period. The Annual Required Contribution (ARC) of $63.7 million includes amortization of the UAL ($44.3 million) and normal cost (or current cost) ($18.2 million).

The UAL and ARC were established using the entry age normal cost method. The actuarial assumptions included an investment rate of return of 4.3 to 7.3 percent and projected salary increases ranging from 2 to 4 percent. Approximately $1.76 billion and $1.91 billion of payroll were covered under these plans during 2013 and 2011, respectively.

A 0.25 percent of pay employer contribution rate was initiated in January 1, 2012 for employees covered by higher education retirement plans. The contributions are deposited in the Higher Education Retirement Plan Supplemental Benefit Fund administered by the Department of Retirement Systems and invested by the Washington State Investment Board. The contribution rate increased to 0.5 percent of pay beginning January 1, 2013. The Higher Education Retirement Plan Supplemental Benefit Fund was not created as a pension trust fund and is reported by the state as an administrative account in the General Fund.

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

Net Pension Obligation	2013	2012	2011
Annual required contribution	$ 63.7	$ 49.8	$ 49.8
Payments to beneficiaries	(4.9)	(4.1)	(3.7)
Increase (decrease) in NPO	58.8	45.7	46.1
NPO at beginning of year	211.4	165.7	119.6
NPO at end of year	$ 270.2	$ 211.4	$ 165.7

I. CHANGES IN ACTUARIAL ASSUMPTIONS AND METHODS

There were no changes in actuarial assumptions for the fiscal year 2013 reporting period.

The method for the entry age normal cost as a level percentage was changed to spread over the member's career rather than the period from entry to the last decrement age where each benefit is available.

The method for the entry age used in the entry age normal calculation was changed to the age the member entered into the current plan rather than the age the member entered service in any state plan.

J. CHANGES IN BENEFIT PROVISIONS

There were no changes in benefit provisions for the fiscal year 2013 reporting period.

K. DEFINED CONTRIBUTION PLANS

Public Employees' Retirement System Plan 3

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

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. As established by chapter 41.34 RCW, employee contribution rates to the defined contribution component range from 5 to 15 percent of salaries, based on member choice. There are currently no requirements for employer contributions to the defined contribution component of PERS Plan 3.

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

For fiscal year 2013, covered payroll was $1.50 billion, employee contributions required and made were $99.0 million, and plan refunds paid out were $69.4 million.

Teachers' Retirement System Plan 3

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

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

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

For fiscal year 2013, covered payroll was $3.46 billion, employee contributions required and made were $262.3 million and plan refunds paid out were $177.6 million.

School Employees' Retirement System Plan 3

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

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

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

For fiscal year 2013, covered payroll was $903 million, employee contributions required and made were $59.3 million and plan refunds paid out were $66.1 million.

Judicial Retirement Account

The Judicial Retirement Account (JRA) Plan was established by the Legislature in 1988 to provide supplemental retirement benefits. It is a defined contribution plan administered by the state Administrative Office of the Courts (AOC), under the direction of the Board for Judicial Administration. Membership includes judges elected or appointed to the Supreme Court, Court of Appeals, and Superior Courts, and who are members of PERS for their services as a judge. Vesting is full and immediate. At June 30, 2013, there were seven active members and 157 inactive members in JRA. The state, through the AOC, is the sole participating employer.

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

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

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

For fiscal year 2013, covered payroll was $1.1 million and the contribution requirement was $63,198. Actual employer and employee contributions were $31,599 and $31,599 respectively. Plan benefits paid out for fiscal year 2013 totaled $1.1 million.

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

Higher Education Retirement Plans

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

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

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

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

Effective July 29, 2009, domestic partners registered with the state will be treated the same as married spouses, to the extent that treatment is not in conflict with federal laws.

For fiscal year 2013, covered payroll was $2.16 billion. Employer and employee contributions were $169.5 and $169.5 million respectively, for a total of $339.0 million. These contribution amounts represent approximately 7.86 percent each of covered payroll for employers and employees.

L. PLAN NET POSITION AND CHANGES IN PLAN NET POSITION

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

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

June 30, 2013
(expressed in thousands)

continued

	PERS Plan 1	PERS Plan 2/3 Defined Benefit	PERS Plan 3 Defined Contribution	TRS Plan 1	TRS Plan 2/3 Defined Benefit
ASSETS					
Cash and pooled investments	$ 932	$ 4,151	$ 327	$ 813	$ 5,556
Receivables:					
Employer accounts receivable	3,152	47,762	4,671	1,740	26,086
Member accounts receivable (net of allowance)	732	241	-	199	27
Due from other pension and other employee benefit funds	37	61	671	201	306
Interest and dividends	21,618	68,832	3,310	18,036	23,736
Investment trades pending	179,772	572,656	27,538	149,987	197,465
Total Receivables	205,311	689,552	36,190	170,163	$ 247,620
Investments, Noncurrent:					
Public equity	2,775,713	8,841,941	1,250,196	2,315,826	3,048,883
Fixed income	1,525,839	4,860,510	233,731	1,273,034	1,676,004
Private equity	1,737,748	5,535,538	266,191	1,449,833	1,908,767
Real estate	1,014,689	3,232,257	155,432	846,573	1,114,549
Security lending	129,457	412,382	19,831	108,008	142,198
Liquidity	166,659	530,466	30,660	138,443	189,071
Tangible assets	111,622	355,569	17,099	93,128	122,608
Total Investments, Noncurrent	7,461,727	23,768,663	1,973,140	6,224,845	8,202,080
Total Assets	7,667,970	24,462,366	2,009,657	6,395,821	8,455,256
LIABILITIES					
Obligations under security lending agreements	129,999	412,381	20,215	108,405	142,198
Accrued liabilities	190,780	590,057	31,357	159,890	203,604
Due to other pension and other employee benefit funds	236	671	-	-	201
Unearned revenues	192	196	-	66	26
Total Liabilities	321,207	1,003,305	51,572	268,361	346,029
NET POSITION					
Net position held in trust for:					
Pension Benefits (Schedule of Funding Progress by Plan begins on Page 167)	7,346,763	23,459,061	1,958,085	6,127,460	8,109,227
Deferred compensation participants	-	-	-	-	-
Total Net Position	$ 7,346,763	$ 23,459,061	$ 1,958,085	$ 6,127,460	$ 8,109,227

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

June 30, 2013
(expressed in thousands)

continued

	TRS Plan 3 Defined Contribution	SERS Plan 2/3 Defined Benefit	SERS Plan 3 Defined Contribution	LEOFF Plan 1	LEOFF Plan 2
ASSETS					
Cash and pooled investments	$ 4,536	$ 3,397	$ 1,059	$ 293	$ 1,022
Receivables:					
Employer accounts receivable	22,350	9,745	5,028	545	13,692
Member accounts receivable (net of allowance)	-	19	-	158	52
Due from other pension and other employee benefit funds	-	376	-	-	-
Interest and dividends	10,318	9,404	3,066	15,120	22,386
Investment trades pending	85,832	78,236	25,504	125,763	186,238
Total Receivables	118,500	97,780	33,598	141,586	222,368
Investments, Noncurrent:					
Public equity	3,661,769	1,207,960	764,117	1,941,801	2,875,545
Fixed income	728,509	664,029	216,468	1,067,429	1,580,718
Private equity	829,685	756,249	246,531	1,215,674	1,800,248
Real estate	484,461	441,582	143,952	709,844	1,051,183
Security lending	61,809	56,338	18,366	90,564	134,113
Liquidity	95,357	73,126	27,390	114,735	182,365
Tangible assets	53,294	48,577	15,836	78,087	115,637
Total Investments, Noncurrent	5,914,884	3,247,861	1,432,660	5,218,134	7,739,809
Total Assets	6,037,920	3,349,038	1,467,317	5,360,013	7,963,199
LIABILITIES					
Obligations under security lending agreements	62,278	56,338	18,578	90,714	134,205
Accrued liabilities	91,755	80,795	30,072	129,525	191,361
Due to other pension and other employee benefit funds	306	-	201	-	-
Unearned revenues	-	1	-	-	245
Total Liabilities	154,339	137,134	48,851	220,239	325,811
NET POSITION					
Net position held in trust for:					
Pension Benefits	5,883,581	3,211,904	1,418,466	5,139,774	7,637,388
(Schedule of Funding Progress by Plan begins on Page 167)					
Deferred compensation participants	-	-	-	-	-
Total Net Position	$ 5,883,581	$ 3,211,904	$ 1,418,466	$ 5,139,774	$ 7,637,388

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

June 30, 2013

(expressed in thousands)

continued

	WSPRS Plan 1/2	PSERS Plan 2	JRS	JRA	Judges
ASSETS					
Cash and pooled investments	$ 721	$ 286	$ 3,936	$ 212	$ 1,400
Receivables:					
Employer accounts receivable	521	1,880	-	-	-
Member accounts receivable (net of allowance)	2	-	-	2	-
Due from other pension and other employee benefit funds	-	-	-	-	-
Interest and dividends	2,807	652	-	-	-
Investment trades pending	23,350	5,419	1	-	-
Total Receivables	26,680	7,951	1	2	-
Investments, Noncurrent:					
Public equity	360,519	83,676	-	12,269	-
Fixed income	198,182	45,998	-	-	-
Private equity	225,705	52,386	-	-	-
Real estate	131,791	30,589	-	-	-
Security lending	16,815	3,903	-	-	-
Liquidity	21,646	7,487	155	8	54
Tangible assets	14,498	3,365	-	-	-
Total Investments, Noncurrent	969,156	227,404	155	12,277	54
Total Assets	996,557	235,641	4,092	12,491	1,454
LIABILITIES					
Obligations under security lending agreements	16,867	3,917	174	9	60
Accrued liabilities	24,177	5,580	34	203	2
Due to other pension and other employee benefit funds	-	37	-	-	-
Unearned revenues	-	-	-	-	-
Total Liabilities	41,044	9,534	208	212	62
NET POSITION					
Net position held in trust for:					
Pension Benefits (Schedule of Funding Progress by Plan begins on Page 167)	955,513	226,107	3,884	12,279	1,392
Deferred compensation participants	-	-	-	-	-
Total Net Position	$ 955,513	$ 226,107	$ 3,884	$ 12,279	$ 1,392

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

June 30, 2013
(expressed in thousands)

concluded

	VFFRPF	Deferred Compensation	Total
ASSETS			
Cash and pooled investments	$ 8,289	$ 3,961	$ 40,891
Receivables:			
Employer accounts receivable	-	-	137,172
Member accounts receivable (net of allowance)	-	1,192	2,624
Due from other pension and other employee benefit funds	-	-	1,652
Interest and dividends	497	-	199,782
Investment trades pending	4,143	1	1,661,905
Total Receivables	4,640	1,193	2,003,135
Investments, Noncurrent:			
Public equity	63,832	3,199,614	32,403,661
Fixed income	35,089	-	14,105,540
Private equity	39,962	-	16,064,517
Real estate	23,334	-	9,380,236
Security lending	2,977	-	1,196,761
Liquidity	4,039	151	1,581,812
Tangible assets	2,567	-	1,031,887
Total Investments, Noncurrent	171,800	3,199,765	75,764,414
Total Assets	184,729	3,204,919	77,808,440
LIABILITIES			
Obligations under security lending agreements	3,335	169	1,199,842
Accrued liabilities	4,260	2,892	1,736,344
Due to other pension and other employee benefit funds	-	-	1,652
Unearned revenues	-	-	726
Total Liabilities	7,595	3,061	2,938,564
NET POSITION			
Net position held in trust for:			
Pension Benefits (Schedule of Funding Progress by Plan begins on Page 167)	177,134	-	71,668,018
Deferred compensation participants	-	3,201,858	3,201,858
Total Net Position	$ 177,134	$ 3,201,858	$ 74,869,876

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

For the Fiscal Year Ended June 30, 2013
(expressed in thousands)

continued

	PERS Plan 1	PERS Plan 2/3 Defined Benefit	PERS Plan 3 Defined Contribution	TRS Plan 1	TRS Plan 2/3 Defined Benefit
ADDITIONS					
Contributions:					
Employers	$ 266,270	$ 389,020	$ -	$ 118,569	$ 228,975
Members	29,289	335,586	99,007	16,157	35,846
State	-	-	-	-	-
Participants	-	-	-	-	-
Total Contributions	295,559	724,606	99,007	134,726	264,821
Investment Income:					
Net appreciation (depreciation) in fair value	685,103	2,018,298	177,137	572,037	693,242
Interest and dividends	206,500	622,516	30,567	172,394	213,759
Less: investment expenses	(28,418)	(84,685)	(4,796)	(23,725)	(29,438)
Net investment income (loss)	863,185	2,556,129	202,908	720,706	877,563
Transfers from other pension plans	38	292	1,539	-	34
Other additions	-	-	-	-	-
Total Additions	1,158,782	3,281,027	303,454	855,432	1,142,418
DEDUCTIONS					
Pension benefits	1,181,381	460,771	-	914,609	118,231
Pension refunds	3,998	34,982	69,368	1,989	1,345
Transfers to other pension plans	17	3,832	428	-	315
Administrative expenses	759	676	-	618	67
Distributions to participants	-	-	-	-	-
Total Deductions	1,186,155	500,261	69,796	917,216	119,958
Net Increase (Decrease)	(27,373)	2,780,766	233,658	(61,784)	1,022,460
Net Position - Beginning	7,374,136	20,678,295	1,724,427	6,189,244	7,086,767
Net Position - Ending	$ 7,346,763	$ 23,459,061	$ 1,958,085	$ 6,127,460	$ 8,109,227

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

For the Fiscal Year Ended June 30, 2013
(expressed in thousands)

continued

	TRS Plan 3 Defined Contribution	SERS Plan 2/3 Defined Benefit	SERS Plan 3 Defined Contribution	LEOFF Plan 1	LEOFF Plan 2
ADDITIONS					
Contributions:					
Employers	$ -	$ 78,399	$ -	$ 556	$ 82,397
Members	262,293	26,727	59,258	1,436	143,777
State	-	-	-	-	54,246
Participants	-	-	-	-	-
Total Contributions	262,293	105,126	59,258	1,992	280,420
Investment Income:					
Net appreciation (depreciation) in fair value	547,836	275,636	123,072	464,542	651,033
Interest and dividends	94,618	84,986	28,192	141,271	201,350
Less: investment expenses	(14,711)	(11,664)	(4,072)	(19,339)	(28,243)
Net investment income (loss)	627,743	348,958	147,192	586,474	824,140
Transfers from other pension plans	839	5	466	-	1,833
Other additions	-	-	-	-	-
Total Additions	890,875	454,089	206,916	588,466	1,106,393
DEDUCTIONS					
Pension benefits	-	66,890	-	351,796	100,532
Pension refunds	177,621	2,191	66,107	14	8,677
Transfers to other pension plans	522	315	190	-	2
Administrative expenses	-	63	-	76	291
Distributions to participants	-	-	-	-	-
Total Deductions	178,143	69,459	66,297	351,886	109,502
Net Increase (Decrease)	712,732	384,630	140,619	236,580	996,891
Net Position - Beginning	5,170,849	2,827,274	1,277,847	4,903,194	6,640,497
Net Position - Ending	$ 5,883,581	$ 3,211,904	$ 1,418,466	$ 5,139,774	$ 7,637,388

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

For the Fiscal Year Ended June 30, 2013
(expressed in thousands)

continued

	WSPRS Plan 1/2	PSERS Plan 2	JRS	JRA	Judges
ADDITIONS					
Contributions:					
Employers	$ 6,478	$ 15,649	$ 10,112	$ 32	$ -
Members	6,567	15,879	12	32	-
State	-	-	-	-	-
Participants	-	-	-	-	-
Total Contributions	13,045	31,528	10,124	64	-
Investment Income:					
Net appreciation (depreciation) in fair value	84,358	17,633	(24)	950	(9)
Interest and dividends	25,827	5,585	14	84	5
Less: investment expenses	(3,523)	(750)	-	(18)	-
Net investment income (loss)	106,662	22,468	(10)	1,016	(4)
Transfers from other pension plans	575	4	-	-	-
Other additions	-	-	-	2	-
Total Additions	120,282	54,000	10,114	1,082	(4)
DEDUCTIONS					
Pension benefits	43,521	148	9,698	1,071	474
Pension refunds	304	2,186	-	-	-
Transfers to other pension plans	-	4	-	-	-
Administrative expenses	28	1	-	-	-
Distributions to participants	-	-	-	-	-
Total Deductions	43,853	2,339	9,698	1,071	474
Net Increase (Decrease)	76,429	51,661	416	11	(478)
Net Position - Beginning	879,084	174,446	3,468	12,268	1,870
Net Position - Ending	$ 955,513	$ 226,107	$ 3,884	$ 12,279	$ 1,392

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

For the Fiscal Year Ended June 30, 2013
(expressed in thousands)

concluded

	VFFRPF	Deferred Compensation	Total
ADDITIONS			
Contributions:			
Employers	$ 988	$ -	$ 1,197,445
Members	108	-	1,031,974
State	5,958	-	60,204
Participants	-	182,305	182,305
Total Contributions	7,054	182,305	2,471,928
Investment Income:			
Net appreciation (depreciation) in fair value	14,597	249,204	6,574,645
Interest and dividends	4,536	18,657	1,850,861
Less: investment expenses	(613)	(4,473)	(258,468)
Net investment income (loss)	18,520	263,388	8,167,038
Transfers from other pension plans	-	-	5,625
Other additions	-	526	528
Total Additions	25,574	446,219	10,645,119
DEDUCTIONS			
Pension benefits	10,388	-	3,259,510
Pension refunds	24	-	368,806
Transfers to other pension plans	-	-	5,625
Administrative expenses	1,870	-	4,449
Distributions to participants	-	178,638	178,638
Total Deductions	12,282	178,638	3,817,028
Net Increase (Decrease)	13,292	267,581	6,828,091
Net Position - Beginning	163,842	2,934,277	68,041,785
Net Position - Ending	$ 177,134	$ 3,201,858	$ 74,869,876

Note 12
Other Postemployment Benefits

Plan Description and Funding Policy

In addition to pension benefits as described in Note 11, the state, through the Health Care Authority (HCA), administers an agent multiple-employer other postemployment benefit plan (OPEB). Per RCW 41.05.065, the Public Employees Benefits Board (PEBB) created within the Health Care Authority, is authorized to design benefits and determine the terms and conditions of employee and retired employee participation and coverage, including establishment of eligibility criteria for both active and retired employees. PEBB programs include medical, dental, life and long-term disability.

Employers participating in the PEBB plan include the state (which includes general government agencies and higher education institutions), 54 of the state's K-12 schools and educational service districts (ESDs), and 207 political subdivisions and tribal governments. Additionally, the PEBB plan is available to the retirees of the remaining 243 K-12 schools and ESDs. As of June 2013, membership in the PEBB plan consisted of the following:

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

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

For fiscal year 2013, the estimated monthly cost for PEBB benefits for active employees (average across all plans and tiers) is as follows:

Required Premium (3)	
Medical	$ 913
Dental	82
Life	4
Long-term disability	2
Total	$1,001
Employer contribution	$ 865
Employee contribution	136
Total	$1,001

(3) Per 2013 Index Rate Model 7.2.

The relationship between the PEBB OPEB plan and its member employers and their employees and retirees is not formalized in a contract or plan document. Rather, the benefits are provided in accordance with a substantive plan. A substantive plan is one in which the plan terms are understood by the employers and plan members. This understanding is based on communications between the HCA, employers and plan members and the historical pattern of practice with regard to the sharing of benefit costs.

The PEBB retiree OPEB plan is available to employees who elect to continue coverage and pay the administratively established premiums at the time they retire under the provisions of the retirement system to which they belong. Retirees' access to PEBB plans depends on the retirement eligibility of their respective retirement system. PEBB members are covered in the following retirement systems: PERS, PSERS, TRS, SERS, WSPRS, and Higher Education.

Per RCW 41.05.022, retirees who are not yet eligible for Medicare benefits may continue participation in the state's non-Medicare community-rated health insurance risk pool on a self-pay basis. Retirees in the non-Medicare risk pool receive an implicit subsidy. The implicit subsidy exists because retired members pay a premium based on a claims experience for active employees and other non-Medicare retirees. The subsidy is valued using the difference between the age-based claims costs and the premium. In calendar year 2012, the average weighted implicit subsidy was valued at $330 per member per month, and in calendar year 2013, the average weighted implicit subsidy is projected to be $294 per member per month.

Retirees who are enrolled in both Parts A and B of Medicare may participate in the state's Medicare community-rated health insurance risk pool. Medicare retirees receive an explicit subsidy in the form of reduced premiums. Annually, the HCA administrator recommends an amount for the next calendar year's explicit subsidy for inclusion in the Governor's budget. In calendar year 2012, the explicit subsidy was $150 per member per month, and it remained $150 per member per month in calendar year 2013.

Administrative costs as well as implicit and explicit subsidies are funded by required contributions from participating employers. The subsidies provide monetary assistance for medical and life insurance benefits.

Contributions are set each biennium as part of the budget process. In fiscal year 2013, the cost of the subsidies was approximately 6.0 percent of the cost of benefits for active employees. The benefits are funded on a pay-as-you-go basis.

Each participating employer in the plan is required to disclose additional information with regard to funding policy, the employer's annual OPEB costs and contributions made, the funded status and funding progress of the employer's individual plan, and actuarial methods and assumptions used.

The PEBB OPEB plan is accounted for as an agency fund on an accrual basis. The plan has no investments or other assets. The PEBB OPEB plan does not issue a publicly available financial report.

For information on the results of an actuarial valuation of the employer provided subsidies associated with the PEBB plan, refer to: http://osa.leg.wa.gov/Actuarial_services/OPEB/OPEB.htm.

Annual OPEB Cost and Net OPEB Obligation

The state's (general government agencies and higher education institutions) annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC) of the state as the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45.

The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

The following tables show the components of the state's annual OPEB cost for fiscal year 2013, the amount contributed to the plan, and changes in the state's Net OPEB Obligation (NOO) (expressed in thousands):

Annual required contribution	$ 342,283
Interest on Net OPEB Obligation	53,434
Amortization of Net OPEB Obligation	(48,684)
Annual OPEB cost (expense)	347,033
2012 Adjustment	56,476
Contributions made	(69,114)
Increase in Net OPEB Obligation	334,394
Net OPEB Obligation - beginning of year	1,279,381
Net OPEB Obligation - end of year*	$1,613,775
*estimated	

The state's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal years 2011, 2012, and 2013 were as follows (expressed in thousands):

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/13	$347,033	19.9%	$1,613,775
6/30/12	330,286	23.8%	1,279,381
6/30/11	328,568	23.9%	1,027,767

Funded Status and Funding Progress

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

Actuarial accrued liability (AAL)	$3,706,856
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	$3,706,856

Funded ratio (actuarial value of plan assets/AAL)	0.0%
Covered payroll (active plan members)	$5,786,960
UAAL as a percentage of covered payroll	64.1%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

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

Significant methods and assumptions were as follows:

Actuarial valuation date	January 1, 2013
Actuarial cost method	Projected Unit Credit (PUC)
Amortization method	Closed, level percentage of projected payroll amortization method
Remaining amortization period	30 years
Asset valuation method	N/A - no assets
Actuarial assumptions:	
Investment rate of return	4.0%
Projected salary increases	3.75%
Health care inflation rate	8.0% initial rate, 5.0% ultimate rate in 2093
Inflation rate	3.0%

Note 13

Commitments and Contingencies

A. CONSTRUCTION AND OTHER COMMITMENTS

Capital Commitments

Outstanding commitments related to state infrastructure and facility construction, improvement, and/or renovation totaled $2.82 billion at June 30, 2013.

Encumbrances

Encumbrances, which represent commitments related to unperformed contracts for goods or services, are included in restricted, committed or assigned fund balance, as appropriate. Operating encumbrances lapse at the end of the applicable appropriation. Capital outlay encumbrances lapse at the end of the biennium unless reappropriated by the Legislature in the ensuing biennium. Encumbrances outstanding against continuing appropriations at the end of fiscal year 2013 are (in thousands):

General Fund	$ 41,541
Higher Education Special Revenue Fund	2,133
Nonmajor Governmental Funds	335,855

B. SUMMARY OF SIGNIFICANT LITIGATION

Pending Litigation

The state and its agencies are parties to numerous routine legal proceedings that normally occur in governmental operations. In addition, at any given point, there may be numerous lawsuits involving the implementation, reduction, or elimination of specific state programs that could significantly impact expenditures, revenues, and potentially have future budgetary impact. This summary considers significant litigation not covered by tort insurance. Tort case liabilities are disclosed in Note 7E, Claims and Judgments, Risk Management.

The state is the defendant in a number of cases alleging inadequate funding of state programs or services. Claims include: funding inadequacies and inequities in basic education; inadequate funding for care of foster children, the disabled and elderly; and inadequate funding for the provision of, daily personal care, medical and mental health services to children, the elderly and the disabled. Collective claims in these programmatic and service cases exceed $551 million exclusive of the basic education case, which could be substantial but is difficult to quantify at this juncture. In addition, adverse rulings in some of these cases could result in significant future costs.

The state is also a defendant in a number of cases contesting: the denial of health care benefits to seasonal and part-time state employees, the methodologies used to calculate reimbursement rates to certain health care providers, and the scope of covered care. Claims in this category exceed $183 million.

The Department of Revenue routinely has claims for refunds in various stages of administrative and legal review. Cases involving claims for refunds currently total approximately $192 million, though an adverse ruling could result in additional claims being brought by similarly situated taxpayers. In addition, the state is defending cases challenging the constitutionality of certain taxes that fund discrete state programs.

The state is a defendant in a number of lawsuits related to: habitat restoration and environmental clean-up arising out of highway/roadway construction and maintenance and historic mining activity. While estimates are not available for all lawsuits, claims for damages equate to approximately $254 million.

The state is a defendant in a number of lawsuits by employees and employee unions alleging various infractions of law or contract. These suits claim back pay, damages, or future entitlements in excess of $784 million. Of the $784 million, $237 million is associated with a single case challenging the legislative repeal of the so-called gain-sharing benefit offered to members of certain state retirement plans. Pursuant to the legislative repeal, replacement benefits were offered in lieu of gain-sharing. It is estimated that if the gain-sharing benefit is restored and replacement benefits are retained, the biennial cost to state employers participating in the relevant plans would be approximately $237 million for the 2013-15 biennium. A second retirement benefits case challenges the legislative discontinuation of annual cost of living increases for PERS and TRS Plan 1 retirees. The anticipated biennial cost-savings to the state associated with the challenged legislation is estimated to be approximately $501 million for the 2013-15 biennium. The estimated impact of restoring both benefits together ($766 million) exceeds the cost of restoring both benefits separately due to the interaction of the two benefits. Both of the aforementioned cases were argued to the state Supreme Court on October 24, 2013.

The state is contesting these lawsuits and the outcomes are uncertain at this time.

Tobacco Settlement

In November 1998, Washington joined 45 other states in a Master Settlement Agreement (MSA) with the nation's largest tobacco manufacturers to provide restitution for monies spent under health care programs for the treatment of smoking-related illnesses. Washington's share of the settlement was approximately $112.8 million in fiscal year 2013 and is subject to various offsets, reductions, and adjustments. Beginning in 2008, Washington received the first of ten "strategic contribution payments" under the MSA. This payment is subject to the same offsets, reductions, and adjustments as are applicable to the base payment. The 2013 strategic contribution payment was approximately $37.8 million.

In 2006, 2007, 2008, and 2009, determinations were made that disadvantages experienced by manufacturers as a result of participating in the MSA were a "significant factor" contributing to market share losses by those manufacturers. These determinations related to sales data for the years 2003, 2004, 2005, and 2006. Washington faces a potential "nonparticipating manufacturer (NPM) adjustment" in its share of between $0 and $130 million for the year 2003, $0 and $137 million for the year 2004, $0 and $131 million for the year 2005, and $0 and $119 million for the year 2006.

In addition, the states and the participating manufacturers have entered into an agreement under which the states will not contest that the disadvantages experienced by manufacturers as a result of participating in the MSA were a significant factor contributing to market share losses for the years 2007, 2008, and 2009, respectively. Washington faces a potential NPM adjustment of between $0 and $123 million for the year 2007, $0 and $173 million for the year 2008, and $0 and $176 million for the year 2009.

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

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

There is approximately $723.6 million in the MSA Disputed Payment Account (DPA) related to the 2003 calendar year. Washington's share of that amount should be about $14.8 million. The timing of the distribution of that money is subject to certain variables. Some states (the ones that lost the arbitration) may take the position that no money should be released because, until possible appeals are exhausted, the dispute will not be "resolved with finality" and thus disputed payments should not be released. But absent an injunction that prevents the MSA independent auditor from releasing the money from the DPA, the state anticipates that it should receive its money no later than April 2014, when the next MSA annual and strategic contribution payments are distributed.

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

C. FEDERAL ASSISTANCE

The state has received federal financial assistance for specific purposes that are generally subject to review or audit by the grantor agencies.

Entitlement to this assistance is generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations, including the expenditure of assistance for allowable purposes. Any disallowance resulting from a review or audit may become a liability of the state.

The state estimates and recognizes claims and judgments liabilities for disallowances when determined by the grantor agency or for probable disallowances based on experience pertaining to these grants; however, these recognized liabilities and any unrecognized disallowances are considered immaterial to the state's overall financial condition.

D. ARBITRAGE REBATE

Rebatable arbitrage is defined by the Internal Revenue Service Code Section 148 as earnings on investments purchased from the gross proceeds of a bond issue that are in excess of the amount that would have been earned if the investments were invested at a yield equal to the yield on the bond issue.

The rebatable arbitrage must be paid to the federal government. The state estimates that rebatable arbitrage liability, if any, will be immaterial to its overall financial condition.

E. OTHER COMMITMENTS AND CONTINGENCIES

School Bond Guarantee Program

Washington voters passed a constitutional amendment in November 1999, creating the Washington State School Bond Guarantee Program.

The program's purpose is to provide savings to state taxpayers by pledging the full faith and credit of the state of Washington to the full and timely payment of voter-approved school district general obligation bonds in the event a school district is unable to make a payment.

The issuing school district remains responsible for the repayment of the bonds, including any payment the state makes under the guarantee.

The State Treasurer introduced the School Bond Guarantee Program in March 2000. At the end of fiscal year 2013, the state had guaranteed 213 school districts' voter-approved general obligation debt with 180 districts having a total outstanding principal of $8.55 billion. The state estimates that the school bond guarantee liability, if any, will be immaterial to its overall financial condition.

Local Option Capital Asset Lending Program

On September 1, 1998, the state lease-purchase program was extended to local governments seeking low cost financing of essential equipment and in the year 2000 for real estate. The Local Option Capital Assets Lending (LOCAL) program allows local governments to pool their financing requests together with Washington state agencies in Certificates of Participation (COPs). Refer to Note 7.B for the state's COP disclosure.

These COPs do not constitute a debt or pledge of the full faith and credit of the state; rather, local governments pledge their full faith and credit in a general obligation pledge.

In the event that any local government fails to make any payment, the state is obligated to withhold an amount sufficient to make such payment from the local government's share, if any, of state revenues or other amounts authorized or required by law to be distributed by the state to such local government, if otherwise legally permissible.

Upon failure of any local government to make a payment, the state is further obligated, to the extent of legally available appropriated funds to make such payment on behalf of such local government. The local government remains obligated to make all COP payments and reimburse the state for any conditional payments.

As of June 30, 2013, outstanding certificates of participation notes totaled $78.1 million for 165 local governments participating in LOCAL. The state estimates that the LOCAL program liability, if any, will be immaterial to its overall financial condition.

Note 14
Subsequent Events

A. BOND ISSUES

In August 2013, the state issued:

- $276.5 million in motor vehicle fuel tax general obligation bonds for various transportation projects.
- $535.3 million in general obligation bonds for various capital projects.
- $55.5 million in taxable general obligation bonds for various capital projects.

In September 2013, the University of Washington issued $146.4 million in general revenue bonds to partially finance renovations to Husky Stadium, Husky Ballpark, housing and food services and pay off commercial paper.

In September 2013, the state issued $285.9 million in Federal Highway Grant Anticipation Revenue (GARVEE) Bonds for the State Route 520 Corridor Program.

In October 2013, the state issued:

- $117.9 million in refunding general obligation bonds.
- $106.0 million in refunding motor vehicle fuel tax general obligation bonds.

In October 2013, the Tobacco Settlement Authority, a blended component unit of the state, issued $334.7 million in tobacco settlement revenue refunding bonds.

B. CERTIFICATES OF PARTICIPATION

In August 2013, the state issued $35.0 million in Certificates of Participation.

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RSI
Required Supplementary Information

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BUDGETARY COMPARISON SCHEDULE

General Fund

Budgetary Comparison Schedule
General Fund
For the Biennium Ended June 30, 2013
(expressed in thousands)

	Original Budget 2011-13 Biennium	Final Budget 2011-13 Biennium	Actual 2011-13 Biennium	Variance with Final Budget
Budgetary Fund Balance, July 1, as restated	$ 62,736	$ 62,736	$ 62,736	$ -
Resources				
Taxes	31,065,106	29,614,048	29,627,123	13,075
Licenses, permits, and fees	176,925	199,135	204,358	5,223
Other contracts and grants	523,672	535,322	465,516	(69,806)
Timber sales	7,280	6,501	6,584	83
Federal grants-in-aid	15,009,646	15,019,506	14,065,536	(953,970)
Charges for services	60,097	66,388	62,112	(4,276)
Investment income (loss)	3,563	(18,779)	(17,241)	1,538
Miscellaneous revenue	395,704	412,620	350,343	(62,277)
Unclaimed property	108,623	182,082	179,381	(2,701)
Transfers from other funds	1,897,780	1,978,280	2,122,236	143,956
Total Resources	49,311,132	48,057,839	47,128,684	(929,155)
Charges To Appropriations				
General government	3,550,365	3,755,334	3,592,729	162,605
Human services	24,280,399	23,514,370	22,966,408	547,962
Natural resources and recreation	639,392	663,520	596,710	66,810
Transportation	101,879	103,401	93,001	10,400
Education	18,765,529	18,559,381	18,299,145	260,236
Capital outlays	627,393	747,691	341,096	406,595
Transfers to other funds	939,890	978,063	1,148,839	(170,776)
Total Charges To Appropriations	48,904,847	48,321,760	47,037,928	1,283,832
Excess Available For Appropriation Over (Under) Charges To Appropriations	406,285	(263,921)	90,756	354,677
Reconciling Items				
Debt service	-	-	(26)	(26)
Bond sale proceeds	103,825	111,089	194,555	83,466
Issuance premiums	-	183	6,350	6,167
Refunding COPs issued	-	-	3,270	3,270
Pmts to escrow agents for refunded debt	-	-	(3,565)	(3,565)
Assumed reversions	-	165,888	-	(165,888)
Working capital adjustment	-	238,000	238,000	-
Changes in reserves (net)	-	-	29,762	29,762
Entity adjustments (net)	-	-	(62,166)	(62,166)
Total Reconciling Items	103,825	515,160	406,180	(108,980)
Budgetary Fund Balance, June 30	$ 510,110	$ 251,239	$ 496,936	$ 245,697

BUDGETARY COMPARISON SCHEDULE
Budget to GAAP Reconciliation

General Fund
For the Biennium Ended June 30, 2013
(expressed in thousands)

		General Fund
Sources/Inflows of Resources		
Actual amounts (budgetary basis) "Total Resources" from the Budgetary Comparison Schedule	$	47,128,684
Differences - budget to GAAP:		
The following items are inflows of budgetary resources but are not revenue for financial reporting purposes:		
Transfers from other funds		(2,122,236)
Budgetary fund balance at the beginning of the biennium		(62,736)
Appropriated loan principal repayment		(2,760)
The following items are not inflows of budgetary resources but are revenue for financial reporting purposes:		
Noncash commodities and electronic food stamp benefits		3,524,819
Revenues collected for other governments		215,056
Unanticipated receipts		11,626
Noncash revenues		(20,766)
Other		6,563
Biennium total revenues		48,678,250
Fiscal year 2012 total revenues, as restated		(23,986,435)
Nonappropriated activity		10,571
Total Revenues (GAAP Basis) as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	$	24,702,386
Uses/Outflows of Resources		
Actual amounts (budgetary basis) "Total Charges to Appropriations" from the Budgetary Comparison Schedule	$	47,037,928
Differences - budget to GAAP:		
The following items are outflows of budgetary resources but are not expenditures for financial reporting purposes:		
Appropriated transfers to other funds		(2,820,218)
Other transfers to other funds		(1,148,839)
Appropriated loan disbursements		(325)
The following items are not outflows of budgetary resources but are recorded as current expenditures for financial reporting purposes:		
Noncash commodities and electronic food stamp benefits		3,524,819
Distributions to other governments		215,056
Certificates of participation and capital lease acquisitions		22,021
Expenditures related to unanticipated receipts		11,626
Interest on debt service		26
Other		12,280
Biennium total expenditures		46,854,374
Fiscal year 2012 total expenditures, as restated		(23,727,637)
Nonappropriated activity		615,207
Total expenditures (GAAP basis) as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds	$	23,741,944

BUDGETARY INFORMATION
Notes to Required Supplementary Information

GENERAL BUDGETARY POLICIES AND PROCEDURES

The Governor is required to submit a budget to the Legislature no later than December 20 of the year preceding odd-numbered year sessions of the Legislature.

The budget is a proposal for expenditures in the ensuing biennial period based upon anticipated revenues from the sources and rates existing by law at the time of submission of the budget. The Governor may additionally submit, as an appendix to the budget, a proposal for expenditures in the ensuing biennium from revenue sources derived from proposed changes in existing statutes.

The appropriated budget and any necessary supplemental budgets are legally required to be adopted through the passage of appropriation bills by the Legislature and approved by the Governor. Operating appropriations are generally made at the fund/account and agency level; however, in a few cases, appropriations are made at the fund/account and agency/program level. Operating appropriations cover either the entire biennium or a single fiscal year within the biennium. Capital appropriations are biennial and are generally made at the fund/account, agency, and project level.

The legal level of budgetary control is at the fund/account, agency, and appropriation level, with administrative controls established at lower levels of detail in certain instances. The accompanying budgetary schedule is not presented at the legal level of budgetary control. This is due to the large number of appropriations within individual agencies that would make such a presentation in the accompanying financial schedule extremely cumbersome. Section 2400.121 of the GASB Codification of Governmental Accounting and Financial Reporting Standards provides for the preparation of a separate report in these extreme cases.

For the state of Washington, a separate report has been prepared for the 2011-13 biennium to illustrate legal budgetary compliance. Appropriated budget versus actual expenditures, and estimated versus actual revenues and other financing sources (uses) for appropriated funds at agency and appropriation level are presented in the Budget-to-Actual Detail Report for governmental funds. A copy of this report is available at the Office of Financial Management, PO Box 43113, Olympia, Washington 98504-3113.

Legislative appropriations are strict legal limits on expenditures/expenses, and over-expenditures are prohibited. All appropriated and certain nonappropriated funds are further controlled by the executive branch through the allotment process. This process allocates the expenditure/expense plan into monthly allotments by program, source of funds, and object of expenditure. Because allotments are not the strict legal limit on expenditures/expenses, the accompanying budgetary schedule is shown on an appropriation versus actual comparison rather than an allotment versus actual comparison.

Proprietary funds typically earn revenues and incur expenses (i.e., depreciation or budgeted asset purchases) not covered by the allotment process. Budget estimates are generally made outside the allotment process according to prepared business plans. These proprietary fund business plan estimates are adjusted only at the beginning of each fiscal year.

Additional fiscal control is exercised through various means. OFM is authorized to make expenditure/expense allotments based on availability of unanticipated receipts, mainly federal government grant increases made during a fiscal year. State law does not preclude the over-expenditure of allotments.

Operating encumbrances lapse at the end of the applicable appropriation. Capital outlay encumbrances lapse at the end of the biennium unless reappropriated by the Legislature in the ensuing biennium. Encumbrances outstanding against continuing appropriations at fiscal year-end are reported as restricted, committed, or assigned fund balance.

Budgetary Reporting vs. GAAP Reporting

Governmental funds are budgeted materially in conformance with GAAP. However, the presentation in the accompanying budgetary schedules is different in certain respects from the corresponding Statements of Revenues, Expenditures, and Changes in Fund Balance (governmental operating statement). In the accompanying budgetary schedules, budget and actual expenditures are reported only for appropriated activities. Expenditures are classified based on whether the appropriation is from the operating or capital budget. Expenditures funded by operating budget appropriations are reported as current expenditures classified by the function of the agency receiving the appropriation. Expenditures funded by capital budget appropriations are reported as capital outlays.

However, in the governmental operating statements, all governmental funds are included and expenditures are classified according to what was actually purchased. Capital outlays are capital asset acquisitions such as land, buildings, and equipment. Debt service expenditures are principal and interest payments. Current expenditures are all other governmental fund expenditures classified based on the function of the agency making the expenditures.

Certain governmental activities are excluded from the budgetary schedules because they are not appropriated. These activities include activities designated as nonappropriated by the Legislature, such as the Higher Education Special Revenue Fund, Higher Education Endowment Fund, and Tobacco Settlement Securitization Bond Debt Service Fund. Additionally, certain items including federal surplus food commodities, electronic food stamp benefits, and resources collected and distributed to other governments are also excluded because they are not appropriated.

Further, certain expenditures are appropriated as operating transfers. These transfers are reported as operating transfers on the budgetary schedules and as expenditures on the governmental operating statements.

In the General Fund, Budgetary Fund Balance equals unassigned fund balance as reported on the Governmental Funds Balance Sheet. In all other funds except Wildlife and Natural Resources, Budgetary Fund Balance equals total fund balance less nonspendable fund balance as reported on the Governmental Funds Balance Sheet. The Budgetary Fund Balance in the Wildlife and Natural Resources fund is further reduced by a portion of restricted fund balance that is not available for budgeting.

PENSION PLAN INFORMATION
Schedules of Funding Progress

continued

Schedule of Funding Progress
Public Employees' Retirement System - Plan 1
Valuation Years 2012 through 2007
(dollars in millions)

	2012	2011	2010	2009	2008	2007
Actuarial valuation date	6/30/2012	6/30/2011	6/30/2010	6/30/2009	6/30/2008	6/30/2007
Actuarial value of plan assets	$ 8,521	$ 8,883	$ 9,293	$ 9,776	$ 9,853	$ 9,715
Actuarial accrued liability	12,360	12,571	12,538	13,984	13,901	13,740
Unfunded actuarial liability	3,839	3,688	3,245	4,208	4,048	4,025
Percentage funded	69%	71%	74%	70%	71%	71%
Covered payroll	371	432	507	580	638	676
Unfunded actuarial liability as a percentage of covered payroll	1035%	854%	640%	726%	634%	595%

Source: Washington State Office of the State Actuary.

Schedule of Funding Progress
Public Employees' Retirement System - Plan 2/3
Valuation Years 2012 through 2007
(dollars in millions)

	2012	2011	2010	2009	2008	2007
Actuarial valuation date	6/30/2012	6/30/2011	6/30/2010	6/30/2009	6/30/2008	6/30/2007
Actuarial value of plan assets	$ 22,653	$ 20,997	$ 19,474	$ 18,260	$ 16,693	$ 14,888
Actuarial accrued liability	22,780	21,627	20,029	18,398	16,508	14,661
Unfunded actuarial liability	127	630	555	138	(185)	(227)
Percentage funded	99%	97%	97%	99%	101%	102%
Covered payroll	8,193	8,148	8,206	8,132	7,869	7,157
Unfunded actuarial liability as a percentage of covered payroll	2%	8%	7%	2%	0%	0%

PERS Plan 2/3 uses the aggregate actuarial cost method. Effective for reporting year 2007, this Schedule of Funding Progress is prepared using the entry age actuarial cost method and is intended to serve as a surrogate for the funded status and funding progress information of this plan as required by GASB Statement No. 50.

Source: Washington State Office of the State Actuary.

PENSION PLAN INFORMATION
Schedules of Funding Progress

continued

Schedule of Funding Progress
Teachers' Retirement System - Plan 1
Valuation Years 2012 through 2007
(dollars in millions)

	2012	2011	2010	2009	2008	2007
Actuarial valuation date	6/30/2012	6/30/2011	6/30/2010	6/30/2009	6/30/2008	6/30/2007
Actuarial value of plan assets	$ 7,145	$ 7,485	$ 7,791	$ 8,146	$ 8,262	$ 8,302
Actuarial accrued liability	9,038	9,232	9,201	10,820	10,754	10,826
Unfunded actuarial liability	1,894	1,747	1,410	2,674	2,492	2,524
Percentage funded	79%	81%	85%	75%	77%	77%
Covered payroll	228	284	344	389	432	426
Unfunded actuarial liability as a percentage of covered payroll	829%	615%	410%	687%	577%	592%

Source: Washington State Office of the State Actuary.

Schedule of Funding Progress
Teachers' Retirement System - Plan 2/3
Valuation Years 2012 through 2007
(dollars in millions)

	2012	2011	2010	2009	2008	2007
Actuarial valuation date	6/30/2012	6/30/2011	6/30/2010	6/30/2009	6/30/2008	6/30/2007
Actuarial value of plan assets	$ 7,758	$ 7,141	$ 6,593	$ 6,160	$ 5,681	$ 5,277
Actuarial accrued liability	7,478	7,194	6,558	6,048	5,264	4,682
Unfunded (assets in excess of) actuarial liability	(280)	53	(36)	(112)	(417)	(595)
Percentage funded	104%	99%	101%	102%	108%	113%
Covered payroll	4,077	4,085	3,966	3,957	3,621	3,318
Unfunded actuarial liability as a percentage of covered payroll	0%	1%	0%	0%	0%	0%

TRS Plan 2/3 uses the aggregate actuarial cost method. Effective for reporting year 2007, this Schedule of Funding Progress is prepared using the entry age actuarial cost method and is intended to serve as a surrogate for the funded status and funding progress information of this plan as required by GASB Statement No. 50.

Source: Washington State Office of the State Actuary.

PENSION PLAN INFORMATION
Schedules of Funding Progress

continued

Schedule of Funding Progress
School Employees' Retirement System - Plan 2/3
Valuation Years 2012 through 2007
(dollars in millions)

	2012	2011	2010	2009	2008	2007
Actuarial valuation date	6/30/2012	6/30/2011	6/30/2010	6/30/2009	6/30/2008	6/30/2007
Actuarial value of plan assets	$ 3,100	$ 2,872	$ 2,664	$ 2,503	$ 2,303	$ 2,133
Actuarial accrued liability	3,103	2,956	2,706	2,493	2,207	1,998
Unfunded (assets in excess of) actuarial liability	3	84	41	(10)	(96)	(135)
Percentage funded	100%	97%	98%	100%	104%	107%
Covered payroll	1,479	1,490	1,475	1,467	1,379	1,283
Unfunded actuarial liability as a percentage of covered payroll	0%	6%	3%	0%	0%	0%

SERS Plan 2/3 uses the aggregate actuarial cost method. Effective for reporting year 2007, this Schedule of Funding Progress is prepared using the entry age actuarial cost method and is intended to serve as a surrogate for the funded status and funding progress information of this plan as required by GASB Statement No. 50.

Source: Washington State Office of the State Actuary.

Schedule of Funding Progress
Law Enforcement Officers' and Fire Fighters' Retirement System - Plan 1
Valuation Years 2012 through 2007
(dollars in millions)

	2012	2011	2010	2009	2008	2007
Actuarial valuation date	6/30/2012	6/30/2011	6/30/2010	6/30/2009	6/30/2008	6/30/2007
Actuarial value of plan assets	$ 5,562	$ 5,565	$ 5,561	$ 5,612	$ 5,592	$ 5,298
Actuarial accrued liability	4,120	4,145	4,393	4,492	4,368	4,340
Unfunded (assets in excess of) actuarial liability	(1,441)	(1,420)	(1,168)	(1,120)	(1,224)	(958)
Percentage funded	135%	134%	127%	125%	128%	122%
Covered payroll	19	25	29	33	37	43
Unfunded actuarial liability as a percentage of covered payroll	0%	0%	0%	0%	0%	0%

Source: Washington State Office of the State Actuary.

PENSION PLAN INFORMATION
Schedules of Funding Progress

continued

Schedule of Funding Progress
Law Enforcement Officers' and Fire Fighters' Retirement System - Plan 2
Valuation Years 2012 through 2007
(dollars in millions)

	2012	2011	2010	2009	2008	2007
Actuarial valuation date	6/30/2012	6/30/2011	6/30/2010	6/30/2009	6/30/2008	6/30/2007
Actuarial value of plan assets	$ 7,222	$ 6,621	$ 6,043	$ 5,564	$ 5,053	$ 4,360
Actuarial accrued liability	6,353	5,941	5,164	4,641	3,998	3,626
Unfunded (assets in excess of) actuarial liability	(869)	(680)	(879)	(923)	(1,055)	(734)
Percentage funded	114%	111%	117%	120%	126%	120%
Covered payroll	1,560	1,535	1,490	1,442	1,345	1,234
Unfunded actuarial liability as a percentage of covered payroll	0%	0%	0%	0%	0%	0%

LEOFF Plan 2 uses the aggregate actuarial cost method. Effective for reporting year 2007, this Schedule of Funding Progress is prepared using the entry age actuarial cost method and is intended to serve as a surrogate for the funded status and funding progress information of this plan as required by GASB Statement No. 50.

Source: Washington State Office of the State Actuary.

Schedule of Funding Progress
Washington State Patrol Retirement System - Plan 1/2
Valuation Years 2012 through 2007
(dollars in millions)

	2012	2011	2010	2009	2008	2007
Actuarial valuation date	6/30/2012	6/30/2011	6/30/2010	6/30/2009	6/30/2008	6/30/2007
Actuarial value of plan assets	$ 982	$ 949	$ 920	$ 900	$ 870	$ 800
Actuarial accrued liability	884	859	812	790	745	702
Unfunded (assets in excess of) actuarial liability	(97)	(90)	(108)	(110)	(125)	(98)
Percentage funded	111%	110%	113%	114%	117%	114%
Covered payroll	80	82	83	83	79	72
Unfunded actuarial liability as a percentage of covered payroll	0%	0%	0%	0%	0%	0%

WSPRS Plan 1/2 uses the aggregate actuarial cost method. Effective for reporting year 2007, this Schedule of Funding Progress is prepared using the entry age actuarial cost method and is intended to serve as a surrogate for the funded status and funding progress information of this plan as required by GASB Statement No. 50.

Source: Washington State Office of the State Actuary.

PENSION PLAN INFORMATION
Schedules of Funding Progress

continued

Schedule of Funding Progress
Public Safety Employees' Retirement System - Plan 2
Valuation Years 2012 through 2007
(dollars in millions)

	2012	2011	2010	2009	2008	2007
Actuarial valuation date	6/30/2012	6/30/2011	6/30/2010	6/30/2009	6/30/2008	6/30/2007
Actuarial value of plan assets	$ 180	$ 141	$ 103	$ 69	$ 39	$ 14
Actuarial accrued liability	159	127	94	64	37	19
Unfunded (assets in excess of) actuarial liability	(22)	(14)	(9)	(5)	(2)	6
Percentage funded	114%	111%	109%	108%	106%	74%
Covered payroll	238	233	227	223	200	134
Unfunded actuarial liability as a percentage of covered payroll	0%	0%	0%	0%	0%	0%

PSERS Plan 2 uses the aggregate actuarial cost method. Effective for reporting year 2007, this Schedule of Funding Progress is prepared using the entry age actuarial cost method and is intended to serve as a surrogate for the funded status and funding progress information of this plan as required by GASB Statement No. 50.

Source: Washington State Office of the State Actuary.

Schedule of Funding Progress
Judicial Retirement System
Valuation Years 2012 through 2007
(dollars in millions)

	2012	2011	2010	2009	2008	2007
Actuarial valuation date	6/30/2012	6/30/2011	6/30/2010	6/30/2009	6/30/2008	6/30/2007
Actuarial value of plan assets	$ 3.5	$ 5.0	$ 4.0	$ 2.0	$ 1.0	$ 1.0
Actuarial accrued liability	104	109	84	89	92	85
Unfunded actuarial liability	101	104	80	87	91	84
Percentage funded	3%	5%	5%	2%	1%	1%
Covered payroll	0.3	0.5	0.7	0.9	1.3	1.3
Unfunded actuarial liability as a percentage of covered payroll	33779%	22574%	11565%	9667%	7000%	6462%

Source: Washington State Office of the State Actuary.

PENSION PLAN INFORMATION
Schedules of Funding Progress

concluded

Schedule of Funding Progress
Judges' Retirement Fund
Valuation Years 2012 through 2007
(dollars in millions)

	2012	2011	2010	2009	2008	2007
Actuarial valuation date	6/30/2012	6/30/2011	6/30/2010	6/30/2009	6/30/2008	6/30/2007
Actuarial value of plan assets	$ 1.9	$ 2.3	$ 2.8	$ 3.3	$ 3.6	$ 4.0
Actuarial accrued liability	3.6	3.9	3.2	3.4	3.5	3.9
Unfunded (assets in excess of) actuarial liability	1.7	1.6	0.4	0.1	(0.1)	(0.1)
Percentage funded	52%	61%	87%	97%	103%	103%
Covered payroll *	N/A	N/A	N/A	N/A	N/A	N/A
Unfunded actuarial liability as a percentage of covered payroll	N/A	N/A	N/A	N/A	N/A	N/A

N/A indicates data not applicable.

* Covered payroll is not applicable because there are no active plan members.

Source: Washington State Office of the State Actuary.

Schedule of Funding Progress
Volunteer Fire Fighters' and Reserve Officers' Relief and Pension Fund
Valuation Years 2012 through 2007
(dollars in millions)

	2012	2011	2010	2009	2008	2007
Actuarial valuation date	6/30/2012	6/30/2011	6/30/2010	6/30/2009	6/30/2008	6/30/2007
Actuarial value of plan assets***	$ 170	$ 168	$ 166	$ 166	$ 161	$ 151
Actuarial accrued liability*	170	168	166	163	153	141
Unfunded (assets in excess of) actuarial liability	-	-	-	(3)	(8)	(10)
Percentage funded	100%	100%	100%	102%	105%	107%
Covered payroll**	N/A	N/A	N/A	N/A	N/A	N/A
Unfunded actuarial liability as a percentage of covered payroll	N/A	N/A	N/A	N/A	N/A	N/A

* Pension plan liability only - excludes relief benefits.

**Covered payroll is not presented because it is not applicable since this is a volunteer organization.

*** Board for Volunteer Fire Fighters adopted a new funding policy as of 2010 where assets above the accrued pension liability are allocated to fund relief benefits.

N/A indicates data not applicable.

Source: Washington State Office of the State Actuary.

PENSION PLAN INFORMATION
Schedules of Contributions from Employers and Other Contributing Entities (cont'd)

Schedules of Contributions from Employers and Other Contributing Entities
For the Fiscal Years Ended June 30, 2013 through 2008
(dollars in millions)

	2013	2012	2011	2010	2009	2008
PUBLIC EMPLOYEES' RETIREMENT PLAN SYSTEM - PLAN 1						
Employers' annual required contribution	$ 534.2	$ 508.0	$ 439.3	$ 627.8	$ 620.2	$ 453.1
Employers' actual contribution	266.3	257.2	145.6	154.0	325.2	221.8
Percentage contributed	50%	51%	33%	25%	52%	49%
PUBLIC EMPLOYEES' RETIREMENT PLAN SYSTEM - PLAN 2/3						
Employers' annual required contribution	$ 408.3	$ 407.7	$ 408.6	$ 383.1	$ 369.7	$ 363.3
Employers' actual contribution	389.0	385.3	328.3	327.5	439.7	318.7
Percentage contributed	95%	95%	80%	85%	119%	88%
TEACHERS' RETIREMENT SYSTEM - PLAN 1						
Employers' annual required contribution	$ 275.4	$ 254.0	$ 205.9	$ 406.1	$ 391.0	$ 294.7
Employers' actual contribution	118.6	111.9	96.8	112.7	178.9	113.1
Percentage contributed	43%	44%	47%	28%	46%	38%
TEACHERS' RETIREMENT SYSTEM - PLAN 2/3						
Employers' annual required contribution	$ 231.6	$ 232.2	$ 232.3	$ 221.1	$ 186.9	$ 208.9
Employers' actual contribution	229.0	213.9	168.3	165.0	160.8	109.5
Percentage contributed	99%	92%	72%	75%	86%	52%
SCHOOL EMPLOYEES' RETIREMENT SYSTEM - PLAN 2/3						
Employers' annual required contribution	$ 86.6	$ 85.2	$ 88.6	$ 82.3	$ 71.5	$ 75.8
Employers' actual contribution	78.4	74.6	62.3	62.1	63.5	52.1
Percentage contributed	91%	88%	70%	75%	89%	69%

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

Source: Washington State Office of the State Actuary

PENSION PLAN INFORMATION
Schedules of Contributions from Employers and Other Contributing Entities (cont'd)

Schedules of Contributions from Employers and Other Contributing Entities
For the Fiscal Years Ended June 30, 2013 through 2008
(dollars in millions)

	2013	2012	2011	2010	2009	2008
LAW ENFORCEMENT OFFICERS' AND FIRE FIGHTERS' RETIREMENT SYSTEM - PLAN 1						
Employers' annual required contribution	$ -	$ -	$ -	$ -	$ -	$ -
Employers' actual contribution	0.6	-	-	-	-	-
Percentage contributed	N/A	N/A	N/A	N/A	N/A	N/A
State annual required contribution	$ -	$ -	$ -	$ -	$ -	$ -
State actual contribution	-	-	-	-	-	-
Percentage contributed	N/A	N/A	N/A	N/A	N/A	N/A
LAW ENFORCEMENT OFFICERS' AND FIRE FIGHTERS' RETIREMENT SYSTEM - PLAN 2						
Employers' annual required contribution*	$ 56.8	$ 59.1	$ 50.4	$ 67.3	$ 63.2	$ 61.3
Employers' actual contribution	82.4	80.5	79.7	77.0	77.8	73.4
Percentage contributed	145%	136%	158%	114%	123%	120%
State annual required contribution*	$ 37.9	$ 38.2	$ 33.6	$ 44.4	$ 42.1	$ 40.8
State actual contribution	54.2	52.8	52.0	51.4	51.1	45.9
Percentage contributed	143%	138%	155%	116%	121%	113%
WASHINGTON STATE PATROL RETIREMENT SYSTEM						
Employers' annual required contribution	$ 2.5	$ 2.9	$ 2.3	$ 6.6	$ 5.0	$ 6.8
Employers' actual contribution	6.5	6.5	5.3	5.3	6.4	6.1
Percentage contributed	260%	224%	230%	80%	128%	90%

N/A indicates data not applicable

*The Annual Required Contribution (ARC) for the LEOFF Plan 2 presented is the Office of the State Actuary's recommended figure.

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

Source: Washington State Office of the State Actuary

PENSION PLAN INFORMATION

Schedules of Contributions from Employers and Other Contributing Entities (concl'd)

Schedules of Contributions from Employers and Other Contributing Entities

For the Fiscal Years Ended June 30, 2013 through 2008

(dollars in millions)

	2013	2012	2011	2010	2009	2008
PUBLIC SAFETY EMPLOYEES' RETIREMENT PLAN SYSTEM - PLAN 2						
Employers' annual required contribution	$ 15.1	$ 14.7	$ 14.7	$ 14.8	$ 14.3	$ 12.4
Employers' actual contribution	15.6	15.3	15.6	15.2	14.5	11.7
Percentage contributed	103%	104%	106%	103%	101%	94%
JUDICIAL RETIREMENT SYSTEM						
Employers' annual required contribution	$ 21.7	$ 22.6	$ 18.6	$ 20.4	$ 21.2	$ 26.6
Employers' actual contribution	10.1	8.1	10.9	11.6	10.2	9.6
Percentage contributed	47%	36%	59%	57%	48%	36%
JUDGES' RETIREMENT FUND						
Employers' annual required contribution	$ 0.4	$ 0.3	$ 0.1	$ -	$ -	$ -
Employers' actual contribution	-	-	-	-	-	-
Percentage contributed	N/A	N/A	N/A	N/A	N/A	N/A
VOLUNTEER FIRE FIGHTERS' AND RESERVE OFFICERS' RELIEF AND PENSION FUND						
Employers' annual required contribution	$ 0.9	$ 1.0	$ 1.1	$ 1.0	$ 1.1	$ 1.0
Employers' actual contribution	0.9	1.0	1.1	1.0	1.0	1.0
Percentage contributed	100%	100%	100%	100%	91%	100%
State annual required contribution	$ 3.7	$ 3.7	$ 4.2	$ 1.8	$ 1.4	$ 0.9
State actual contribution	6.0	5.6	5.8	5.7	5.2	5.0
Percentage contributed	162%	151%	138%	317%	371%	556%

N/A indicates data not applicable

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

Source: Washington State Office of the State Actuary

OTHER POSTEMPLOYMENT BENEFITS INFORMATION
Schedule of Funding Progress

Schedule of Funding Progress
Other Postemployment Benefits
Valuation Years 2013 through 2009
(dollars in millions)

	2013	2011	2009
Actuarial valuation date	1/1/2013	1/1/2011	1/1/2009
Actuarial value of plan assets	$ -	$ -	$ -
Actuarial accrued liability (AAL)*	3,707	3,492	3,787
Unfunded actuarial accrued liability (UAAL)	3,707	3,492	3,787
Funded ratio	0%	0%	0%
Covered payroll	5,787	5,937	5,678
UAAL as a percentage of covered payroll	64%	59%	67%

* Based on projected unit credit actuarial cost method.

Source: Washington State Office of the State Actuary

INFRASTRUCTURE ASSETS REPORTED USING THE MODIFIED APPROACH

Condition Assessment

The state of Washington reports certain networks of infrastructure assets under the modified approach of the Governmental Accounting Standards Board Statement No. 34. Expenditures to maintain and preserve these assets are budgeted, recorded, and reported in lieu of depreciation expense. The state must meet the following requirements to report networks of assets under the modified approach:

- Maintain an up-to-date inventory of eligible infrastructure assets in an asset management system.
- Disclose the condition level established by administrative or executive policy, or by legislative action at which assets are to be preserved or maintained.
- Perform condition assessments of eligible assets and summarize the results using a measurement scale.
- Document that assets are being preserved approximately at or above the disclosed condition level.
- Annually estimate the cost to maintain and preserve the assets at the established condition level.

Assets accounted for under the modified approach include the state's network of highway pavements, bridges, and rest areas. In fiscal year 2013, the state was responsible to maintain and preserve 20,680 pavement lane miles, 3,267 bridges and tunnels, and 48 rest areas.

PAVEMENT CONDITION

The Washington State Department of Transportation (WSDOT) performs highway pavement assessments over a two year cycle utilizing three measurements to develop a scaled condition assessment: Pavement Structural Condition (PSC), International Roughness Index (IRI), and rutting.

The WSDOT uses the following rating scale for PSC:

Category	PSC Range	Description
Very Good	80 – 100	Little or no distress. Example: Flexible pavement with 5 percent of wheel track length having "hairline" severity alligator cracking will have a PSC of 80.
Good	60 – 79	Early stage deterioration. Example: Flexible pavement with 15 percent of wheel track length having "hairline" alligator cracking will have a PSC of 70.
Fair	40 – 59	This is the threshold value for rehabilitation. Example: Flexible pavement with 25 percent of wheel track length having "hairline" alligator cracking will have a PSC of 50.
Poor	20 – 39	Structural deterioration. Example: Flexible pavement with 25 percent of wheel track length having "medium (spalled)" severity alligator cracking will have a PSC of 30.
Very Poor	0 – 19	Advanced structural deterioration. Example: Flexible pavement with 40 percent of wheel track length having "medium (spalled)" severity alligator cracking will have a PSC of 10. May require extensive repair and thicker overlays.

The IRI scale is measured in inches per mile. The WSDOT assesses pavements with a ride performance measure less than 221 inches per mile to be in fair or better condition.

Rutting is measured in inches with a measurement of 0.58 inches or less assessed at a condition of fair or better.

PSC, IRI, and rutting are combined to rate a section of pavement which is assigned the lowest condition of any of the three indices.

The WSDOT's policy is to maintain 90 percent of pavements at a condition level of fair or better. The following table shows the combined conditions and the ratings for pavement for each index:

Category	PSC	IRI	Rutting
Very Good	80 – 100	< 96	< 0.24
Good	60 – 79	96 – 170	0.24 – 0.41
Fair	40 – 59	171 – 220	0.42 – 0.58
Poor	20 – 39	221 – 320	0.59 – 0.74
Very Poor	0 – 19	> 320	> 0.74

The following table shows payment condition ratings for state highways:

Pavement Percentage in Fair or Better Condition Calendar Year		
2011	2009	2007
91.2%	92.7%	93.0%

The following table reflects the state's estimated and actual expenditures necessary to preserve state highways at the established condition level:

Pavement Preservation and Maintenance - Planned to Actual - Fiscal Year *(expressed in thousands)*					
	2013	2012	2011	2010	2009
Planned	$ 137,779	$ 148,811	$ 122,203	$ 168,204	$ 144,897
Actual	$ 108,972	$ 148,366	$ 117,811	$ 159,441	$ 128,449

Actual expenditures may vary from planned amounts for a variety of reasons which include, but are not limited to, management's decision to accelerate, defer, or reduce preservation or maintenance activity in response to economic forecasts and other factors.

For more information about pavements, refer to the WSDOT's website at: http://www.wsdot.wa.gov/Business/MaterialsLab/Pavements/default.htm.

BRIDGE CONDITION

The WSDOT performs sample condition assessments on state owned bridges in excess of 20 feet in length each year with all bridges inspected over a two year cycle. Underwater bridge components are inspected at least once every five years in accordance with Federal Highway Administration (FHWA) requirements.

The WSDOT uses a performance measure which classifies a bridge as good, fair, or poor using the National Bridge Inspection Standards (NBIS) codes for bridge superstructure, substructure, and deck. The following categories for condition rating are based on the structural sufficiency standards established in FHWA's "Recording and Coding Guide for the Structural Inventory and Appraisal of the Nation's Bridges."

Category	National Bridge Inventory Code	Description
Good	6, 7, or 8	A range from no problems noted to some minor deterioration of structural elements.
Fair	5	All primary structural elements are sound but may have deficiencies such as minor section loss, deterioration, cracking, spalling or scour.
Poor	4 or less	Advanced deficiencies such as section loss, deterioration, cracking, spalling, scour or seriously affected primary structural components.

The WSDOT's policy is to maintain 95 percent of bridges at a condition level of fair or better. The following table shows bridge condition ratings:

Bridges Percentage in Fair or Better Condition Calendar Year		
2011	**2009**	**2007**
95.4%	97.7%	97.2%

The following table reflects the state's estimated and actual expenditures necessary to preserve the bridges at the established condition level:

Bridges Preservation and Maintenance - Planned to Actual - Fiscal Year *(expressed in thousands)*					
	2013	**2012**	**2011**	**2010**	**2009**
Planned	$ 98,519	$ 66,510	$ 46,708	$ 54,490	$ 76,801
Actual	$ 87,306	$ 61,026	$ 43,709	$ 44,436	$ 29,992

Actual expenditures may vary from planned amounts for a variety of reasons which include, but are not limited to, management's decision to accelerate, defer, or reduce preservation or maintenance activity in response to economic forecasts and other factors.

For more information about bridges, refer to the WSDOT's website at:
http://www.wsdot.wa.gov/eesc/bridge/index.cfm.

SAFETY REST AREA CONDITION

The WSDOT performs safety rest area condition assessments every two years. Sites are given a good to poor numerical rating for each of the following functional components: ADA compliance; proximity to the next rest area; traffic flow/access from/to the highway; security (fencing, visibility, and lighting); facility size (vehicle/pedestrian circulation, parking, potential facility expansion); drainage; landscaping maintenance; signage; water supply (rate flow, potable, hydrant system), and sanitation (municipal or on-site). A weighting multiplier is applied based on the criticality of each component.

The WSDOT's policy is to maintain 95 percent of safety rest areas in a condition of fair or better. The following table shows the safety rest area condition ratings:

Safety Rest Areas Percentage in Fair or Better Condition Calendar Year		
2011	**2009**	**2007**
100.0%	97.6%	95.2%

The following table reflects the state's estimated and actual expenditures necessary to preserve the safety rest areas at the established condition level:

Safety Rest Areas Preservation and Maintenance - Planned to Actual - Fiscal Year *(expressed in thousands)*					
	2013	**2012**	**2011**	**2010**	**2009**
Planned	$ 6,607	$ 6,278	$ 6,259	$ 5,815	$ 6,007
Actual	$ 6,676	$ 6,467	$ 6,514	$ 5,925	$ 5,824

Actual expenditures may vary from planned amounts for a variety of reasons which include, but are not limited to, management's decision to accelerate, defer, or reduce preservation or maintenance activity in response to economic forecasts and other factors.

For more information about safety rest areas, refer to WSDOT's website at: http://www.wsdot.wa.gov/safety/restareas.

APPENDIX E

DTC AND ITS BOOK-ENTRY SYSTEM

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DTC AND ITS BOOK-ENTRY SYSTEM

The following information has been 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.