OFFICIAL STATEMENT DATED FEBRUARY 8, 2017

NEW ISSUE, BOOK-ENTRY ONLY **Moody's Rating: Aa2**
(See "RATING")

$103,130,000

STATE OF WASHINGTON
CERTIFICATES OF PARTICIPATION, SERIES 2017A
(STATE AND LOCAL AGENCY REAL AND PERSONAL PROPERTY)

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

The State of Washington Certificates of Participation, Series 2017A (State and Local Agency Real and Personal Property) (the "Certificates") are being executed and delivered by the Trustee pursuant to a Trust Agreement among the Trustee, the State of Washington (the "State") and the Washington Finance Officers Association (the "Corporation"), a Washington nonprofit corporation. The Certificates evidence and represent undivided proportionate interests in payments to be made by the State under Master Financing Agreements between the Corporation and the State (the "State Payments").

The interest represented by the Certificates is payable semiannually on each January 1 and July 1, beginning January 1, 2018. The principal represented by the Certificates is payable in the stated maturity amounts on each July 1 as shown on page i.

The Certificates are subject to optional prepayment prior to their respective Principal Payment Dates. The Certificates are subject to extraordinary mandatory prepayment upon the occurrence of certain events. See "THE CERTIFICATES—Prepayment."

The Certificates are issuable in fully registered form under a book-entry only system, initially registered in the name of Cede & Co. (the "Owner"), as owner and nominee for The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository for the Certificates. The Certificates will be issued in denominations of $5,000 each and any integral multiple thereof within a single maturity. Principal and interest represented by the Certificates are payable by the Trustee (currently U.S. Bank National Association), to DTC, for subsequent disbursement to Beneficial Owners of the Certificates, as described under "THE CERTIFICATES—Book-Entry System."

The Certificates are being executed and delivered to finance the costs of acquisition and construction of certain real and personal property for the benefit of certain State Agencies and Local Agencies (together, the "Agencies") and to pay issuance costs with respect to the Certificates.

State Payments are payable from payments made pursuant to the Agency Financing Agreements between the State and the applicable Agency ("Agency Payments"). The Master Financing Agreements and the State Agency Agreements constitute limited obligations of the State payable solely from the sources and subject to the limitations therein and do not constitute a debt or a general obligation of the State or a pledge of the faith and credit or taxing power of the State. The obligation of any State Agency to make its Agency Payment and the obligation of the State to make State Payments are subject to appropriation by the Legislature and to Executive Order emergency reduction by the Governor. A determination by the Legislature not to appropriate or any Executive Order reduction would not constitute an Event of Default under the Trust Agreement, the Master Financing Agreements or any State Agency Financing Agreement. The obligation of each Local Agency to make its Agency Payment is secured by such agency's full faith and credit.

In the opinion of Certificate Counsel, under existing federal law and assuming compliance with applicable requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issue date of the Certificates, interest represented by the Certificates is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the alternative minimum tax applicable to individuals. While interest represented by the Certificates also is not an item of tax preference for purposes of the alternative minimum tax applicable to corporations, interest represented by the Certificates received by corporations is taken into account in the computation of adjusted current earnings for purposes of the alternative minimum tax applicable to corporations, interest represented by the Certificates received by certain S corporations may be subject to tax, and interest represented by the Certificates received by foreign corporations with United States branches may be subject to a foreign branch profits tax. Receipt of interest represented by the Certificates may have other federal tax consequences for certain taxpayers. See "TAX MATTERS."

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

It is anticipated that the Certificates will be available for delivery through the facilities of DTC in New York, New York, or to the Trustee on behalf of DTC by Fast Automated Securities Transfer on or about March 2, 2017.

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

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

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

The Underwriter has provided the following sentence for inclusion in this Official Statement: The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

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

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

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

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

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

CERTIFICATE PAYMENT SCHEDULE

$103,130,000
STATE OF WASHINGTON
CERTIFICATES OF PARTICIPATION, SERIES 2017A
(STATE AND LOCAL AGENCY REAL AND PERSONAL PROPERTY)

Principal Payment Date (July 1)	Principal Component[2]	Interest Rate	Yield	Price	CUSIP Number[3]
2018	$ 3,890,000	5.000%	1.100%	105.135	939720WN4
2019	6,365,000	5.000	1.280	108.513	939720WP9
2020	6,685,000	5.000	1.500	111.327	939720WQ7
2021	6,575,000	5.000	1.650	113.943	939720WR5
2022	5,835,000	5.000	1.840	115.972	939720WS3
2023	5,215,000	5.000	2.060	117.362	939720WT1
2024	4,410,000	5.000	2.220	118.708	939720WU8
2025	4,510,000	5.000	2.430	119.272	939720WV6
2026	4,745,000	5.000	2.570	120.042	939720WW4
2027	4,970,000	5.000	2.710	120.510	939720WX2
2028	4,005,000	5.000	2.800	119.613[2]	939720WY0
2029	4,215,000	5.000	2.920	118.430[2]	939720WZ7
2030	4,415,000	5.000	2.990	117.746[2]	939720XA1
2031	4,635,000	5.000	3.070	116.970[2]	939720XB9
2032	4,875,000	5.000	3.140	116.297[2]	939720XC7
2033	4,440,000	5.000	3.220	115.533[2]	939720XD5
2034	4,665,000	5.000	3.280	114.963[2]	939720XE3
2035	4,895,000	5.000	3.330	114.492[2]	939720XF0
2036	5,135,000	5.000	3.370	114.116[2]	939720XG8
2037	5,385,000	5.000	3.410	113.742[2]	939720XH6
2038	3,265,000	5.000	3.420	113.648[2]	939720XJ2
Total	$103,130,000				

(1) The CUSIP data herein is provided by the CUSIP Global Services, managed on behalf of the American Bankers Association by S&P Global Market Intelligence. The CUSIP numbers are not intended to create a database and do not serve in any way as a substitute for CUSIP service. CUSIP numbers have been assigned by an independent company not affiliated with the State and are provided solely for convenience and reference. The CUSIP numbers for a specific maturity are subject to change after the issuance of the Certificates. Neither the State nor the Underwriter takes responsibility for the accuracy of the CUSIP numbers.

(2) Priced to the July 1, 2027 par call date.

PARTICIPATING AGENCIES

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

Term (years)	Agency Name	Property	Amount
3	Department of Social and Health Services	Box Truck	$ 31,185
3	Department of Enterprise Services	Monitors/Laptops	34,611
3	Department of Enterprise Services	Laptops, Docks, Monitors	80,640
3	Department of Enterprise Services	Docking Stations/Computers	487,121
3	Department of Enterprise Services	Laptops/Desktops/Services/Monitors/Servers	533,554
3	City of Yelm(1)	Two 2017 Ford police interceptors and Equipment	99,000
4	Department of Enterprise Services	Tough Pads, Computers/Surface Pro/Server, Monitors	297,502
4	Department of Enterprise Services	Laptops, Desktops, Computers, Computer Service	373,894
4	Department of Enterprise Services	Laptops, Services, Firewalls	544,063
4	Department of Enterprise Services	Computers/Monitors/Services/Laptops	872,892
4	Department of Enterprise Services	Laptops/Services, Servers/Computers/Monitors, Desktops/Laptops, Hard Drives	1,529,197
4	Department of Social and Health Services	Automobiles	188,013
4	Washington State Patrol	Leica ScanStation laser scanner	271,382
5	City of Aberdeen(1)	New Citywide computer network including VOIP phones	750,000
5	Department of Agriculture	Mass Comparator AX 12004	75,163
5	Department of Enterprise Services	Server	15,434
5	Department of Enterprise Services	Servers	41,653
5	Department of Enterprise Services	Server, Server system	62,247
5	Department of Enterprise Services	Automobiles	444,456
5	Department of Enterprise Services	Phone system, Servers	532,944
5	Department of Enterprise Services	Automobiles	594,966
5	Department of Enterprise Services	Automobiles	781,545
5	Department of Fish and Wildlife	Toyota forklift truck	26,823
5	Department of Social and Health Services	2016 Ford Explorer front wheel drive	53,819
5	Department of Social and Health Services	2017 Ford Starcraft bus	125,116
5	Department of Social and Health Services	2016 Dodge Caravan, 2015 Dodge Durango	131,471
5	Oak Harbor School District No. 201(1)	Three school buses	398,906
5	Western Washington University	Ricoh Production digital printer/Copier	290,354
6	Department of Enterprise Services	Automobiles	922,414
6	Department of Enterprise Services	Automobiles	1,366,987
6	Department of Enterprise Services	Automobiles	1,641,815
6	Department of Enterprise Services	Automobiles	1,921,619
6	Department of Fish and Wildlife	Amphibious truck vehicles with rotary cutter and backhoe	154,215
7	Department of Transportation	Avaya PBX telephony system upgrade for Olympia HQ	726,780
10	Clark College(2)	Remodel Gaiser Hall culinary arts facility; remodel instructional area and food services area	8,500,000
10	Department of Enterprise Services	Peterbilt 579 4 axle tractor, Peterbilt 579 5 axle day cab	305,071
10	Department of Enterprise Services	Mail machine inserter	713,011
10	Kelso School District No. 458(1)	Eight school buses	1,020,000
10	Yakima County Fire Protection District No. 6(1)	2017 Ford F550 Type 6 cab & chassis outfitted as brush/rescue truck	140,000
15	Department of Enterprise Services(2)	Natural Resources building garage fire suppression systems & critical repairs	8,077,000
20	Bellevue College(2)	Construction of student housing	45,700,000
20	Centralia College(2)	Construction of a new 70,000 gross sq. ft. facility to support instructional programs and student services	3,000,000
20	Community Colleges of Spokane(2)	Renovation of the Spokane Falls Community College gymnasium	17,265,000
20	Walla Walla Community College(2)	Construction of facility to house instructional programs at Clarkston campus	1,500,000
20	Wenatchee Valley College(2)	Construction of a student recreation center	6,200,000
20	Western Washington University(2)	Renovation of Carver Academic Facility	6,000,000

(1) Local Agencies; remainder are State Agencies.
(2) Real Property Participants.

STATE FINANCE COMMITTEE
OF THE
STATE OF WASHINGTON

DUANE A. DAVIDSON............................Treasurer and Chairman

JAY INSLEE ....Governor and Member

CYRUS HABIB..........................Lieutenant Governor and Member

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

CERTIFICATE COUNSEL AND DISCLOSURE COUNSEL TO THE STATE

Foster Pepper PLLC
Seattle, Washington

FINANCIAL ADVISORS TO THE STATE

Piper Jaffray & Co.
Seattle, Washington

Montague DeRose and Associates, LLC
Walnut Creek, California

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

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

CONTACT INFORMATION

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TABLE OF CONTENTS

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OFFICIAL STATEMENT
STATE OF WASHINGTON
CERTIFICATES OF PARTICIPATION

$103,130,000
STATE OF WASHINGTON
CERTIFICATES OF PARTICIPATION, SERIES 2017A
(STATE AND LOCAL AGENCY REAL AND PERSONAL PROPERTY)

INTRODUCTION

The purpose of this Official Statement, including the cover page, the inside cover page and the appendices, is to provide information relating to the State of Washington (the "State" or "Washington") and the $103,130,000 principal amount of State of Washington Certificates of Participation, Series 2017A (State and Local Agency Real and Personal Property) (the "Certificates").

The proceeds of the Certificates are to be used to finance the costs of acquisition and construction of improvements to certain parcels of real property (the "Projects") and the acquisition of certain personal property for the benefit of certain State Agencies and Local Agencies.

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

For definitions and summaries of the Trust Agreement, the Master Financing Agreements, the Agency Financing Agreements, the Master Assignments, and the Site Leases, see Appendix B—"DEFINITIONS AND SUMMARY OF CERTAIN LEGAL DOCUMENTS." Such summaries and descriptions of the Certificates, the legal documents and the Committee's authorizing resolutions and the references to and summaries of certain provisions of the Washington State Constitution (the "Constitution") and laws of the State and any other documents and agreements referred to herein do not purport to be complete and are qualified in their entirety by reference to the complete provisions thereof. Certain financial information regarding the State has been taken or derived from the audited financial statements and other financial reports of the State. General and economic information about the State is included in Appendix A—"GENERAL AND ECONOMIC INFORMATION," and audited financial statements for the State's fiscal year ended June 30, 2016, are included as Appendix D—"THE STATE'S 2016 AUDITED FINANCIAL STATEMENTS."

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 authorized by the Legislature. The Committee is composed of the Governor, Lieutenant Governor and Treasurer. The Treasurer is designated as Chairman of the Committee, and pursuant to Chapter 3, Laws of 1981 (Section 43.33.030 of the Revised Code of Washington ("RCW")), the Office of the State Treasurer provides administrative support to the Committee. A Deputy State Treasurer acts as recording officer for the Committee and is responsible for the administration of its official duties in accordance with prescribed policies of the Committee.

THE CERTIFICATES

Authorization

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

Forms of financing contracts of the State issued pursuant to the Act must be approved by the Committee, and financing contracts for the acquisition of real property by the State must receive the prior approval of the Legislature. By Resolution No. 1190, adopted on October 31, 2016, the Committee authorized the execution and delivery of certificates of participation (including the Certificates) in series from time to time in payments to be made by the State pursuant to master financing contracts and/or master financing leases. The Committee also approved the forms of the Trust Agreement, the Master Financing Agreements, the Agency Financing Agreements, the Site Leases and the Master Assignments. Under the Committee's most recent Finance Plan, through Resolution No. 1173, the maximum aggregate principal amount of financing contracts (including certificates of participation therein) of the State to be outstanding was set at $1,451,899,820, plus financing expenses and required reserves. 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.

Agency Financing Contracts for the acquisition of personal property are being entered into by the State Agencies under the provisions of the Act and by Local Agencies under approving ordinances or resolutions passed or adopted pursuant to applicable State law.

The Legislature authorized the following State Agencies to enter into State Agency Financing Leases: (1) the Department of Enterprise Services pursuant to Chapter 35, Laws of 2016, 1st Sp. Sess., Section 6002(4); (2) Western Washington University pursuant to Chapter 35, Laws of 2016, 1st Sp. Sess., Section 6002(9); and (3) the State Board for Community and Technical Colleges for and on behalf of: (a) Bellevue College pursuant to Chapter 35, Laws of 2016, 1st Sp. Sess., Section 6002(11)(l); (b) Centralia College pursuant to Chapter 35, Laws of 2016, 1st Sp. Sess., Section 6002(11)(a); (c) Clark College pursuant to Chapter 35, Laws of 2016, 1st Sp. Sess., Section 6002(11)(c); (d) Spokane Falls Community College pursuant to Chapter 35, Laws of 2016, 1st Sp. Sess., Section 6002(11)(n); (e) Walla Walla Community College pursuant to Chapter 35, Laws of 2016, 1st Sp. Sess., Section 6002(11)(k); and (f) Wenatchee Valley College pursuant to Chapter 35, Laws of 2016, 1st Sp. Sess., Section 6002(11)(o).

The Washington Supreme Court in *State Department of Ecology v. State Finance Committee*, 116 Wn.2d 246, 804 P.2d 1241 (1991), held that a financing contract for the State's Department of Ecology did not create debt within the meaning of Article VIII, Section 1, of the Constitution.

The Certificates are being executed and delivered by U.S. Bank National Association as Trustee for the Certificates (the "Trustee"), pursuant to a Trust Agreement (the "Trust Agreement"), among the Trustee, the State and the Washington Finance Officers Association (the "Corporation"), a Washington nonprofit corporation.

Book-Entry System

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

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

Payment of Principal and Interest

The Certificates represent undivided proportionate interests in State Payments to be made by the State pursuant to the Master Financing Agreements. The Certificates are to be dated as of their date of initial delivery. The principal components of the State Payments (the "Principal Components") represented by the Certificates will be payable on the dates (each a "Principal Payment Date") and in the amounts as shown on page i. The Certificates are to be executed and delivered as fully registered certificates in Authorized Denominations ($5,000 and any integral multiple thereof).

The interest components of State Payments (the "Interest Components") represented by the Certificates will be payable semiannually on January 1 and July 1 of each year (each an "Interest Payment Date" and together with Principal Payment Dates, the "Certificate Payment Dates"), beginning on January 1, 2018, at the rates shown on page i. Such interest is to be computed using a 360-day year consisting of 12 30-day months.

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

If the Certificates are not in book-entry form, the Interest Component on each Certificate is to be paid by check or draft mailed by first class mail (or by wire transfer to the Owner if agreed to by the State) on such Interest Payment Date to such Owner at the address as it appears on such Certificate Register on the Record Date (the close of business on the 15th day of the month immediately preceding each Interest Payment Date and Principal Payment Date). Payment of the Principal Component or Prepayment Price is to be made upon presentation and surrender of the Certificate by the Owner to the Trustee.

Prepayment

Optional Prepayment. The Certificates with Principal Payment Dates on and after July 1, 2028, are subject to prepayment prior to their respective Principal Payment Dates, as a whole or in part in Authorized Denominations on any date on or after July 1, 2027, upon the exercise by the State at the direction of any Agency, of its option to prepay the Principal Components represented by such Certificates, at the Prepayment Price (expressed as a percentage of the Principal Components prepaid) of 100 percent plus accrued interest, if any, represented thereby to the Prepayment Date.

Mandatory Prepayment. The Certificates are not subject to mandatory prepayment prior to their stated Principal Payment Date.

Extraordinary Prepayment. The Certificates are subject to extraordinary mandatory prepayment on any date prior to their respective Principal Payment Dates, as a whole, or in part in Authorized Denominations, upon certain governmental takings, loss of title or casualty loss to Real Property from amounts deposited in the Certificate Fund in the amount of the Principal Component represented thereby being prepaid, plus accrued interest, to the Prepayment Date, without premium. The Certificates are not subject to extraordinary mandatory prepayment upon a casualty loss to any Personal Property. See "SECURITY FOR THE CERTIFICATES–Extraordinary Prepayment."

Partial Prepayment. If the Certificates are in book-entry form at the time of prepayment, and less than all of the Certificates are being prepaid, the selection of Certificates for prepayment shall be made in accordance with the operational arrangements in effect at DTC. If the Certificates are not then in book-entry form at the time of prepayment, the Trustee shall select such Certificates for prepayment in a random method determined by the Trustee.

Notice of Prepayment. The Trustee will give notice of prepayment not less than 20 nor more than 60 days prior to the Prepayment Date to the Owner of each Certificate affected, at the address shown on the Certificate Register on the date such notice is mailed, and to the Securities Depository and the Municipal Securities Rulemaking Board (the "MSRB"). Each notice of prepayment shall state the date of such notice, the Dated Date of the Certificates, the Prepayment Date, the Prepayment Prices, the place or places of prepayment (including the name and address of the Trustee), the CUSIP number of the Certificates being prepaid, the Principal Component due represented by the Certificates, the numbers of the Certificates or portions thereof to be prepaid and the Principal Payment Dates of the

Certificates to be prepaid. The notice also must state that the interest represented by the Certificates designated for prepayment will cease to accrue from and after such Prepayment Date, and that on such date there will become due and payable with respect to each of the prepaid Certificates the Prepayment Price of the Certificate to be prepaid, and interest, if any, accrued thereon to the Prepayment Date. Such notice shall state that such Certificates be then surrendered at the address of the Trustee specified in the prepayment notice.

In the case of an optional or extraordinary prepayment, such prepayment is conditioned on the receipt by the Trustee of sufficient funds for such prepayment. If the Trustee does not receive funds sufficient to carry out a prepayment, the prepayment notice may be rescinded by further notice given to the Owners of the affected Certificates. A notice of optional or extraordinary prepayment may state that the State retains the right to rescind the notice and the related prepayment by giving a notice of rescission to the affected Owners at any time prior to the scheduled prepayment date.

Open Market Purchases

The State reserves the right to purchase any Certificate offered for sale to the State at any time and at any price.

Termination of Book-Entry System

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

Defeasance

The Trust Agreement provides that if money and/or Government Obligations maturing at such times and bearing interest to be earned thereon in amounts sufficient to pay the principal and interest represented by any or all of the Certificates in accordance with their terms and the terms of the Trust Agreement and the Master Financing Agreements are set aside irrevocably in a special trust account to effect such payment and are pledged for such purpose, then no further payments are required to be made to pay or secure the payment of such principal and interest represented by such Certificates, and such Certificates are to be deemed thereafter not to be outstanding.

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, the Trust Agreement 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.

SOURCES AND USES OF CERTIFICATE PROCEEDS

Purpose

Proceeds of the Certificates will be used to (i) pay all or a portion of the costs of acquiring, constructing and/or remodeling real property projects for various State Agencies; (ii) pay all or a portion of the cost of acquiring certain items of personal property for various State Agencies and Local Agencies; and (iii) pay costs of issuance of the Certificates. A complete listing of the participating Agencies and their respective real and personal property being financed is shown on page ii under the heading "Participating Agencies." See "CERTAIN PARTICIPATING AGENCIES" below for a more detailed description of certain Agencies and their related projects.

Sources and Uses

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

SOURCES AND USES

Sources		
Principal Component of the Certificates	$	103,130,000
Original Issue Premium		15,851,883
Total Sources(1)	$	118,981,883
Uses		
Deposit to Acquisition Fund (Personal Property)	$	18,579,863
Deposit to Project Fund (Real Property)		96,242,000
Capitalized Interest		3,735,124
Deposit to Rent/Installment Payment Funds		27,768
Costs of Issuance(2)		283,684
Underwriting Spread		113,443
Total Uses(1)	$	118,981,883

(1) Totals may not add due to rounding.
(2) Includes fees for services of the rating agency, financial advisors, certificate counsel, disclosure counsel, and other costs.

CERTAIN PARTICIPATING AGENCIES

The State Agencies for which the acquisition or construction of or improvements to real property is being financed and their respective projects are further described below. Other than the Department of Enterprise Services, this section does not describe Agencies that are acquiring personal property.

State Agency – Department of Enterprise Services

The Project. The Department of Enterprise Services is renovating the fire suppression systems of the parking garage of the Natural Resources Building and performing additional repairs. The Department of Enterprise Services has entered into a contract and construction is expected to begin in May 2017, with completion expected in December 2017.

The State Agency. The Department of Enterprise Services was formed on October 1, 2011. It is comprised of all of the former Department of General Administration and State Printer and parts of the Department of Personnel, Department of Information Services and the Office of Financial Management. Enterprise Services was created to consolidate central service support functions to improve service delivery and reduce the cost of State government. The agency provides a wide variety of support services. Services include facilities maintenance and construction, fleet management, State printer, State-wide procurement and contract oversight. Enterprise Services also provides accounting and other administrative support to over 40 other State agencies.

State Agency – State Board for Community and Technical Colleges

The Projects. The State Board for Community and Technical Colleges (the “State Board”) is financing projects on behalf of Bellevue College, Centralia College, Clark College, Community Colleges of Spokane, Walla Walla Community College and Wenatchee Valley College as more particularly described as follows:

The State Board, on behalf of Bellevue College, is constructing a student housing building. Bellevue College has entered into a construction contract and construction is expected to begin in February 2017, with completion expected in June 2018.

The State Board, on behalf of Centralia College, is constructing a new building to support instructional programs and services. Centralia College has entered into a construction contract and construction began in June 2015, with completion expected in March, 2017.

The State Board, on behalf of Clark College, is renovating the Gaiser Hall Culinary Arts Facility. Clark College has entered into a construction contract and construction began in November 2016, with completion expected in September 2017.

The State Board, on behalf of Community Colleges of Spokane, is renovating and constructing an addition to a gymnasium facility. Community Colleges of Spokane has entered into a construction contract and construction will begin in March 2017, with completion expected in June 2018.

The State Board, on behalf of Walla Walla Community College, is constructing a new facility to house instructional programs at the Clarkston campus. Walla Walla Community College has entered into a construction contract and completion is expected in April 2017.

The State Board, on behalf of Wenatchee Valley College, is constructing a student recreation center. Wenatchee Valley College has entered into a construction contract and construction began in September 2016, with completion expected in June 2017.

The State Agency. In 1967, the Legislature created a system of State-funded community colleges in the State and established a State Board of Community College Education, with members appointed by the Governor. In 1991, the Legislature made significant changes to the community college system and the title of the board was changed to the State Board for Community and Technical Colleges. The State Board's primary responsibilities are to submit single system operating and capital budget requests to the Governor and the Legislature, to represent the community and technical colleges on state-level policy issues, to allocate funds to the colleges, to provide research and information about the community and technical college system, and to provide policy guidance to the colleges.

The State Board's activities are administered by an executive director, who is appointed by the State Board. The State Board received State funding appropriations of $3,171,518 for the 2015-17 Biennium, and has approximately 180 full-time equivalent employees.

Participating Community Colleges

***Bellevue College*.** Bellevue College (formerly known as Bellevue Community College) is a public college that offers technology degrees, certificates of competency, certificates of training, and industry certifications and, in specific programs, prepares students for the achievement of state licensure achievement in addition to associate degrees, and bachelor degrees in certain high demand fields of study. The college is located in Bellevue, Washington, and began operation in 1966.

Centralia College. Centralia College is a two-year public college that offer degrees and certificates in academic and professional/technical programs, as well as courses in continuing education. The main campus of the college is located in Centralia on over 30 acres. The college began its operations in 1925.

Clark College. Clark College is a public college that offers degrees and certificates in academic and professional/technical programs, as well as courses in continuing education. The main campus of the college is located in Vancouver on 101 acres. The college began its operations in 1933.

Community Colleges of Spokane. Community Colleges of Spokane are two-year public colleges that offer degrees and certificates in academic and professional/technical programs, as well as courses in continuing education and developmental education. The main campus of the college is located in Spokane on 141 acres.

Walla Walla Community College. Walla Walla Community College is a two-year public college that offers associate degrees, technology degrees, certificates of competency, certificates of training, and industry certifications and, in specific programs, prepares students for the achievement of state licensure achievement. The college is located in Walla Walla, Washington, and began operation in 1967.

Wenatchee Valley College. Wenatchee Valley College is a two-year public educational institution that offers degrees and certificates in academic and professional-technical programs, as well as courses in continuing education and developmental education and has been serving north central Washington since 1941. The college has two campuses, a 65-acre campus with 14 buildings in Wenatchee, Washington, and a 1.5-acre campus with three buildings in Omak, Washington.

State Agency – Western Washington University

The Project. Western Washington University is renovating and expanding the Carver Academic Facility. Western Washington University has entered into a construction contract and construction began in August 2015, with completion expected in April 2017

The State Agency. Western Washington University was established in 1961. The main campus consists of nearly 3.3 million square feet in the City of Bellingham. The college is governed by a 7-member Board of Trustees, who are appointed by the Governor and administered by a President and principal officers of the Board.

THE CORPORATION–WASHINGTON FINANCE OFFICERS ASSOCIATION

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

SECURITY FOR THE CERTIFICATES

Introduction

The proceeds of the Certificates will be used to finance the costs of acquisition and construction of improvements to certain real property and the acquisition of certain personal property (the "Projects") for the benefit of certain State Agencies and Local Agencies (together, the "Agencies"), as shown on the table entitled "Participating Agencies" on page ii, and to pay issuance costs with respect to the Certificates. The Certificates represent undivided proportionate interests in Rent Payments to be made by the State under a Master Financing Lease for real property (the "Master Financing Lease") and/or Installment Payments to be made by the State under a Master Financing Contract for personal property between the Corporation and the State (the "Master Financing Contract" and together with the Master Financing Lease, the "Master Financing Agreements"). Rent Payments and Installment Payments are collectively referred to herein as "State Payments." State Payments are payable from payments made pursuant to the Agency Financing Agreements between the State and the applicable Agency ("Agency Payments"). The Certificates also are secured by a security interest in the personal property and a leasehold interest in the Projects financed by the Certificates.

The respective parcels of real property on which the respective Projects of the participating Agencies are located (collectively, the "Sites") are being leased to the Corporation by the respective Agencies pursuant to separate Site Leases (the "Site Leases"). Pursuant to the Master Financing Lease, the State will lease the Sites and the Projects thereon (collectively, the "Real Property") from the Corporation. Each State Agency will execute a State Agency Financing Lease (collectively, the "Financing Leases"), to sublease its respective Real Property from the Corporation. Each participating Agency is required to make Agency Rent Payments to the State for the sublease of its respective Real Property. The Agency Rent Payments payable by the participating Agencies are, in the aggregate, at least equal to the corresponding Rent Payments payable by the State pursuant to the Master Financing Lease. Pursuant to a Master Assignment, the Corporation is assigning to the Trustee without recourse all of its rights to the Sites pursuant to the Site Leases, all of its rights to receive the Rent Payments from the State, its right to take all actions, exercise all remedies and give all consents pursuant to the Site Leases and the Master Financing Lease, and all of its remaining interests in the Site Leases, the Master Financing Lease, the Financing Leases, and the Real Property.

Certain Agencies have purchased or will purchase personal property to be financed with a portion of the proceeds of the Certificates (collectively, the “Personal Property” and, together with the Real Property, the “Property”). Pursuant to the Master Financing Contract, the State is purchasing the Personal Property from the Corporation. The State in turn is selling the Personal Property to the applicable Agencies pursuant to separate Local Agency Financing Contracts or State Agency Financing Contracts (collectively, the “Agency Financing Contracts” and together with the Financing Leases, the “Agency Financing Agreements”). Each Agency is required to make Agency Installment Payments to the State for the purchase of its respective items of Personal Property. The Agency Installment Payments payable by the participating Agencies in the aggregate are at least equal to the corresponding Installment Payments payable by the State pursuant to the Master Financing Contract. Pursuant to a Master Assignment, the Corporation is assigning to the Trustee without recourse all of its rights to receive the Installment Payments from the State, its right to take all actions, exercise all remedies and give all consents pursuant to the Master Financing Contract, and all of its remaining interests in the Master Financing Contract, the Agency Financing Contract and the Personal Property.

As described under “Not Debt or General Obligation of the State,” the Master Financing Agreements and State Agency Financing Agreements constitute limited obligations of the State payable solely from the sources and subject to the limitations set forth therein. Payment of the Agency Payments of each Local Agency is secured by the full faith and credit of such Local Agency. If any Local Agency fails to make any payment when due, the State shall take the actions described under “Agency Payments—Local Agency Payments.” As further described under “Permitted Termination Events,” the obligation of each State Agency to make its Agency Payments and the obligation of the State to make State payments are subject to appropriation by the Legislature and to Executive Order emergency reduction by the Governor. A determination by the Legislature not to appropriate or any Executive Order reduction would not constitute an Event of Default under the Trust Agreement, the Master Financing Agreements or any State Agency Financing Agreement.

State Payments

The Certificates represent undivided proportionate interests in State Payments. Pursuant to the Master Financing Agreements, the Corporation will lease or sell the Property to the State and the State is required to make State Payments to the Corporation. State Payments are comprised of Principal Components and/or Interest Components and are due on each Certificate Payment Date.

Except as otherwise described below, State Payments due from the State under the Master Financing Agreements are payable solely from Agency Payments to be made by the respective Agencies pursuant to the related Agency Financing Agreements. The State shall not be obligated to pay the Rent Payments or Installment Payments allocable to Project Costs of State Agency Projects other than from appropriated funds of the respective State Agencies or other funds of the respective State Agencies that are not subject to appropriation by the Legislature and are not derived, directly or indirectly, from General State Revenues. See Appendix A—“GENERAL AND ECONOMIC INFORMATION—GENERAL FUND.” The total of the Agency Payments payable by the participating Agencies on each Agency Payment Date is at least equal to the State Payment payable by the State pursuant to the Master Financing Agreements on the next succeeding Certificate Payment Date. See Appendix B—“DEFINITIONS AND SUMMARY OF CERTAIN LEGAL DOCUMENTS” under the heading “MASTER FINANCING AGREEMENTS—State Payments.”

Pursuant to the Master Assignments, the Corporation is assigning to the Trustee without recourse all of its rights to receive the State Payments and to take all actions, exercise all remedies and give all consents pursuant to the Master Financing Agreements, and all of its remaining interest in the Master Financing Agreements, the Site Leases, the Agency Financing Agreements, and the Property. See Appendix B—“DEFINITIONS AND SUMMARY OF CERTAIN LEGAL DOCUMENTS” under the heading “MASTER ASSIGNMENTS.”

Agency Payments

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

State Agency Payments. Each State Agency covenants to use its best efforts to (1) include in its biennial budget all payments required to be made by the State Agency under the agreement, (2) submit its budget to the State Office of Financial Management ("OFM") as required by law, (3) use its best efforts to obtain appropriations by the Legislature in amounts sufficient to make its Agency Payment, (4) include all such payments in its statements of proposed expenditures for each fiscal period required to be submitted to OFM and (5) use its best efforts to obtain allotments by OFM of appropriated funds sufficient to make such payments.

To the extent permitted by law, the State Agency agrees that, to the extent that any amounts are included in its budget, it will allocate a sufficient portion of such amounts to the payment of its Agency Rent Payments.

See Appendix B—"DEFINITIONS AND SUMMARY OF CERTAIN LEGAL DOCUMENTS" under the heading "AGENCY FINANCING AGREEMENTS—Agency Payments."

Local Agency Payments. Each Local Agency has covenanted in its Agency Financing Agreement to take such action as may be necessary to include all of its Agency Payments due thereunder in its annual budget and to make the necessary appropriations for all such Agency Payments. The obligation of each Local Agency to make its Agency Payments is a general obligation of the Local Agency to which the full faith and credit of such Local Agency is pledged. Each Local Agency has covenanted that it will levy taxes in such amounts and at such times as shall be necessary, within and as a part of the tax levy, if any, permitted to the Local Agency without a vote of its electors, to provide funds, together with other legally available money, to make its Agency Payments.

If any Local Agency fails to make any Agency Payment due under its Agency Financing Agreement, the State Treasurer shall withhold an amount sufficient to make that 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 that Local Agency, but (1) only if the use of any such revenues or amounts to make the payments is otherwise authorized or permitted by State law and (2) only to the extent the Local Agency is otherwise entitled to receive such share of State revenues or other amounts. This withholding will continue until all payments due under the related Agency Financing Agreement have been made. Amounts withheld by the Treasurer are to be applied to make any payment due under the related Agency Financing Agreement on behalf of the Local Agency, or to reimburse the Treasurer for any payment made by the Treasurer. There can be no assurance as to the availability of funds for the intercept by the State Treasurer with respect to any Local Agency upon the Local Agency's failure to make any Agency Payment pursuant to its Agency Financing Agreement.

If any Local Agency fails to make any Agency Payment due under its Agency Financing Agreement, the State is obligated, to the extent of legally available appropriated funds and subject to any Executive Order reduction, to make such payment on behalf of such Local Agency within 10 Business Days after the Agency Payment was due (which payments are due a month prior to each Certificate Payment Date).

The Treasurer currently has appropriation authority sufficient to make any such payments that may come due from a Local Agency within the current biennium. The Treasurer has covenanted in the Master Financing Agreements to use its best efforts to obtain appropriations by the Legislature in amounts sufficient to make any such payments on behalf of Local Agencies.

See Appendix B—"DEFINITIONS AND SUMMARY OF CERTAIN LEGAL DOCUMENTS" under the heading "AGENCY FINANCING AGREEMENTS—Agency Payments."

State Payments and Agency Payments Not Subject to Abatement

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

Not Debt or General Obligation of the State

The Master Financing Agreements and State Agency Financing Agreements constitute limited obligations of the State payable solely from the sources and subject to the limitations set forth therein. None of the State Payments, the State Agency Payments or the Certificates constitute or represent debt or general obligations of the State or any State Agency, and neither the full faith and credit nor the taxing power of the State or of any State Agency is pledged to the payment of any State Payments or State Agency Payments or the principal or interest represented by the Certificates. The State will not be obligated to pay the same except from Agency Payments and other amounts as provided in the Master Financing Agreements.

Non-appropriation and Executive Order Reduction

Any payments by the State on behalf of a Local Agency and any payments by a State Agency are subject to appropriation by the Legislature and Executive Order emergency reduction by the Governor. A determination by the Legislature not to appropriate or any Executive Order reduction by the Governor would not constitute an Event of Default under the Trust Agreement, the Master Financing Agreements, or any State Agency Financing Agreement.

Each State Agency covenants to use its best efforts to (1) include in its biennial budget all payments required to be made by the State Agency under the agreement, (2) submit its budget to the State Office of Financial Management ("OFM") as required by law, (3) use its best efforts to obtain appropriations by the Legislature in amounts sufficient to make its Agency Payment, (4) include all such payments in its statements of proposed expenditures for each fiscal period required to be submitted to OFM and (5) use its best efforts to obtain allotments by OFM of appropriated funds sufficient to make such payments. To the extent permitted by law, the State Agency agrees that, to the extent that any amounts are included in its budget, it will allocate a sufficient portion of such amounts to the payment of its Agency Rent Payments. An appropriation from the State General Fund to a State Agency for its operating budget (including Agency Payments) is made by the Legislature in an aggregate dollar amount and not specifically for each item in the State Agency's budget.

State law requires that, if at any time during a fiscal period, the Governor projects a cash deficit in a particular fund or account, the Governor shall make across-the-board reductions in allotments for that particular fund or account so as to prevent a cash deficit, unless the Legislature has directed the liquidation of the cash deficit over one or more fiscal periods. In reducing budgeted expenditures to reflect reduced allotments of appropriations from the State General Fund in response to an Executive Order, a State Agency may choose to reduce its expenditures for certain purposes but not for others. See Appendix B—"DEFINITIONS AND SUMMARY OF CERTAIN LEGAL DOCUMENTS" under the heading "AGENCY FINANCING AGREEMENTS—Covenants of the Agency."

Permitted Termination Events

Under the Master Financing Agreements and the State Agency Financing Agreements, each of the following constitutes a "Permitted Termination Event" but only with respect to the State Agency Financing Agreement with respect to which the event has occurred and the related obligation of the State under the Master Financing Agreement:

(1) the Legislature elects not to appropriate sufficient funds within any biennial budget in a manner that precludes the State from making State Agency Payments during the next occurring Biennium, or

(2) the Governor issues an Executive Order mandating an emergency reduction in State funding as a result of which sufficient funds will not be available to the State for the purpose of paying the scheduled Installment Payments when due.

Each State Agency has covenanted to give written notice to the State Treasurer of the occurrence of any events or circumstances that the State Agency believes could lead to the occurrence of a Permitted Termination Event with respect to its State Agency Financing Agreement. Not later than 10 Business Days following the enactment of each biennial budget or the issuance of an Executive Order reduction, the State Agency shall preliminarily determine whether it expects that sufficient funds will be available to the State Agency to make its Agency Payment and, if it expects it will not have sufficient funds, shall give written notice of that determination to the State Treasurer not more than five Business Days following such determination.

Not later than 30 days following the receipt by the State Treasurer of written notice from a State Agency, the State Treasurer shall review such written notice and the State shall determine whether a Permitted Termination Event has occurred. For the purposes of making this determination, the State shall (i) if practicable, request a supplemental appropriation by the Legislature in the event that a sufficient appropriation has not been made to the State Agency in the enacted biennial budget, and/or (ii) determine whether or not the Property and the obligations of the State Agency under the affected State Agency Financing Agreement may be transferred to another agency or department of the State authorized under the Act to enter into financing contracts.

Upon the occurrence of a Permitted Termination Event and written request of the State Treasurer, the State Agency shall return the Property to the Corporation, and the State Agency shall be released of its obligations to make all further State Agency Payments. The Corporation shall re-let the Real Property for the remaining term of the related Site Lease or assign its leasehold interest in the Real Property for the benefit of the Owners of the Certificates.

The occurrence of a Permitted Termination Event with respect to one State Agency Financing Agreement shall not affect any rights, duties or obligations with respect to any other State Agency Financing Agreement with respect to which no Permitted Termination Event has occurred. The occurrence of a Permitted Termination Event shall not constitute an Agency Event of Default, an Event of Default or an Event of Default under the Master Financing Agreement. If the Legislature provides a supplemental appropriation or the Executive Order is withdrawn prior to the Permitted Termination Date and the Property has not been sold or re-let, the State Agency may revoke its notice of termination and continue its obligations under its State Agency Financing Agreement.

See Appendix B—"DEFINITIONS AND SUMMARY OF CERTAIN LEGAL DOCUMENTS" under the headings "MASTER FINANCING AGREEMENTS—Permitted Termination Events" and "AGENCY FINANCING AGREEMENTS—Permitted Termination Events."

Extraordinary Prepayment

Eminent Domain; Loss of Title. Under each Agency Financing Lease, if all of the Real Property is taken under eminent domain or there is a loss of title to the Real Property, the Agency is required to prepay its Agency Rent Payments. The State has covenanted to, upon the extraordinary prepayment of Agency Rent Payments by any Agency, prepay or cause to be prepaid from eminent domain awards or sale proceeds received, and from the net proceeds of title insurance, if any, the Principal Components then unpaid, in whole or in part on any date, in Authorized Denominations, at a Prepayment Price equal to the sum of the Principal Components so prepaid, plus accrued interest to the Prepayment Date. The aggregate annual Rent Payments for the related Property from and after such Prepayment Date shall be in approximately equal amounts.

Insurance Proceeds. Under each Agency Financing Lease, if the Real Property is damaged or destroyed by casualty, the Agency may use proceeds from property insurance to prepay its Agency Rent Payments. The State has covenanted to, upon the optional prepayment of Agency Rent Payments by any Agency, prepay or cause to be prepaid from net insurance proceeds received, the Principal Components of Rent Payments then unpaid, in whole or in part on any date, in Authorized Denominations, at a Prepayment Price equal to the sum of the Principal Components so prepaid, plus accrued interest to the Prepayment Date. The aggregate annual Rent Payments for the related Property from and after such Prepayment Date shall be in approximately equal amounts.

See Appendix B—"DEFINITIONS AND SUMMARY OF CERTAIN LEGAL DOCUMENTS" under the heading "MASTER FINANCING AGREEMENTS—Extraordinary Prepayments."

Release of Real Property

The State may consent to the release of a portion of the Property leased under any Site Lease, and subleased under the Master Financing Lease, if it obtains:

(1) an Opinion of Counsel to the effect that such release is permitted under the Master Financing Lease, and in and of itself, will not adversely affect the exclusion from gross income for federal income tax purposes of the Interest Component of the Certificates;

(2) an appraisal or other written evidence from an independent real property appraiser to the effect that the remaining portion of the Property has an estimated fair rental value for the remaining term of the respective Agency Financing Lease equal to or greater than the Agency Rent Payments due from time to time thereunder; and

(3) provision by such Agency of any necessary easements, reciprocal agreements or other rights as may be necessary to provide comparable pedestrian and vehicular access, and other uses and amenities (including utilities) as existed prior to such release.

See Appendix B—"DEFINITIONS AND SUMMARY OF CERTAIN LEGAL DOCUMENTS" under the heading "MASTER FINANCING AGREEMENTS—Release of Property."

Substitution of Personal Property

The State may substitute and consent to the substitution for an item of Property acquired for and on behalf of an Agency of other personal property if it obtains a certificate of such Agency regarding the useful life, fair market value and purpose for the substitute Property, and an opinion of counsel that it will not impact the tax exempt status of the Certificates. See Appendix B—"DEFINITIONS AND SUMMARY OF CERTAIN LEGAL DOCUMENTS" under the heading "MASTER FINANCING AGREEMENTS—Revision and Substitution of Property."

Covenants

The Master Financing Agreements include various covenants of the State and the Agency Financing Agreements include covenants of the applicable Agency. The Trust Agreement contains covenants of the Corporation, the State and the Trustee. See Appendix B—"DEFINITIONS AND SUMMARY OF CERTAIN LEGAL DOCUMENTS" under the headings "TRUST AGREEMENT—Covenants," "MASTER FINANCING AGREEMENTS—Covenants of the State," and "AGENCY FINANCING AGREEMENTS—Covenants of the Agency."

Events of Default and Remedies

The Master Financing Agreements, Agency Financing Agreements and Trust Agreement specify Events of Default under the respective agreement and remedies upon an Event of Default under the agreement. See Appendix B—"DEFINITIONS AND SUMMARY OF CERTAIN LEGAL DOCUMENTS" under the headings "TRUST AGREEMENT—Events of Default and Remedies," "MASTER FINANCING AGREEMENTS—Events of Default and Remedies" and "AGENCY FINANCING AGREEMENTS—Agency Events of Default and Remedies."

Remedies. Upon the occurrence of an Event of Default under the Master Financing Agreement or an Agency Financing Agreement, the Trustee may pursue any available legal or equitable remedy; request the return of the Personal Property with respect to which such default occurred; sue for rent or re-enter the Real Property; and terminate the Master Financing Lease or the Agency Financing Lease, as appropriate.

Limitations and Remedies. The remedies provided in the Master Financing Agreements, the Agency Financing Agreements and/or the Trust Agreement may be unenforceable under certain circumstances due to the application of principles of equity, to State or federal laws relating to bankruptcy, moratorium, reorganization, and creditors' rights generally and to limitations on remedies against the State and the Agencies under the laws of the State. Moreover, due to the essential governmental nature of the Real or Personal Property, it is not certain whether a court would permit the exercise of the remedy of re-letting or reselling with respect thereto. In addition, the enforcement of remedies provided in the Agreements could prove both expensive and time-consuming. In any event, although the Trustee has the right, upon the occurrence of an Event of Default or an Agency Event of Default, to re-enter and re-let the applicable Real Property or resell the applicable Personal Property, it is unknown whether any such re-entry, re-letting or resale would result in the collection of amounts sufficient to make the related Agency Payments. Moreover, the Trustee would not be obligated to re-let or resell the Property in the manner so as to preserve the tax-exempt nature of interest represented by the Certificates.

Force Majeure. Under the Master Financing Agreements or Agency Financing Agreements, if by reason of "force majeure" the State or Agency is unable in whole or in part to carry out the terms of the Master Financing Agreement, the State or Agency, as applicable, shall not be deemed in default during the continuance of such inability.

No Acceleration. The Certificates are not subject to acceleration upon the occurrence of an Event of Default under the Master Financing Agreements or Trust Agreement.

Potential Effect of Local Agency Bankruptcy

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

The filing of a bankruptcy petition by a Local Agency would not affect the obligation of the Treasurer under the Master Financing Agreements, to the extent of legally available appropriated funds and subject to Executive Order reduction, to make a payment on behalf of such a Local Agency that the Local Agency has failed to make as described under "SECURITY FOR THE CERTIFICATES—Failure of Local Agency to Pay."

Additional Certificates

Each Agency may make additions or improvements to or alterations of the applicable Project so long as such additional improvements are constructed and installed in accordance with applicable laws and regulations and do not diminish the value or usefulness of the Real Property.

The Treasurer may enter into additional Master Financing Leases with the Corporation to finance all or any portion of the costs of such additions or improvements so long as such leases do not reduce the obligation of the State to make Rent Payments under the Master Financing Lease and will not, in the opinion of Certificate Counsel, adversely affect the tax-exempt status of the Interest Component of State Payments represented by the Certificates. If the Treasurer enters into any additional Master Financing Lease for this purpose, the Corporation may be granted an interest in the Real Property under an Additional Site Lease of all or any portion of the Real Property, which leasehold interest may be assigned to the Trustee for the benefit of owners of certificates of participation in such Additional Master Financing Lease. The owners of certificates of participation in any additional Master Financing Lease will be secured proportionally, without preference, with the Owners with respect to any payments received by the Trustee in regards to the Real Property following the occurrence of an Event of Default or Permitted Termination Event.

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

Payment History

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

FINANCIAL STATEMENTS

Audited financial statements for the State for the Fiscal Year ended June 30, 2016, 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 2016 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 March 2017. As described in Appendix A, State law requires that State budgets and any necessary budgetary actions of the Governor during a fiscal period be based upon the Forecast Council's official economic and revenue forecasts. The Forecast Council's most recent forecast was released in November 2016, and that forecast is summarized in Appendix A. The Forecast Council also provides monthly updates of certain other information, including estimates of collections. In addition, the State prepares transportation forecasts, including forecasts of motor vehicle fuel excise tax collections, and forecasts about the State's entitlement caseloads.

LITIGATION

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

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 2016 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 by the State of the Certificates are subject to the delivery of the approving legal opinion of Foster Pepper PLLC, Certificate Counsel to the State ("Certificate Counsel"). The proposed form of the legal opinion of Certificate Counsel is attached hereto as Appendix C. The opinion of Certificate Counsel is given based on factual representations made to Certificate Counsel, and under existing law, as of the date of initial delivery of the Certificates, and Certificate Counsel assumes no obligation to revise or supplement its opinion to reflect any facts or circumstances that may thereafter come to its attention, or any changes in law that may thereafter occur. The opinion of Certificate Counsel is an expression of its professional judgment on the matters expressly addressed in its opinion and do not constitute a guarantee of result. Certificate Counsel will be compensated only upon the issuance and sale of the Certificates.

TAX MATTERS

Tax Exemption of the Certificates

Exclusion From Gross Income. In the opinion of Certificate Counsel, under existing federal law and assuming compliance with applicable requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issue date of the Certificates, interest represented by the Certificates will be excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the alternative minimum tax applicable to individuals.

Continuing Requirements. The State is required to comply with certain requirements of the Code after the date of execution and delivery of the Certificates in order to maintain the exclusion of the interest represented by the Certificates from gross income for federal income tax purposes, including, without limitation, requirements concerning the qualified use of Certificate proceeds and the facilities financed or refinanced with Certificate proceeds, limitations on investing gross proceeds of the Certificates in higher yielding investments in certain circumstances, and the requirement to comply with the arbitrage rebate requirement to the extent applicable to the Certificates. The State will covenant to comply with those requirements, but if the State fails to comply with those requirements, interest represented by the Certificates could become taxable retroactive to the date of execution and delivery of the Certificates. Certificate Counsel has not undertaken and does not undertake to monitor the State's compliance with such requirements.

Corporate Alternative Minimum Tax. While interest on the Certificates is not an item of tax preference for purposes of the alternative minimum tax applicable to corporations, under Section 55 of the Code, tax-exempt interest, including interest on the Certificates, received by corporations is taken into account in the computation of adjusted current earnings for purposes of the alternative minimum tax applicable to corporations (as defined for federal income tax purposes). Under the Code, alternative minimum taxable income of a corporation will be increased by 75 percent of the excess of the corporation's adjusted current earnings (including any tax-exempt interest) over the corporation's alternative minimum taxable income determined without regard to such increase. A corporation's alternative minimum taxable income, so computed, that is in excess of an exemption of $40,000, which exemption will be reduced (but not below zero) by 25 percent of the amount by which the corporation's alternative minimum taxable income exceeds $150,000, is then subject to a 20 percent minimum tax.

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

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

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

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

Certain Other Federal Tax Consequences

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

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

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

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

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

Potential Future Federal Tax Law Changes. 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 Certificates set forth above or adversely affect the market value of the Certificates. It cannot be predicted whether future legislation may be proposed or enacted that would affect the federal tax treatment of interest received on the Certificates. Prospective purchasers of the Certificates should consult with their own tax advisors regarding any proposed or pending legislation that would change the federal tax treatment of interest represented by the Certificates.

Original Issue Premium. The Certificates have been sold at prices reflecting original issue premium ("Premium Certificates"). An amount equal to the excess of the purchase price of a Premium Certificate over its stated redemption price at maturity constitutes premium on such Premium Certificate. A purchaser of a Premium Certificate must amortize any premium over such Premium Certificate's term using constant yield principles, based on the purchaser's yield to maturity. As premium is amortized, the purchaser's basis in such Premium Certificate 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 Certificate prior to its maturity. Even though the purchaser's basis is reduced, no federal income tax deduction is allowed. Purchasers of Premium Certificates, 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 Certificates.

CONTINUING DISCLOSURE UNDERTAKING

In accordance with paragraph (b)(5) of Securities and Exchange Commission (the "SEC") Rule 15c2-12 promulgated under the Securities Exchange Act of 1934, as amended (the "Rule"), the Treasurer has agreed in the Master Financing Agreements to enter into a written undertaking in the form of a Disclosure Agreement for the benefit of the holders and beneficial owners of the Certificates (the "Undertaking").

Annual Disclosure Report. The State covenants and agrees in the Undertaking that not later than seven months after the end of each Fiscal Year (the "Submission Date"), beginning for the Fiscal Year ended June 30, 2017, 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 (except as noted in the financial statements) in accordance with generally accepted accounting principles as promulgated by the Governmental Accounting Standards Board, as such principles may be changed from time to time, except that if the audited financial statements are not available by the Submission Date, the Annual Disclosure Report will contain unaudited financial statements in a format similar to the audited financial statements most recently prepared for the State, and the State's audited financial statements will be filed in the same manner as the Annual Disclosure Report when and if they become available;

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

(3) a narrative explanation of any reasons for any amendments to the Undertaking made during the previous fiscal year and the effect of such amendments on the Annual Disclosure Report being provided.

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

Any or all of the items listed above may be included by specific reference to other documents available to the public on the Internet website of the MSRB or filed with the SEC. The State will clearly identify each document so included by reference. The MSRB makes continuing disclosure information submitted to it publicly available on the Internet on its Electronic Municipal Market Access system website.

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

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

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

Listed Events. The State agrees to provide or cause to be provided, in a timely manner, not in excess of 10 business days after the occurrence of the event, to the MSRB notice of the occurrence of any of the following events with respect to the Certificates (the "Listed Events"): (1) principal and interest payment delinquencies; (2) nonpayment-related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties;

(4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notice of Proposed Issue (IRS form 5701 – TEB) or other material notices or determinations with respect to the tax status of the Certificates, or other material events affecting the tax status of the Certificates; (7) modifications to rights of owners of the Certificates, if material; (8) Certificate calls (other than scheduled mandatory redemptions 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 the Certificates, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the State, as such "Bankruptcy Events" are defined in the Rule; (13) the consummation of a merger, consolidation, or acquisition involving the State or the sale of all or substantially all of the assets of the State, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) appointment of a successor or additional trustee or the change of name of a trustee, if material.

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

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

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

The State may amend the Undertaking without the consent of any holder of any Certificate or any other person or entity under the circumstances and in the manner permitted by the Rule. The Treasurer will give notice to the MSRB of the substance of any such amendment, including a brief statement of the reasons therefor.

If the amendment changes the type of Annual Disclosure Report to be provided, the Annual Disclosure Report containing the amended financial information will include a narrative explanation of the effect of that change on the type of information to be provided (or in the case of a change of accounting principles, the presentation of such information). In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements:

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

(2) the Annual Disclosure Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

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

Additional Information. Nothing in the Undertaking will be deemed to prevent the State from disseminating any other information, using the means of dissemination set forth in the Undertaking or any other means of communication, or including any other information in any Annual Disclosure Report or notice of occurrence of a Listed Event, in addition to that which is required by the Undertaking. If the State chooses to include any information in any Annual Disclosure Report or notice of the occurrence of a Listed Event in addition to that specifically required by the Undertaking, the State will have no obligation to update such information or to include it in any future Annual Disclosure Report or notice of occurrence of a Listed Event.

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

RATING

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

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

UNDERWRITING

The Certificates are being purchased by Merrill Lynch, Pierce, Fenner & Smith Incorporated (the "Underwriter") at a price of $118,868,439.90, representing the aggregate principal amount of the Certificates, plus original issuance premium, and less Underwriter's discount of $113,443. The Underwriter has represented that the Certificates are to be reoffered at the prices or yields set forth on page i. The Underwriter may offer and sell the Certificates to certain dealers (including dealers depositing Certificates into investment trusts) and others at prices lower than the initial offering prices set forth on page i hereof, and such initial offering prices may be changed from time to time by the Underwriter. After the initial public offering, the public offering prices may be varied from time to time.

FINANCIAL ADVISORS

Piper Jaffray & Co. and Montague DeRose and Associates, LLC have served as financial advisors to the State relative to the preparation of the Certificates for sale and other matters relating to the Certificates. The financial advisors have not audited, authenticated or otherwise verified the information set forth in this Official Statement or other information relative to the Certificates. 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 Certificates.

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/ Ellen L. Evans

Deputy Treasurer–Debt Management

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APPENDIX A

GENERAL AND ECONOMIC INFORMATION

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TABLE OF CONTENTS

INDEX OF TABLES

INTRODUCTION

State Overview

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

Washington's population was 6,724,540 according to the 2010 U.S. Census, making the State the 13th most populous in the United States. As of April 1, 2016, the State had an estimated population of 7,183,700. The State's capital is Olympia at the southern end of Puget Sound, and the State's largest city, Seattle, also on Puget Sound, is approximately 60 miles north of Olympia.

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

Washington includes an international trade, manufacturing, technology, biotechnology and business service corridor that extends along Puget Sound from the City of Everett at the north end, south to Seattle and Tacoma. This corridor includes approximately 75 percent of the State's population and economic activity. A number of companies have chosen Washington as their headquarters or as a major center of operations, including, among others, Alaska Air Group, Amazon, Boeing Commercial Airplanes, Costco, Expedia, Expeditors International of Washington, Microsoft, Nordstrom, PACCAR, Recreational Equipment, Inc. (REI), Starbucks and Weyerhaeuser. Washington is home to some of the leading global health research institutes and non-profits, including the Bill and Melinda Gates Foundation, World Vision, U.S., PATH and the Fred Hutchinson Cancer Research Center. According to the U.S. Bureau of Economic Analysis, Washington ranked 14th among the states in the United States in terms of real gross domestic product ("GDP") in 2015.

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

Washington is one of the most trade-intensive states in the nation, as measured by the dollar value of per capita exports, and is an important gateway for trade with Asia and Canada and for domestic trade with Alaska and Hawaii. The Ports of Seattle and Tacoma, the State's largest ports, are closer to Asian ports than any other continental port in the United States. Seattle-Tacoma International Airport is Washington's primary airport, serving the region's air passengers and cargo.

The State's ferry system, the largest ferry system in the United States and the second-largest ferry system in the world for the number of vehicles carried, is owned and operated by the Washington State Department of Transportation ("WSDOT") and has 10 routes that connect islands and other areas within and along the coast of Puget Sound.

See "DEMOGRAPHIC AND ECONOMIC INFORMATION" for additional economic and demographic information about the State.

State Government

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

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

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

State Finance Committee

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

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

BUDGETING AND ACCOUNTING

Budget and Appropriation Process

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

Formulation of the State's biennial budget begins in May of even-numbered years, when the Office of Financial Management ("OFM") distributes instructions to all State agencies, establishing budget guidelines and information requirements. Formal budget requests from agencies are sent to OFM in late summer, after which they are analyzed and revised by OFM as appropriate to match the Governor's policy choices. Alternative methods of delivering services are examined and evaluated, and recommended budget levels and program and policy choices are prepared for the Governor by the Director of OFM. As described below, State revenues and expenditures are limited by statutes enacted by the Legislature and sometimes also are limited by initiatives or referenda approved by the voters. See "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. The Legislature has routinely adopted supplemental budgets in response to declining revenues during a biennium or to increase funding for certain purposes. See "GENERAL FUND–General Fund–State Operating Budget."

Legislation adopted in 2012 requires that the Legislature must pass a four-year budget that leaves a positive ending fund balance in the General Fund and related funds. With certain exceptions, estimated appropriations necessary to maintain the continuing cost of existing programs and services may not exceed the projected available fiscal resources for the next ensuing biennium.

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

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

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

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

Economic and Revenue Forecasting

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

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

Fiscal Monitoring and Controls

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

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

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

Accounting and Auditing

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

The State Auditor's Office audits the State-wide combined financial statements for each Fiscal Year. The Auditor is an elected official. See Appendix D–"THE STATE'S 2016 AUDITED FINANCIAL STATEMENTS."

GENERAL FUND

The State provides for most of its general operations through the General Fund. Most of the State's unrestricted revenues are deposited to the General Fund, and most of the State's general expenditures and general obligation debt service are paid from the General Fund. Debt service on general obligation bonds to which excise taxes on motor vehicle and special fuels are pledged is payable first from the State's Motor Vehicle Fund and, if those funds are insufficient, from the General Fund. Debt service on general obligation bonds to which toll revenue is pledged is payable from toll revenue and, if those revenues are insufficient, from excise taxes on motor vehicle and special fuels and then from the General Fund. Certain tax revenues are deposited into the Education Legacy Trust Account and Opportunity Pathways Account, and used for K-12 and higher education purposes. As described below and in Appendix D–"THE STATE'S 2016 AUDITED FINANCIAL STATEMENTS," the State also maintains a number of other funds and several hundred accounts.

General Fund Revenue

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

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

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

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

Table 1
State and Local Retail Sales and Use Tax Rates

	General	New and Used Vehicles
State	6.5%	6.8%
Local	0.5 to 3.4	0.5 to 3.4

Source: Department of Revenue.

In November 2015, the voters approved an initiative to reduce the State's sales tax rate from 6.5 percent to 5.5 percent effective April 15, 2016, unless the Legislature referred to voters a constitutional amendment requiring two-thirds legislative approval or voter approval to raise taxes and a majority legislative approval for fee increases. In January 2016, a King County Superior Court judge issued an order that the initiative is unconstitutional and, therefore, void. On May 26, 2016, the State Supreme Court upheld the Superior Court decision declaring the initiative unconstitutional.

The State business and occupation ("B&O") tax is applied to "gross receipts" (the value of products, gross income from sales or certain other income) from business activities conducted within the State. B&O tax rate reductions and tax credits for specific categories of businesses are enacted from time to time. Certain local taxing jurisdictions also are authorized to impose business and occupation taxes. The State's current B&O tax rates vary, depending upon the classification of business activities, and in general range from 0.13 percent to 1.63 percent of gross receipts; most are under 0.5 percent. See "General Fund–State Operating Budget" and Table 4.

The State imposes a real estate excise tax of 1.28 percent on sales of real property. Each county treasurer is required by statute to retain 1.3 percent of the proceeds of this tax to defray costs of collection and on a monthly basis to pay over to the Treasurer the balance of the proceeds. Of the proceeds received by the Treasurer, beginning July 1, 2013, and ending June 30, 2019, the Treasurer is required to deposit a total amount equal to 7.7 percent into three designated accounts. The balance is deposited to the General Fund. Certain local taxing jurisdictions are authorized to impose real estate excise taxes. In most areas in which a local real estate excise tax is imposed, the maximum local rate is 0.5 percent of the sales price.

Property Taxes. Property taxes apply to all real property and tangible personal property located within the State, unless specifically exempted. Real property includes land, structures and certain equipment affixed to the structure. Taxable personal property includes machinery, equipment and supplies owned by businesses. Inventories are exempt from property tax. Most personal property owned by individuals is exempt from property taxation.

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

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

Growth in the amount of the State property tax is limited to the lesser of 101 percent, or 100 percent plus inflation of the highest property tax imposed in the three most recent years, plus an additional amount resulting from new construction and improvements to property in the preceding year. The average annual State property tax growth rate over the past 10 years has been 2.5 percent. When growth in assessed value exceeds the growth allowed by this limit the district's tax rate is reduced. Due to significant increases in property values since 1980, the State property tax rate declined from its $3.60 maximum rate to $2.004 per $1,000 of market value in calendar year 2016. For each individual local property taxing district, the annual growth in the amount of its regular property tax is subject to a similar limit.

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

Other State Tax Revenue. The State imposes a number of other taxes, including estate taxes, liquor taxes, rental car and telephone taxes, taxes on hazardous substances and taxes on cigarettes and other tobacco products. A 2012 initiative legalized marijuana, and 2015 legislation approved an increase on the excise tax on the retail sale of marijuana to 37 percent.

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. Federal revenues may be deposited into the General Fund, but are not General Fund-State revenue. See "General Fund Expenditures–*Payment of General Obligation Debt*," "General Fund–State Operating Budget," and "TRANSPORTATION–RELATED REVENUES AND EXPENDITURES."

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

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

General Fund Expenditures

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

K-12 Education. The State constitution provides that "It is the paramount duty of the state to make ample provision for the education of all children residing within its borders" and "The legislature shall provide for a general and uniform system of public schools." As shown in Table 5, a significant portion of the General Fund budget supports public schools. In the 2015-16 academic year, K-12 enrollment was 1,056,904.

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

An April 29, 2014 report to the Supreme Court issued by a Joint Select Committee of the Legislature described legislative increases in funding provided in the 2013-15 Biennium and outlined statutorily enacted funding increases for the 2015-17 and 2017-19 Biennia for K-12 materials, supplies, and operating costs ("MSOC"), all-day kindergarten, and funding to reduce class sizes in grades K-3. Following its consideration of the Legislature's report and the plaintiffs' response, and finding that the Legislature did not comply with the Supreme Court's January 9, 2014 order to provide a complete plan and phase-in schedule for fully funding the basic education program, the Supreme Court on June 12, 2014, ordered the State to address why it should not be held in contempt and, if found in contempt, to address why certain relief requested by the plaintiffs should not be granted. A show cause hearing before the Supreme Court was held on September 3, 2014. On September 11, 2014, the Supreme Court issued an order finding the State in contempt for failing to submit a complete plan for fully implementing its program, but held in abeyance sanctions and other remedial measures to allow the Legislature the opportunity to comply with the order during the 2015 legislative session. The increase includes $1.3 billion in enhancements to the State's program of basic education and $618 million in State-funded compensation increases. It also continues full funding for costs of prior basic education enhancements into the 2015-17 Biennium, provides inflationary increases, and funding for additional enrollment and other investments. As described under "General Fund—State Operating Budget," the Governor's proposed budget for the 2017-19 Biennium includes increased funding for K-12 education. See also the discussion of the *McCleary* case in "LITIGATION" for a description of the Supreme Court's orders regarding funding K-12 education.

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

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

On August 13, 2015, the Supreme Court issued an order pursuant to its previous finding that held the State in contempt for failing to explain how it plans to fully fund all elements of basic education by 2018. In its order, the Supreme Court fined the State $100,000 per day until it adopts a complete compliance plan, payable into a segregated account for the benefit of basic education. OFM has been accounting for this fine. The order recognizes that the 2015-17 Biennium Budget makes significant progress in the areas of pupil transportation, establishing all-day kindergarten, and other per-student expenditure goals. The order, however, also notes that the State did not indicate how the Legislature intends to pay for facilities needed for all-day kindergarten and smaller class sizes, and to fund the actual cost of recruiting and retaining competent teachers, administrators, and staff needed to deliver a quality education. The plaintiffs in McCleary have suggested various actions the Supreme Court could take: (1) impose monetary or other contempt sanctions against the Legislature, (2) prohibit expenditures on certain other matters until the court's ruling is complied with, (3) order the Legislature to pass legislation to fund specific amounts or remedies, (4) prohibit the State from limiting an education program to less than all eligible students in a given grade, (5) order the sale of State property to fund constitutional compliance, (6) invalidate education funding cuts to the budget, and (7) prohibit any funding of an unconstitutional education system. The State has opposed these sanctions on the basis that they are unconstitutional and outside the Supreme Court's authority, beyond the scope of the case and therefore not properly available to the Supreme Court, or harmful and unlikely to promote legislative progress. The Supreme Court has not indicated its view as to any of the proposed sanctions, and the State cannot predict the Legislature's next steps or the Supreme Court's response.

In February 2016, the Legislature enacted legislation that provides for independent consulting services to collect data on K-12 compensation and establishes an education funding task force to report to the Legislature prior to the 2017 legislative session. The legislation also provides for the Legislature to take action by the end of the 2017 legislative session to eliminate school district dependency on local levies for implementation of the State's program of basic education. The education funding task force has been meeting. The 2015-17 supplemental operating budget made modest adjustments to the 2015-17 Biennium Budget, including some education expenses. See "General Fund-State Operating Budget-2015-17 Biennium Budget and Supplemental Budget." In May 2016, the Joint Select Committee issued its fifth report to the Supreme Court, which states that the legislation described in this paragraph complies with the Supreme Court's requirement to provide a plan for legislative action on the remaining issue of funding for basic education and that the supplemental operating and capital budgets make additional investments outside of the program of basic education to recruit and retain teachers, improve stability for homeless students, close the opportunity gap and fund school construction. On October 6, 2016, the Supreme Court issued an order that concluded that the plan enacted in 2016 was insufficient to purge contempt while agreeing that the Legislature was in need of the updated salary data and recommendations that will be submitted pursuant to the Legislature's plan on the eve of the 2017 session. The Supreme Court continued the monetary sanction of $100,000 per day until the State adopts a complete legislative plan demonstrating how it will fully comply with Article IX, Section 1 of the Constitution by September 1, 2018.

State voters also have acted to increase school expenditures by passing I-732 to provide automatic cost of living adjustments for teachers and other school employees and I-728 to reduce K-12 class sizes. The Legislature temporarily suspended these two initiatives as part of an amended 2009-11 Biennium Budget and the 2011-13 Biennium Budget. The 2012 Legislature permanently repealed I-728 pertaining to class size reductions and in 2013 the Legislature again suspended I-732 through the end of the 2013-15 Biennium. The 2015-17 Biennium Budget fully funds the I-732 cost of living increases for teachers and other education employees, with small increases above inflation. State funding will provide for a 3.0 percent salary increase in the 2015-16 school year and an additional 1.8 percent increase in the 2016-17 school year.

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

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

Social and Health Services. The Department of Social and Health Services ("DSHS") provides services that include protective services for children, the aged and mentally disabled people and services for people in institutions and other residential care facilities. 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. The Washington State Health Care Authority is the State's largest health care purchaser. The agency purchases health care for more than two million Washington residents (one-third of the State's non-Medicare population) through two programs. Washington Apple Health (Medicaid) serves about 1.9 million residents, and the Public Employees Benefits Board ("PEBB") Program serves more than 365,000 public employees, dependents and retirees.

Although the Apple Health budget has grown significantly as a result of the Affordable Care Act, the State's cost of covering the expanded population has been minimal because the federal government covers 100 percent of that expense through 2016. The Medicaid expansion will have a favorable net impact on the State budget of nearly $1.0 billion through the 2015-17 Biennium, due primarily to cost offsets for populations that now receive a higher federal match and new premium tax revenue. Between 2017 and 2019, the State will gradually pick up a percentage of this cost, and in 2020 and beyond, the State will incur 10 percent of the costs.

State law also directs the Health Care Authority to address health care cost containment, evidence-based medicine, common performance measures, access to high-quality, high-value care, new financial incentives for the delivery system, and the adoption of health information technology and health information exchange.

Health Benefit Exchange. The State successfully established a health benefit exchange to assist residents to find, compare and enroll in health insurance plans. The Washington Health Benefit Exchange (the "Exchange"), which began as a project within the Health Care Authority, is its own entity in a "public-private partnership" that is separate from the State, but works closely with several State agencies. The Exchange enrolls Apple Health applicants and subsidizes commercial insurance customers who qualify under income limits below 138 and 400 percent of the federal poverty level. As of September 2016, qualified health plan enrollment exceeded 165,000 individuals. Medicaid enrollments have no enrollment periods, and applicants can apply for and receive that coverage year-round.

Corrections. As of December 31, 2016, the Department of Corrections ("DOC") had 12 correctional institutions and 16 work release facilities and leased additional rental beds in-State. As of December 2016, the offender population in confinement was approximately 18,960; the prison confinement was 100.4 percent of operational capacity.

Employees and Employee Benefits. The State had 111,204 full-time equivalents ("FTEs") as of June 30, 2016 and 110,537 as of June 30, 2015. Approximately half of these FTEs are represented by collective bargaining organizations. There are 38 different collective bargaining organizations currently representing State employees, excluding higher education faculty, graduate students and certain other ancillary groups. The largest, the Washington Federation of State Employees, represents approximately 36,000 State employees. State law provides that nothing in the State collective bargaining statute permits or grants to any employee the right to strike or refuse to perform his or her official duties.

The State, through the Public Employees Benefits Board program, provides medical, dental, life and long-term disability coverage to eligible State employees as a benefit of employment. Coverage is provided through private health insurance plans and self-insured products. The State's share of the cost of coverage for State employees is based on a per capita amount determined annually by the Legislature and allocated to State agencies. State employees pay for coverage beyond the State's contribution. The average monthly cost for the premiums was $1,041 in Fiscal Year 2016, with $899 paid by the State and $142 by the employee. State employees accrue vested vacation leave at a variable rate based on years of service, which in general cannot exceed 240 hours per year. It is the State's policy not to set aside funds for future payments for compensated absences. State employees accrue sick leave at the rate of one day per month without limitation. The State does not pay employees for unused sick leave upon termination except upon employee death or retirement. At death or retirement, the State is liable for 25 percent of the employee's accumulated sick leave. For a discussion of the state retirement plans and post-employment benefits, see "RETIREMENT SYSTEMS."

Payment of General Obligation Debt. Statutes authorizing bonds and other general obligations of the State require the Treasurer to withdraw from "general State revenues" and deposit into the Bond Retirement Accounts the amounts required for payment of debt service. The term "general State revenues" is defined in Article VIII of the Constitution and, as described below, not all money deposited in the General Fund constitutes "general State revenues" available for the payment of debt service (e.g., restricted federal funds or local and private revenue are excluded). See the description of general State revenues under "INDEBTEDNESS AND OTHER OBLIGATIONS–General Obligation Debt–*Constitutional General Obligation Debt Limitation*" and Table 4.

Some general obligation bond statutes provide that the General Fund will be reimbursed for bond debt service from discrete revenues that are not considered "general State revenues." For example, some tuition fees charged by institutions of higher education are used to reimburse the General Fund for payment of debt service for a number of higher education construction bond issues. In addition, a portion of net lottery and retail sales tax proceeds collected in King County reimburse the State for debt service payable on bonds issued to finance construction of a stadium and exhibition center in Seattle. See "INDEBTEDNESS AND OTHER OBLIGATIONS."

Expenditure Limitations

Since the passage of Initiative 601 in 1993, the State has been prohibited from increasing expenditures from the General Fund during any Fiscal Year by more than the fiscal growth factor. The fiscal growth factor is calculated annually and is defined as the average growth in State personal income for the prior 10 Fiscal Years, adjusted for actual expenditures in the previous year and for certain money transfers and program cost shifts (to take into account federal and local revenue). Under current law, voter approval would be required to exceed the expenditure limit, except in case of an emergency. If revenues collected exceed the amount of revenues that may be expended under the expenditure limitation, the excess revenues are to be deposited to the Budget Stabilization Account as described in the next subsection. Prior to the 2015 Legislative session, the Expenditure Limit Committee met each November to adjust the limit for the previous and current fiscal year, and to project a limit for the following two years. During the 2015 Legislative session, the Legislature temporarily suspended the State expenditure limit until the 2021-23 Biennium.

Budget Stabilization Account

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

Cash Management and Liquidity

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

Economic and Revenue Forecast

State law requires the Forecast Council to prepare an economic and revenue forecast on a quarterly basis. Additionally, the Forecast Council is required to publish monthly updates that include economic data releases and a report of revenue collections for the previous monthly collection period. The most recent economic and revenue forecast was released on November 16, 2016 (the "November 2016 Forecast"). The next forecast is expected to be released in March 2017. The forecasts are available on the Forecast Council's website (www.erfc.wa.gov).

November 2016 Forecast. The November 2016 Forecast was based on the IHS Global Insight Model of the U.S. Economy issued in November 2016, modified according to the Forecast Council's standard practice to reflect the Blue Chip GDP forecast published in the Blue Chip Economic Indicators and oil prices based on futures markets. The November 2016 Forecast makes relatively small changes to U.S. economic projections, with lower housing starts the notable exception. Washington state personal income and employment are both higher while housing permits are lower compared to the September 2016 Forecast. Revenue collections continue to be above expectations, with strong construction activity, auto sales and real estate transactions.

The November 2016 Forecast increased General Fund Revenues for the 2015-17 Biennium by $215 million to $37.980 billion ($38.705 billion including the Education Legacy Trust Account and Opportunity Pathways Account), or 12.8 percent higher than the 2013-15 Biennium. Forecasted General Fund Revenues for the 2017-19 Biennium were increased by $137 million to $40.514 billion ($41.284 billion including the Education Legacy Trust Account and Opportunity Pathways Account), or 6.7 percent higher than the forecast for the 2015-17 Biennium.

The Washington economy continues to expand, with employment rising in most sectors. Total nonfarm employment in September and October 2016 grew by a seasonally adjusted 13,500 jobs; this is 7,500 more than expected in the September 2016 Forecast. The November 2016 Forecast expects Washington nonfarm employment to grow by 1.9 percent in 2017 (compared to 1.2 percent for the U.S.). Sectors with strong employment growth include business and professional services (3.9 percent), retail trade (2.8 percent), software publishers (2.5 percent), and construction (2.0 percent). Manufacturing employment is expected to decline by 2.0 percent in 2017. Although aerospace employment declined less than expected in September and October 2016, the forecast retains the overall decline in aerospace employment implied by the Boeing announcement earlier in 2016 regarding a reduction of 4,000 jobs. In 2017 through 2019, the forecast expects a more gradual decline in aerospace employment similar to the assumption made in September 2016. Aerospace employment is not projected to change in the final two years of the forecast.

The November 2016 Forecast assumes lower residential construction activity in 2016-2019 compared to the September 2016 Forecast. Slower household formation, a lack of buildable lots and tighter credit for homebuilders are all expected to play a role in slower residential activity. Construction employment is expected to grow by 6.0 percent in 2016 but slow to 2.0 percent in 2017.

The State's seasonally adjusted unemployment rate was 5.4 percent in October 2016, 0.2 percentage points lower than in September 2016 and down from 5.7 percent in October 2015. The October 2016 seasonally adjusted unemployment rate in the Seattle metropolitan area decreased to 3.8 percent from 3.9 percent in September 2016.

The most recent data show that Washington nominal personal income grew at a seasonally adjusted annual rate of 4.4 percent in the second quarter of 2016. This was slightly higher than the 4.1 percent growth rate for the United States as a whole. Third quarter 2016 Washington exports were down 2.9 percent from the third quarter of 2015. While this was the sixth consecutive year-over-year decline in exports, it was also the smallest. Transportation equipment exports (mostly Boeing planes) declined 7.7 percent over the year but exports of agricultural products increased 43.4 percent. Exports of all other commodities declined 4.3 percent over the year. The quarterly data suggest that exports may be finally turning around. While exports are down nearly 10 percent since the peak in the fourth quarter of 2014, they are up more than 9.0 percent since the first quarter of 2016. Weakness in exports likely reflects the negative influence of a stronger dollar and weak economic growth abroad.

Single-family housing permits in the third quarter of 2016 averaged 20,500 units, which was 2,100 fewer than expected, while multi-family housing permits in those months came in right at the forecast level. Seasonally adjusted Seattle area home prices in September 2016 were 11.1 percent higher than the previous September and are 6.2 percent above the previous May 2007 peak. Washington car and truck sales fell 1.0 percent in October following a 3.9 percent increase in September. Car and truck sales are down 8.5 percent since the post-recession peak in January 2016, and 0.2 percent over the year.

The following table summarizes some of the historical values and forecasts of the primary economic drivers upon which the November 2016 Forecast was based.

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

						Forecast	
	2011	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
Personal Income[(1)]	6.0	8.2	2.1	6.8	4.6	4.7	4.5
Nonfarm Payroll Employment	1.3	1.6	2.3	2.5	2.8	2.9	1.9
Housing Units[(2)]	0.8	34.8	17.2	2.8	19.1	(0.6)	(0.3)

(1) In October 2016, the Bureau of Economic Analysis released State personal income estimates with revisions extending back to 1998.

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

Source: Washington State Economic and Revenue Forecast: November 2016.

Alternative November 2016 Economic Forecasts. As required by statute, the Forecast Council also adopts an optimistic and a pessimistic forecast. The level of uncertainty in the baseline forecast remains high and the probability of risks on the downside exceed risks on the upside.

In the optimistic scenario, the U.S. economy gains momentum as new technologies encourage more investment, leading to an uptick in productivity growth. Stronger productivity increases labor demand, and wages increase. Stronger wages lead to solid income gains, supporting stronger consumer spending but also causing inflation to pick up. Rising incomes also increase household formation, leading to a rapid increase in housing starts. With the help of structural reforms and the European Central Bank's quantitative easing, economic conditions in the rest of the world improve. In Washington, the decline in aerospace employment stops, technology and construction employment growth is stronger and the population grows at a faster pace due to stronger in-migration. In the optimistic scenario, 2015-17 Biennium revenues would be $831 million higher than the baseline forecast.

In the pessimistic scenario, the U.S. economy suffers a two-quarter recession in the fourth quarter of 2017 and first quarter of 2018, as domestic and global political risks trigger uncertainty and challenge business confidence. This is accompanied by faltering productivity and a U.S. stock market crash that shatters consumer confidence. In this scenario, total factor productivity continues to decline through most of 2018, as businesses react to uncertainty by postponing significant capital investments. With the supply side of the economy growing very slowly, modest demand-side growth causes upward pressure on both wage and price inflation. In Washington, employment in aerospace declines faster than in the baseline, while technology and construction hiring also decline. The softer labor market leads to slower growth in wages and personal income compared to the baseline. In the pessimistic scenario, 2015-17 Biennium revenues would be $843 million below the baseline forecast.

Caseload Forecast

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

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

State Budget Outlook

In 2012, legislation was adopted requiring 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. State law requires the Forecast Council to oversee the preparation of and approve the State Budget Outlook. The Budget Outlook is prepared by a State Budget Outlook Work Group, consisting of staff from the Office of Financial Management, the legislative fiscal committees, the Caseload Forecast Council and the Economic and Revenue Forecast Council. The Budget Outlook and an overview of the methodology used to develop the outlook are available on the Forecast Council's website (www.erfc.wa.gov). See "General Fund–State Operating Budget."

November 2016 State Budget Outlook. In November 2016, the Work Group revised the Budget Outlook from the enacted budget adopted by the Forecast Council in May 2016. Revenues forecasts reflect the November 2016 Forecast of the Forecast Council. Projected fund transfers reflect those enacted in the 2015 legislative sessions. Projected expenditures reflect the costs related to the State Supreme Court "McCleary" decision and the continuing cost of existing programs and services called for in existing laws, taking into account revised caseload forecasts, revised per capita costs and other key assumptions. The November 2016 Budget Outlook projects an unrestricted ending balance in the General Fund, Education Legacy Trust Account and Opportunity Pathways Account of $943 million for the 2015-17 Biennium and negative $1,489 million for the 2017-19 Biennium. Major adjustments to projected expenditures in the 2017-19 Biennium include increased spending on K-12 education ($3.472 billion, including teacher compensation and employee costs of living adjustments), increases for mental health and disabilities ($548 million) and low income health care ($461 million) and increased State contributions to pension plans ($236 million).

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.

2011-13 Biennium Budget. The Legislature adopted a General Fund budget for the 2011-13 Biennium in the spring of 2011, approved a supplemental budget in December 2011 and adopted a revised supplemental budget in April 2012. The revised supplemental budget had $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 new workers, reduced State support of higher education, and cuts for health and human services. The budgets did not include major tax increases; they did, however, eliminate some tax deductions and include some fee increases and other transfers.

2013-15 Biennium Budget, Special Session and Supplemental 2013-15 Budgets. The Legislature adopted the 2013-15 Biennium operating budget in June 2013, which addressed an estimated $2.5 billion shortfall in the General Fund, Education Legacy Trust Fund and the Opportunity Pathways Account for the 2013-15 Biennium with spending reductions of $1.55 billion (including from opting into the Medicaid expansion, the continued suspension of I-732 that would have given cost of living adjustments to teachers, reauthorizing the Hospital Safety Net Assessments, K-12 programs and human services); 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. The budget added $119 million in new funding for higher education. 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.

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

In March 2014, the Legislature adopted a supplemental operating budget for the 2013-15 Biennium that made modest adjustments to the adopted 2013-15 Biennium budget, including increasing General Fund spending by $155 million. In February 2015, the Legislature adopted an early supplemental operating budget to fund emergent costs for several agencies for the 2013-15 Biennium. In June 2015, the Legislature adopted the final supplemental budget that made modest adjustments to the adopted 2013-15 Biennium budget.

2015-17 Biennium Budget and Supplemental Budget. The Legislature adopted an operating budget for the 2015-17 Biennium in June 2015 for the General Fund, the Education Legacy Trust and the Opportunity Pathways Account that includes expenditures of $38.082 billion and total resources (including the beginning fund balance of $910 million) of $38.425 billion. The budget leaves total reserves of $1.237 billion, $343 million unrestricted fund balances and $894.1 million in the Budget Stabilization Account. The 2015-17 Biennium Budget represents a $4.4 billion increase from the 2013-15 Biennium Budget.

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

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

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

In March 2016, the Legislature adopted a supplemental operating budget for the 2015-17 Biennium that makes modest adjustments to the adopted 2015-17 Biennium Budget, including increasing the General Fund-State, Education Legacy Trust Account and Opportunity Pathways Account expenditures by a net of $191 million, including for mental health, and appropriating $190 million from the Budget Stabilization Account for wildfire costs. After certain vetoes by the Governor, the Supplemental 2015-17 Biennium Budget is projected to leave an unrestricted ending fund balance of $577.5 million and $700.7 million in the Budget Stabilization Account at the end of the 2015-17 Biennium.

Governor's Proposed 2017-18 Biennium Budget. In December 2016, the Governor proposed a 2017-19 Biennium Budget that is designed to fully fund K-12 education, rebuild the State's mental health system and increase spending on children's services and homelessness. The proposed budget increases K-12 funding by $3.9 billion to increase educator compensation, alleviate funding disparities between school districts, reduce early elementary class sizes and increase support staff. The Governor's proposed budget for the General Fund-State, Education Legacy Trust Account and Opportunity Pathways Account provides total resources of $46.825 billion, total expenditures of $46.440 billion, and total reserves of $1.741 billion, including $1.356 billion in the Budget Stabilization Account. Over 50 percent of total expenditures would be for K-12 education. The proposed budget also freezes higher education tuition for two years. Increased expenditures would be financed with increased business and occupation taxes, new carbon and capital gains taxes, closing certain tax exemptions and with reserves. The Legislature will adopt a 2017-19 Biennium Budget during its session that began in January 2017.

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

Table 3
2015-17 General Fund-State, Education Legacy Trust, and Opportunity Pathways Accounts Adjustments
November 2012 through November 2016
($ in millions)

	General Fund-State	Education Legacy Trust and Opportunity Pathways Accounts[2]	Total
Beginning Balance			
Unrestricted Funds	991	20	1,011
Budget Stabilization Account	513	-	513
Revenue			
November 2012 Forecast	35,032	505	35,537
March 2013 Forecast	(49)	(65)	(114)
June 2013 Forecast	51	78	129
September 2013 Forecast	342	145	487
November 2013 Forecast	(84)	(20)	(104)
February 2014 Forecast	82	10	92
June 2014 Forecast	238	8	246
September 2014 Forecast	143	(1)	142
November 2014 Forecast	247	31	278
February 2015 Forecast	124	11	135
June 2015 Forecast	309	17	326
September 2015 Forecast	656	4	660
November 2015 Forecast	113	(12)	101
February 2016 Forecast	(67)	(11)	(78)
June 2016 Forecast	294	15	309
September 2016 Forecast	338	2	340
November 2016 Forecast	215	8	223
Governor's Veto of Budget Driven Revenue	(46)	-	(46)
Total Revenue	37,938	725	38,663
Other Resource Changes			
Transfer to Budget Stabilization Account	(829)	-	(829)
Enacted Revenue Transfers	207	-	207
Prior Period Adjustments	80	(10)	70
2016 Revenue Legislation/Budget Driven Revenue	41	[3]	41
Total Other Resource Changes	(501)	(10)	(511)
Total Resources	38,428	735	39,163
Spending			
Enacted 2015-2017 Budget	37,507	712	38,219
2016 Supplemental Budget	204	(13)	191
Governor's Vetoes	43	-	43
Estimated Reversions[1]	(225)	-	(225)
Total Spending	37,529	699	38,228
Ending Balance and Reserves			
Unrestricted Ending Fund Balance	899	36	935
Budget Stabilization Account Ending Balance	1,197	-	1,197
Total Reserves	2,096	36	2,132

(1) Estimated spending authority that will not be used by the end of the biennium.
(2) Certain tax revenues are deposited into Education Legacy Trust Account and the Opportunity Pathways Account and used for K-12 and higher education purposes.
(3) Approximately $100,000.
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 2012 through 2016 and forecasted expenditures for Fiscal Year 2017. Table 4 is derived from the Forecast Council's forecast documents, which include forecasts of revenues through Fiscal Year 2017 (other than federal and local and private revenues and fund transfers, which are not part of the forecast). The information in Table 5 is extracted from the State's budget documents. The information in Tables 4 and 5 will not match the State's financial statements attached as Appendix D. The State budgets revenues on a cash basis and expenditures on a modified accrual basis. Revenues reported in the State's financial statement attached as Appendix D are on the modified accrual basis. Additionally, certain governmental activities are excluded from budgetary schedules because they are not appropriated. Examples include federal surplus food commodities, electronic food stamp benefits and the distribution of resources collected on behalf of local governments. Further, certain debt service expenditures are appropriated as operating transfers. These transfers are reported as expenditures on Table 5 and as transfers in the State's financial statement attached as Appendix D. The General Fund balance sheet shown in the financial statements attached as Appendix D has three revenue sources: State, federal and private/local. General Fund-State in Tables 4 and 5 is the portion supported by State revenues (taxes, fees, other State charges, transfers, and other revenues).

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Table 4
Revenues and Resources
General Fund, Education Legacy Trust Account and Opportunity Pathways Accounts
Fiscal Years ended June 30
(Cash Basis) (*$ in millions*)

	2012	2013	2014	2015	2016	Forecast 2017[5]
Beginning Budget Stabilization Account Balance	1	130	270	415	513	509
Beginning General Fund Balance	(92)	(381)	168	373	991	1,372
General Fund State Revenues						
State Tax Revenues						
Retail Sales Tax	6,745	7,169	7,679	8,208	8,891	9,301
Business and Occupation Taxes	3,126	3,307	3,246	3,391	3,624	3,866
Use Taxes (General Fund portion)	480	518	558	585	656	684
Property Taxes	1,898	1,936	1,974	2,019	2,062	2,121
Real Estate Excise Taxes	399	535	616	741	905	955
Other Excise Taxes[1]	17	16	16	31	67	95
Other Taxes[2]	1,827	1,875	1,876	1,932	1,992	1,980
Subtotal State Tax Revenues	14,492	15,356	15,965	16,907	18,197	19,002
State Non-Tax Revenues						
Licenses, permits and other fees	99	105	128	137	146	148
Liquor profits and fees	49	141	124	82	84	89
Investment income	(10)	(10)	(3)	2	9	5
Lottery transfers	-	-	9	1	-	-
Other Non-Tax Revenue	244	191	160	155	189	157
Subtotal State Non-Tax Revenues	382	427	418	377	428	399
Adjustments and Transfers						
Enacted Transfers/Prior Period Adjustments	246	146	47	179	159	127
New Revenue Legislation	-	-	-	-	-	-
Legislative Budget Driven Revenue	-	-	-	-	-	-
Governor’s Vetoes	-	-	-	-	(46)	-
Adjustment to Working Capital	-	238	-	-	-	-
Transfers from Budget Stabilization Account	-	-	-	38	-	75
Transfers to Budget Stabilization Account[3]	(130)	(139)	(145)	(212)	(186)	(718)
Subtotal Adjustment and Transfers	116	245	(98)	5	(73)	(516)
Total General Fund-State Resources	14,898	15,647	16,453	17,662	19,543	20,257
General Fund-State Resources	14,898	15,647	16,453	17,662	19,543	20,257
General Fund-Federal Revenues[3]	7,114	7,037	8,556	10,059	10,656	11,797
General Fund-Private/Local Revenues[3]	273	260	254	214	259	327
Total General Fund Resources[3]	22,285	22,944	25,263	27,935	30,458	32,381
Total Education Legacy Trust and Opportunity Pathways Resources[4]	257	236	449	502	364	439
Total General Fund, Education Legacy Trust and Opportunity Pathways Resources	22,542	23,180	25,712	28,437	30,822	32,820

(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) Federal revenues and private/local revenues are estimates.
(4) Certain tax revenues are deposited into the Education Legacy Trust Account and the Opportunity Pathways Account and used for K-12 and higher education purposes.
(5) Based on November 2016 Revenue Forecast and the 2015-17 enacted budget.
Totals may not add due to rounding.

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

Table 5

Expenditures and Ending Fund Balance General Fund, Education Legacy Trust Account and Opportunity Pathways Account

Fiscal Years ended June 30 (Modified Accrual Basis) *($ in millions)*

	2012	2013	2014	2015	2016	Estimate 2017[5]
General Fund						
Education						
Public School	6,789	6,735	7,220	7,668	8,729	9,306
Higher Education	1,185	1,164	1,342	1,328	1,508	1,621
Other Education	40	42	51	74	113	128
Total Education	8,014	7,941	8,613	9,070	10,350	11,055
Human Services						
Dept. Social and Health Services	2,683	2,648	2,819	2,878	3,059	3,346
Health Care Authority	2,029	2,071	2,132	2,162	1,957	2,059
Dept. Corrections	812	788	839	856	929	947
Other Human Services	147	143	104	107	106	109
Total Human Services	5,671	5,650	5,894	6,003	6,051	6,461
Natural Resources Recreation	138	161	137	133	132	155
Government Operations	204	216	266	231	282	250
Transportation	36	41	36	33	42	41
Transfers to Debt Service Funds[1]	941	1,203	856	976	1,076	1,124
Other Expenditures[2]	275	267	278	225	238	272
Total General Fund-State Expenditures	15,279	15,479	16,080	16,671	18,171	19,358
Expenditures from Federal Funds	7,114	7,037	8,556	10,059	10,656	11,797
Expenditures from Private/Local Funds[3]	273	260	254	214	259	327
Total General Fund Expenditures	22,666	22,776	24,890	26,944	29,086	31,482
Education Legacy Trust and Opportunity Pathways Accounts[4]						
Public School	25	1	153	246	41	122
Higher Education	175	208	218	197	202	227
Other Education	40	38	40	39	54	54
Total Education Legacy Trust and Opportunity Pathways Accounts	240	247	411	482	297	403
Total General Fund, Education Legacy Trust and Opportunity Pathways Expenditures	22,906	23,023	25,301	27,426	29,383	31,885
Total General Fund, Education Legacy Trust and Opportunity Pathways Revenues	22,542	23,180	25,712	28,437	30,822	32,820
Total General Fund, Education Legacy Trust and Opportunity Pathways Expenditures	(22,906)	(23,023)	(25,301)	(27,426)	(29,383)	(31,885)
Unrestricted General Fund Ending Balance	(381)	168	373	991	1,372	899
Education Legacy Trust and Opportunity Pathways Account Balance	17	(11)	38	20	67	36
Total General Fund, Education Legacy Trust, Opportunity Pathways Balance	(364)	157	411	1,011	1,439	935
Budget Stabilization Balance	130	270	415	513	550	1,197
Total General Fund, Education Legacy Trust, Opportunity Pathways and Budget Stabilization Ending Balance	(234)	427	826	1,524	1,989	2,132

(1) Debt service payments net of reimbursements from non-General Fund-State revenues, such as tuition fees, admission taxes, parking taxes and certain King County sales and use taxes. See Table 11. Debt Service is transferred from the General Fund to debt service funds for payment.
(2) Includes legislative and judicial agencies and other special appropriations. Fiscal Year 2017 also assumes $104 million per year in State General Fund reversions.
(3) Includes spending from grants, contracts and other agreements from private/local sources.
(4) Certain tax revenues are deposited into the Education Legacy Trust Account and the Opportunity Pathways Account and used for K-12 and higher education purposes.
(5) Estimates based on the November 2016 Revenue Forecast and the 2015-17 enacted budget.
Totals may not add due to rounding.

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

Capital Budget

The capital budget includes appropriations for construction and repair of State office buildings, college and university buildings, prisons and juvenile rehabilitation facilities; parks; public schools; housing for low-income and disabled persons, farm workers and others; and for other capital facilities and programs. Approximately half of capital budget expenditures are typically financed with State-issued bonds, with the remainder from dedicated accounts, trust revenue and federal funding sources.

Table 6 summarizes capital expenditures for the past three biennia and appropriations for the 2013-15 and 2015-17 biennia.

Table 6
Capital Budget – Expenditures and Appropriations(1)
($ in millions)

	Expenditures			Enacted Budget Appropriations	
	2009-11	2011-13	2013-15	2013-15	2015-17
Education					
Public Schools	610	554	644	950	1,315
Higher Education	931	580	733	888	1,038
Other Education	17	19	11	21	23
Total Education	1,558	1,153	1,389	1,859	2,376
Human Services	177	140	138	263	276
Natural Resources and Recreation	791	812	1,079	2,402	2,379
General Government	742	544	722	1,791	1,587
Transportation(2)	-	-	-	2	2
Total	3,268	2,649	3,328	6,317	6,620

(1) Appropriations are reported on a modified accrual basis. Includes funds re-appropriated from previous biennia for projects which have not been completed.

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

Source: Legislative Evaluation and Accountability Program Committee ("LEAP") and the 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 charged for gasoline are charged per gallon for diesel and alternative fuels. In July 2015, the Legislature increased the excise tax on motor vehicle fuel to fund a list of transportation improvements referred to as Connecting Washington projects. The fuel tax increase will be phased in over two years. The first increase occurred on August 1, 2015 and the final increase occurred on July 1, 2016.

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

Effective Date of Change	Increase ($)	Per-Gallon Tax ($)
4/1/1990	0.040	0.220
4/1/1991	0.010	0.230
7/1/2003	0.050	0.280
7/1/2005	0.030	0.310
7/1/2006	0.030	0.340
7/1/2007	0.020	0.360
7/1/2008	0.015	0.375
8/1/2015	0.070	0.445
7/1/2016	0.049	0.494

Source: Washington State Department of Transportation.

Federal Funds. WSDOT receives substantial federal funds, primarily from the Federal-Aid Highway Program, which encompasses most of the federal programs providing highway funds to the states. The Federal-Aid Highway Program is a reimbursement program that is financed from transportation user-related revenues, primarily excise taxes on motor fuel, deposited in the Highway Trust Fund. Once a project has been approved, the federal government pays a portion of the costs (typically 86.5 percent for the State) of the project as costs are incurred. States also may apply to be reimbursed for debt service on obligations issued to finance an approved project. The SR 520 Project has been approved for debt service reimbursement. See "Transportation Expenditures."

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

The sequestration of funds pursuant to the Balanced Budget and Emergency Deficit Control Act (BBEDCA) resulted in a loss of approximately $2.0 million in National Highway Performance Program Funds received by the State. The Build America Bonds (BABs) subsidy received by the State in calendar years 2013, 2014, 2015 and 2016 for certain motor vehicle fuel tax bonds was also reduced by approximately $7.2 million.

Tolls. Currently the State is collecting tolls on four facilities: the Tacoma Narrows Bridge, State Route ("SR") 167 High Occupancy Toll ("HOT") Lanes Pilot Project, I-405 Express Toll Lanes, and the SR 520 Corridor. The Legislature has extended the SR 167 HOT Lanes Pilot Project through June 2017. In September 2015 the State began express lane tolling on I-405 from Bellevue to Lynnwood. Toll rates on the Tacoma Narrows Bridge are fixed throughout the day, and tolls are collected only in the eastbound direction. Toll rates on the SR 520 Corridor are collected electronically and rates vary depending on the time of day. Express lane tolling for single occupant drivers in the carpool lanes of SR 167 and I-405 uses "dynamic" toll rates which are automatically adjusted based on traffic congestion. The Legislature designated the Alaskan Way Viaduct (the "Viaduct") as an "eligible toll facility," but no tolls are currently being collected. See "Transportation Expenditures-*The Alaskan Way Viaduct*."

Transportation Revenue Forecast Council. The Transportation Revenue Forecast Council (the "Transportation Forecast Council"), comprised of technical staff of the Department of Licensing, WSDOT, OFM and the Economic and Revenue Forecast Council, prepares quarterly forecasts of transportation revenues (including revenues from excise taxes on motor vehicle and special fuels). The transportation 10-year revenue forecasts are based in part upon the economic and demographic forecasts and assumptions made by the Economic and Revenue Forecast Council. Current fuel tax rates are assumed.

In its most recent forecast, released in November 2016, the Transportation Revenue Forecast Council projects that gross transportation revenues for the 2015-17 Biennium will total $5.828 billion, an increase of 24 percent from the prior biennium's total revenue of $4.69 billion. The next forecast is expected to be released in March 2017.

Transportation Expenditures

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

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

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

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

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

Payment of Bonds Payable from Toll Revenue and Other Funds. The State is financing the SR 520 Corridor Program with a combination of (1) motor vehicle fuel tax general obligation bonds, (2) motor vehicle fuel tax general obligation bonds first payable from SR 520 toll revenue ("Triple Pledge Bonds"), (3) toll revenue bonds payable solely from SR 520 toll revenue, and (4) grant anticipation revenue vehicle ("GARVEE") bonds payable solely from Federal-Aid Highway Program funds. The State has issued $609.2 million Triple Pledge Bonds and $786.3 million GARVEE bonds. The State also has issued a $300 million Transportation Infrastructure Finance and Innovation Act Bond ("TIFIA Bond") payable solely from SR 520 toll revenues. See "*The SR 520 Corridor Program*."

Transportation Capital Program. The State's transportation capital plan includes several mega-projects, including the SR 520 Corridor Program and the replacement of the Alaskan Way Viaduct. Other major highway projects include the I-405 and SR 520 interchange in Bellevue, the U.S. 395 North Spokane corridor, and the I-5 and SR 16 interchange in Tacoma. Construction of approximately 200 smaller highway projects, including construction of new interchanges, lanes and bridges, is underway. Two 144-auto ferry vessels are being constructed. One will be placed in service mid-2017, the other in the 2017-19 Biennium. Federal funds made available under the American Recovery and Reinvestment Act of 2009 ("ARRA") Inter-City High-Speed Passenger Rail Program will finance capital improvements to expand the Amtrak Cascades Service, including projects needed to provide two additional daily round trips between Seattle and Portland, reduce travel time between Seattle and Portland and improve on-time performance. As described under "LITIGATION–Culverts," in March 2013, a U.S. district court issued a permanent injunction, which was affirmed by the U.S. Court of Appeals for the Ninth Circuit in June 2016, that requires WSDOT to repair or replace approximately 847 fish barrier culverts by 2030, which WSDOT has estimated could cost $2.4 billion over the next 17 years.

The SR 520 Corridor Program. The SR 520 floating bridge provides a major east-west link across Lake Washington. The corridor is 12.8 miles from I-5 in Seattle to the west and crossing Lake Washington to SR 202 in Redmond. Built in the 1960s, the old floating bridge was 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 nearing completion and includes construction of a pontoon facility and pontoons for the new floating bridge, completion and reconfiguration of the HOV lane system on SR 520 to the east of Lake Washington, and construction of a new floating bridge to replace the Evergreen Point floating bridge that includes the construction of the permanent north half of the west approach bridge.

The Legislature has authorized funding for the SR 520 Floating Bridge and Eastside plus West Approach Bridge Project and for the Westside Project, which includes improvements at Portage Bay, Montlake Boulevard, and the connection with Interstate 5. The State has issued motor vehicle fuel tax general obligation bonds, $609.2 million Triple Pledge Bonds, $786.3 million GARVEE bonds, a $300 million TIFIA Bond, and expects to fund the remaining costs with additional bond proceeds, federal funds, toll revenue and excise taxes on motor vehicle and special fuels. It is expected that the total net proceeds of the various bond issues for the project will not exceed $1.9 billion. The total cost for these projects includes approximately $170 million in additional funding for cost over-runs primarily as a result of spalling and end-wall cracking found in the first cycle of pontoons. Tolling on the SR 520 Corridor began in December 2011. WSDOT is using both traditional design-bid-build and design-build delivery methods for the major components of the project currently under construction. On September 15, 2014, the SR 520 program opened the new transit/HOV lanes on the Eastside to its final configuration. The new floating bridge that spans Lake Washington was opened to traffic on April 25, 2016. The construction of the north half of the west approach bridge is expected to be completed in the summer of 2017.

In 2015, the Legislature funded the Westside Project, which includes the remaining components of the SR 520 Corridor Program as part of the Connecting Washington transportation revenue and bond package. Approximately $1.67 billion was provided for the remaining SR 520 components, which will ultimately provide a new six-lane corridor from I-5 to the floating bridge, a new Portage Bay bridge, a complete West Approach Bridge, a reversible transit/HOV ramp to I-5, two neighborhood connecting lids, and other corridor improvements. Connecting Washington projects will be paid for with bond proceeds, increased vehicle related fees, and an increase in the State's motor fuel excise tax of 11.9 cents phased in over two years.

Annually, the State updates an investment-grade traffic and revenue study for the SR 520 Corridor Program, which forecasts toll traffic and gross revenue through Fiscal Year 2056. The original study projected that toll traffic would initially be approximately 48 percent lower than pre-toll traffic levels. Since tolling began, annual toll traffic forecasts have exceeded the prior year's forecast. Actual net toll revenues have also been on target in every year since 2012.

The Alaskan Way Viaduct. The Viaduct is a main north-south route along the edge of Puget Sound in downtown Seattle, carrying approximately 90,000 vehicles and 615 bus trips per day. It includes an elevated portion of SR 99 that was built in the 1950s. The elevated highway was damaged during the region's 2001 Nisqually earthquake and studies indicate that it may collapse if another major earthquake occurs. The structure is being replaced with a two-mile-long bored tunnel beneath downtown Seattle, highway connections to the tunnel, an overpass at the south end of downtown, and a new surface street along the waterfront, at a budget of $3.14 billion. Funding sources include State gas taxes, local investments, toll revenue and federal funds. Due to a two-year delay in tunnel boring, the cost to complete the program is now estimated to be up to $3.30 billion.

The responsibility for additional cost and delays associated with this work is being addressed in accordance with the SR 99 tunnel contract with Seattle Tunnel Partners ("STP") and is currently the subject of litigation. There are currently two lawsuits underway. The first, which was initiated in King County by STP against one of its insurance carriers, focuses on potential recovery under the project's builders risk insurance policy. WSDOT is a plaintiff in the King County case. Trial in this case is set for May 2018. The second lawsuit, which was initiated by WSDOT in Thurston County, addresses costs and delays resulting from the damage and repair of the tunnel boring machine during 2014 and 2015. Trial in this case is set for June 2018. On September 30, 2016, STP submitted a certified claim to WSDOT pursuant to the tunnel contract requesting, for both itself and its subcontractors, increased compensation and time related to the tunnel boring machine repair. This claim is part of the Thurston County litigation.

As of December 2016, crews had mined more than 6,500 feet, and tunnel boring was more than 70 percent complete. Crews had also built more than 3,000 feet of the tunnel's interior roadway. Based on the contractor's latest schedule, the tunnel is expected to open in early 2019.

Transportation Revenues and Expenditures

Table 8 summarizes transportation-related revenues and other funding for Fiscal Years 2012 through 2016 and forecasted transportation-related revenues and other funding for Fiscal Year 2017. The forecasted revenues displayed in the following table are revenues used by WSDOT and do not include forecasted revenues for other transportation agencies such as the Department of Licensing, the Washington State Patrol or local grant agencies. It includes forecast revenues and projected bond proceeds, based upon the current budget, assumed federal and local funds, and includes projections of the new revenues identified in the Connecting Washington transportation package. The federal funds shown in Table 8 include funds received from all federal transportation agencies that are appropriated by the Legislature. A portion of the funds received in the State's federal program is passed through to local entities and is not appropriated by the Legislature. Table 8 is presented on a State Fiscal Year, which produces different results than when presented on a federal fiscal year basis.

Table 9 summarizes transportation-related expenditures for Fiscal Years 2012 through 2016 and budgeted and projected expenditures for Fiscal Year 2017. Expenditures reflected are for WSDOT programs only and do not include expenditures from accounts for agencies such as Department of Licensing and Washington State Patrol.

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

	2012	2013	2014	2015	2016	Forecast[6] 2017
Beginning Balance	591	1,263	946	1,029	729	1,032
Gross Fuel Tax Collections	1,242	1,246	1,262	1,286	1,516	1,773
Refunds for Non-Highway Use	(81)	(66)	(67)	(71)	(84)	(96)
Adjusted Gross Fuel Tax Collections	1,161	1,180	1,195	1,216	1,432	1,677
WSDOT Portion of Licenses, Permits and Fees	292	330	354	369	394	523
Ferry Fares	155	161	167	176	181	186
Tacoma Narrows Bridge Tolls[1]	47	64	64	72	81	83
State Route 167 Hot Lane Tolls[1]	1	1	1	2	1	2
SR 520 Corridor Tolls[1]	33	68	68	77	77	83
I-405 Express Lanes[1]	-	-	-	-	16	26
Other Revenues and Adjustments[2]	93	95	112	108	111	110
Total State Sources[3]	1,782	1,899	1,961	2,020	2,294	2,689
Other Funding[4]						
Motor Vehicle Fuel Tax Bond Proceeds	568	633	600	240	460	197
Triple Pledge Bonds	566	-	-	-	-	111
GARVEE Bond Proceeds	602	-	324	-	-	-
TIFIA Bond	-	-	10	185	105	-
Federal Aid Highway Funds[5]	-	18	31	39	100	100
Federal Stimulus Funds (ARRA)	37	36	-	-	-	-
Federal High Speed Rail Funds	3	27	103	144	209	279
Federal Highway Funds	555	625	614	407	562	480
Local Funds	25	40	12	135	79	111
Total Other Funding	2,355	1,379	1,683	1,150	1,515	1,277
Total Sources	4,727	4,540	4,600	4,199	4,538	4,997

(1) Includes gross toll revenue, transponder sales, civil penalties, and fees.
(2) Includes other non-forecasted sources (e.g., interest income, transfers from other State accounts, and other miscellaneous sources).
(3) Gross fuel taxes are deposited into the Motor Vehicle Account and distributed to local governments and other State agencies by statute. These distributions and transfers are shown in Table 9. The remaining Total State Sources includes WSDOT accounts only and does not include other accounts that support expenditures for agencies such as Department of Licensing, the Washington State Patrol and local grant agencies.
(4) Other Funding includes appropriated proceeds of bonds sold in each fiscal year and federal funds appropriated in the 2016 Enacted Supplemental Transportation Budget.
(5) Federal Aid Highway funds for GARVEE bond debt service.
(6) Based on November 2016 Transportation Revenue Forecast, which includes new revenues associated with gas tax increases and license, permits, and fees in the 2015 Connecting Washington Transportation Package.

Totals may not add due to rounding.

Source: Washington State Department of Transportation.

Table 9
Transportation Expenditures and Ending Fund Balance[1][2]
Fiscal Years ended June 30
(Modified Accrual Basis)
($ in millions)

					2016 Enacted Supplemental Budget	
	2012	**2013**	**2014**	**2015**	**2016**	**2017**
Distributions and Transfers						
Debt Service Transfers – Motor Fuel Tax[3]	416	481	525	548	588	612
Debt Service Transfers – Toll Revenue[3]	17	26	26	26	27	49
Debt Service Transfers – GO[3]	11	11	13	13	13	14
Debt Service Transfers – Federal Aid Highway Funds[4]	-	18	31	39	100	100
Distribution to Cities and Counties[5]	231	235	240	242	259	261
Fuel Tax Distributions to Support Local Grant Programs[6]	126	128	130	132	135	138
Expenditures by Other Agencies[7]	57	57	53	53	65	65
Total Distributions and Transfers	858	957	1,018	1,053	1,188	1,240
WSDOT Operations						
Toll Maintenance and Operations	21	23	26	28	34	57
Highway Maintenance and Operations	211	219	223	235	239	252
Ferries Maintenance and Operations	231	227	237	236	242	242
Aviation, Public Transportation and Rail	65	74	64	80	88	157
Local Programs and Economic Partnerships	5	6	6	6	6	8
Operational Activities [8]	131	143	141	154	154	167
Compensation Adjustment	-	-	-	-	-	-
Operating Appropriations Placed in Unallotted Status	-	-	-	-	-	(15)
Total Operations	664	692	696	738	763	868
WSDOT Capital						
Highway Construction	1,809	1,703	1,566	1,354	1,135	1,994
Traffic Operations and Facilities	9	8	8	19	7	30
Ferry Capital Construction	83	151	135	124	178	228
Rail Program	22	55	129	164	220	318
Highways and Local Programs	18	29	19	18	16	112
Capital Appropriations (Unallotted/Unexpended)[9]	-	-	-	-	-	(233)
Total Capital	1,942	1,945	1,857	1,679	1,555	2,450
Total WSDOT Transportation Uses	3,464	3,594	3,571	3,470	3,507	4,558
Ending Fund Balance	1,263	946	1,029	729	1,032	439

(1) Revenue distributions are based on the November 2016 Transportation Revenue Forecast.
(2) Actual expenditure data provided for Fiscal Years 2012 through 2016.
(3) Funds are transferred to debt retirement accounts on a monthly basis and include debt service for fuel tax bonds, general obligation bonds and toll revenue bonds. These transfers do not match fiscal year debt service. Debt service in this table is net of the Build America Bonds' subsidy (and reflects reductions in Fiscal Years 2013 through 2016 for federal sequestration). This represents WSDOT debt service only and does not include debt service for the Transportation Improvement Board or other State or local entities.
(4) GARVEE bond debt service is reimbursed by the Federal Highway Administration's Federal-Aid Highway Program.
(5) Includes statutory transfers identified in new revenue legislation for cities and counties.
(6) Grant programs are administered to local users through the County Road Administration Board and the Transportation Improvement Board.
(7) Expenditures by Other Agencies include certain legislative committees and commissions, as well as certain executive branch agencies.
(8) Operational Activities include administrative services, facilities operations and maintenance, transportation planning, information technology, and insurance fees.
(9) Capital appropriations placed in unallotted status or bonds not expected to be issued or expended.
Totals may not add due to rounding.
Source: Washington State Department of Transportation.

INDEBTEDNESS AND OTHER OBLIGATIONS

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

Debt Issuance Policy

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

Debt Affordability Study

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

General Obligation Debt

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

General obligation bonds may be authorized:

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

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

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

   (a) to refund outstanding State obligations; or

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

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

Motor Vehicle Fuel Tax General Obligation Bonds. General obligation bonds that are payable from excise taxes on motor vehicle and special fuels may be issued for specified highway purposes and, as described below, such bonds are not subject to the constitutional general obligation debt limitation. Historically, no funds other than excise taxes on motor vehicle and special fuels have been used to pay such bonds. The Series 2017E Bonds and Series R-2017D

Bonds are motor vehicle fuel tax general obligation bonds. See "TRANSPORTATION-RELATED REVENUES AND EXPENDITURES– Transportation Expenditures–*Payment of Bonds Payable from Excise Taxes on Motor Vehicle and Special Fuels*."

Triple Pledge Bonds. The State issued $518.775 million of Triple Pledge Bonds in October 2011 and $90.37 million of Triple Pledge Bonds in September 2016, 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.

Constitutional General Obligation Debt Limitation. With certain exceptions noted below, the amount of State general obligation debt that may be incurred is limited by the Constitution. The constitutional debt limitation prohibits the issuance of new debt for which payments of principal and interest on the aggregate debt in any Fiscal Year would require the State to expend more than 8.25 percent of the arithmetic mean of "general State revenues" for the six immediately preceding Fiscal Years. This limitation restricts the incurrence of new debt and not the amount of debt service that may be paid by the State in future years.

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

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

In November 2012, voters approved an amendment to the constitutional limit specifying that (1) beginning July 1, 2014, "general State revenues" will be averaged over the six immediately preceding fiscal years; (2) for the purpose of the calculation, the definition of "general State revenue" will be expanded to include property taxes received by the State; and (3) the 9.0 percent constitutional limit on debt service will be reduced to 8.0 percent by July 1, 2034 (in downward steps to 8.5 percent starting July 1, 2014, 8.25 percent starting July 1, 2016, 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 by the State as of January 24, 2017, does not exceed that amount for which payments of principal and interest in any Fiscal Year would require the State to expend more than 8.25 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 2011 through 2016 is $16,334,351,973. The debt service limitation, 8.25 percent of this mean, is $1,347,584,038. The State's maximum annual debt service as of January 24, 2017, on debt service subject to the constitutional debt limitation is expected to be $1,172,039,402, or $175,544,636 less than the debt service limitation.

Use of Short-Term General Obligation Debt Authority (Certificates of Indebtedness and Bond Anticipation Notes). Article VIII of the Constitution, Chapter 39.42 RCW and the State's other bond statutes delegate to the Committee the authority to issue, in the name of the State, temporary notes in anticipation of the sale of bonds. Pursuant to statutory authority and resolution of the Committee, such notes would be general obligations of the State, but principal of those notes would be excluded from the constitutional debt limitation. The State has no bond anticipation notes currently outstanding and currently does not plan to issue bond anticipation notes.

Article VIII of the Constitution and Chapter 39.42 RCW also provide for the issuance of certificates of indebtedness to meet temporary deficiencies in the State treasury. Such indebtedness must be retired other than by refunding within 12 months after the date of issue. Principal and interest on certificates of indebtedness are excluded from the constitutional debt limitation. The State has not issued certificates of indebtedness since 1983 and does not anticipate any short-term borrowing during the current biennium. See "GENERAL FUND—Cash Management and Liquidity" and "—Budget Stabilization Account."

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

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

Fiscal Year Ending June 30	Issued as of 1/24/2017[1]										2017D and R-2017C Bonds[2]		2017E and R-2017D Bonds[2]		Total Debt Service Requirements [2][3][4][5]
	General Obligation										General Obligation				
	General State Revenues[3]		Motor Vehicle Fuel Tax Revenues		Triple Pledge		GARVEE Bonds		TIFIA Bond		General State Revenues		Motor Vehicle Fuel Tax Revenues		
	Principal	Interest	Principal	Interest[4]	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	
2017[5]	653,691,191	570,067,084	291,363,239	335,383,826	12,690,000	29,134,970	65,710,000	34,360,925	-	-	-	-	-	-	1,992,401,236
2018	631,904,950	552,194,035	290,989,188	335,324,467	13,395,000	29,851,025	68,975,000	31,026,150	3,081,735	9,604,177	21,505,000	30,270,317	3,175,000	2,442,362	2,023,738,406
2019	619,161,629	524,218,436	300,661,883	326,208,102	14,065,000	29,181,275	72,380,000	27,519,375	3,174,568	9,511,344	23,170,000	28,593,000	3,390,000	2,231,625	1,983,466,237
2020	609,398,868	498,933,461	307,693,119	315,848,297	14,765,000	28,478,025	75,985,000	23,819,250	3,258,231	9,427,681	24,350,000	27,417,750	3,565,000	2,058,375	1,944,998,056
2021	587,423,505	455,942,298	307,381,687	304,404,006	15,500,000	27,739,775	79,780,000	19,937,625	3,380,422	9,305,490	25,585,000	26,182,750	3,755,000	1,876,125	1,868,193,684
2022	584,460,000	405,209,745	316,147,106	295,083,795	16,280,000	26,964,775	83,750,000	15,869,938	3,470,176	9,215,736	26,905,000	24,884,500	3,950,000	1,684,250	1,813,875,020
2023	590,150,000	377,096,627	316,517,167	283,636,365	17,090,000	26,150,775	87,915,000	11,593,625	3,574,710	9,111,202	28,290,000	23,519,500	4,155,000	1,482,375	1,780,282,347
2024	593,075,000	348,560,257	326,259,322	273,091,556	17,945,000	25,296,275	92,305,000	7,092,125	3,670,996	9,014,916	29,735,000	22,084,250	2,600,000	1,314,375	1,752,044,073
2025	576,375,000	320,183,328	336,894,917	260,445,424	18,845,000	24,399,025	96,915,000	2,392,250	3,804,466	8,881,446	31,265,000	20,575,500	2,730,000	1,182,000	1,704,888,355
2026	570,415,000	291,664,838	348,370,654	245,773,698	19,760,000	23,485,175	-	-	3,907,580	8,778,332	32,885,000	18,988,875	2,875,000	1,042,750	1,567,946,902
2027	578,845,000	264,022,281	350,078,610	231,240,407	20,755,000	22,484,713	-	-	4,025,290	8,660,622	15,055,000	17,808,250	805,000	951,750	1,514,731,923
2028	563,465,000	238,291,094	339,681,468	219,170,870	21,840,000	21,402,750	-	-	4,135,790	8,550,122	15,810,000	17,055,500	845,000	911,500	1,451,159,094
2029	565,700,000	212,343,469	341,151,913	206,305,497	22,930,000	20,310,750	-	-	4,281,960	8,403,952	16,600,000	16,265,000	885,000	869,250	1,416,046,791
2030	547,850,000	186,865,838	338,400,835	192,222,380	24,080,000	19,164,250	-	-	4,400,118	8,285,794	17,425,000	15,435,000	930,000	825,000	1,355,884,215
2031	525,600,000	162,503,056	309,130,000	118,040,500	25,285,000	17,960,250	-	-	4,532,665	8,153,247	18,300,000	14,563,750	980,000	778,500	1,205,826,968
2032	514,710,000	138,134,656	291,240,000	104,050,423	26,545,000	16,696,000	-	-	4,659,170	8,026,742	19,215,000	13,648,750	1,025,000	729,500	1,138,680,241
2033	489,645,000	113,891,856	265,725,000	90,623,983	27,875,000	15,368,750	-	-	4,819,642	7,866,270	20,175,000	12,688,000	1,080,000	678,250	1,050,436,751
2034	424,495,000	91,495,456	228,370,000	78,612,455	29,270,000	13,975,000	-	-	4,954,740	7,731,172	21,185,000	11,679,250	1,130,000	624,250	913,522,323
2035	362,105,000	72,252,144	210,530,000	67,809,406	30,735,000	12,511,500	-	-	5,103,994	7,581,918	22,245,000	10,620,000	1,190,000	567,750	803,251,711
2036	307,545,000	55,118,003	193,800,000	57,866,731	32,270,000	10,974,750	-	-	5,248,522	7,437,390	23,355,000	9,507,750	1,250,000	508,250	704,881,396
2037	257,835,000	40,911,025	201,970,000	48,178,672	33,885,000	9,361,250	-	-	5,425,098	7,260,814	24,520,000	8,340,000	1,310,000	445,750	639,442,609
2038	216,495,000	29,200,200	210,320,000	38,230,247	35,580,000	7,667,000	-	-	5,579,271	7,106,641	25,750,000	7,114,000	1,375,000	380,250	584,797,609
2039	191,280,000	18,973,250	219,205,000	27,717,638	37,355,000	5,888,000	-	-	5,747,338	6,938,574	27,035,000	5,826,500	1,445,000	311,500	547,722,800
2040	128,700,000	10,345,156	189,785,000	17,219,512	39,225,000	4,020,250	-	-	5,912,160	6,773,752	28,390,000	4,474,750	1,515,000	239,250	436,599,831
2041	89,905,000	4,399,906	152,585,000	8,572,987	41,180,000	2,059,000	-	-	6,106,871	6,579,041	29,810,000	3,055,250	1,595,000	163,500	346,011,555
2042	32,735,000	818,375	64,415,000	3,186,331	-	-	-	-	16,890,912	6,899,833	31,295,000	1,564,750	1,675,000	83,750	159,563,951
2043	-	-	30,120,000	968,028	-	-	-	-	17,399,726	6,391,020	-	-	-	-	54,878,773
2044	-	-	-	-	-	-	-	-	17,917,699	5,873,046	-	-	-	-	23,790,745
2045	-	-	-	-	-	-	-	-	18,469,494	5,321,252	-	-	-	-	23,790,745
2046	-	-	-	-	-	-	-	-	19,019,976	4,770,769	-	-	-	-	23,790,745
2047	-	-	-	-	-	-	-	-	19,592,924	4,197,821	-	-	-	-	23,790,745
2048	-	-	-	-	-	-	-	-	20,180,083	3,610,663	-	-	-	-	23,790,745
2049	-	-	-	-	-	-	-	-	20,793,698	2,997,047	-	-	-	-	23,790,745
2050	-	-	-	-	-	-	-	-	21,417,405	2,373,340	-	-	-	-	23,790,745
2051	-	-	-	-	-	-	-	-	22,062,572	1,728,173	-	-	-	-	23,790,745
Total	11,812,965,143	5,983,635,875	7,078,786,110	4,485,215,602	609,145,000	470,525,307	723,715,000	173,611,263	300,000,000	242,369,339	599,855,000	392,162,942	49,230,000	24,382,237	32,945,598,819

(1) Does not include the Series 2017D, 2017E, R-2017C and R-2017D Bonds (collectively, the "Bonds"), issued on January 24, 2017. Excludes the bonds refunded with proceeds of the Series R-2017C and R-2017D Bonds.
(2) The Bonds issued on January 24, 2017.
(3) The State may be reimbursed for some of these debt service payments from sources that are not General Fund-State revenues, including tuition fees, patient fees, admission taxes, parking taxes and certain King County sales and uses taxes. See Table 11 and Table 12.
(4) Debt service does not take into account the receipts of the federal subsidies applicable to bonds issued as Build America Bonds. See "TRANSPORTATION-RELATED REVENUES AND EXPENDITURES–Transportation Revenue–*Federal Funds*."
(5) Upon the issuance of the Bonds, estimated debt service requirements on outstanding bonds for Fiscal Year 2017 are: principal $201,247,949; interest $289,097,152; total debt service $490,345,101.

Totals may not add due to rounding.

Source: Office of the State Treasurer.

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

	6/30/2012	6/30/2013	6/30/2014	6/30/2015	6/30/2016	1/24/2017[2]
Outstanding by Source of Payment						
General Obligation Bonds						
General State Revenues[1]	10,980,895,035	10,980,397,783	11,433,123,784	11,357,937,220	11,522,910,143	11,891,493,952
Motor Vehicle Fuel Tax Revenue	6,353,055,881	6,712,006,137	7,010,288,596	6,889,515,603	6,996,406,110	6,892,845,820
Triple Pledge	518,775,000	518,775,000	518,775,000	518,775,000	518,775,000	609,145,000
	17,852,725,916	18,211,178,920	18,962,187,380	18,766,227,823	19,038,091,253	19,393,484,772
GARVEE Bonds	500,400,000	500,400,000	786,315,000	786,315,000	723,715,000	658,005,000
TIFIA Bond	-	-	-	195,199,364	300,000,000	300,000,000
	500,400,000	500,400,000	786,315,000	981,514,364	1,023,715,000	958,005,000
Total – Outstanding	18,353,125,916	18,711,578,920	19,748,502,380	19,747,742,187	20,061,806,253	20,351,489,772
Annual Debt Service Requirements by Fiscal Year						
General Obligation Bonds						
General State Revenues[1]	1,023,303,951	1,053,379,180	1,087,877,046	1,154,461,019	1,178,368,285	
Motor Vehicle Fuel Tax Revenue	422,943,501	465,751,897	544,219,739	570,937,831	594,503,126	
Triple Pledge	15,253,527	26,024,975	26,024,975	26,024,975	26,024,975	
GARVEE Bonds	-	18,282,056	30,817,141	39,095,675	100,144,175	
TIFIA Bond	-	-	-	-	-	
Total – Annual Debt Service by Fiscal Year	1,481,500,979	1,563,438,108	1,688,938,901	1,790,519,500	1,899,040,561	

(1) The State may be reimbursed from sources that are not "general State revenues," including tuition fees, patient fees, admission taxes, parking taxes and certain King County sales and use taxes.
(2) Includes the Series 2017D, 2017E, R-2017C and R-2017D Bonds issued on January 24, 2017, after defeasance of the refunded bonds.
Totals may not add due to rounding.
Source: Office of the State Treasurer.

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

	6/30/2012	6/30/2013	6/30/2014	6/30/2015	6/30/2016	1/24/2017[2]
Outstanding by Source of Payment						
General Obligation Bonds						
General State Revenues	10,980,895,035	10,980,397,783	11,433,123,784	11,357,937,220	11,522,910,143	11,891,493,952
Reimbursements[1]	(856,446,914)	(822,853,819)	(747,384,718)	(671,024,718)	(588,133,820)	(533,639,517)
Subtotal	10,124,448,121	10,157,543,964	10,685,739,066	10,686,912,502	10,934,776,322	11,357,854,434
Motor Vehicle Fuel Tax Revenue	6,353,055,881	6,712,006,137	7,010,288,596	6,889,515,603	6,996,406,110	6,892,845,820
Reimbursements from Tacoma Narrows Bridge Tolls	(567,175,881)	(536,006,137)	(502,478,596)	(471,090,603)	(436,651,110)	(417,085,820)
Subtotal	5,785,880,000	6,176,000,000	6,507,810,000	6,418,425,000	6,559,755,000	6,475,760,000
Triple Pledge	518,775,000	518,775,000	518,775,000	518,775,000	518,775,000	609,145,000
Paid from Tolls on SR 520	(518,775,000)	(518,775,000)	(518,775,000)	(518,775,000)	(518,775,000)	(609,145,000)
Total GO Bonds – Net of Reimbursed Debt	15,910,328,121	16,333,543,964	17,193,549,066	17,105,337,502	17,494,531,322	17,833,614,434
GARVEE Bonds	500,400,000	500,400,000	786,315,000	786,315,000	723,715,000	658,005,000
TIFIA Bond	-	-	-	195,199,364	300,000,000	300,000,000
Total – Outstanding Net of Reimbursed Debt	16,410,728,121	16,833,943,964	17,979,864,066	18,086,851,866	18,518,246,322	18,791,619,434

(1) The State may be reimbursed from sources that are not “general State revenues,” including tuition fees, patient fees, admission taxes, parking taxes and certain King County sales and use taxes.
(2) Includes the Series 2017D, 2017E, R-2017C and R-2017D Bonds issued on January 24, 2017, after defeasance of the refunded bonds.
Totals may not add due to rounding.
Source: Office of the State Treasurer.

Certificates of Participation/Financing Contracts for State and Local Agencies

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

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

The State also has entered into two long-term leases with separate nonprofit corporations that issued "63-20" lease revenue bonds on behalf of the State. The first lease, entered into in 2004 with Tumwater Office Properties (now known as "TOP"), is for an office building being used as offices by WSDOT and DOC (now known as the "Edna Lucille Goodrich Building" and formerly the "Tumwater Office Building"); these bonds were refunded for savings in 2014. The second lease, entered into in 2009 with FYI Properties, is for a State data center and an office building in Olympia used by the Department of Enterprise Services and Consolidated Technology Services and several smaller agencies (the "Wheeler Building"). The State's payments under the leases have been assigned to separate trustees as security for the "63-20" bonds issued by each of the lessors. Under each lease, the State's obligation to make payments of rent is subject to appropriation by the Legislature and subject to Executive Order reduction by the Governor, and neither lease is a "debt" under the Constitution.

As of June 30, 2016, the State had approximately $13.5 million in capital leases outstanding for land, building and equipment, of which $4.1 million were obligations of the governmental funds. See Footnote 7(D) in Appendix D—"THE STATE'S 2016 AUDITED FINANCIAL STATEMENTS."

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

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

Table 13
Payments of Certificates of Participation in State Financing Contracts for State and Local Agencies by Fiscal Year(1)
(Debt Issued through March 2, 2017)
(in dollars)

	State				Local				State and Local Real Estate & Equipment Total Payments(3)
	Real Estate		Equipment		Real Estate		Equipment		
Fiscal Year	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	
2017(2)	24,885,000	20,145,028	40,944,998	12,680,428	2,991,682	1,275,759	8,132,027	1,973,976	113,028,898
2018	27,139,000	18,092,514	50,664,770	11,703,347	2,898,758	1,239,478	8,411,442	1,687,181	121,836,490
2019	29,194,000	16,987,573	50,341,598	9,544,311	2,821,027	1,119,946	7,626,622	1,334,710	118,969,789
2020	29,039,000	15,735,920	45,911,271	7,407,515	2,761,013	993,759	6,235,202	1,012,494	109,096,174
2021	29,194,000	14,456,221	40,374,863	5,458,795	2,561,000	870,380	4,152,056	765,919	97,833,235
2022	28,754,000	13,158,489	25,963,782	3,881,535	2,346,000	753,475	3,343,094	579,645	78,780,021
2023	29,319,000	11,841,640	21,507,222	2,673,261	2,436,000	637,276	2,525,168	429,488	71,369,055
2024	28,330,000	10,513,393	18,029,817	1,699,265	2,040,000	528,928	2,406,414	308,705	63,856,521
2025	26,440,000	9,259,186	7,359,770	1,085,317	2,030,000	430,121	1,931,268	214,697	48,750,359
2026	26,330,000	8,017,768	7,084,502	745,154	2,120,000	329,169	1,630,498	128,503	46,385,593
2027	26,570,000	6,756,315	5,913,085	401,252	2,065,000	227,629	1,046,915	57,117	43,037,313
2028	24,790,000	5,616,940	4,240,000	190,000	2,085,000	131,265	905,000	23,769	37,981,974
2029	23,820,000	4,614,899	4,365,000	63,950	1,135,000	61,738	105,000	2,225	34,167,811
2030	24,355,000	3,632,605	-	-	390,000	26,956	10,000	113	28,414,674
2031	17,710,000	2,762,963	-	-	215,000	16,350	-	-	20,704,313
2032	13,085,000	2,101,809	-	-	155,000	9,350	-	-	15,351,159
2033	12,780,000	1,624,016	-	-	100,000	3,250	-	-	14,507,266
2034	8,095,000	1,229,528	-	-	10,000	1,138	-	-	9,335,666
2035	8,065,000	953,681	-	-	10,000	813	-	-	9,029,494
2036	7,275,000	686,763	-	-	10,000	488	-	-	7,972,250
2037	5,580,000	405,750	-	-	10,000	163	-	-	5,995,913
2038	5,015,000	200,600	-	-	-	-	-	-	5,215,600
Total	455,764,000	168,793,599	322,700,679	57,534,130	31,190,481	8,657,428	48,460,706	8,518,541	1,101,619,566

(1) Excludes payments on State leases supporting "63-20" lease revenue bonds. See Table 14. Does not include the Certificates of Participation, Series 2017A, expected to be issued on March 2, 2017.
(2) As of March 2, 2017, there are no remaining debt service payments on Certificates of Participation for Fiscal Year 2017.
(3) Debt service is collected from State and local agencies one month prior to the date the State pays debt service. Table shows debt service as it is paid to Certificate of Participation holders, not when collected from State and local agencies.

Totals may not add due to rounding.

Source: Office of the State Treasurer.

Table 14
Payments Under Lease Revenue Bonds
(Debt Service by Fiscal Year)
(in dollars)

Fiscal Year	E.L. Goodrich Building		Wheeler Building		Total Lease
	Principal	Interest	Principal	Interest	Revenue Bonds[1]
2017	1,795,000	1,820,275	6,630,000	7,503,063	17,748,338
2018	2,010,000	1,725,150	6,965,000	14,674,625	25,374,775
2019	2,235,000	1,652,550	7,310,000	14,326,375	25,523,925
2020	2,415,000	1,606,050	7,675,000	13,960,875	25,656,925
2021	2,600,000	1,516,900	8,060,000	13,577,125	25,754,025
2022	2,875,000	1,380,025	8,460,000	13,174,125	25,889,150
2023	3,155,000	1,229,275	8,885,000	12,751,125	26,020,400
2024	3,460,000	1,063,900	9,350,000	12,284,663	26,158,563
2025	3,790,000	882,650	9,845,000	11,793,788	26,311,438
2026	4,140,000	684,400	10,360,000	11,276,925	26,461,325
2027	4,510,000	468,150	10,905,000	10,733,025	26,616,175
2028	4,930,000	256,800	11,450,000	10,187,775	26,824,575
2029	3,955,000	79,100	12,035,000	9,600,963	25,670,063
2030	-	-	12,665,000	8,969,125	21,634,125
2031	-	-	13,360,000	8,272,550	21,632,550
2032	-	-	14,095,000	7,537,750	21,632,750
2033	-	-	14,870,000	6,762,525	21,632,525
2034	-	-	15,690,000	5,944,675	21,634,675
2035	-	-	16,555,000	5,081,725	21,636,725
2036	-	-	17,465,000	4,171,200	21,636,200
2037	-	-	18,425,000	3,210,625	21,635,625
2038	-	-	19,440,000	2,197,250	21,637,250
2039	-	-	20,510,000	1,128,050	21,638,050
Total	41,870,000	14,365,225	281,005,000	209,119,925	546,360,150

(1) As of January 24, 2017, remaining debt service payments for Fiscal Year 2017 total $14,133,063.
Totals may not add due to rounding.
Source: Office of the State Treasurer.

Other Debt

See Appendix D—“THE STATE’S 2016 AUDITED FINANCIAL STATEMENTS–Note 7A” for a description of revenue bonds issued by certain colleges and universities; tobacco securitization debt; and certain other conduit debt issued by State agencies, none of which is debt of the State.

School Bond Guarantee Program

The School Bond Guarantee Program is a credit enhancement program that provides savings to State taxpayers by pledging the full faith, credit and taxing power of the State to the payment of voter-approved school district general obligation bonds.

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

As of February 1, 2017, the aggregate total principal amount outstanding on 466 voter-approved bond issues guaranteed under the program was $10.561 billion. The bonds were issued by 177 school districts.

Washington Guaranteed Education Tuition Program

The Washington Guaranteed Education Tuition Program ("GET program") is a 529 prepaid college tuition plan that allows Washington residents or individuals opening accounts for Washington residents to prepay for future college tuition. Individual accounts are guaranteed by the State to keep pace with rising college tuition, based on the highest priced resident, undergraduate tuition and State-mandated fees 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 qualified eligible higher education expenses. GET funds are held in the State treasury and invested by the Washington State Investment Board. As of September 30, 2015, the GET program has paid $913 million in distributions to help students cover college costs since the program's inception in 1998.

Annually, the Office of the Washington State Actuary ("OSA") reports the market value of program assets and prepares "best estimates" of the actuarially determined present value of obligations for future payments. OSA has stated that the GET program's funded status is highly sensitive to short-term changes in tuition growth. As of June 30, 2016, program assets totaled $2.34 billion, or 135.6 percent of estimated program obligations.

As described under "THE GENERAL FUND—Operating Budget—2015-17 Biennium Budget," the budget enacted by the Legislature for the 2015-17 Biennium reduced tuition for State colleges and universities for the 2015-16 and 2016-17 academic years and stated that, beginning in the 2017-18 academic year, tuition growth may increase by no more than the average annual percentage growth rate in the median hourly wage for the State for the previous 14 years as determined by the Federal Bureau of Labor Statistics. The budget continued the payout value in effect prior to the tuition reduction for GET units redeemed during the 2015-16 and 2016-17 academic years, and authorized the GET Committee to make program adjustments necessary to ensure that the total payout value of each account is not decreased or diluted as a result of the tuition changes for academic years after 2016-17. The GET Committee voted to maintain the payout value until the time that resident, undergraduate tuition and fees at Washington's highest priced public university surpasses the 2014-15 rates. The GET Committee also temporarily suspended new program enrollments and new unit purchases, except for continued payments on existing custom monthly contracts, for a period not to exceed two years. In March 2016, the Legislature adopted legislation approved by the Governor that: (1) authorizes the GET Committee to develop a traditional 529 college savings plan to be offered alongside GET that will allow individual college savings accounts; and (2) requires the GET program to reopen to new investments by July 1, 2017. The GET Committee is currently developing the new 529 college savings plan, and projects that the plan will open by mid-2017.

The Committee has recently authorized two different types of refunds for GET participants. In response to tuition reductions, the Committee authorized a temporary refund window, allowing participants to refund their GET accounts at the $117.82 payout value, or their original contributions (whichever is greater) without state penalties. This refund window opened September 2, 2015, and will remain open until September 1, 2017, or until 60 days after a 529 savings plan opens (whichever is later). As of September 30, 2016, the program had refunded $355 million to participants. In February 2016, the GET Committee also returned $51.9 million to certain GET participants who paid an amortization component as part of the GET unit price between May 1, 2011 and June 30, 2015. The Committee deemed it was no longer necessary to have charged this amortization component, which was built into the unit price to ensure the program's funded status recovered after the impacts of the 2008 recession.

INVESTMENTS

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

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

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

For a description of permitted investments for various funds including pension funds and the Treasury and Treasurer's Trust Fund and how investments are valued and investments as of June 30, 2016, for the LGIP, Treasurer's Trust Funds, State pension plans and Workers' Compensation Funds, see Note 3 in Appendix D—"THE STATE'S 2016 AUDITED FINANCIAL STATEMENTS."

Treasury and Treasurer's Trust Funds

The Treasury and Treasurer's Trust Funds are managed within the Office of the State Treasurer in three sub-portfolios: a Liquidity Portfolio, Intermediate Portfolio and a Core Portfolio. The Liquidity Portfolio is a short-term investment fund managed to meet daily cash requirements of all Treasury and Treasurer's Trust Funds (which include State operating and capital accounts). Balances in the Liquidity Portfolio fluctuate within a wide range (from near zero to more than $2.0 billion), increasing sharply with the receipt of seasonal tax payments and bond proceeds and declining with the pace of operating and capital expenditures. The Intermediate Portfolio has a target duration of 0.75 years and a maximum maturity of two years. Funds not anticipated to be needed in the near-term are invested in the Core Portfolio, which has a target duration of approximately 2.1 years and a maximum maturity of 10 years. The performance benchmark of the Core Portfolio is a weighted total return of the Merrill Lynch 0-1 Year Treasury Index (20 percent); the Merrill Lynch 1-3 Year Treasury/Agency Index (50 percent); and the Merrill Lynch 3-5 Year Treasury/Agency Index (30 percent).

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

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

	December 2016		January 2016-December 2016[1]	
	$	**%**	**$**	**%**
U.S. Agency	2,276,736	35.5	2,332,415	42.8
Supranational Agency	168,833	2.6	39,274	0.7
U.S. Treasury	1,110,367	17.3	1,022,640	18.8
Repurchase Agreements	-	-	-	-
Bank Deposits	739	0.0	3,423	0.1
LGIP Deposit[2]	2,693,690	42.0	1,895,390	34.8
Certificates of Deposit	164,861	2.6	153,918	2.8
	6,415,226	100.0	5,447,060	100.0
Weighted Average Maturity:	444 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 $6.5 billion from Fiscal Year 2006 to Fiscal Year 2016, 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, is a voluntary pool managed by the Office of the State Treasurer that offers its participants safety of principal, 100 percent liquidity on a daily basis and the economies of scale inherent in pooling. More than 530 local governments participate in the LGIP. The LGIP manages a portfolio of securities that meet the maturity, quality, diversification and liquidity requirements set forth in Statement No. 79 of the Governmental Accounting Standards Board ("GASB") for external investment pools who wish to measure all investments at amortized cost for financial reporting purposes. The maximum weighted average maturity ("WAM") is 60 days and maximum weighted average life is 120 days. The maximum final maturity is 397 days except for floating- and variable-rate securities and securities that are used for repurchase agreements. The WAM of the LGIP generally ranges from 30 to 60 days. The benchmarks utilized for the LGIP are the Government and Agency money market net and gross yields reported by iMoneyNet. The net yield is utilized for external comparisons while the gross yield is used internally to assess portfolio manager performance. See Note 3(D) in Appendix D–"THE STATE'S 2016 AUDITED FINANCIAL STATEMENTS."

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

	December 2016		January 2016-December 2016[1]	
	$	**%**	**$**	**%**
U.S. Agency	5,238,014	40.6	4,696,240	40.2
Supranational Agency	188,180	1.5	33,687	0.3
U.S. Treasury	3,105,693	24.1	1,917,524	16.4
Repurchase Agreements	3,156,774	24.5	3,926,622	33.6
Interest Bearing Bank Accounts	1,121,967	8.7	1,038,882	8.9
Certificates of Deposit	82,645	0.6	78,629	0.7
	12,893,273	100.0	11,691,584	100.0
Weighted Average Maturity:	30 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. Excess insurance policies are also purchased for these risks, which covers amounts above a self-insured retention (the "SIR") up to an annual limit of $50 million. The current SIR is $10 million for all agencies except DSHS ($16.5 million), DOC ($15.5 million) and WSDOT ($12.5 million). Insurance is procured annually, and the SIR may change. The SILP is administered by the Department of Enterprise Services ("DES") with money available in a statutorily-based Liability Account within the Risk Management Fund. The Liability Account is funded by annual premiums assessed to State agencies based on each agency's loss history (paid claims over the most recent six years and open reserves for pending claims). State statutes do not permit the Liability Account to exceed 50 percent of the State's outstanding liabilities as determined bi-annually by an independent actuary. Although the legislative budget may differ from the actuary's recommendation, the Legislature has consistently funded the SILP in a manner that has maintained its solvency.

General liability and auto claims are investigated and settled through the coordinated efforts of DES, the Office of the Attorney General and WSDOT with consultation and agreement of the affected agency. Approved claims (including judgments, settlements and related defense costs) are paid by DES from the Liability Account. As of September 30, 2016, the Liability Account held $60 million designated for payment of tortious liability and certain federal due process claims. As of September 30, 2016, outstanding and actuarially determined claims against the State and its agencies (except for the University of Washington and the Department of Transportation Ferries Division), including projected defense costs, that were payable from the Liability Account were estimated at $583 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 2016 AUDITED FINANCIAL STATEMENTS."

The Ferries Division of WSDOT does not participate in the self-insurance liability program. Instead the State purchases a marine policy to cover the vessels, terminals and operations of the Washington State Ferry System. The policy combines general liability, pollution liability, vessel hull and machinery and property in a master policy and includes coverage for war/terrorism risk for all vessels, dockside structures and equipment.

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 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.

The State also maintains a master property policy covering all risks for selected buildings, contents and electronic data processing equipment. The policy covers approximately $3.7 billion of State buildings and equipment located throughout the State. The coverage is for the replacement value of the buildings up to $500 million for each occurrence and does cover natural disasters, including earthquakes and floods, and also covers terrorism. The insurance has a $250,000 deductible.

The property insurance policy contains a provision that provides for cyber breach coverage for entities that have insured property on the policy. This coverage is available to cover breach response costs, costs of notification of parties affected by the breach, credit monitoring services, lost business costs and legal expenses.

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, 2016, was estimated to be approximately $25.85 billion, including $12.26 billion for supplemental pension COLA described in the next paragraph. As of June 30, 2016, there were $15.4 billion of invested assets, mainly long-term fixed income securities, to help fund these accrued benefits. See Note 3(c) in Appendix D—"THE STATE'S 2016 AUDITED FINANCIAL STATEMENTS."

The supplemental pension plan supports cost-of-living adjustments ("COLA") granted for time-loss and disability payments for all injured workers, including those of self-insured employers. The supplemental pension component covers both State funded and self-insured employees. The accrual of these future payments for workers that were injured as of June 30, 2015, was estimated to be approximately $12.26 billion. By statute, the State is permitted to collect only enough revenue to fund the current COLA payments. No assets are allowed to accumulate for the future funding of claims' COLA benefits payable. The programs' actuaries estimate these rates so that yearly premium payments will be sufficient to make these current payments.

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

See Note 3(C) for investments in the Workers Compensation Fund and Note 7(E) in Appendix D—"THE STATE'S 2016 AUDITED FINANCIAL STATEMENTS."

Washington State Unemployment Insurance Trust Fund

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

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

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

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

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

The average combined unemployment tax rates as a percentage of taxable wages and unemployment compensation balances for Fiscal Years 2012 to 2016 are shown in the following table.

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

Year	Average Tax Rate (in percents)[(1)]	Balance ($ in millions)[(2)]
2012	2.23	2,626
2013	1.76	2,824
2014	1.84	3,171
2015	1.69	3,633
2016	1.47	4,004

(1) Average Tax Rate on taxable wages as of the second quarter of the year.
(2) The State trust fund is held in an account for the State in the national unemployment trust fund of the U.S. Treasury.

Source: U.S. Department of Labor-Unemployment Insurance Data Summary and TreasuryDirect®.

The trust fund balance as of September 30, 2016, was $4.13 billion, which is estimated to be enough coverage to provide 16.8 months of benefits.

In October 2016, approximately 53,000 unemployed workers received unemployment insurance benefits. Beginning July 5, 2016, new claimants entering the program may receive up to 26 weeks of regular unemployment insurance benefits from the State, with a maximum State liability of $17,706 (which is the maximum weekly benefit amount times 26). The maximum weekly benefit amount is calculated based on 63 percent of Washington's average weekly wage per unemployed worker.

A state can qualify for extended federal benefits if the state's current year unemployment rate is higher than prior periods. The State currently does not qualify for any federal extended benefits programs.

Seismic Activity and Other Natural Disasters

The State is in an area of seismic activity, with frequent small earthquakes and occasionally moderate and larger earthquakes. Certain soil types and property in certain areas of the State could become subject to liquefaction (the transformation of soil from a solid state to a liquid state) following a major earthquake, to landslides caused by an earthquake and to ongoing shaking that could follow a major earthquake. The State contains identified geologic faults. In addition to various faults beneath the State, the State is within the Cascadia subduction zone, a fault beneath the Pacific Ocean, which produced a giant earthquake several hundred years ago and is thought to be capable of causing extensive damage if another such earthquake occurs. The most recent notable earthquake in the State, which measured 6.8 on the Richter Scale, occurred in 2001. Areas of the State also could experience the effects of a tsunami following a major earthquake on the West Coast or in areas outside the United States. WSDOT has determined that, among other infrastructure, the seawall between downtown Seattle and Puget Sound, which is being replaced; the Alaskan Way Viaduct, an elevated highway adjacent to the seawall; and the SR 520 Evergreen Point Bridge, one of only two bridges that cross Lake Washington, are likely to be damaged if another major earthquake occurs. Other natural disasters, including volcanic eruptions, tsunamis, mudslides, floods, wind storms, drought, and avalanches are possible. Much of the State experienced drought conditions in 2015. The loss of life and property damage that could result from a major earthquake or other major natural disasters could have a material and adverse impact on the State and its economy and financial condition. See "TRANSPORTATION-RELATED REVENUES AND EXPENDITURES–Transportation Expenditures–*The SR 520 Corridor Program*" and "–*The Alaskan Way Viaduct*."

RETIREMENT SYSTEMS

Retirement Plans

The State administers 13 defined benefit retirement plans, three of which contain hybrid defined benefit/defined contribution options. As of June 30, 2015, the plans covered an estimated 540,000 eligible State and local government employees. These plans are administered through the Department of Retirement Systems and the Board for Volunteer Fire Fighters.

A summary of each of the State retirement plans is provided in the following table.

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Table 18
Overview of Retirement Plans(1)

Retirement System/Plan	Administered by	Benefit Type	Active and Terminated Vested Members(2)	Members Receiving Benefits(2)	Closed in
Public Employees' Retirement System ("PERS") was established in 1947 and is a cost-sharing multiple-employer retirement system.					
PERS 1	Dept. of Retirement Systems	Defined Benefit	4,926	50,270	1977
PERS 2/3		Defined Benefit/Hybrid(3)	181,161	41,879	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	1,620	35,239	1977
TRS 2/3		Defined Benefit/Hybrid(3)	78,154	11,758	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)	68,868	12,312	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	82	7,507	1977
LEOFF 2		Defined Benefit	17,804	3,710	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	683	1,033	2002
WSPRS 2		Defined Benefit	495	0	Open
Public Safety Employees' Retirement System ("PSERS") was established in 2004 and is a cost-sharing multiple-employer retirement system.					
PSERS 2	Dept. of Retirement Systems	Defined Benefit	5,496	80	Open
Judicial Retirement System ("JRS") was established in 1971 and is an agent multiple-employer retirement system. The plan is funded by legislative appropriation.					
JRS	Dept. of Retirement Systems	Defined Benefit	0	106	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	15,999	4,296	Open

(1) In addition, the State makes contributions to the Higher Education Retirement Plans that are sponsored by two-year colleges and individual universities. Eligible higher education State employees may participate in the Higher Education Retirement Plans or the State-administered plans. See Note 11(A) and (J) in Appendix D—"THE STATE'S 2016 AUDITED FINANCIAL STATEMENTS."
(2) Member data as of June 30, 2015.
(3) Hybrid = defined benefit/defined contribution.
Source: Department of Retirement Systems and Office of the State Actuary.

Funding Policies

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

State law requires systematic actuarial funding to finance the retirement plans. Actuarial calculations to determine employer and employee contributions are prepared by the Office of the State Actuary ("OSA"), a nonpartisan legislative agency charged with advising the Legislature and Governor on pension benefits and funding policy. OSA is statutorily required, pursuant to Chapter 41.45 RCW, to provide an actuarial valuation of PERS, TRS, SERS, PSERS, LEOFF, and WSPRS plans every two years. The most recent actuarial report was released in August 2016 for the year ended June 30, 2015.

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

Actuarial Methodology for Funding Calculations. To calculate employer and employee contribution rates necessary to pre-fund the plans' benefits, OSA uses actuarial cost and asset valuation methods selected by the Legislature as well as economic and demographic assumptions. As noted above, actuarial valuations are provided annually, but only valuations for odd-numbered years are used to determine contribution rates. The June 30, 2013 valuation was used to determine the contribution rates for the 2015-17 Biennium.

The Legislature adopted the following economic assumptions for contribution rates beginning July 1, 2015 (1) rate of investment return: 7.8 percent per annum (7.5 percent for LEOFF Plan 2 in each biennium); (2) general salary increases: 3.75 percent per annum; (3) rate of Consumer Price Index increase: 3.0 percent; and (4) annual growth in membership: 0.95 percent (0.80 percent for TRS, 1.25 percent for LEOFF). The assumed long-term investment return used as the discount rate for determining the liabilities for each plan decreased from 7.9 percent to 7.8 percent for 2015-17 contribution rates and will decline further to 7.7 percent for the calculation of contribution rates for the 2017-19 Biennium.

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

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

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

For all Plans 2 and 3 and WSPRS, OSA uses the Aggregate Cost Method to determine the Normal Cost and the actuarial accrued liability. This method defines the actuarial accrued liability as being equal to the actuarial value of assets, and all remaining costs are amortized over the future payroll of the active group. As a result of this method, the entire contribution is considered Normal Cost and no UAAL is identified outside the Normal Cost.

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

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

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

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

Contribution Rates

The following table lists the contribution rates for the State and employees for the retirement plans effective July 1, 2015. The rates are expressed as a percentage of current year covered payroll (members' reportable salary, which generally is gross pay).

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Table 19
Contribution Rates[(1)(2)]
(in percentage)

	Contribution Rates As of October 1, 2015		Preliminary Contribution Rates Starting July 1, 2017	
	Employer Rate[(3)]	Employee Rate[(4)]	Employer Rate[(3)]	Employee Rate[(4)]
PERS Plan 1	11.18	6.00	12.70	6.00
PERS Plan 1 elected State officials[(5)]	16.68	7.50	18.96	7.50
PERS Plan 2/3[(6)]	11.18	6.12	12.70	7.38
TRS Plan 1	13.13	6.00	15.20	6.00
TRS Plan 1 elected State officials[(5)]	13.13	7.50	15.20	7.50
TRS Plan 2/3	13.13	5.95	15.20	7.06
SERS Plan 2/3	11.58	5.63	13.48	7.27
PSERS Plan 2	11.54	6.59	11.94	6.73
LEOFF Plan 1	0.18	0.00	0.18	0.00
LEOFF Plan 2	8.59	8.41	8.93	8.75
WSPRS Plan 1	8.34	6.84	12.99	7.34
WSPRS Plan 2	8.34	6.84	12.99	7.34

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

Source: Department of Retirement Systems.

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

State Contributions

State Contributions. The State's total contributions to the retirement plans for State employees paid from the General Fund and Non-General Fund are summarized in the following table. LEOFF Plan 1 had no UAAL and, therefore, other than administrative fees, no contributions were required for the year ended June 30, 2016.

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

	State Contributions				
	2012	**2013**	**2014**	**2015**	**2016**
PERS Plan 1	124.0	125.6	208.1	192.1	250.3
PERS Plan 2/3	182.8	182.9	203.7	219.1	280.1
TRS Plan 1	3.1	3.7	6.3	1.9	3.1
TRS Plan 2/3	1.1	1.2	1.1	1.9	2.7
PSERS Plan 2	7.4	7.5	8.2	9.0	9.6
LEOFF Plan 2[2]	52.8	54.2	55.6	59.9	60.4
VFFRPF	5.6	6.0	6.4	5.9	7.2
WSPRS Plan 1/2	6.5	6.5	6.6	6.7	7.0
JRS	8.1	10.1	10.6	10.6	9.5
Total	391.4	397.7	506.6	507.1	629.9

(1) Does not include State contributions for K-12 employees. Fiscal Year 2012-2014 figures and Fiscal Year 2015-2016 VFFRPF represent actual contributions. The other Fiscal Year 2015-2016 figures represent the State's proportionate share of plan contributions. The State concluded that the difference between actual and proportionate share of plan contributions is negligible.
(2) The State contributes to LEOFF Plan 2 for local government employees. 2016 figure revised after release of the State's Comprehensive Annual Financial Report.

Totals may not add due to rounding.

Source: Washington State Comprehensive Annual Financial Reports ("CAFR").

In the adopted 2015-17 Biennium Budget, total State pension contributions for State employees, for the LEOFF Plan and towards higher education administered plans is estimated to be $1.45 billion, an estimated $162 million higher than in the 2013-15 Biennium. In addition, the State has budgeted approximately $1.14 billion in the 2015-17 Biennium for K-12 employees, an increase of approximately $265 million from the 2013-15 Biennium. Approximately half of the State's contributions for pensions are paid out of the General Fund.

State and Local Government Contributions. In addition to the State's contributions shown above, the Legislature allocates money to each K-12 school district for employee salaries and certain associated benefits for basic education programs. This allocation is driven by formula, based on enrollment, State established salary levels, adopted contribution rates and other factors.

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

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

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

System	General Fund-State	Non-General Fund-State	Local Government[(3)]
PERS	18.7	28.1	53.2
TRS[(2)]	71.0	0.0	29.0
SERS[(2)]	44.6	0.0	55.4
PSERS	42.2	5.8	52.0
LEOFF 2	40.0	0.0	60.0
WSPRS	7.0	93.0	0.0

(1) These splits are used by OSA to model approximate cost allocations for employers by fund or type of employer in actuarial fiscal analysis. The reader should exercise caution when using numbers provided in this table for any other purpose. Estimates are based upon the June 30, 2015, actuarial valuation.
(2) The State has only a few employees in TRS and no employees in SERS.
(3) Includes school districts.

Source: Office of the State Actuary.

Investments

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

As of September 30, 2016, there was $84.2 billion invested in the various retirement plans, including the defined benefit plans and certain defined contribution plans, of which 38.15 percent was in public equity, 21.68 percent in fixed income securities, 20.65 percent in private equity, 15.84 percent in real estate, 3.49 percent in tangible assets, 0.13 percent in cash and 0.06 percent in other investments.

The following table shows the investment returns on the retirement funds for the past 10 years. The 10-year annualized return as of September 30, 2016, was 6.11 percent.

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

Fiscal Year	1 Year Annualized Return
2007	21.33
2008	-1.24
2009	-22.84
2010	13.22
2011	21.14
2012	1.40
2013	12.36
2014	17.06
2015	4.93
2016	2.65

Source: Washington State Investment Board.

Notes 3 and 11 of Appendix D–"THE STATE'S 2016 AUDITED FINANCIAL STATEMENTS" describe the Board's policy regarding permitted investments, how investments are valued, and a breakdown of investments as of June 30, 2016, 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, 2016.

Funded Status

Actuarial Valuation Methods Used in Reporting the Funded Status. Reports on the funded status present actuarial estimates of assets and liabilities. Assets are valued using the Actuarial Value of Assets ("AVA"), which smooths the effect of annual changes in the Market Value of Assets ("MVA") over a period of up to eight years. Additionally, the AVA is capped at 130 percent of the MVA and a floor is set at 70 percent of the MVA. This helps to limit fluctuations in contribution rates and funded status that would otherwise arise from short-term changes in the MVA.

Table 23 provides a ten-year history of the actuarial value of assets, market value of assets and the percent of actuarial value to market value for the defined benefit plans.

Table 23
Actuarial Value and Market Value of
Defined Benefit Plans
(dollars in millions)

As of June 30	Actuarial Value of Assets	Market Value of Assets	% of Actuarial Value to Market Value
2006	47,771	52,438	91
2007	50,787	60,095	85
2008	54,345	58,040	94
2009	56,991	44,205	129
2010	58,442	48,700	120
2011	60,654	57,350	106
2012	63,122	56,753	111
2013	65,458	62,213	105
2014	68,777	72,553	95
2015(1)	71,460(2)	74,490	96

(1) Valuation as of June 30, 2015 published in August 2016.
(2) For the purpose of calculating the AVA, the MVA for LEOFF Plan 2 was reduced by approximately $16 million. This adjustment reflects the planned distribution, as required by law, from the LEOFF Plan 2 pension trust fund to the LEOFF Plan 2 Benefit Improvement Account.

Source: Office of the State Actuary.

In September 2015, OSA adopted the Entry Age Normal ("EAN") cost method to estimate accrued pension liabilities for the purposes of reporting funded status. The EAN method represents each plan member's benefits as a constant share of payroll throughout the member's career. This liability estimate incorporates the statutorily set discount rate and fully reflects the demographic assumptions revised in the June 30, 2013 valuation, which included projected improvements in mortality rates. See "Funding Policies" for more information on the demographic and economic experience studies.

Table 24 shows the funded status of all of the State-administered plans under the EAN cost method as of June 30, 2014 and June 30, 2015. Assets from one plan may not be used to fund benefits for another plan. In comparing the funded status as of June 30, 2014 to June 30, 2015, there was a small decline from 87 percent to 86 percent, partly due to the drop in the statutorily defined discount rate from 7.8 percent to 7.7 percent.

Historically, the State estimated accrued liabilities using the Projected Unit Credit ("PUC") cost method. 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. This liability estimate also relies on the statutorily set discount rate.

Table 25 displays the historical funded status for the PERS, TRS, SERS, PSERS, LEOFF and WSPRS plans by comparing the liabilities calculated using the PUC cost method to the AVA on the valuation date. The drop in funded status from 101 percent as of June 30, 2012 to 94 percent as of June 30, 2013 was primarily due to the revised demographic assumptions.

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Table 24
Funded Status on an Entry Age Normal 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]**
EAN Liability[3]	12,553	32,008	9,107	10,831	4,381	357	4,307	8,838	1,093	83,477
Actuarial Value of Assets[3]	7,315	28,292	5,870	9,953	3,901	338	5,404	9,320	1,067	71,460
Unfunded Liability[3]	5,239	3,715	3,237	879	481	19	(1,097)	(482)	26	12,017
Funded Ratio (%)										
2014	61	90	69	94	91	96	127	107	100	87
2015[3][4]	58	88	64	92	89	95	125	105	98	86

(1) Liabilities have been valued using the Entry Age Normal ("EAN") cost method at an interest rate of 7.7 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. Valuation as of June 30, 2015 published in August 2016.
(4) Actuarial assumptions changed.
Totals may not add due to rounding.

Source: Office of the State Actuary.

Table 25
Funded Status on a Projected Unit Credit 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]**
Funded Ratio (%)										
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	74	113	84	116	113	129	127	119	118	102
2011[4]	71	112	81	113	110	132	135	119	115	101
2012	69	111	79	114	110	134	135	119	114	101
2013[4]	63	102	71	105	102	124	125	115	105	94
2014[3]	61	101	69	104	101	124	127	113	103	93

(1) Liabilities have been valued using the Projected Unit Credit ("PUC") cost method at the interest rate defined in statute 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) Based on actuarial valuation as of June 30, 2014. For Fiscal Years after June 30, 2014, the PUC cost method is no longer calculated.
(4) Actuarial assumptions changed.
Totals may not add due to rounding.

Source: Office of the State Actuary.

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

OSA uses a dynamic risk assessment model with a stochastic (or probabilistic) component to quantify the likelihood and magnitude of possible future outcomes for pensions taking into account the variability of investment returns and revenue growth. It also differentiates between model outcomes in which (1) all actuarially recommended contributions are made and there are no future improvements in benefits, and (2) drawing on past practice, contributions are made at less than actuarially recommended rates and future benefits are improved. This differs from the traditional reporting methodology, which provides funded status information at a single point in time based on what is expected to occur. Additional details can be found under “Risk Assessment” on OSA’s website.

Actuarially Determined Contributions. The following table shows the actuarially determined contributions, contributions in relation to the actuarially determined contributions, and the contribution deficiency or excess for each plan for the Fiscal Years ending June 30, 2014, 2015, and 2016. For information on prior years, see the Comprehensive Annual Financial Report for the Fiscal Year ended June 30, 2016, prepared by the State Department of Retirement Systems (“DRS”) and available on DRS’s website (www.drs.wa.gov). For the Fiscal Years ending June 30, 2014 and 2015, the contribution deficiency or excess primarily reflects differences between expected and actual salary levels. For the Fiscal Year ending June 30, 2016, the contribution deficiency is due to the projected mortality improvements, fully represented in the actuarially determined contributions but being phased in over three biennia as adopted by the Pension Funding Council. For more information on the phase-in of the projected mortality improvements, see “Contribution Rates.”

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Table 26
Schedule of Contributions for all Employers
(For the Fiscal Years ending June 30, 2014, 2015 and 2016)
(dollars in thousands)

	2014	2015	2016
PERS PLAN 1			
Actuarially Determined Contributions	439,067	454,010	623,404
Contributions in Relation to the Actuarially Determined Contributions	448,895	462,100	595,982
Contribution Deficiency (Excess)	(9,828)	(8,090)	27,422
PERS PLANS 2/3			
Actuarially Determined Contributions	441,677	462,098	662,898
Contributions in Relation to the Actuarially Determined Contributions	430,345	446,127	563,328
Contribution Deficiency (Excess)	11,332	15,971	99,570
TRS PLAN 1			
Actuarially Determined Contributions	208,119	218,542	361,481
Contributions in Relation to the Actuarially Determined Contributions	200,674	223,886	315,934
Contribution Deficiency (Excess)	7,445	(5,344)	45,547
TRS PLANS 2/3			
Actuarially Determined Contributions	255,277	269,160	382,088
Contributions in Relation to the Actuarially Determined Contributions	249,341	267,038	316,022
Contribution Deficiency (Excess)	5,936	2,122	66,066
SERS PLANS 2/3			
Actuarially Determined Contributions	90,064	94,736	144,599
Contributions in Relation to the Actuarially Determined Contributions	88,783	97,386	115,480
Contribution Deficiency (Excess)	1,281	(2,650)	29,199
LEOFF Plan 1			
Actuarially Determined Contributions	-	-	-
Contributions in Relation to the Actuarially Determined Contributions	98	60	-
Contribution Deficiency (Excess)	(98)	(60)	-
LEOFF Plan 2(1)			
Actuarially Determined Contributions	141,696	147,438	151,718
Contributions in Relation to the Actuarially Determined Contributions	141,082	147,461	152,424
Contribution Deficiency (Excess)	614	(23)	(706)
WSPRS			
Actuarially Determined Contributions	6,677	6,810	7,618
Contributions in Relation to the Actuarially Determined Contributions	6,587	6,679	7,044
Contribution Deficiency (Excess)	90	131	574
PSERS PLAN 2			
Actuarially Determined Contributions	17,053	18,545	22,382
Contributions in Relation to the Actuarially Determined Contributions	17,124	18,704	20,058
Contribution Deficiency (Excess)	(71)	(159)	2,324
JRS			
Actuarially Determined Contributions	9,205	9,132	8,999
Contributions in Relation to the Actuarially Determined Contributions	10,600	10,600	9,500
Contribution Deficiency (Excess)	(1,395)	(1,468)	(501)
Judges			
Actuarially Determined Contributions	425	539	444
Contributions in Relation to the Actuarially Determined Contributions	-	-	501
Contribution Deficiency (Excess)	425	539	(57)
VFFRPF(1)			
Actuarially Determined Contributions	6,421	6,653	6,846
Contributions in Relation to the Actuarially Determined Contributions	7,336	6,816	8,153
Contribution Deficiency (Excess)	(915)	(163)	(1,307)

(1) For VFFRPF and LEOFF Plan 2, the State is not an employer but makes payments directly to the retirement plans.

Source: Department of Retirement Systems Comprehensive Annual Financial Reports ("CAFR") for Fiscal Year Ended June 30, 2016 and the Washington State Comprehensive Annual Financial Reports ("CAFR") for Fiscal Year Ended June 30, 2016.

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

Under the new standards, an asset sufficiency test is required to determine if plan assets are projected to be sufficient to pay all future benefits for current members. The plan's market value of assets is projected to earn the assumed long-term rate of investment return (for GASB purposes, this is 7.50 percent for all PERS, TRS, SERS, PSERS, LEOFF, and WSPRS plans), increased each year by expected contributions to be collected for current member benefits, and reduced by expected benefit payments and expenses; the assumed salary inflation is 3.75 percent; and the assumed economic inflation is 3.0 percent. If the plan assets reach zero before the last benefit payment is expected to be made, then the plan liabilities must be valued at a lower, blended discount rate which takes into account a municipal bond rate for the years in which the plan is projected to have insufficient assets to make benefit payments. Based on the asset sufficiency test as of June 30, 2014, 2015 and 2016, all PERS, TRS, SERS, PSERS, LEOFF, and WSPRS plans are projected to have sufficient assets to pay current plan member benefits, so no lower, blended discount rate is required to value plan liabilities. This test will be performed each year.

The following table shows the State's proportionate share of the collective net pension liability for the various retirement plans based on the State's contributions to a plan relative to the contributions of all participating employers and the State's share of pension expenses for each plan. These shares are based on the new GASB reporting requirements. Net pension liability equals the total pension liability (a measure of the total cost of future pension benefit payments already earned, stated in current dollars) minus the value of the assets in the pension trust that can be used to make benefit payments. Contributions from plan members and employers are assumed to continue to be made at contractually required rates. The annual pension expense is the amount by which the reported net pension liability increased or decreased during the year. This expense does not require the use of current financial resources and, therefore, was not recognized on the operating statement for the General Fund, but it is in the State-wide operating statement in Appendix D–"THE STATE'S 2016 AUDITED FINANCIAL STATEMENTS."

Table 27
State's Share of Net Pension Liabilities/Assets and Expenses
(For the Fiscal Year Ended June 30, 2016)
(in millions)

	State's Share (%)	State's Share of Net Liability/(Asset)($)	State's Share of Pension Expense($)
PERS Plan 1	41.57	2,174.6	84.6
PERS Plans 2/3	49.10	1,754.4	212.2
TRS Plan 1	0.86	27.2	4.2
TRS Plans 2/3	0.72	6.1	2.3
PSERS Plans 2	47.93	8.7	10.4
LEOFF Plan 1	87.12	(1,050.0)	(207.6)
LEOFF Plan 2	40.63	(417.7)	(15.1)
WSPRS Plans 1/2	100.00	19.6	(1.0)
JRS	100.00	95.0	10.0
TOTAL		2,617.9	100.0

Source: Washington State Comprehensive Annual Financial Reports ("CAFR") for Fiscal Year Ended June 30, 2016. In the financial statements, the accounting results are measured as of June 30, 2015.

The new GASB reporting requirements are reflected in Appendix D–"THE STATE'S 2016 AUDITED FINANCIAL STATEMENTS," which includes sensitivity of the net pension liability to changes in the discount rate. See also the Comprehensive Annual Financial Report for the Fiscal Year ended June 30, 2016, prepared by DRS and available on DRS's website (www.drs.wa.gov).

Additional Information. Additional information on the State's defined benefit plans, including the benefits to retirees, information on the State's smoothing method used in the rate setting process, and the UAAL as a percentage of covered payroll of each plan, is presented in Note 11 and in the Required Supplemental Information–Pension Plan Information in Appendix D–"THE STATE'S 2016 AUDITED FINANCIAL STATEMENTS." Note 3 in Appendix D–"THE STATE'S 2016 AUDITED FINANCIAL STATEMENTS" describes eligible investments for the State's pension plans.

Notes J and K of Appendix D–"THE STATE'S 2016 AUDITED FINANCIAL STATEMENTS," include actuarial valuations and contributions to the Higher Education Retirement Supplemental defined benefit plan.

Benefits; Legislation; Litigation

Benefits under the retirement plans are established by the Legislature. See Notes 11.B in Appendix D–"THE STATE'S 2016 AUDITED FINANCIAL STATEMENTS" for a description of retirement benefits and eligibility. The State Constitution does not directly mention pensions, but the Supreme Court has held that an employee "who accepts a job to which a pension plan is applicable contracts for a substantial pension and is entitled to receive the same when he has fulfilled the prescribed conditions. His rights may be modified prior to retirement, but only for the purpose of keeping the pension system flexible and maintaining its integrity."

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

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

In 2012, the Legislature passed legislation that modifies early retirement factors for new employees in PERS, TRS and SERS first hired after May 1, 2013; those employees eligible for subsidized early retirement will have their benefits reduced by 5.0 percent per year (instead of 3.0 percent) for each year the employee retires before age 65.

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

Bankruptcy of Participating Local Government

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

Federal Benefits

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

Other Post-Employment Benefits

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

The Public Employee Benefits Board ("PEBB"), created within the Washington State Health Care Authority ("HCA"), offers retirees access to all of these OPEB benefits ("PEBB Plan"). Employers participating in the PEBB plan include the State (general government agencies and higher education institutions) 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 2016 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." OSA also relies on active employee information to estimate the number of future retirees who will participate in PEBB. See "Valuation Assumptions and Methods." The following table shows retiree PEBB Plan membership.

Table 28
Retiree Membership in PEBB Plan(1)
(As of June 30, 2016)

	Retirees(2)
State	31,584
K-12 Schools and ESDs	34,387
Political Subdivision	1,855
Total	67,826

(1) In Fiscal Year 2016, there were approximately 235,000 full-time active employees in the State, K-12 schools and educational service districts (ESDs), and political subdivisions that may become eligible and elect post-retirement coverage through the PEBB Plan.
(2) Retirees include retired employees, surviving spouses, and terminated members entitled to a benefit.
Source: Washington State Comprehensive Annual Financial Reports ("CAFR") for Fiscal Year Ended June 30, 2016.

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

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

(1) Explicit Subsidy. Retirees enrolled in Medicare Parts A and B receive an explicit subsidy which lowers the monthly premium. The amount of the subsidy is determined annually by PEBB, up to a maximum set by the Legislature. For 2016, this amount was $150 monthly for each participant.

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

paid by retirees. For calendar year 2015, the implicit subsidy was estimated to be $308 per month per person and for calendar year 2016, it is projected to be $304 per month per person.

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

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

GASB issued Statements 74 and 75, which will replace GASB 43 and 45, to make OPEB accounting and financial reporting consistent with the pension standards in the new GASB standards. GASB 75 establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. The total OPEB liability is required to be determined through an actuarial valuation. The State's OPEB plan is not administered through a trust, it is a pay-as-you-go plan. GASB 74 is effective for financial statements for fiscal years beginning after June 15, 2016, and GASB 75 is effective for fiscal years after June 15, 2017.

Valuation Assumptions and Methods. The most recent valuation for the PEBB Plan prepared by OSA and published in July 2015, determined the plan's liabilities as of January 1, 2015 ("2015 OPEB Report"). Valuations in the 2015 OPEB Report are based on methods selected by the Office of Financial Management and on assumptions detailed in the 2015 OPEB Report and summarized below. 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. The actuarial method chosen to allocate costs and the AAL for the 2015 OPEB Report is the Projected Unit Credit ("PUC"), one of six methods permitted by GASB. The PUC cost method is a standard actuarial funding method. The annual cost of benefits under the PUC is comprised of two components: normal cost (the estimated present value of projected benefits current plan members will earn in the year following the valuation date, which represents today's value of one year of earned benefits) and amortization of the unfunded actuarial liability.

The assumed return on investment earnings and the discount rate used in calculating the AAL (4.0 percent) were long-term assumptions selected in consultation with the Office of the State Treasurer to represent an average of short-term investment rates, and annual inflation is assumed to be 3.0 percent. Annual growth in membership is assumed to be at a rate of 0.95 percent (0.80 percent for K-12 Teachers), and annual salary increases were assumed to be at a rate of 3.75 percent. Assumptions underlying the medical inflation trend rates (ranging from 4.5–8.4 percent in 2015 to 4.9–5.1 percent through 2100) were provided by health care actuaries at Milliman, Incorporated. The unfunded AAL is amortized over a closed 30-year period as a level percent of payroll. Participation level is assumed to be 65 percent (50 percent for K-12 School and Education Service Districts) of eligible employees and 45 percent of spouses of eligible employees. It is assumed that all employees will get Medicare coverage after becoming eligible.

Table 29 shows annual OPEB costs and net OPEB obligations for the Fiscal Years ended June 30, 2012 through June 30, 2016. OSA performs a full valuation every two years. In 2012, 2014 and 2016, and other years when a full valuation was not prepared, consistent with GASB requirements and at the direction of OFM, OSA prepared estimated results using a roll-forward method. As of January 1, 2015, the AAL and UAAL of the PEBB Plan that is attributed to the State was $5.274 billion. UAAL was 84.8 percent of covered State payroll. Because the plan is pay-as-you-go, it has no assets. The 2015 valuation reflected updated assumptions, most notably an updated assumption for projected improvements in future rates of mortality, similar to the defined benefit plans. The mortality assumption change increased the liability by approximately 20 percent.

Table 29
State's Annual OPEB Cost and Net OPEB Obligation
($ in thousands)

	2012	2013	2014	2015	2016
a. Beginning Net OPEB Obligation (NOO)[(1)]	1,027,767	1,279,381	1,613,775	1,894,567	2,322,888
b. Annual Required Contribution (ARC)[(2)]	320,991	342,283	353,842	498,399	516,899
c. Interest on the NOO	46,250	53,434	64,551	75,783	92,916
d. Amortization of the NOO	(36,954)	(48,684)	(59,951)	(71,806)	(89,152)
e. Annual OPEB Cost (b+c+d)	330,286	347,033	358,442	502,376	520,663
f. 2012 Adjustment	-	56,476	-	-	-
g. Contributions for Fiscal Year[(3)]	(78,673)	(69,114)	(77,650)	(74,055)	(82,836)
h. Ending NOO [(1)] (a+e+f+g)	1,279,381	1,613,775	1,894,567	2,322,888	2,760,715

(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, 2012 through June 30, 2016.

LITIGATION

The State and its agencies are parties to numerous routine legal proceedings that occur as a consequence of regular government operations. At any given point, there are numerous lawsuits involving State agencies which could, depending on the outcome of the litigation or the terms of a settlement agreement, impact revenue or expenditures of the State. There are risk management funds reserved by the State for certain claims, and self-insurance and excess insurance is available for claims involving injury and damages. See "RISK MANAGEMENT–Insurance." There has been a trend in recent years of higher jury verdicts for certain types of damage claims. The collective impact of these claims, however, is not likely to have a material impact on State revenues or expenditures.

In addition to the regular damages claims, there are currently a number of lawsuits challenging the management and administration of State programs, some arising as a result of State budget cuts during the recession. Claims include funding inadequacies and inequity in basic education; inadequate funding for care of the disabled and elderly; and denial of health care benefits to certain State workers and reimbursement rates to certain health care providers. The potential impact of this type of litigation is the most difficult to predict. Conceivably, a court could order the restructuring or expansion of certain entitlement programs that would result in a major restructuring of State budgeting and expenditures. Most of these cases involve programs administered by the Department of Social and Health Services ("DSHS"). Only a few of these cases are called out specifically because it is not possible to quantify with exactitude what the fiscal impact of such claims could ultimately be, and it is not possible to know what State or federal legislative responses could be taken to mitigate such impacts.

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

See Note 14 in Appendix D–"THE STATE'S 2016 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 court's judgment that the State is not making ample provision for the education of Washington's K-12 public school students. The Supreme Court agreed, however, with the State that the Legislature has already identified areas that need more funding and embarked on a reform program to be implemented no later than 2018. The Supreme Court reversed the trial court remedy ordering a cost study, but retained jurisdiction to facilitate the full implementation of the reforms and funding. This result preserves the Legislature's constitutional prerogative to reform, define and provide full funding for K-12 education.

In July 2012, the Supreme Court issued an order in the case, essentially adopting the State's position regarding the process for the court's monitoring of the implementation of the 2009 reform legislation. This ruling calls for annual reports by the Legislature to the Supreme Court with the opportunity for plaintiffs to submit their position in response to the report. This process will continue through the expected full implementation of reforms in 2018. The Legislature submitted its first report in August 2012. After receiving comments from the plaintiffs, the Supreme Court issued an order in December 2012 requiring the report at the conclusion of the 2013 legislative session to include a phase-in plan for achieving the State's basic education mandate. The 2013 legislative session concluded on June 30, 2013, with enhanced education funding enacted that adds approximately $1 billion dollars in State funding to K-12 schools during the 2013-15 Biennium. The Legislature filed its 2013 post-budget report in August 2013. After considering comments from the plaintiffs, the Supreme Court issued its next order on January 9, 2014, crediting the State with making additional investments but expressing concern that the pace of implementation was too slow. The Supreme Court again directed the Legislature to submit a phase-in plan. The Legislature submitted its 2014 post-budget report on April 30, 2014. The plaintiffs' post-budget comments were submitted in May 2014. Following its consideration of the Legislature's report and the plaintiffs' response, and finding that the Legislature's report did not comply with the Supreme Court's January 9, 2014, order to provide a complete plan and phase-in schedule for fully funding the basic education program, the Supreme Court on June 12, 2014, ordered the State to address why it should not be held in contempt and, if found in contempt, to address why certain relief requested by the plaintiffs should not be granted. A show cause hearing before the Supreme Court was held on September 3, 2014. On September 11, 2014, the Supreme Court issued an order finding the State in contempt for failing to submit a complete plan for fully implementing its program, but held in abeyance sanctions and other remedial measures to allow the Legislature the opportunity to comply with the order during the 2015 legislative session. Following the 2015 session, the Legislature submitted its post-budget report highlighting that the State made significant increases in funding and met deadlines for implementation of full funding for materials, supplies and operating cost and all-day kindergarten, with one last increment to be funded for K-3 class size reduction. The State, however, did not otherwise enact a "plan" required by the Supreme Court. On August 13, 2015, the Supreme Court issued an order imposing sanctions of $100,000 a day until the State adopts a complete plan for complying with the State Constitution by 2018. The Supreme Court highlighted that the State must do something in the matter of compensation that will achieve full State funding of public education salaries that are now partially paid through local levies. In the 2016 session, the Legislature enacted legislation providing a plan for eliminating reliance on local levies to fund the State's basic education. This plan included, among other things, providing for the collection of data regarding school district expenditures for teacher salaries and corresponding teacher duties. On October 6, 2016, the Court issued an order concluding that the plan enacted in 2016 was insufficient to purge contempt while agreeing that the Legislature was in need of the updated salary data and recommendations that will be submitted pursuant to the Legislature's plan on the eve of the 2017 session. The Supreme Court continued the monetary sanction of $100,000 per day until the State adopts a complete legislative plan demonstrating how it will fully comply with Article IX, Section 1 of the Constitution by September 1, 2018. See "GENERAL FUND–General Fund Expenditures–*K-12 Education*" and "General Fund–State Operating Budget–*2015-17 Biennium Budget and Supplemental 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 parties reached a tentative settlement in April 2016. Subject to legislative appropriation, the settlement provides for DSHS to pay

USDOL approximately $10.6 million in wages, damages, and employer's tax and retirement contributions. The court has stayed the case pending the finalizing of the settlement.

Programs and Services

In *N.C. and L.J. v. Washington State Health Care Authority* and *B.E. and A.R. v. Teeter*, plaintiffs are individuals who have been diagnosed with Hepatitis C. Employing different legal theories, plaintiffs allege that the State is obligated to authorize them to receive treatment with Direct-Acting Antivirals ("DAAs"), a class of pharmaceutical drug treatments for Hepatitis C, because that treatment is medically necessary. *B.E. and A.R.*, a putative class action which was filed in February 2016 in U.S. District Court, involves a challenge to the State's existing Hepatitis C Treatment Policy under the Washington State Medicaid program. *N.C. and L.J.*, also a putative class action, was filed in 2016 in King County Superior Court and involves a challenge to the State's existing Hepatitis C Treatment Policy under the Uniform Medical Plan, a health plan that is administered by the State for eligible current and retired State employees and other eligible persons. The State's current Hepatitis C Treatment Policy authorizes DAAs for patients with certain levels of liver damage or co-occurring symptoms or illnesses.

On May 27, 2016, the court in *B.E. and A.R.* granted the plaintiffs' motion for preliminary injunction. The order enjoins the State from continuing to apply its current Hepatitis C Treatment Policy and requires the State to provide coverage for prescription medications to treat Hepatitis C without reference to a patient's level of liver damage. The court also subsequently granted the plaintiffs' motion for class certification. On August 17, 2016, the court in *N.C. and L.J.* granted the plaintiffs' motion for class certification and preliminary injunction prohibiting the State from denying access to DAAs based on a patient's liver damage score. The State is complying with both injunctions.

In *B.E and A.R.*, the parties have reached a proposed settlement agreement. The agreement would maintain for the next three years the treatment policy changes imposed by the court's injunction expanding access to DAAs. The court entered an order preliminarily approving the settlement on January 5, 2017. A hearing to give final approval to the settlement is scheduled for April 2017 in federal court in Seattle.

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 *Tulalip Tribes and the Consolidated Borough of Quil Ceda Village* the plaintiffs challenge the State's authority to collect sales tax and other taxes on the sale of goods and services at Quil Ceda Village, a premium outlets mall located on the Tulalip reservation near I-5 in Snohomish County. The tribe argues federal preemption and violations of the Indian Commerce Clause and the Supremacy Clause. The lawsuit was filed in Federal District Court for Western Washington on June 12, 2015, naming the State Department of Revenue and Snohomish County officials as defendants. The Department of Justice has intervened. A trial is scheduled for September 2017.

Culverts

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 WSDOT to remediate fish passage meeting the standards of the injunction at specified barrier culverts by March 29, 2030. The State appealed, and the U.S. Court of Appeals for the Ninth Circuit affirmed the decision on June 27, 2016. The State has filed a petition for rehearing en banc. See "TRANSPORTATION-RELATED REVENUES AND EXPENDITURES—Transportation Expenditures—*Transportation Capital Program*."

DEMOGRAPHIC AND ECONOMIC INFORMATION

Business in Washington

A number of corporations have chosen Washington as their headquarters or as a major center of operations, including, among others, Alaska Air Group, Amazon, Boeing Commercial Airplanes, Costco, Expedia, Expeditors

International of Washington, Microsoft, Nordstrom, PACCAR, Starbucks and Weyerhaeuser. Key sectors in the State's economy include:

Table 30
Gross Business Income by Industry Sector (NAICS[(1)])
(Calendar Year 2015)
(in dollars)

	Gross Business Income	Percent of Total
Wholesale Trade	154,146,952,733	20.4
Business, Personal and Other Services	146,677,156,548	19.4
Retail Trade	131,752,940,606	17.4
Manufacturing–General	105,318,928,604	13.9
Manufacturing–Aerospace	69,863,567,176	9.2
Construction	50,029,569,853	6.6
Finance, Insurance, Real Estate	43,285,479,399	5.7
Information	22,625,154,778	3.0
Utilities	15,787,878,566	2.1
Transportation	12,567,737,687	1.7
Agriculture, Forestry, Fishing	3,765,631,215	0.5
Warehousing & Storage	995,554,701	0.1
Mining	529,703,553	0.1

(1) North American Industry Classification System.
Source: Washington State Department of Revenue, Quarterly Business Review 1st through 4th quarters 2015.

Table 31
Twenty-Five Largest Employers in Washington
(as of December 2015)

		Full Time Washington Employees
1	The Boeing Co.	78,225
2	Joint Base Lewis-McChord	58,074
3	Navy Region Northwest	46,693
4	Microsoft Corp.	43,618
5	Amazon.com Inc.	24,000[(1)]
6	University of Washington	23,639
7	Wal-Mart Stores Inc.	19,484[(2)]
8	Providence Health & Services	17,669
9	Fred Meyer Stores	15,500
10	King County Government	13,800
11	Starbucks Corp.	12,610[(1)]
12	CHI Franciscan Health	11,847
13	Nordstrom Inc.	10,867
14	Costco Wholesale Corp.	10,500
15	City of Seattle	10,343
16	Swedish Medical Center First Hill	9,627
17	Fairchild Air Force Base	9,110
18	United States Postal Service	7,645
19	Alaska Air Group Inc.	7,150
20	Group Health Cooperative	6,587
21	Seattle Public Schools	6,317
22	United Parcel Service of America Inc. (dba UPS)	6,000
23	Washington State University	5,915
24	Target	5,493[(2)]
25	MultiCare Health System	4,741

(1) An estimate including full-time and part-time employees.
(2) Reflects full and part-time team members.
Source: Puget Sound Business Journal, July 22, 2016.

Trade

Washington is one of the most trade-intensive states in the nation and is an important gateway for trade with Asia and Canada and for domestic trade with Alaska and Hawaii. Canada, China and Japan were the State's largest export trading partners in 2015. In 2015, Washington had $86.4 billion in exports, and based on U.S. Department of Commerce Census Bureau statistics was the 3rd largest exporter in the United States. Civilian aircraft, engines and parts accounted for 59.2 percent of the State's exports.

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. In 2015, the ports of Seattle and Tacoma created the Northwest Seaport Alliance, unifying the management of the two ports' marine cargo terminals and related functions. According to the U.S. Department of Commerce Bureau of Census, the Northwest Seaport Alliance nationally ranked 6th in 2015 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 13th busiest airport in the country based on 2015 information according to the Federal Aviation Administration Air Carrier Activity Information System database. The airport also ranks as the 18th busiest cargo airport in the United States based on all-cargo landed weight.

Aerospace

There are approximately 1,400 aerospace-related companies in the State employing over 136,100, with Boeing being the largest aerospace employer in the State with 80,191 employees as of June 25, 2015. Washington aerospace companies produce more than 1,400 aircraft annually. In 2015, aerospace and related industry employment was approximately 3.0 percent of state non-farm employment. Aerospace and related industry employment wages were 6.6 percent of State non-farm wages in 2014. See "GENERAL FUND—Economic and Revenue Forecast" for more information on Boeing.

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 140,000 jobs. Nearly 300 agricultural commodities are produced commercially in Washington, and in 2015 the State's top 10 agricultural commodities (in commodities value) were apples, milk, cattle, potatoes, wheat, hay, cherries, eggs, grapes and hops. The agricultural and food processing sector is export-oriented.

Information and Communications Technology

The State has approximately 14,000 software companies involved in software publishing, ecommerce, gaming and microcomputers. Microsoft and Amazon are headquartered in the state. Google, Facebook, Twitter, Cray, Attachmate and Nintendo, among others, have established engineering and operations bases in the State.

Global Health and Biotechnology

The State is a global center for the advancement of medicine and life sciences. More than 36,000 workers are directly employed in the over 750 life sciences and global health organizations in the State. The life sciences sector in Washington includes the development and manufacture of medical devices, cancer research, therapeutics and the prevention and treatment of infectious diseases. Washington is also home to some of the leading global health research institutes and non-profit organizations, including the Bill and Melinda Gates Foundation, PATH, Seattle BioMed, the Fred Hutchinson Cancer Research Center and the Allen Institute. The University of Washington Medical Center is the largest public university recipient of federal research dollars, receiving approximately $1.2 billion in federal grants and contracts each year.

Services/Tourism

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

Military

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

Construction

Table 32 provides information on housing permits for the State and the United States.

Table 32
Housing Units Authorized by Building Permits
in Washington and United States

	Washington			
Year	**Single Family**	**Multi-Family**	**Total**	**United States**
2006	35,611	14,422	50,033	1,838,903
2007	30,390	17,007	47,397	1,398,415
2008	17,440	11,479	28,919	905,359
2009	12,991	4,020	17,011	582,963
2010	14,702	5,989	20,691	604,610
2011	13,159	7,705	20,864	624,061
2012	16,508	11,610	28,188	829,658
2013	18,396	14,566	32,962	990,822
2014	17,905	15,993	33,898	1,046,363
2015	19,797	20,577	40,374	1,182,582

Source: U.S. Bureau of the Census.

Other Employment Information

Table 33
Resident Civilian Labor Force and Employment in Washington State
(Employment Numbers in Thousands)[1]

	2012	**2013**	**2014**	**2015**	**2016**
Resident Civilian Labor Force	3,472.7	3,464.8	3,492.9	3,544.2	3,638.8
Unemployment	282.3	243.9	213.9	200.3	203.3
WA Unemployment Rate (Percent)[2]	8.1	6.9	6.1	5.7	5.6
U.S. Unemployment Rate (Percent)[2]	8.1	7.4	6.2	5.3	4.7
Nonagricultural Wage and Salary Workers Employed in Washington					
Nonfarm Employment	2,919.3	2,985.9	3,059.6	3,145.7	3,239.1
Durable Manufacturing	204.6	209.6	210.0	211.0	206.5
Aerospace	94.2	96.1	94.2	93.9	90.8
Computer and Electronic Products	20.2	20.2	20.0	20.0	19.9
Nondurable Manufacturing	75.7	77.1	78.7	79.7	81.5
Mining and Logging	5.9	6.1	6.2	6.3	6.3
Construction	139.1	149.0	159.6	173.2	183.4
Trade, Transportation and Utilities	536.1	551.1	569.9	589.1	606.5
Information	104.7	106.3	109.8	114.4	121.4
Software Publishers	52.4	53.9	55.6	56.0	59.4
Financial	140.1	143.7	145.1	147.6	151.1
Professional and Business Services	350.0	361.1	372.2	388.3	400.3
Education and Health Services	433.8	440.1	446.7	449.1	465.9
Leisure and Hospitality	277.2	287.3	297.0	309.4	321.6
Other Services	110.9	111.3	113.8	115.5	119.7
Government	541.2	543.3	550.6	562.3	575.1

(1) Averages of monthly data (not seasonally adjusted).
(2) Seasonally adjusted.

Source: Department of Employment Security and U.S. Bureau of Labor Statistics as of January 20, 2017.

Table 34
Composition of Employment by Industry Sector[1]
(percentages)

	State of Washington		United States	
	2005	**2015**	**2005**	**2015**
Manufacturing				
Nondurable Manufacturing				
Food Manufacturing	1.2	1.2	1.1	1.1
Pulp and Paper	0.4	0.3	0.4	0.3
Other	1.3	1.1	2.5	1.9
Subtotal	2.9	2.5	3.9	3.2
Durable Manufacturing				
Lumber and Wood	0.7	0.4	0.4	0.3
Primary and Fabricated Metals	0.8	0.8	1.5	1.3
Machinery	0.6	0.7	1.2	1.1
Computers	0.8	0.6	1.0	0.7
Transportation Equipment	2.8	3.3	1.3	1.1
Other	1.1	0.9	1.3	1.0
Subtotal	6.9	6.7	6.7	5.5
Total Manufacturing	9.8	9.2	10.6	8.7
Nonmanufacturing				
Natural Resources and Mining	0.3	0.2	0.5	0.6
Construction	6.4	5.5	5.5	4.5
Trade, Transportation and Utilities	19.1	18.7	19.4	19.0
Information	3.4	3.6	2.3	1.9
Financial	5.6	4.7	6.1	5.7
Professional and Business Services	11.4	12.3	12.7	13.9
Education and Health Services	11.9	14.3	13.0	15.5
Leisure and Hospitality	9.5	9.8	9.6	10.7
Other Services	3.7	3.7	4.0	4.0
Government	19.0	17.9	16.3	15.5
Total Nonmanufacturing	89.4	90.8	89.4	91.3
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 11.0 percent since 2006. Based upon the 2010 Census, the State is the thirteenth most populous in the nation. The following table summarizes the State's population for 2007-2016.

Table 35
State of Washington Population

April 1	Population
2007	6,525,100
2008	6,608,300
2009	6,672,200
2010	6,724,500
2011	6,767,900
2012	6,817,770
2013	6,882,400
2014	6,968,170
2015	7,061,410
2016	7,183,700

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 30.2 percent since 2006. Table 36, 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 ($45,511 in 2015) has consistently been higher than the average per capita disposable personal income in the United States as a whole ($41,624 in 2015).

Table 36
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
2006	256.1	--	11,381.4	--	40,204	38,144
2007	277.6	8.4	11,995.4	5.4	42,954	39,821
2008	291.8	5.1	12,492.7	4.1	44,460	41,082
2009	281.7	-3.5	12,079.4	-3.3	42,248	39,376
2010	288.7	2.5	12,459.6	3.1	42,821	40,277
2011	305.6	5.9	13,233.4	6.2	44,800	42,453
2012	326.5	6.8	13,904.5	5.1	47,344	44,266
2013	331.0	1.4	14,064.5	1.2	47,468	44,438
2014	350.3	5.8	14,683.1	4.4	49,610	46,049
2015	366.8	4.7	15,324.1	4.4	51,146	47,669

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

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APPENDIX B

DEFINITIONS AND SUMMARY OF CERTAIN LEGAL DOCUMENTS

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TABLE OF CONTENTS

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DEFINITIONS AND SUMMARY OF CERTAIN LEGAL DOCUMENTS

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

CERTAIN DEFINITIONS

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

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

Acquisition Fund means the accounting records maintained by the State Treasurer pursuant to the Trust Agreement and the Master Financing Contract within Account 739 for State Agencies and within Account 449 for Local Agencies to account for the receipt, investment and expenditure of proceeds of the Certificates on Acquisition Costs.

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

Additional Costs means all costs, expenses, insurance premiums, Impositions and other payments, including Administrative Fees and Expenses, that are the obligations of the State or the Agency pursuant to the Master Financing Contract or the Agency Financing Contract that are not financed with proceeds of the Certificates and are incurred by the Corporation, the Trustee or the State Treasurer.

Additional Financing Lease Agreements means, collectively, any Additional State Agency Financing Lease, Additional Site Lease, Additional Master Financing Lease and Additional Master Assignment.

Additional Master Assignment means any future Master Assignment relating to an Additional Master Financing Lease.

Additional Master Financing Lease means any future Master Financing Lease entered into for the purpose of financing additions, betterments and improvements to the Property.

Additional Rent means all costs, expenses, insurance premiums, Impositions and other payments, including Administrative Fees and Expenses, that are the obligations of the State or the Agency pursuant to the Master Financing Lease or each Agency Financing Lease that are not financed with proceeds of the Certificates and are incurred by the Corporation, the Trustee or the State Treasurer.

Additional Site Lease means any future lease of a Site by an Agency in connection with an Additional State Agency Financing Lease.

Additional State Agency Financing Lease means any future State Agency Financing Lease entered into by a State Agency for the purpose of financing additions, betterments and improvements to the Property.

Administrative Fees and Expenses means all application, commitment, financing or similar fees charged, or administrative or other expenses incurred, with respect to the administration and maintenance of the Certificates and the Series 2017A Agreements.

Agency means a State Agency or Local Agency.

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

Agency Financing Agreement means each Agency Financing Lease and Agency Financing Contract.

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

Agency Financing Lease means each State Agency Financing Lease.

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

Agency Installment Payment Fund means the accounting records maintained by the State Treasurer pursuant to the Master Financing Contract within Account 739 for State Agencies and within Account 449 for Local Agencies to account for the receipt, investment and expenditure of Agency Installment Payments used by the State to make Installment Payments evidenced and represented by the Certificates.

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

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

Agency Payment means each Agency Rent Payment and Agency Installment Payment.

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

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

Agency Rent Payment Fund means the accounting records maintained by the State Treasurer pursuant to the Master Financing Lease within Account 739 to account for the receipt, investment and expenditure of Agency Rent Payments used by the State to make Rent Payments evidenced and represented by the Certificates.

Agency Rent Payments means the rent payments to be made by each Agency as set forth in the related Agency Financing Lease.

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

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

Biennium means the fiscal period of the State.

Business Day means any day other than (i) a Saturday, (ii) a Sunday, (iii) a day on which banking institutions located in the state of Washington are authorized or required by law to remain closed, or (iv) a day on which the Principal Office of the Trustee or the New York Stock Exchange is closed.

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

Certificate Fund means the "State of Washington Certificates of Participation, Series 2017A Certificate Fund" established by the Trustee pursuant to the Trust Agreement.

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

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

Certificates means the certificates of participation in the State Payments executed and delivered by the Trustee pursuant to the Trust Agreement in the Initial Principal Amount and designated as the "State of Washington Certificates of Participation, Series 2017A (State and Local Agency Real and Personal Property)."

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

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

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

Costs of Issuance means administrative expenses, legal, accounting, financial and printing expenses, and all other expenses incurred in connection with the preparation, execution and delivery of the Series 2017A Agreements and the Certificates.

Dated Date means March 2, 2017, the date of initial delivery of the Certificates.

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

Event of Default means an Event of Default as set forth under the heading "MASTER FINANCING AGREEMENTS—Events of Default and Remedies—*Events of Default*" herein.

Executive Order, for purposes of the Master Financing Agreements, means an order issued by the Governor of the State pursuant to RCW 43.88.050 and RCW 43.88.110.

General State Revenues means "general state revenues" as defined in Article VIII, Section 1, of the State Constitution.

Government Obligations means obligations defined as "government obligations" in chapter 39.53 RCW, as now in existence or hereafter amended. See "THE CERTIFICATES – Defeasance" in the front portion of the Official Statement.

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

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

Installment Payment Date means each January 1 and July 1 on which an Installment Payment evidenced and represented by the Certificates is due.

Installment Payments means the installment payments to be made by the State under a Master Financing Contract for Personal Property between the Corporation and the State.

Interest Component means that portion of each State Payment denominated as and comprising interest evidenced and represented by the Certificates.

Interest Payment Date means each January 1 and July 1 on which an Interest Component is due as set forth in the front portion of the Official Statement.

Land Lease means a lease of land by and between one Agency, as lessor, and another Agency, as lessee, that provides a leasehold interest in a Site to the lessee Agency on which the lessee Agency intends to construct a Project, and the term of which leasehold interest exceeds the maximum term of the lessee Agency's Site Lease and the other terms of which are approved by the State Treasurer.

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

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

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

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

Master Financing Agreements means the Master Financing Contract and the Master Financing Lease.

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

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

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

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

Opinion of Counsel means a written opinion of Certificate Counsel.

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

(i) Certificates theretofore canceled by the Trustee, or delivered to the Trustee for cancellation;

(ii) Certificates for which the payment or prepayment of the State Payments evidenced and represented thereby has been made or duly provided for pursuant to the provisions of the Master Financing Agreements and the Trust Agreement regarding defeasance of Certificates; and

(iii) Certificates in lieu of or in substitution for which other Certificates have been executed and delivered pursuant to the provisions of the Trust Agreement regarding mutilated, lost, stolen or destroyed Certificates.

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

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

Permitted Encumbrances means, as of any particular time:

(i) Liens for general *ad valorem* taxes and assessments, if any, that are not then delinquent;

(ii) Any Land Lease;

(iii) The Site Leases;

(iv) The Master Financing Lease;

(v) The Master Assignment (Real Property);

(vi) The Agency Financing Leases;

(vii) Any Additional Financing Lease Agreements;

(viii) Any right or claim of any mechanic, laborer, materialmen, supplier or vendor filed or perfected in the manner provided by law;

(ix) Easements, rights of way, mineral rights, drilling rights, and other rights, reservations, covenants, conditions or restrictions which (a) exist of record as of the Dated Date and which the respective Agency certifies in writing will not materially impair the use of the Property by such Agency, and (b) arise thereafter and to which the State Treasurer and the Corporation consent in writing; and

(x) Exceptions shown on the respective title insurance policies issued with respect to the Property as of the date of execution and delivery of the Certificates.

Permitted Termination Date means the date on which a Permitted Termination Event is to take effect, as determined by the State Treasurer, but not later than the earliest Agency Payment Date on which Agency Payments are due from the affected State Agency or Agencies for which funding will not be available as the result of the occurrence of the Permitted Termination Event.

Permitted Termination Event has the meaning provided under the heading "MASTER FINANCING AGREEMENTS—Permitted Termination Events" herein.

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

Prepaid Site Lease Rent has the meaning given such term in each Site Lease.

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

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

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

Principal Component means that portion of each Rent Payment or Installment Payment denominated as and comprising principal evidenced and represented by the Certificates payable on each July 1 as set forth in the front portion of the Official Statement.

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

Principal Payment Date means each July 1 on which a Principal Component is due as set forth in the front portion of the Official Statement.

Project means the improvements acquired or constructed on each Site pursuant to each respective Agency Financing Lease.

Project Costs means all costs incurred by or on behalf of the Corporation, or the State or the Agency, as agent of the Corporation, on, prior to or after the effective date of the Master Financing Lease in connection with the acquisition or construction of the Property or the Project thereunder, as applicable, and shall include, but not be limited to, (a) the cost of such Property or the Project (including, but not limited to, charges for design, testing and similar charges); (b) the expenses of the State Treasurer and the Agency in connection with the acquisition or construction of the Property or the Project, including but not limited to the Costs of Issuance; (c) any taxes, assessments and other charges, if any, payable in connection with the acquisition or construction of the Property or the Project; and (d) any amounts required to reimburse the State Treasurer or the Agency for advances or payments made prior to the effective date of the Master Financing Lease for any of the above costs.

Project Fund means the accounting records maintained by the State Treasurer pursuant to the Trust Agreement and the Master Financing Lease within Account 739 for State Agencies to account for the receipt, investment and expenditure of proceeds of the Certificates on Project Costs.

Property means, (i) with respect to each Agency Financing Lease, the particular Site and Project leased by the Corporation to the State, and, with respect to the Master Financing Lease, means collectively all of the Sites and Projects being leased by the Corporation to the State, as set forth in Exhibit A to the Master Financing Lease, and (ii) collectively, all personal property the Acquisition Costs of which are being financed or refinanced pursuant to the Master Financing Contract, as set forth in Exhibit B to the Master Financing Contract, together with all replacements parts, repairs, additions, attachments and accessories thereof, therefor and thereto, licenses, permits and capitalized maintenance agreements with respect thereto, and any replacements of or substitutes therefor as permitted by the Agency Financing Contracts.

Purchase Price means the aggregate amount of the Principal Components of the Installment Payments with respect to Property under the Master Financing Contract.

Qualified Investments means any legal investments for funds held by the State Treasurer.

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

Rent Payment means a rent payment to be made by the State Treasurer under a Master Financing Lease for Real Property between the Corporation and the State.

Rent Payment Date means each January 1 and July 1 on which a Rent Payment evidenced and represented by the Certificates is due.

Series 2017A Agreement means, as the context requires, the Trust Agreement, the Site Leases, the Master Financing Agreements, the Agency Financing Agreements, the Master Assignments or the Disclosure Agreement, and collectively means all such agreements in connection with the Certificates.

Site means the real property legally described in Exhibit A to the Site Lease, including any leasehold interest therein held by an Agency under a Land Lease, and the improvements thereon as of the Dated Date.

Site Lease means each Site Lease, dated as of the Dated Date, by and between the Agency and the Corporation for the lease of a parcel or parcels of the Property by the Agency to the Corporation.

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

State Agency Financing Contract means each State Agency Financing Contract that is consolidated with the Master Financing Contract, dated as of the Dated Date, executed by the Treasurer Representative and the State Agency.

State Agency Financing Lease means each State Agency Financing Lease that is consolidated with the Master Financing Lease, dated as of the Dated Date, executed by the Treasurer Representative and the State Agency.

State Payment means each Installment Payment and each Rent Payment.

Supplemental Agreement means any agreement duly authorized and entered into following the Closing Date between or among the State Treasurer, the Corporation, and the Trustee (in the case of the Trust Agreement, the Master Financing Agreements, or the Master Assignments), or the Agency (in the case of the Agency Financing Agreements or the Site Leases) supplementing, modifying or amending the Trust Agreement, a Site Lease, a Master Financing Agreement, a Master Assignment or an Agency Financing Agreement.

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

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

Trustee means U.S. Bank National Association, a national banking association duly organized and existing under the laws of the United States, and its successors and assigns, or any other bank or trust company which may at any time be substituted in its place pursuant to the Trust Agreement.

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

TRUST AGREEMENT

Disposition of Proceeds

Project Fund. The State Treasurer, as agent for the Corporation, shall establish the "State of Washington Certificates of Participation, Series 2017A Project Fund." The money in the Project Fund shall be held by the State Treasurer and applied to the payment of the Project Costs. Money in the Project Fund shall be invested by the State Treasurer in Qualified Investments.

Acquisition Fund. The State Treasurer, as agent for the Corporation, shall establish the "State of Washington Certificates of Participation, Series 2017A Acquisition Fund." The money in the Acquisition Fund shall be held by the State Treasurer and applied to the payment of the Acquisition Costs of the Property. Money in the Acquisition Fund shall be invested by the State Treasurer in Qualified Investments.

Application of Proceeds. The State Treasurer shall determine the amount of proceeds from the sale of the Certificates to be deposited into the Project Fund and the Acquisition Fund to be used to pay Project Costs and Acquisition Costs, respectively.

State Payments

State Payments Held in Trust. The State Payments are irrevocably pledged and shall be applied to pay the Principal Component and Interest Component evidenced and represented by the Certificates when due, and shall not be used or applied for any other purpose while any of the Certificates remain Outstanding. This pledge shall constitute a first and exclusive lien on and security interest in the State Payments for the benefit of the Owners of the Certificates. All State Payments shall be paid directly by the State Treasurer to the Trustee. All State Payments shall be immediately deposited by the Trustee in the Certificate Fund and applied to the payment or prepayment, as appropriate, of Certificates, but if for any reason not so applied, held in trust by the Trustee for the benefit of the Owners.

Deposit of State Payments. The Trustee holds in trust the "State of Washington Certificates of Participation, Series 2017A Certificate Fund" (the "Certificate Fund"). The Trustee shall deposit all State Payments in the Certificate Fund, and the money in each such fund shall be disbursed only for the authorized purposes in the order of priority as set forth below.

(a) Interest. On each Interest Payment Date, the amount evidencing the Interest Component due on such Interest Payment Date, shall be used to pay the interest evidenced and represented by the Certificates on such Interest Payment Date.

(b) Principal. On each Principal Payment Date, the amount evidencing the Principal Component due on such Principal Payment Date shall be used to pay the principal evidenced and represented by the Certificates on such Principal Payment Date.

(c) Prepayment. The Principal Component at the Prepayment Price (and related payments of the Interest Component, if any) shall be used to pay the Prepayment Price evidenced and represented by Certificates prepaid on a Prepayment Date pursuant to the Trust Agreement.

Covenants

Compliance with and Amendment of Master Financing Agreements. The Corporation, the State and the Trustee will comply with and perform the covenants and terms contained in the Master Financing Agreements required to be complied with and performed by each of them, and the Trustee will, to the extent required under the Master Financing Agreements, enforce such agreements against the State in accordance with its terms.

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

Other Liens. The Corporation, the State and the Trustee will not create any pledge of, lien on or security interest in the State Payments other than the pledge and lien of the Master Financing Agreement and security interest under the Trust Agreement.

Events of Default and Remedies

Events of Default; Remedies; Waiver. If an Event of Default shall occur and be continuing, the Trustee may, and upon the written request of the Owners of not less than a majority in aggregate Principal Component evidenced and represented by the Certificates then Outstanding and receipt of indemnity against anticipated expenses and liability to its satisfaction (which indemnity is a condition precedent to its duties under the Trust Agreement), shall, in its own name and as the Trustee of an express trust take any or all of the following actions:

(a) by mandamus or other action or proceeding or suit, action or proceeding at law or in equity, enforce all rights against the State and to compel the State to perform its duties under the Master Financing Agreements, the Agency Financing Agreements and the Trust Agreement;

(b) by suit in equity upon the happening of any Event of Default to require the State or any Agency and its officers and employees to account as the trustee of an express trust; or

(c) by action or suit in equity enjoin any acts or things which may be unlawful or in violation of the rights of the Trustee or Owners of Certificates.

In no event shall the Trustee have the right to accelerate the Certificates or the State Payments.

The Trustee may, in its discretion, waive any Event of Default and its consequences and annul any notice thereof by written notice to the State Treasurer to such effect, and thereupon the respective rights of the Parties under the Trust Agreement shall be as they would have been if such Event of Default had not occurred. A waiver of any Event of Default by the Trustee shall not affect any subsequent default or impair any rights or remedies on any such subsequent default or breach of duty or contract. No delay or omission by the Trustee to exercise any right or remedy upon any default shall impair any such right or remedy or shall be construed to be a waiver of any such default and every right conferred upon the Trustee by law or by this subheading may be exercised from time to time and as often as shall be deemed expedient by the Trustee.

If any action to enforce any right or to exercise any remedy is abandoned or determined adversely to the Trustee, the Trustee, the Corporation and the State Treasurer shall be restored to their former positions, rights and remedies as if such action, proceeding or suit had not been brought or taken.

Nothing in the Trust Agreement shall be deemed to authorize the Trustee to authorize or consent to or accept or adopt on behalf of any Owner any plan of reorganization, arrangement, adjustment, or composition affecting the Certificates or the rights of any Owner thereof, or to authorize the Trustee to vote in respect of the claim of any Owner in any such proceeding without the approval of the Owners so affected.

Application of Money. If an Event of Default shall have occurred and be continuing, all money received by the Trustee shall be applied, first, to the payment of the reasonable fees, costs and expenses incurred by the Trustee in connection with such default (including but not limited to the reasonable fees and expenses of its counsel and agents) and the creation of a reasonable reserve for anticipated fees, costs and expenses; second, to the payment of the Interest Components evidenced and represented by the Certificates accrued to the date of application thereof pro rata among the Owners entitled thereto; third, to the payment of the Principal Components evidenced and represented by the Certificates and the Prepayment Price, if any, then due pro rata among the Owners entitled thereto; and fourth, when no Certificates remain Outstanding, to pay or reimburse the State for its costs and expenses, including reasonable attorneys' fees, incurred in connection with the Certificates, the Master Financing Agreements, the Agency Financing Agreements and the Trust Agreement.

Limitation on Actions by Owners. The Owners of not less than a majority in aggregate Principal Component evidenced and represented by the Certificates then Outstanding shall have the right to direct the method and place of conducting any proceeding or remedy available to the Trustee, or exercising any trust or power conferred on the Trustee, under the Trust Agreement or under the Master Financing Agreement in connection with the enforcement of the covenants, agreements, terms and conditions of the Trust Agreement and the Master Financing Agreement; provided, that any such direction shall not be contrary to law, the Trust Agreement or the Master Financing Agreement, and is not unduly prejudicial to the interest of the Owners not joining in such direction; and provided further, that the Trustee may take any other action which it deems necessary or appropriate and not inconsistent with such direction.

No Owner shall have the right to institute any action, suit or proceeding for the enforcement of the Trust Agreement or the Master Financing Agreements, or to pursue any remedy available in the Trust Agreement or under the Master Financing Agreements unless:

(a) the Trustee shall have been given written notice of an Event of Default by such Owner;

(b) the Owners of at least a majority in aggregate Principal Component evidenced and represented by the Certificates then Outstanding respecting which there has been an Event of Default shall have requested the Trustee, in writing, to exercise the powers granted by the Trust Agreement or the Master Financing Agreements, or to institute such action, suit or proceeding, or to pursue such remedy in it or their name or names;

(c) the Trustee shall have been offered indemnity satisfactory to it against its costs, expenses and liabilities in connection therewith; and

(d) the Trustee shall have failed to comply with such request within 60 days, or such shorter period as shall be reasonable under the circumstances.

Amendment or Supplement

Amendment or Supplement; Consents. The Trust Agreement and the rights and obligations of the State, the Owners and the Trustee thereunder may be amended or supplemented upon receipt of an Opinion of Counsel to the effect that (i) the Supplemental Agreement is permitted by the Series 2017A Agreement; (ii) such Supplemental Agreement will not have a material adverse effect on the interests of Owners of the Certificates; and (iii) such Supplemental Agreement shall not adversely affect the exclusion from gross income for federal income tax purposes of the Interest Component evidenced and represented by the Certificates.. No such amendment or supplement shall

(1) extend the stated Principal Payment Date of any Certificate, or reduce the rate of interest evidenced and represented thereby, or extend the time of payment of such interest, or reduce the amount of the Principal Component evidenced and represented thereby, or reduce any Prepayment Price evidenced and represented thereby, without the prior written consent of the Owner of the Certificate so affected; (2) reduce the percentage of Owners whose consent is required for the execution of any amendment or supplement of the Trust Agreement; or (3) modify any of the rights or obligations of the Trustee without its prior written consent.

Amendment by Mutual Consent. The provisions relating to the amendment or supplement of the Trust Agreement shall not prevent any Owner from accepting any amendment to the particular Certificates held by it.

Defeasance of Certificates

If money and/or Government Obligations 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 the Certificates when due in accordance with their respective terms are set aside in a special fund (known as the "trust account") to effect such payment, and are pledged irrevocably in accordance with a refunding or defeasance plan adopted by the State for the purpose of effecting such payment, then no further payments need be made into the Certificate Fund for the payment of principal of and interest on such Certificates, the Owners thereof shall cease to be entitled to any lien, benefit or security of the Trust Agreement, except the right to receive payment of the principal of and interest on such Certificates 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 Certificates shall no longer be deemed to be Outstanding thereunder.

MASTER FINANCING AGREEMENTS

Real Property

Sublease of Real Property

The Corporation subleases to the State, upon the terms and conditions set forth in the Master Financing Lease, the Sites, together with all improvements, if any, to be constructed on the Sites, including but not limited to the Projects (collectively, the "Property"), subject to all easements, covenants, conditions and restrictions existing as of the Dated Date. The State agrees to pay the Rent Payments and Additional Rent for the Property in accordance with Master Financing Lease.

Acquisition and Construction of Real Property

The State has caused or will cause each Project to be designed, acquired and/or constructed with all reasonable dispatch by the respective Agency, in accordance with the plans, specifications, bidding documents, and construction and other contracts approved by such Agency, and in accordance with applicable laws and regulations. The State agrees that it will pay or cause to be paid the Project Costs solely from funds available to it pursuant to the Master Financing Lease, the Trust Agreement and the Agency Financing Leases. The Trustee, as assignee of the Corporation, shall have no responsibility, liability or obligation under the Master Financing Lease or otherwise with respect to the acquisition or construction of the Projects or payment of the Project Costs.

Additions to Real Property

The State shall have the right, at the cost and expense of the respective Agency, to make or permit additions, betterments and improvements to the Property, and to attach fixtures, structures and signs thereto. The State also shall have the right during the term of the Master Financing Lease, without the consent of any Owners, to enter into Additional Master Financing Leases with the Corporation to finance all or any portion of the cost of such additions, betterments and improvements to the Property so long as such leases do not reduce the obligation of the State to perform its obligations under the Master Financing Lease, including without limitation its obligation to make Rent Payments, and will not, in an Opinion of Counsel, adversely affect the tax-exempt status of the Interest Component of Rent Payments evidenced and represented by the Certificates. If the State enters into any Additional Master Financing Lease for this purpose, the Corporation may be granted an interest in the Property under an Additional Site Lease of all or any portion of the Property, which leasehold interest may be assigned to the Trustee for the benefit of owners of certificates of participation in such Additional Master Financing Lease. The occurrence of an Event of Default or Permitted Termination Event with respect to the Master Financing Lease shall constitute a like event under any Additional Master Financing Lease, and the occurrence of any such like event under any Additional Master Financing Lease shall constitute an Event of Default or Permitted Termination Event, as the case may be, under the Master Financing Lease. The owners of certificates of participation in any Additional Master Financing Lease shall be secured *pari passu* with the Owners with respect to any amounts received by the Trustee with respect to the Property following the occurrence of an Event of Default or Permitted Termination Event.

Release of Real Property

After acquisition, construction, financing or refinancing of any Project, the State may release and consent to the release of a portion of the Property by first filing with the Trustee, as assignee of the Corporation, (i) an Opinion of Counsel to the effect that such release (A) is permitted under the Master Financing Lease, and (B) in and of itself, will not adversely affect the exclusion from gross income for federal income tax purposes of the Interest Component of the Certificates; (ii) an appraisal or other written evidence from an independent real property appraiser to the effect that the remaining portion of the Property has an estimated fair rental value for the remaining term of the respective Agency Financing Lease equal to or greater than the Agency Rent Payments due thereunder; and (iii) provision by such Agency of any necessary easements, reciprocal agreements or other rights as may be necessary to provide comparable pedestrian and vehicular access, and other uses and amenities (including but not limited to water, sewer, electrical, gas, telephone and other utilities) as existed prior to such release.

Title to Real Property

Fee title to the Property, subject to Permitted Encumbrances, and all additions, modifications, repairs and improvements thereto, shall remain and vest in the respective Agencies, subject to the respective leasehold estates under the Site Leases, the Master Financing Lease and the Agency Financing Leases, without any further action by the State, the respective Agencies or the Corporation.

Disclaimer of Warranties – Real Property

The State subleases the Property from the Corporation in its present condition, "as is." The Corporation makes no warranty or representation, either express or implied, and assumes no responsibility, liability or obligation, as to the value, condition or suitability of or to the Property, as to compliance with applicable laws, regulations, conditions or restrictions, or any other representation or warranty with respect to the Property. In no event shall the Corporation be liable or responsible for any incidental, indirect, special or consequential damages in connection with or arising out of the Master Financing Lease or the construction or use by any Agency of any Property.

Net Lease – Real Property

The Master Financing Lease shall be a "triple net lease" with respect to the Corporation. The State shall pay the Rent Payments, Additional Rent and all other amounts when due, without notice or demand and without any diminution, reduction, postponement, abatement, counterclaim, defense or set-off as a result of any dispute, claim or right of action by, against among the State, the Corporation, the Trustee, any Agency, and/or any other Person, or for any other reason; provided, that nothing under this subheading shall be construed to release or excuse the Corporation from the observance or performance of its obligations under the Master Financing Lease. If the Corporation shall fail to observe or perform any such obligation, the State may institute such legal action and pursue such other remedies against the Corporation as the State deems necessary or desirable, including, but not limited to actions for specific performance, injunction and/or the recovery of damages.

Eminent Domain, Loss of Title, Damage and Destruction of Real Property

Eminent Domain. If all of the Property, or so much of it that the remainder becomes unsuitable for the Agency's then-existing needs, is taken under the power of eminent domain (or sold under threat of condemnation), the sublease of such Property shall cease as of the day that the State and the Agency are required to vacate the Property. If less than all of such Property is taken under the power of eminent domain (or sold under threat of condemnation), and the remainder is suitable for the Agency's then-existing needs, as reasonably determined by the State, then the Master Financing Lease and the Agency Financing Lease shall continue in effect as to the remainder. In that event, there shall be no abatement of the rental due from the State or the Agency. So long as any Agency Rent Payments under the related Agency Financing Lease remain unpaid, any eminent domain award and any proceeds of sale under threat of condemnation for all or any part of the Property shall be applied to the prepayment of Agency Rent Payments and Rent Payments.

Loss of Title. If there is a loss of title to the Property which is insured under a policy or policies of title insurance, or so much of it that the remainder becomes unsuitable for the Agency's then-existing needs, the sublease of the Property shall cease as of the day that the State and the Agency are required to vacate the Property. If there is a loss of title to less than all of the Property, and the remainder is suitable for the Agency's then-existing needs, as reasonably determined by the State, the Master Financing Lease and the Agency Financing Lease shall continue in effect as to the remainder. In that event, there shall be no abatement of the rental due from the State or the Agency. So long as any Agency Rent Payments under the related Agency Financing Lease remain unpaid, any payments under any title insurance policy or policies with respect to such Property shall be applied to the prepayment of Agency Rent Payments and Rent Payments.

Damage and Destruction. If all or any portion of the Property shall be damaged or destroyed by fire or other casualty, the sublease thereof shall not terminate, and there shall be no abatement of the rent due from the State or the Agency. So long as any Agency Rent Payments remain unpaid, any payments under the property insurance policy or policies with respect to the Property may be applied to the prepayment of Agency Rent Payments and Rent Payments, or may be paid to the State Treasurer and applied as provided in the Trust Agreement.

Extraordinary Prepayments – Real Property

Eminent Domain; Loss of Title. The State shall, upon the extraordinary mandatory prepayment of Agency Rent Payments by any Agency pursuant to its Agency Financing Lease, prepay or cause to be prepaid from eminent domain awards or sale proceeds received pursuant to the provisions contained under the subheading "Eminent Domain, Loss of Title, Damage and Destruction – *Eminent Domain*" above, and from the net proceeds of title insurance, Principal Components then unpaid, in whole or in part on any date, in Authorized Denominations, at a Prepayment Price equal to the sum of the Principal Components so prepaid, plus accrued interest to the Prepayment Date. The aggregate remaining annual Rent Payments for the related Property from and after such Prepayment Date shall be in approximately equal amounts.

Insurance Proceeds. The State shall, upon the extraordinary optional prepayment of Agency Rent Payments by any Agency pursuant to its Agency Financing Lease, prepay or cause to be prepaid from net insurance proceeds received pursuant to the provisions contained under the subheading "Eminent Domain, Loss of Title, Damage and Destruction – *Damage and Destruction*" above, Principal Components then unpaid, in whole or in part on any date, in Authorized Denominations, at a Prepayment Price equal to the sum of the Principal Components so prepaid, plus accrued interest to the Prepayment Date. The aggregate remaining annual Rent Payments for the related Property from and after such Prepayment Date shall be in approximately equal amounts.

Provisions for Payment in Accordance with Trust Agreement. To the extent such award, sale proceeds or net proceeds are not sufficient, in whole or in part, to prepay or cause the prepayment of Principal Components of Rent Payments in Authorized Denominations, such amounts shall be applied by the State Treasurer to provide for the payment thereof pursuant to the applicable provisions contained under the subheading "Optional Prepayment" below.

<u>Personal Property</u>

Installment Sale and Purchase of Personal Property

Sale and Purchase of Property. The Corporation agrees to sell to the State, and the State agrees to purchase from the Corporation, all of the Corporation's right, title and interest in and to the Property and all proceeds and profits from the Property, subject to the security interest granted pursuant to the provisions contained under the subheading "Assignment" below, and the State agrees to pay the Purchase Price of the Property and interest thereon and the Additional Costs in accordance with the Master Financing Contract.

Acquisition of Property. The State agrees that it will pay or cause to be paid the Acquisition Costs of the Property to be acquired by the respective Agencies with all reasonable dispatch solely from funds available to it pursuant to the Master Financing Contract, the Trust Agreement and the Agency Financing Contracts. The Trustee shall have no responsibility, liability or obligation under the Master Financing Contract or otherwise with respect to the acquisition of the Property or payment of its Acquisition Costs.

Revision and Substitution of Personal Property

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

After acquisition of an item of Property, the State may consent to the substitution for an item of Property acquired other personal property if it obtains a certificate of such Agency stating that such substitute Property (i) has a remaining useful life equal to or greater than the Property for which it is being substituted; (ii) has a fair market value equal to or greater than the fair market value of the item of Property for which it is being substituted; (iii) is free and clear of all liens and encumbrances except a first priority security interest in favor of the Corporation under the Master Financing Contract; (iv) is essential to the Agency's ability to carry out its governmental functions and responsibilities; and (v) is expected to be used by such Agency for the term of its Agency Financing Contract. The State Treasurer's consent to any such substitution will be conditioned upon receipt by the State Treasurer of an Opinion of Counsel to the effect that such substitution will not cause interest evidenced and represented by the Certificates to be includable in gross income for federal income tax purposes under the Code.

Title to Personal Property and Security Interest

Title to the Property. All right, title and interest in and to the Property shall transfer to and vest in the State from the Corporation immediately upon the acquisition thereof by the Agency or reimbursement to the Agency for the Acquisition Costs thereof.

The Corporation assigns to the State during the term of the Master Financing Contract, for so long as no Agency Event of Default, Event of Default or other event permitting termination of the Master Financing Contract has occurred and is continuing thereunder, all representations, warranties and guaranties, if any, express or implied, with respect to the Property from the manufacturers, suppliers and vendors thereof, subject, however, to a reservation by the Corporation of a right to independently enforce such warranties and guaranties.

Title to any additions, modifications, improvements, repairs or replacements to any Property shall be vested in the State, subject to the security interest of the Corporation until payment of all amounts due and owing with respect to such Property under the Master Financing Contract. Any Property constituting a motor vehicle subject to registration with the State Department of Licensing shall be registered with the Agency as the registered and legal owner thereof.

Security Interest. The State grants to the Corporation a lien on and security interest in all right, title and interest of the State, whether now owned or hereafter acquired, in and to the Property and the Agency Financing Contracts, including without limitation the Agency Installment Payments and all proceeds thereof. The Master Financing Contract constitutes a security agreement. The State agrees that each provision of the Master Financing Contract is also a provision of the security agreement and that an Agency Event of Default is also a default under the security agreement.

Disclaimer of Warranties – Personal Property

The Corporation makes no warranty or representation, either express or implied, and assumes no responsibility, liability or obligation, as to the value, design, condition, merchantability or fitness for a particular purpose or fitness for use of the Property, or as to the title thereto, or for the enforcement of the manufacturers', suppliers' or vendors' representations or warranties or guaranties, or any other representation or warranty with respect to the Property. In no event shall the Corporation be liable or responsible for any incidental, indirect, special or consequential damages in connection with or arising out of the Master Financing Contract or the use by any Agency of any item of Property.

No Set-Off

The obligation of the State to make Installment Payments from the sources set forth in the Master Financing Contract and to perform its other obligations thereunder shall be absolute and unconditional, subject, however, to the right of any State Agency to cease making Agency Installment Payments upon the occurrence of a Permitted Termination Event. The State shall make Installment Payments when due without diminution, reduction, postponement, abatement, counterclaim, defense or set-off as a result of any dispute, claim or right of action by, against or diminution, among the State, the Corporation, the Trustee, any Agency, and/or any other Person, or for any other reason. If the Corporation shall fail to observe or perform any such obligation, the State may institute such legal action and pursue such other remedies against the Corporation as the State deems necessary or desirable, including, but not limited to actions for specific performance, injunction and/or the recovery of damages.

General

Assignment

The State assigns and transfers to the Corporation the State's interest in the Agency Financing Leases and all rentals, income and profits therefrom, including without limitation the Agency Rent Payments; provided, that until an Event of Default shall occur and be continuing under the Master Financing Lease, the State may receive and apply the rents accruing under the Agency Financing Leases as otherwise provided therein and in the Master Financing Lease. Upon the occurrence and continuance of an Event of Default under the Master Financing Lease, the Corporation may, at its option, either (i) terminate the respective Agency Financing Lease; (ii) elect to receive and collect, directly from the Agencies, the Agency Rent Payments and other amounts due and to become due under the Agency Financing Leases, or (iii) elect to succeed to the State's interest in the Agency Financing Leases and cause the Agencies to attorn to the Corporation, as sublessor. The Corporation shall credit the State with any Agency Rent Payments received as a result of such assignment; provided, that the acceptance by the Corporation of any such payment shall not be deemed to be (A) an attornment by the Corporation to the Agency, or by the Agency to the Corporation, or (B) a waiver by the Corporation of any provision of the Master Financing Lease or (C) a release of the State from any obligation or liability under the Master Financing Lease.

The Corporation will unconditionally assign to the Trustee pursuant to the Master Assignment (Real Property), without recourse, (i) all of its rights to the Sites pursuant to the Site Leases, (ii) all of its rights to receive the Rent Payments and any Additional Rent; (iii) its right to take all actions, exercise all remedies, and give all consents under and pursuant to the Site Leases and the Master Financing Lease; (iv) all of its remaining right, title and interest in, to and under the Site Leases, the Master Financing Lease and the Agency Financing Leases, and in and to the Property and any rents or profits generated therefrom; and (v) its right of access more particularly described in the Master Financing Lease.

The Corporation will unconditionally assign to the Trustee pursuant to the Master Assignment (Personal Property), without recourse, (i) all of its rights to receive the Installment Payments, (ii) all of its remaining right, title and interest in, to and under the Master Financing Contract and the Agency Financing Contracts, and in and to the Property (including any security interest therein).

Such assignment by the Corporation is intended to be a true sale of the Corporation's right, title and interest, and that upon such assignment the Corporation shall cease to have any rights, obligations or duties under the Site Leases, the Master Financing Agreements and the Agency Financing Leases, or with respect to the Property, and the Trustee shall thereafter have all the rights, obligations or duties of the Corporation as if the Trustee had been the original party to such agreements.

State Payments

Rent Payments and Installment Payments. The State promises to pay to the Corporation the following amounts at the following times:

(a) On each Rent Payment Date or Installment Payment Date, as applicable, the State Payment set forth in Exhibit B and A to the Master Financing Lease and Master Financing Contract, respectively, consisting of a Principal Component and/or an Interest Component; and

(b) All Additional Rent or Additional Costs, as applicable, incurred by the Corporation in connection with the lease of the Sites from the Agencies, and the sublease of the Property to the State, with respect to the Master Financing Lease; the sale of the Property to the State, with respect to the Master Financing Contract; and the execution and delivery of the Certificates.

Each State Payment shall consist of the aggregate of the Agency Payments payable by each Agency pursuant to its Agency Financing Agreement. Each State Payment shall be applied first to the Interest Component, and then to the Principal Component.

Sources of State Payments.

State Agency Financing Agreements. The State is acquiring or subleasing the Property under the State Agency Financing Lease and State Agency Financing Contract, respectively, for and on behalf of the respective State Agencies, each of which State Agencies has executed and delivered a State Agency Financing Agreement pursuant to which such State Agency agrees to acquires or sublease, as applicable, its respective Property and to make Agency Payments therefor at such times and in such amounts as will be sufficient in the aggregate to pay (i) with respect to the Master Financing Lease, on each Rent Payment Date, the Rent Payment for the Property subleased thereunder by the State from the Corporation for and on behalf of such State Agency, and (ii) with respect to the Master Financing Contract, the Purchase Price of the Property to be acquired by the State for and on behalf of the State Agency.

The Agency Payments allocable to Project Costs or Purchase Price, as applicable, of State Agency Projects shall be payable by the State solely from the Agency Payments to be made by the respective State Agencies. The obligation of each State Agency to make its Agency Payments is subject to appropriation by the State Legislature and Executive Order reduction by the Governor. The State shall not be obligated to pay the Agency Payments allocable to Project Costs or Purchase Price, as applicable, of State Agency Projects other than from appropriated funds of the respective State Agencies or other funds of the respective State Agencies that are not subject to appropriation by the State Legislature and are not derived, directly or indirectly, from General State Revenues.

Local Agency Financing Agreements. The State is acquiring under the Local Agency Financing Contract the Property for and on behalf of the respective Local Agencies, each of which has executed and delivered a Local Agency Financing Agreement pursuant to which such Local Agency agrees to acquire its respective Property and to make Agency Payments therefor at such times and in such amounts as will be sufficient in the aggregate to pay, on each Installment Payment Date, the Purchase Price of the Property to be acquired by the State for and on behalf of such Local Agency, and interest thereon.

The Installment Payments allocable to the Purchase Price of Local Agency Property and interest thereon shall be payable by the State solely from Agency Installment Payments to be made by the respective Local Agencies, and the State shall not be obligated to pay the Installment Payments allocable to the Purchase Price of Local Agency Property and interest thereon other than from Agency Installment Payments paid by the respective Local Agencies, except as otherwise provided under the heading "Failure of Local Agency to Pay" below.

Limited Obligation. **Each Master Financing Agreement shall constitute a special, limited obligation of the State payable solely from the sources and subject to the limitations set forth therein. Each Master Financing Agreement shall not constitute a debt or a general obligation of the State, the contracting of an indebtedness by the State, or a pledge of the faith and credit or taxing power of the State, for purposes of any constitutional or statutory limitation upon debt or the contracting of indebtedness. The obligation of the State to make Agency Payments, both for State Agencies and on behalf of Local Agencies is subject to appropriation and to emergency reduction in funding under certain circumstances, all as set forth in the Master Financing Agreements.**

Failure of Local Agency to Pay

Intercept of Local Agency Share of State Revenues. In the event that any Local Agency fails to make any payment due under its Local Agency Financing Agreement, pursuant to RCW 39.94.030(1), the State Treasurer shall withhold an amount sufficient to make such payment from the Local Agency's share of State revenues or other amounts authorized or required by law to be distributed by the State to such Local Agency; but (i) only if the use of any such revenues or amounts to make such payments is otherwise authorized or permitted by State law, and (ii) only to the extent such Local Agency is otherwise entitled to receive such share of State revenues or other amounts. Such withholding shall continue until all such payments due thereunder have been made. Amounts withheld by the State Treasurer shall be applied to make any such payment due under the Local Agency Financing Agreement on behalf of the Local Agency, or to reimburse the State for any such payment made pursuant to the provisions contained in the next paragraph. The State makes no representation or warranty regarding whether or in what amounts any Local Agency may be entitled to receive distributions of State revenues or other amounts described under this paragraph.

Conditional Payment of Local Agency Payments. Upon the failure of any Local Agency to make any Agency Payment at such time and in such amount as required pursuant to its Local Agency Financing Agreement, the State shall, to the extent of legally available appropriated funds and subject to any Executive Order reduction, make such payment into the Agency Rent Payment Fund or Agency Installment Payment Fund, as applicable, on behalf of such Local Agency within 15 Business Days after such Agency Payment was due. The State shall be entitled to reimbursement for any such payments made on behalf of the Local Agency as provided in the Local Agency Financing Agreement.

Deposit of Agency Payments

Agency Payments received on each Agency Rent Payment Date or Agency Installment Payment Date (each, an "Agency Payment Date"), as applicable, shall be deposited in an Agency Payment Fund outside of the State treasury. Agency Payments received from State Agencies shall be accounted for separately from Agency Payments received from Local Agencies. The Agency Payments due on each Agency Payment Date shall be at least sufficient, in the aggregate, to make the State Payment next coming due under the Master Financing Agreements. Amounts in the Agency Payment Fund, including investment earnings thereon, shall be used and applied, first, to make the State Payment next coming due, and thereafter, but prior to the next Agency Payment Date, to the extent that amounts remain in such Fund after such State Payment is made, to pay Additional Rent or Additional Costs, as applicable, or for any other lawful purpose of the State Treasurer. Amounts in the Agency Payment Fund shall be invested in Qualified Investments. The Agencies shall have no right, title or interest in or to the amounts on deposit from time to time in the Agency Payment Fund.

Optional Prepayment

Optional Prepayment. The State may at its option, and shall upon the optional prepayment of Agency Payments by any Agency pursuant to its Agency Financing Agreement, make provision in the Agency Payment Fund for the payment of Principal Components and associated Interest Components then unpaid, in whole or in part (and, with respect to the Master Financing Lease, in Authorized Denominations) from any source of available funds, on their Principal Payment Dates and Interest Payment Dates, respectively.

Alternatively, the State may:

(a) with respect to the Master Financing Lease, if Agency Principal Components are in Authorized Denominations, at its option; or

(b) with respect to the Master Financing Contract, at its option;

and shall upon the optional prepayment of Agency Payments by any Agency pursuant to its Agency Financing Agreement, make provision in the Certificate Fund for the defeasance of the State's obligation to pay the Principal Components and associated Interest Components then unpaid, in whole or in part in Authorized Denominations from any source of available funds, on their Principal Payment Dates and Interest Payment Dates, respectively, up to and including the Prepayment Date, if any, for the Certificates evidencing such Principal Components and Interest Components, and on any such Prepayment Date for the Certificates, the prepayment of the remaining Principal Components then unpaid, in whole or in part in Authorized Denominations from any source of available funds, at a Prepayment Price equal to the sum of the Principal Components so prepaid, plus accrued interest, if any, to the Prepayment Date, by causing to be deposited with the Corporation, (i) money and/or Government Obligations in accordance with the defeasance provisions of the Trust Agreement; and (ii) an Opinion of Counsel to the effect such actions are permitted under the Master Financing Agreement and will not cause interest evidenced and represented by the Certificates to be includable in gross income for federal income tax purposes under the Code.

Revision of Agency Payments upon Optional Prepayment. The Principal Components and Interest Components due on each State Payment Date on and after a Prepayment Date shall be reduced by the Trustee to reflect such prepayment, in Authorized Denominations, in such amounts and on such State Payment Dates as the State shall elect in a written notice to (i) the Corporation, with respect to the Master Financing Lease, and (ii) the Trustee, with respect to the Master Financing Contract; *provided*, that the aggregate reduction in such Principal Components shall be equal to the aggregate Principal Components prepaid by the State; and *provided further*, that the reduction in Principal Components and Interest Components due on each State Payment Date shall be equal to the corresponding reduction in the Agency Payments due on each Agency Payment Date.

Permitted Termination Events

Permitted Termination Events. Each of the following events shall constitute a "Permitted Termination Event" under a Master Financing Agreement, but only with respect to the State Agency Financing Agreement with respect to which the event has occurred and the related obligation of the State the under related Master Financing Agreement:

(a) The Legislature elects not to appropriate sufficient funds within any biennial budget in a manner that precludes the State from making State Agency Rent Payments during the next occurring Biennium; or

(b) The Governor issues an Executive Order mandating an emergency reduction in State funding as a result of which sufficient funds will not be available to the State for the purpose of paying the scheduled State Payments when due;

Upon the State's determination of the occurrence of a Permitted Termination Event, the State Treasurer shall immediately deliver written notice to the Corporation and the affected State Agency in the form of a Certificate of the State Treasurer stating (i) the election by the State Legislature not to appropriate the necessary funds or the Executive Order reduction in State funding as the reason for termination of the affected State Agency Financing Agreement and the related obligation of the State under the Master Financing Agreement, (ii) that no other agency or department of the State authorized under the Act to enter into financing contracts is legally permitted and willing and able to assume the rights and obligations of the State Agency under the affected State Agency Financing Agreement, and (iii) the Permitted Termination Date.

Determination of Occurrence of Permitted Termination Event. Not later than 30 days following the receipt by the State Treasurer of written notice from a State Agency, pursuant to State Agency Financing Agreement, that the State Agency has preliminarily determined, as a result of the enactment of a biennial budget by the State Legislature or the issuance of an Executive Order reduction in funding, that the State Agency expects that sufficient funds will not be available to the State Agency to make its scheduled Agency Payments for the Property during the Biennium covered by such enacted budget or during the Biennium affected by such Executive Order, the State Treasurer shall review such written notice and the State shall determine whether a Permitted Termination Event has occurred. For the purposes of making this determination, the State shall (i) if practicable, request a supplemental appropriation by the State Legislature in the event that a sufficient appropriation has not been made to the State Agency in the enacted biennial budget, and/or (ii) determine whether or not the Property and the obligations of the State Agency under the affected State Agency Financing Agreement may be transferred to another agency or department of the State authorized under the Act to enter into financing contracts.

Remedies of the Corporation Upon a Permitted Termination Event. Upon the State's determination of the occurrence of a Permitted Termination Event (and under the Master Financing Contract, upon the Written Request of the State Treasurer, the director or other chief administrator of the State Agency), the State Agency shall:

(a) under the Master Financing Lease, vacate the Property and deliver possession and control of the Property to the Corporation for the remaining term of the Site Lease and thereupon be released of its obligations to make payments in an amount equal to the then unpaid balance of Agency Rent Payments with respect to the Property; but only if (i) the State Agency delivers the Property in good repair, working order and condition, ordinary wear and tear excepted, to the Corporation, and (ii) written notice is provided by the State Agency to the State Treasurer as set forth in the State Agency Financing Lease. Upon the occurrence of a Permitted Termination Event, the Corporation shall be entitled to retain all sums previously transmitted to the Corporation by or on behalf of the State Agency for the benefit of the Owners of the Certificates (including, without limitation, for use in administering the Property for the benefit of the Owners of the Certificates, including expenses of retaining accountants, consultants, attorneys, appraisers or other experts), and thereafter take possession of and relet the Property for the remaining term of the related Site Lease or assign its leasehold interest in the Property under the related Site Lease for the account of the State Agency and the benefit of the Owners of the Certificates, or

(b) under the Master Financing Contract, return the Property to the Corporation, and the State Agency thereupon shall be released of its obligations to make all further Agency Installment Payments under the State Agency Financing Contract with respect to the Property, but only if (i) the State Agency delivers the Property in good repair, working order and condition, ordinary wear and tear excepted, and its unencumbered title to the Corporation at a location in the United States designated by the Corporation, and (ii) written notice is provided by the State Agency to the State Treasurer as set forth in the State Agency Financing Contract. Upon the occurrence and effectiveness of a Permitted Termination Event, the Corporation shall be entitled to retain all sums previously transmitted to the Corporation by or on behalf of the State Agency for the benefit of the Owners of the Certificates.

The occurrence of a Permitted Termination Event with respect to one State Agency Financing Agreement shall not affect any rights, duties or obligations with respect to any other State Agency Financing Agreement with respect to which no Permitted Termination Event has occurred. The occurrence of a Permitted Termination Event shall not constitute an Event of Default (or, in addition, with respect to the Master Financing Contract, an Agency Event of Default or a Master Contract Event of Default), and the remedies set forth in under this subheading relating to the return of the Property are the sole remedies available to the Corporation upon such occurrence. If the State Legislature provides a supplemental appropriation or the Executive Order is withdrawn prior to the Permitted Termination Date and the Corporation has not yet relet or otherwise disposed of the Property, the State Agency may, by written notice to the Corporation, revoke the notice of termination and continue its obligations under the State Agency Financing Lease or Master Financing Contract, as applicable.

Covenants of the State

Budget. The State Treasurer shall use its best efforts to obtain appropriations by the State Legislature in each biennial budget in amounts sufficient to make any payments on behalf of Local Agencies as may be required pursuant to the provisions contained under the subheading "*—Conditional Payment of Local Agency Payments*" above.

Liens. The State shall not create, incur or assume any mortgage, pledge, lien, charge, encumbrance or claim on or with respect to:

(a) the Property or any part thereof, except for Permitted Encumbrances, under the Master Financing Lease; or

(b) the Property, except the rights of the Corporation and the respective Agencies as provided in the Master Financing Contract and in the Agency Financing Contract.

The State shall promptly take such action as may be necessary to duly discharge any such mortgage, pledge, lien, charge, encumbrance or claim if the same shall arise at any time.

Assignments and Subleases. The State shall not (and shall not permit any Agency to) grant, sell, assign, pledge, transfer, convey, mortgage, sublet or otherwise dispose any of its right, title or interest in, to or under the Master Financing Lease or the Property other than to the respective Agencies pursuant to the Agency Financing Leases or as otherwise provided in the Master Financing Lease or therein, and any such attempted grant, sale, assignment, pledge, transfer, conveyance, mortgage, sublease or disposal shall be void. The Corporation consents to the sublease of the Property pursuant to the Agency Financing Leases. Such subleases shall be subject and subordinate to the Master Financing Lease. Such subleases shall not release or alter the obligations or liability of the State under the Master Financing Lease. Upon the occurrence and continuance of an Agency Event of Default with respect to any Property, the State Treasurer shall have the right, pursuant to the Agency Financing Lease, to sublease all or any portion of such Property.

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

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

Corporation Not Liable. Under the Master Financing Lease, the Corporation and its directors, officers and employees shall not be liable to the State or to any other Person for any death, injury or damage that may result to any Person or property by or from any cause whatsoever in, on, about or relating to the Property.

Accounting Records. The State Treasurer will keep or cause to be kept proper accounting records in which complete and correct entries shall be made of all transactions relating to the receipt, investment, deposit, application and disbursement of the Agency Payments, and such accounting records shall be available for inspection by the

Trustee, as assignee of the Corporation, or its agent duly authorized in writing at reasonable hours and under reasonable conditions.

Events of Default and Remedies

Events of Default. Each of the following shall constitute an "Event of Default" under the Master Financing Agreements:

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

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

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

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

Anything in the Master Financing Agreements to the contrary notwithstanding, a Permitted Termination Event shall not constitute an Event of Default under the Master Financing Agreements.

Rights of Corporation Following Agency Event of Default.

Master Financing Lease. Whenever an Event of Default under the Master Financing Lease shall have occurred and be continuing, the Corporation shall have the following rights and remedies:

(a) *Continuation; Reentry and Reletting.* The Corporation may continue the Master Financing Lease in full force and effect, and (i) collect rent and other amounts as they become due under the Master Financing Lease, (ii) enforce every other term of the Master Financing Lease to be observed or performed by the State, and (iii) exercise rights of entry and reentry upon the Property. In the event that the Corporation does not elect to terminate the Master Financing Lease in the manner provided pursuant to paragraph (b) below, the State agrees to observe and perform all terms in the Master Financing Lease to be observed or performed by it, and, if the Property is not relet, to pay the full amount of the rent and other amounts due under the Master Financing Lease for the term of the Master Financing Lease, or, if the Property or any part thereof is relet, to pay any deficiency that results therefrom, in each case at the same time and in the same manner as otherwise provided in the Master Financing Lease, and notwithstanding any reentry or reletting by the Corporation, or suit in unlawful detainer or otherwise brought by the Corporation for the purpose of effecting such re-entry or obtaining possession of all or any part of the Property.

(b) *Termination.* The Corporation may terminate the Master Financing Lease, but solely upon written notice by the Corporation to the State of such election. Upon such termination, the Corporation may (i) reenter the Property or any part thereof and remove all persons in possession thereof and all personal property whatsoever situated upon the Property, and (ii) place such personal property in storage. Upon such termination, the State's right to possession of the Property shall terminate, and the State shall surrender possession thereof to the Corporation. In the event of such termination, the State shall remain liable to the Corporation for damages in an amount equal to the rent and other amounts that would have been due under the Master Financing Lease for the balance of the term of the Master Financing Lease, less the net proceeds, if any, of any reletting of the Property or any part thereof by the Corporation subsequent to such termination, after deducting the expenses incurred by the Corporation in connection with any such reentry, removal and storage of personal property, and reletting. The Corporation shall be entitled to collect damages from the State on the respective Rent Payment Dates.

(c) *Other Remedies.* In addition to the other remedies set forth under this subheading, upon the occurrence and continuance of an Event of Default, the Corporation shall be entitled to proceed to protect and enforce the rights vested in it by the Master Financing Lease or by law. The terms and provisions of the Master Financing Lease and the duties and obligations of the State thereunder, and the officers and employees thereof, shall be enforceable by the Corporation by an action at law or in equity, for damages or for specific performance, or for writ of mandate, or by other appropriate action, suit or proceeding in any court of competent jurisdiction. Without limiting the generality of the foregoing, the Corporation shall have the right to bring the following actions:

(i) Accounting. By action or suit in equity to require the State or any Agency and its officers and employees to account as the trustee of an express trust;

(ii) Injunction. By action or suit in equity to enjoin the violation of the rights of the Corporation; and

(iii) Mandate. By writ of mandate or other action, suit or proceeding at law or in equity to enforce the Corporation's rights against the State or any Agency and its officers and employees, and to compel the State to perform and carry out its duties and obligations under the law and its covenants and agreements with the Corporation as provided in the Master Financing Lease.

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

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

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

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

(d) exercise any other rights or remedies it may have thereunder or under applicable law.

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

Term

Master Financing Lease. The term of the Master Financing Lease shall commence on the Dated Date, and shall end on July 1, 2038, unless such term is extended or sooner terminated as provided in the Master Financing Lease. If on such date, all amounts due thereunder shall not have been paid or the payment thereof duly provided for, then the term of the Master Financing Lease shall be extended until 10 days after all amounts due thereunder shall have been paid or the payment thereof so provided for, except that the term of the Master Financing Lease shall in no event be extended beyond July 1, 2043. If prior to July 1, 2038, all amounts due thereunder shall have been paid or the payment thereof so provided for, the term of the Master Financing Lease shall end 10 days thereafter or 10 days after written notice by the State Treasurer to the Corporation, whichever is earlier.

The lease of any parcel of Property pursuant to the Master Financing Lease shall terminate when all Agency Rent Payments and other amounts due under the respective Agency Financing Lease have been paid or the payment thereof duly provided for.

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

MASTER ASSIGNMENTS

Under the Master Assignment (Real Property), the Corporation unconditionally assigns to the Trustee, without recourse (i) all of its rights to the Sites under the Site Leases; (ii) all of its rights to receive the Rent Payments and any Additional Rent under the Master Financing Lease and Agency Rent Payments and Additional Rent under the Agency Financing Leases; (iii) its right to take all actions, exercise all remedies, and give all consents under and pursuant to the Site Leases, the Master Financing Lease and the Agency Financing Leases; (iv) all of its remaining right, title and interest in, to and under the Site Leases, the Master Financing Lease, the Agency Financing Leases and the Property and any rents or profits generated therefrom; and (v) its right of access more particularly described in the Master Financing Lease.

Under the Master Assignment (Personal Property), the Corporation unconditionally assigns to the Trustee, without recourse, (i) all of its rights to receive the Installment Payments under the Master Financing Contract and Agency Installment Payments under the Agency Financing Contracts, (ii) all of its remaining right, title and interest in, to and under the Master Financing Contract, the Agency Financing Contracts and the Property (including any security interest therein), including but not limited to its right to take all actions and exercise all remedies under and pursuant to the Master Financing Contract and the Agency Financing Contracts.

SITE LEASES

The Agency leases to the Corporation the Site legally described in the Site Lease, subject to all easements, covenants, conditions and restrictions existing as of the Dated Date.

Upon the occurrence and continuance of an Event of Default or a Permitted Termination Event, the Corporation shall have the right to sublease all or any portion of the Property; *provided*, that the subtenant and the terms and provisions of the sublease shall be subject to the prior written approval of the State.

In the event the whole or any part of the Property is taken permanently or temporarily under the power of eminent domain (or sold under threat of condemnation), or there is a loss of title to the whole or any part of the Property, the interest of the Corporation in the Property be an amount not less than the then unpaid indebtedness incurred by the

Agency under its Agency Financing Lease. The term “unpaid indebtedness” includes all unpaid Agency Principal Components, Agency Interest Components and all other payments required to be made by the Agency pursuant to the Agency Financing Lease, until all Agency Rent Payments due thereunder have been paid or the payment thereof provided for in accordance therewith. The amount of any such award, judgment or payment shall be paid to the Corporation, and the balance, if any, in excess of the unpaid indebtedness shall be paid to the Agency.

AGENCY FINANCING AGREEMENTS

Real Property

Sublease of Real Property

The Corporation subleases to the State for the benefit of the State Agency, upon the terms and conditions set forth in the related Agency Financing Lease, the Site described in the related Agency Financing Lease, together with all improvements, if any, to be constructed on the Site, including but not limited to the Project (collectively, the “Property”), subject to all easements, covenants, conditions and restrictions existing as of the Dated Date.

The State Treasurer agrees to pay, on behalf of the State Agency, in consideration thereof the Agency Rent Payments and Additional Rent therefor in accordance the State Agency Financing Lease, and all other amounts required to be paid by the State Agency under the State Agency Financing Lease.

Acquisition and Construction of Real Property

The Agency agrees that (i) it has caused or will cause the Project to be designed, acquired and/or constructed with all reasonable dispatch, as agent for the Corporation, in accordance with the plans, specifications, bidding documents, and construction and other contracts approved by the Agency, and in accordance with applicable laws and regulations; and (ii) it will pay or cause to be paid the Project Costs from funds available to it pursuant to the Agency Financing Lease and the Master Financing Lease. The Corporation shall not have any responsibility, liability or obligation with respect to the design, acquisition and/or construction of the Property and/or the Project.

Additions to Real Property

The Agency shall have the right during the term of its Agency Financing Lease, at its own cost and expense, to make additions, betterments and improvements to the Property, and to attach fixtures, structures and signs thereto; provided, that such additions, betterments and improvements and fixtures, structures and signs (i) shall be constructed and installed in accordance with applicable laws and regulations, and not in violation of any easements, restrictions, conditions or covenants affecting title to the Property; and (ii) shall not diminish the value, capacity or usefulness of the Property. The Agency also shall have the right to enter into Additional State Agency Financing Leases and Additional Site Leases with the Corporation to finance all or any portion of the cost of such additions, betterments and improvements to the Property so long as such leases do not reduce the obligation of the State to perform its obligations under the Master Financing Lease, including without limitation its obligation to make Rent Payments, and will not, in an Opinion of Counsel, adversely affect the tax-exempt status of the Interest Component of Rent Payments evidenced and represented by the Certificates. If the Agency enters into any Additional State Agency Financing Lease for this purpose, the Corporation may be granted an interest in the Property under an Additional Site Lease of all or any portion of the Property, which leasehold interest may be assigned to the Trustee for the benefit of owners of certificates of participation in the Additional Master Financing Lease to which such Additional State Agency Financing Lease is related. The occurrence of an Event of Default or a Permitted Termination Event with respect to an Agency Financing Lease shall constitute a like event under any Additional State Agency Financing Lease, and the occurrence of any such like event under any Additional State Agency Financing Lease shall constitute an Event of Default or a Permitted Termination Event, as the case may be under the Agency Financing Lease. The owners of certificates of participation in any Additional Master Financing Lease shall be secured *pari passu* with the Owners with respect to any amounts received by the Trustee with respect to the Property following the occurrence of an Event of Default or a Permitted Termination Event.

Release of Real Property

After design, acquisition, construction, financing or refinancing of the Project, the Agency, with the prior written consent of the State Treasurer and only upon the satisfaction of the applicable requirements set forth in the Master Financing Lease, may release a portion of the Property leased under the Site Lease, and subleased under the Master Financing Lease and the Agency Financing Lease. As a condition to any such release, the Agency shall (i) deliver to the State Treasurer an appraisal or other written evidence from an independent real property appraiser to the effect that the remaining portion of the Property has an estimated fair rental value for the remaining term of the Agency Financing Lease equal to or greater than the Agency Rent Payments due from time to time Agency Financing Lease; and (ii) provide any necessary easements, reciprocal agreements or other rights as may be necessary to provide comparable pedestrian and vehicular access, and other uses and amenities as existed prior to such release.

Title to Real Property

Fee title to the Property and all additions, modifications, repairs and improvements thereto, shall remain and vest in the Agency, subject to the respective leasehold estates under the Site Lease, the Master Financing Lease and the Agency Financing Lease.

Disclaimer of Warranties – Real Property

The Agency subleases the Property in its present condition, "as is." The Corporation makes no warranty or representation, either express or implied, and assumes no responsibility, liability or obligation, as to the value, design, structural or other condition, usability, suitability, occupancy or management of the Property, as to the income from or expense of the use or operation thereof, as to title to the Property, as to compliance with applicable zoning, subdivision, planning, safety, fire, health or environmental laws, regulations, ordinances or codes, or as to compliance with applicable covenants, conditions or restrictions, or any other representation or warranty with respect to the Property.

Net Lease – Real Property

The Agency Financing Lease shall be deemed and construed to be a "triple net lease" with respect to the Corporation. The Agency shall pay the Agency Rent Payments, Additional Rent and all other amounts due thereunder, as well as taxes, assessments, insurance, utilities, and all normal maintenance and operating costs for the Project, as further described in part in the Agency Financing Lease. The Agency shall pay such obligations without notice or demand, and without any diminution, reduction, postponement, abatement, counterclaim, defense or set-off as a result of any dispute, claim or right of action by, against or among the State, the Corporation, the Trustee, any Agency, and/or any other Person, or for any other reason; provided, that nothing in under this subheading shall be construed to release or excuse the Corporation from the observance or performance of its obligations thereunder.

Mandatory and Extraordinary Prepayment – Real Property

Eminent Domain; Loss of Title. The Agency shall prepay or cause to be prepaid from eminent domain awards or sale proceeds received and from the net proceeds of title insurance received pursuant to the provisions of the Agency Financing Lease, Agency Principal Components then unpaid, in whole or in part on any date, in Authorized Denominations, at a prepayment price equal to the sum of the Agency Principal Components so prepaid, plus accrued interest to the date of prepayment. The aggregate annual Agency Rent Payments for the related Property from and after such prepayment date shall be in approximately equal amounts.

Insurance Proceeds. The Agency may, at its option and upon approval of the State Treasurer, prepay or cause to be prepaid from net insurance proceeds received pursuant to the provisions of the Agency Financing Lease relating to damage or destruction, Agency Principal Components then unpaid, in whole or in part on any date, in Authorized Denominations, at a prepayment price equal to the sum of the Agency Principal Components prepaid, plus accrued interest to the date of prepayment. The aggregate annual Agency Rent Payments for the related Property from and after such prepayment date shall be in approximately equal amounts.

Personal Property

Title to Personal Property and Security Interest

All right, title and interest in and to the Property shall transfer to and vest in the Agency from the Corporation, with respect to State Agencies, and from the State, with respect to Local Agencies, without any further action by the Agency or the Corporation (or, in addition, with respect to State Agencies, the Corporation) immediately upon the acquisition thereof by the Agency as agent for the Corporation or reimbursement to the Agency for the Acquisition Costs thereof.

The Corporation, with respect to State Agencies, and the State, with respect to Local Agencies, assigns to the Agency during the term of the related Agency Financing Contract, for so long as no Agency Event of Default, Event of Default or other event permitting termination of the Agency Financing Contract has occurred and is continuing thereunder, all representations, warranties and guaranties, if any, express or implied, with respect to the Property from the manufacturers, suppliers and vendors thereof, subject, however, to a reservation by the State and the Corporation of a right to independently enforce such warranties and guaranties.

Title to any additions, modifications, improvements, repairs or replacements to the Property shall vest in the Agency, subject to the security interest of the Corporation until payment of all amounts due and owing with respect to such Property under the Agency Financing Contract. Any Property constituting a motor vehicle subject to registration with the State Department of Licensing shall be registered with the Agency as the registered and legal owner thereof.

In order to secure the payment and performance by the State of its obligations under the Master Financing Contract, the State has granted to the Corporation a lien on and security interest in all right, title and interest of the State, whether now owned or hereafter acquired, in and to the Property and the Agency Financing Contract, including without limitation the Agency Installment Payments and all proceeds thereof. In order to secure the payment and performance by the Agency of its obligations under the Agency Financing Contract, the Agency grants to the Corporation a lien on and security interest in all right, title and interest of the Agency, whether now owned or hereafter acquired, in and to the Property. Accordingly, the Agency Financing Contract constitutes a security agreement.

Disclaimer of Warranties – Personal Property

The Corporation makes no warranty or representation, either express or implied, and assumes no responsibility, liability or obligation, as to the value, design, condition, merchantability or fitness for a particular purpose or fitness for use of the Property, or as to the title thereto, or for the enforcement of the manufacturers', suppliers' or vendors' representations or warranties or guaranties, or any other representation or warranty with respect to the Property. In no event shall the Corporation be liable or responsible for any incidental, indirect, special or consequential damages in connection with or arising out of the Agency Financing Contract or the use by the Agency of the Property.

General

Agency Payments

Each Agency Payment shall consist of an Agency Principal Component and/or an Agency Interest Component as such forth in the relevant exhibit to the Agency Financing Agreement. Each Agency Payment shall be paid not less than 10 Business Days prior to the Agency Rent Payment Date or Agency Installment Payment Date, as applicable. Payments of Additional Rents or Additional Costs, as applicable, shall be applied first the Agency Interest Component, and then to the Agency Principal Component.

The State Agency Financing Agreements shall constitute a special, limited obligation of the State payable solely from the sources and subject to the limitations set forth therein. The State Agency Financing Agreements shall not constitute a debt or a general obligation of the State, the contracting of an indebtedness by the State, or a pledge of the faith and credit or taxing power of the State, for purposes of any constitutional

or statutory limitation upon debt or the contracting of indebtedness. The obligation of the State agency to make Agency Payments is subject to appropriation and to emergency reduction in funding under certain circumstances, all as set forth in the State Agency Financing Agreements.

The obligation of the State Agency to make its Agency Payments is subject to appropriation by the State Legislature and to Executive Order reduction. The State Agency shall not be obligated to make Agency Payments other than from appropriated funds or other funds of the State Agency that are not subject to appropriation by the State Legislature and are not derived, directly or indirectly, from General State Revenues.

Optional Prepayment

The Agency may, at its option and upon approval of the State Treasurer, prepay its Agency Payments then unpaid, in whole or in part on any date, by causing to be deposited with the State Treasurer money and/or Government Obligations in an amount sufficient for the State to provide for the payment or defeasance of the portion of the Agency Payments corresponding thereto in accordance with the applicable Master Financing Agreement and to pay any Additional Rent or Additional Costs, as applicable, in connection therewith.

Permitted Termination Event

Permitted Termination Event. Each of the following events shall constitute a "Permitted Termination Event" under a State Agency Financing Agreement and the related obligation of the State under a Master Financing Agreement:

(a) The Legislature elects not to appropriate sufficient funds within any biennial budget in a manner that precludes the State from making Agency Payments due under the Master Financing Agreement during the next occurring Biennium; or

(b) The Governor issues an Executive Order mandating an emergency reduction in State funding as a result of which sufficient funds will not be available to the State for the purpose of paying the scheduled Agency Payments due under the Master Financing Agreement.

Remedies of the Corporation Upon a Permitted Termination Event. Upon the occurrence of a Permitted Termination Event (and, in addition, with respect to personal property, upon the Written Request of the State Treasurer), the State Agency shall (i) with respect to real property, vacate the Property and deliver possession and control of the Property to the Corporation for the remaining term of the Site Lease and thereupon be released of its obligations to make payments in an amount equal to the then unpaid balance of Agency Rent Payments with respect to the Property, or (ii) with respect to personal property, return the Property to the Corporation, and the State Agency thereupon shall be released of its obligations to make all further Agency Installment Payments under the State Agency Financing Contract with respect to the Property; but only if (i) the State Agency delivers the Property in good repair, working order and condition, ordinary wear and tear excepted, to the Corporation (and, in addition, with respect to personal property, the State Agency delivers the unencumbered title of the Property to the Corporation at a location in the United States designated by the Corporation), and (ii) written notice is provided by the State Agency to the State Treasurer as set forth in related Agency Financing Agreement.

With respect to real property, upon the occurrence of a Permitted Termination Event, the Corporation shall be entitled to take possession of and relet the Property for the remaining term of the related Site Lease or assign its leasehold interest in the Property under the related Site Lease for the account of the State Agency and the benefit of the Owners of the Certificates.

The occurrence of a Permitted Termination Event with respect to a State Agency Financing Agreement shall not affect any rights, duties or obligations with respect to any other State Agency Financing Agreement with respect to which no Permitted Termination Event has occurred. The occurrence of a Permitted Termination Event shall not constitute an Event of Default (or, in addition, with respect to personal property, an Agency Event of Default or a Master Financing Contract Event of Default), and the remedies set forth under this subheading relating to the return of the Property are the sole remedies available to the Corporation, with respect to real property, and the Trustee, with respect to personal property, upon such occurrence. If the Legislature provides a supplemental appropriation or the Executive Order is withdrawn prior to the Permitted Termination Date and the Corporation has not yet relet or otherwise disposed of the Property, the State Agency may, by written notice to the Corporation (and, in addition, with respect to personal property, the State Treasurer), revoke the notice of termination and continue its obligations under the State Agency Financing Agreement.

Insurance. The State Agency shall maintain, or cause to be maintained, in full force and effect, comprehensive general liability insurance with respect to the Property in such amounts as may be reasonably determined by the State Agency from time to time but in any event not less than $1,000,000 per occurrence (or, with respect to personal property, such greater amount as the State Treasurer may reasonably require from time to time). The State Agency shall maintain or cause to be maintained in full force and effect fire and extended coverage insurance with respect to the Property in such amounts as the State Agency may reasonably determine from time to time, but in any event not less than the aggregate amount of Agency Payments due under the Agency Financing Agreement which remain unpaid. In the alternative, with respect to personal property, the State Agency may assume financial responsibility for any physical damage to and/or loss of the Property; *provided, however*, that if the State Agency elects this option, the State Agency covenants and agrees that it will promptly repair or replace the Property promptly upon any loss or damage thereto.

Covenants of the Agency

Budget. The State Agency shall (i) include in its biennial budget all Agency Payments and all Additional Rent or Additional Costs, as applicable, that may be required to be made by the State Agency during such Biennium under the Agency Financing Agreement; (ii) submit its budget to OFM when and as required by law; (iii) use its best efforts to obtain appropriations by the Legislature in amounts sufficient to make any such payments; (iv) include all such payments in its statements of proposed expenditures for each fiscal period required by law to be submitted to OFM; and (v) use its best efforts to obtain allotments by OFM of appropriated funds sufficient to make all such payments.

The Local Agency shall take such action as may be necessary to include all the Agency Payments and Additional Costs due under the Agency Financing Agreement in its annual budget and to make any necessary appropriations for all such Agency Payments and Additional Costs.

Preservation of Existence. The Local Agency will do or cause to be done all things necessary to preserve its existence as an "other agency" within the meaning of the Act.

Levy of Taxes. If and to the extent authorized by law, the Local Agency covenants that it will levy taxes in such amounts and at such times as shall be necessary, within and as a part of the tax levy, if any, permitted to be made by the Local Agency without a vote of its electors, to provide funds, together with other legally available money, sufficient to make the Agency Payments and the other payments required under the Agency Financing Agreement.

Application of Appropriations. To the extent permitted by law, the State Agency agrees that, to the extent that any amounts are included in its budget, the State Agency will allocate a sufficient portion of such amounts to the payment of the Agency Payments and Additional Rent or Additional Costs, as applicable, due under the Agency Financing Agreement.

Notice of Potential Permitted Termination Event. The State Agency shall give written notice to the State Treasurer of the occurrence of any events or circumstances which the State Agency believes could lead to the occurrence of a Permitted Termination Event with respect to the Agency Financing Agreement. Such notice shall be given as soon as practicable after the State Agency becomes aware of those events or circumstances, and shall describe the events and circumstances in reasonable detail.

Preliminary Determination of Occurrence of Permitted Termination Event with Respect to State Agency; Notice to State Treasurer. As soon as practicable but not later than 10 Business Days following (i) the enactment of each biennial budget by the State Legislature, or (ii) the issuance of an Executive Order reduction in funding, the State Agency shall make a preliminary determination as to whether or not, as a result of such enacted budget or Executive

Order, it expects that sufficient funds will be available to the State Agency to make its scheduled Agency Payments for the Property during the Biennium covered by such enacted budget or during the Biennium affected by such Executive Order. If the State Agency determines that, as a result of such enacted budget or Executive Order, it expects that sufficient funds will not be available to the State Agency to make its scheduled Agency Payments for the Property during the Biennium covered by such enacted budget or during the Biennium affected by such Executive Order, the State Agency shall deliver written notice of that determination to the State Treasurer not more than five Business Days following such determination. The State Agency's written notice to the State Treasurer shall describe the basis for the State Agency's preliminary determination.

Notice of Nonpayment. The Agency shall give written notice to the State Treasurer and the Corporation prior to any Agency Rent Payment Date or Agency Installment Payment Date, as applicable, if the Agency knows prior to such date that it will be unable to make all or any portion of the Agency Payment due on such date.

Tax Exemption. The Agency will at all times do and perform all acts and things permitted by law which are necessary or desirable in order to assure that the Interest Components of the Agency Payments will not be included in gross income of the Owners of the Certificates for federal income tax purposes under the Code, and will take no action that would result in such interest being so included.

No Liens, Assignments or Subleases. Under the Agency Financing Leases, the Agency shall not create, incur or assume any mortgage, pledge, lien, charge, encumbrance or claim on or with respect to the Property or any part thereof, except for Permitted Encumbrances. The Agency shall promptly, at its own expense, take such action as may be necessary to duly discharge any such mortgage, pledge, lien, charge, encumbrance or claim if the same shall arise at any time. The Agency shall not grant, sell, assign, pledge, transfer, convey, mortgage, sublet or otherwise dispose any of its right, title or interest in, to or under the State Agency Financing Lease or the Property except as otherwise provided in the State Agency Finance Lease. Any such attempted grant, sale, assignment, pledge, transfer, conveyance or disposal (or, in addition, with respect to real property, mortgage or sublease) shall be void.

Under the Agency Financing Contracts, the Agency shall not create, incur or assume any mortgage, pledge, lien, charge, encumbrance or claim on or with respect to the Property, except the rights of the Corporation as provided therein and in the Master Financing Contract. The Agency shall promptly, at its own expense, take such action as may be necessary to duly discharge any such mortgage, pledge, lien, charge, encumbrance or claim if the same shall arise at any time. The Agency shall not grant, sell, transfer, assign, pledge, convey or otherwise dispose of any of the Property or any interest therein during the term of the State Agency Financing Contact or Local Agency Financing Contract, as applicable, and any such attempted grant, sale, transfer, assignment, pledge, conveyance or disposal shall be void. The Agency may not grant, sell, assign, transfer, convey, pledge, hypothecate or grant any security interest in any of its right, title or interest in, to or under the State Agency Financing Contract or Local Agency Financing Contract, as applicable. Any attempted grant, sale, assignment, conveyance, pledge, hypothecation or security interest shall be void.

Performance. Unless a Permitted Termination Event has occurred with respect to a State Agency, the Agency shall punctually pay the Agency Payments and Additional Rent or Additional Costs, as applicable, in conformity with the terms and provisions of the related Agency Financing Agreement, and the Agency will faithfully observe and perform all the covenants, terms and other obligations which are contained therein to be observed and performed by the Agency. Except as the result of the occurrence of a Permitted Termination Event with respect to a State Agency, the Agency will not suffer or permit any default to occur under the Agency Financing Agreement, or do or permit anything to be done, or omit or refrain from doing anything, in any case where any such act done or permitted to be done, or any such omission or refraining from doing anything, would or might be ground for termination of the Agency Financing Agreement.

Under the Agency Financing Contracts, except for Permitted Termination Events with respect to State Agencies, the Agency will not terminate the Agency Financing Contract for any cause, including but not limited to any acts or circumstances that may constitute failure of consideration, destruction of or damage to the Property, commercial frustration of purpose, any change in the tax or other laws of the United States of America or of the State or any political subdivision of the State, or any failure by the State or the Corporation to observe or perform any covenant, agreement, term, condition or other obligation contained in the Agency Financing Contract or in the Master

Financing Contract required to be observed and performed by it, whether express or implied, or the bankruptcy, insolvency, liquidation or reorganization of the Corporation.

Maintenance; Repairs. For so long as the Agency is in possession of the Property, the Agency shall be solely responsible for the maintenance and repair, both ordinary and extraordinary, of the Property.

With respect to real property, the Agency will (i) keep and maintain the Property in good repair and condition, protect the same from deterioration other than normal wear and tear, and pay or cause to be paid all charges for utility services to the Property; (ii) comply with the requirements of applicable laws, ordinances and regulations and the requirements of any insurance or self-insurance program required under the related Agency Financing Lease in connection with the use, occupation and maintenance of the Property; (iii) obtain all permits and licenses, if any, required by law for the use, occupation and maintenance of the Property; and (iv) pay all costs, claims, damages, fees and charges arising out of its possession, use or maintenance of the Property.

With respect to personal property, the Agency will (i) keep and maintain the Property in good repair, working order and condition, and protect the same from deterioration other than normal wear and tear; (ii) cause the Property to be used within its normal capacity, in the manner contemplated by the manufacturer's specification, and in compliance with the requirements of applicable laws, ordinances and regulations, the requirements of any warranties applicable thereto, and the requirements of any insurance or self-insurance program required under the related Agency Financing Contract (iii) cause the Property to be used and operated by or under the direction of competent persons only, and obtain all registrations, permits and licenses, if any, required by law for the operation of the Property; and (iv) will pay all costs, claims, damages, fees and charges arising out of its possession, use or maintenance of the Property. The Agency, at its expense, will furnish all parts, mechanisms and devices required to operate and maintain the Property.

Impositions. If during the term of the Agency Financing Lease, any Imposition is imposed or incurred in connection with the sublease of the Property by the Corporation to the State, or the ownership, operation, possession or use of the Property by the Corporation, the State or the Agency, or the payment of the Agency Rent Payments by the Agency, or the payment of the Rent Payments payable therefrom by the State, the Agency shall pay all such Impositions when due. The Agency at its own expense may contest any such Impositions until it obtains a final administrative or judicial determination with respect thereto, unless the Property is encumbered by any levy, lien or any other type of encumbrance because of the Agency's failure to pay such Impositions.

Insurance. The Agency shall maintain, or cause to be maintained, in full force and effect, comprehensive general liability insurance with respect to the Property in such amounts as may be reasonably determined by the Agency from time to time but in any event not less than $1,000,000 per occurrence. Such insurance may be carried under a blanket policy with umbrella coverage. Such insurance shall cover any and all liability of the Agency and its officials, officers, employees and volunteers. Such insurance shall include (A) coverage for any accident resulting in personal injury to or death of any person and consequential damages arising therefrom; and (B) comprehensive property damage insurance.

The Agency shall maintain or cause to be maintained in full force and effect fire and extended coverage insurance with respect to the Property in such amounts as the Agency may reasonably determine from time to time, but in any event not less than the aggregate amount of Agency Payments due the related Agency Financing Agreement which remain unpaid. Such insurance may be carried under a policy or policies covering other property of the Agency.

With respect to real property, such property insurance shall be "all risk" insurance, and shall cover physical loss or damage as a result of fire, lightning, theft, vandalism, malicious mischief, flood, earthquake, and boiler and machinery, *provided*, that a State Agency shall not be required to maintain earthquake or flood insurance if it determines, based on consultation with risk management or insurance advisors of the State, that the same is not available from reputable insurers at commercially reasonable rates.

Hazardous Substances. With respect to real property, the Property does not currently violate, and neither the Agency nor its officers, agents, employees, contractors, or invitees, shall use the Property in a manner that violates, any applicable federal, state or local law, regulation or ordinance, including, but not limited to, any such law, regulation or ordinance pertaining to air and water quality, the handling, transportation, storage, treatment, usage and disposal of Toxic or Hazardous Substances, air emissions, other environmental matters, and all zoning and other land use matters. The Agency shall not cause or permit the release or disposal of any Toxic or Hazardous Substances on or from the Property.

The Agency, to the extent permitted by law, agrees to protect, indemnify, defend and hold the Corporation and the Trustee, and their respective directors, officers, employees and agents harmless from any claims, judgments, damages, penalties, fines, expenses, liabilities or losses arising out of or in any way relating to the presence, release or disposal of Toxic or Hazardous Substances on or from the Property; provided, however, that the Agency shall not be obligated to indemnify itself in its capacity as Lessor under the Site Lease, from any such claims, judgments, damages, penalties, fines, expenses, liabilities or losses relating to the presence, release or disposal of Toxic or Hazardous Substances on or from the Property occurring when the State is not or was not in possession of the Property.

The Agency shall promptly notify the other Parties in writing of all spills or releases of any Toxic or Hazardous Substances, all failures to comply with any federal, state, or local law, regulation or ordinance, all inspections of the Property by any regulatory entity concerning the same, all notices, orders, fines or communications of any kind by or from any governmental entity or third party that relate to the existence of or potential for environmental pollution of any kind existing on or resulting from the use of the Property or any activity conducted thereon, and all responses or interim cleanup action taken by or proposed to be taken by any government entity or private party on the Property.

Alterations. With respect to personal property, the Agency will not make any alterations, additions or improvements to the Property without the prior written consent of (i) in the case of a State Agency, the Corporation, or (ii) in the case of a Local Agency, the State Treasurer, unless such alterations, additions or improvements (i) maintain or increase the value of the Property; or (ii) may be readily removed without damage to the Property. All such alterations, additions or improvements shall be deemed to be a part of the Property and shall be subject to the terms and provisions of the Agency Financing Contract.

Risk of Loss; Damage; Destruction; Condemnation. With respect to personal property, the Agency assumes all risk of loss of or damage to the Property from any cause whatsoever, and the obligation of the Agency to pay the Agency Installment Payments or to perform any other obligation under Agency Financing Contract shall in no way be released, discharged or otherwise affected for any reason, including without limitation (i) any defect in the condition, quality or fitness for use of, or title to, any portion of the Property, or (ii) any damage to, or abandonment, destruction, requisition, condemnation or taking of any portion of the Property. In the event of damage to any item of the Property, the Agency will immediately place the same in good repair, working order and condition as required by the Agency Financing Contract. If the Agency determines that any item of Property is lost, stolen, destroyed or damaged beyond repair, the Agency will prepay all of its obligations for Agency Installment Payments and terminate its obligations under the Agency Financing Contract.

Agency Events of Default and Remedies

Agency Events of Default. Each of the following shall constitute an "Agency Event of Default" under the Agency Financing Agreements:

(a) Failure by the Agency to pay or cause to be paid any Agency Payment required to be paid under the Agency Financing Agreement within 10 Business Days of the respective Agency Payment Date (other than as a result of a Permitted Termination Event, with respect to State Agencies);

(b) Failure by the Agency to observe or perform any covenant, agreement, term or condition on its part to be observed or performed under the Agency Financing Agreement, other than as set forth in paragraph (A) above, for a period of 30 days after written notice from the State (or the Corporation, with respect to State Agencies) to the Agency specifying such failure and requesting that it be remedied (other than as a result of a Permitted Termination Event, with respect to State Agencies); provided, however, that such period shall be extended for an additional 60 days if such failure cannot be corrected within such period, and corrective action is commenced by the Agency within such period and diligently pursued until the failure is corrected;

(c) If any statement, representation, or warranty made by the Agency in this Agency Financing Agreement (or, with respect to Local Agencies, in any writing delivered by the Local Agency pursuant to the Agency Financing Agreement or in connection thereto) is false, misleading, or erroneous in any material respect;

(d) With respect to Agency Financing Leases, if the Agency shall abandon or vacate the Property;

(e) With respect to the State Agency Financing Agreements, if an event of default shall occur under any Additional Financing Agreement;

(f) With respect to the Local Agency Financing Agreements, inability of the Local Agency to generally pay its debts as such debts become due, or admission by the Local Agency in writing of its inability to pay its debts generally or the making by the Local Agency of a general assignment for the benefit of creditors, or the institution of any proceeding by or against the Local Agency seeking to adjudicate it as bankrupt or insolvent, or seeking liquidation, winding-up, reorganization, reimbursement, adjustment, protection, relief or composition of it or its debts under any law relating to bankruptcy, insolvency or reorganization or relief of debtors, or seeking the entry of an order for relief or for appointment of a receiver, trustee, or other similar officer of it or any substantial part of its property, or the taking of any action by the Local Agency to authorize any of the actions set forth above in this paragraph (f).

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

The Corporation, with respect to State Agencies, and the State, with the prior written consent of the Corporation, with respect to Local Agencies, may, at its election, waive any default or Agency Event of Default and its consequences under the Agency Financing Agreement and annul any notice thereof by written notice to the Agency to such effect, and thereupon the respective rights of the Parties under the Agency Financing Agreement shall be as they would have been if such default or Agency Event of Default had not occurred.

With respect to State Agencies, anything contained in the State Agency Financing Agreement to the contrary notwithstanding, a Permitted Termination Event shall not constitute an Agency Event of Default under the State Agency Financing Agreement.

Rights of Corporation Under State Agency Financing Lease Upon Agency Event of Default. Whenever an Agency Event of Default under the State Agency Financing Lease shall have occurred and be continuing, the Corporation shall have the following rights and remedies:

(a) *Continuation; Reentry and Reletting*. The Corporation may continue the State Agency Financing Lease in full force and effect, and (i) collect rent and other amounts as they become due under the State Agency Financing Lease, (ii) enforce every other term and provision of the State Agency Financing Lease to be observed or performed by the State Agency, and (iii) exercise any and all rights of entry and reentry upon the Property. In the event that the Corporation does not elect to terminate the State Agency Financing Lease in the manner provided pursuant to paragraph (B) under this subheading, the State Agency agrees to observe and perform all terms and provisions in the State Agency Financing Lease to be observed or performed by it, and, if the Property is not relet, to pay the full amount of the rent and other amounts due under the State Agency Financing Lease for the term of the State Agency Financing Lease, or, if the Property or any part thereof is relet, to pay any deficiency that results therefrom, in each case at the same time and in the same manner as otherwise provided herein, and notwithstanding any reentry or reletting by the Corporation, or suit in unlawful detainer or otherwise brought by the Corporation for the purpose of effecting such re-entry or obtaining possession of all or any part of the Property. Should the Corporation elect to re-enter or obtain possession of all or any part of the Property, the State Agency hereby irrevocably appoints the Corporation as its agent and attorney-in-fact (i) to relet the Property, or any part thereof, from time to time, either in the name of the Corporation or otherwise, upon such terms and conditions and for such use and period as the Corporation may determine in its discretion, (ii) to remove all persons in possession thereof and all personal property whatsoever situated upon the Property, and (iii) to place such personal property in storage in any warehouse or other suitable place for the State Agency in the county in which such personal property is located, for the account of and at the expense of the State Agency.

(b) *Termination*. The Corporation may terminate the State Agency Financing Lease, but solely upon written notice by the Corporation to the State Agency and the State Treasurer of such election. No notice to pay rent, notice of default, or notice to deliver possession of the Property or of any part thereof, nor any entry or reentry upon the Property or any part thereof by the Corporation, nor any proceeding in unlawful detainer or otherwise brought by the Corporation for the purpose of effecting such reentry or obtaining possession, nor any surrender of the Property or any part thereof by the State Agency, nor any other act shall operate to terminate the State Agency Financing Lease, and no termination of the State Agency Financing Lease on account of an Event of Default shall be or become effective by operation of law or acts of the Parties hereto or otherwise, unless and until such notice of termination shall have been given by the Corporation. Upon such termination, the Corporation may (i) reenter the Property or any part thereof and remove all persons in possession thereof and all personal property whatsoever situated upon the Property, and (ii) place such personal property in storage in any warehouse or other suitable place for the State Agency in the county in which such personal property is located, for the account of and at the expense of the State Agency. Upon such termination, the State Agency's right to possession of the Property shall terminate, and the State Agency shall surrender possession thereof to the Corporation.

(c) *Other Remedies.* In addition to the other remedies set forth under this subheading, upon the occurrence and continuance of an Event of Default, the Corporation shall be entitled to proceed to protect and enforce the rights vested in them by the State Agency Financing Lease or by law. The terms and provisions of the State Agency Financing Lease and the duties and obligations of the State Agency under the State Agency Financing Lease, and the officers and employees thereof, shall be enforceable by the Corporation by an action at law or in equity, for damages or for specific performance, or for writ of mandate, or by other appropriate action, suit or proceeding in any court of competent jurisdiction. Without limiting the generality of the foregoing, the Corporation shall have the right to bring the following actions:

(i) Accounting. By action or suit in equity to require the State Agency and its officers and employees to account as the trustee of an express trust;

(ii) Injunction. By action or suit in equity to enjoin the violation of the rights of the Corporation; and

(iii) Mandate. By writ of mandate or other action, suit or proceeding at law or in equity to enforce the Corporation's rights against the State Agency and its officers and employees, and to compel the State Agency to perform and carry out its duties and obligations under the law and its covenants and agreements with the Corporation as provided herein.

No remedy conferred upon or reserved to the Corporation under the State Agency Financing Lease or under applicable law is intended to or shall be exclusive, and every such remedy shall be cumulative and shall be in addition to every other remedy given under the State Agency Financing Lease or now or hereafter existing at law or in equity.

No acceptance of less than the full amount of a rental payment due under the State Agency Financing Leases shall constitute an accord and satisfaction or compromise of any such payment unless the State Treasurer specifically agrees to such accord and satisfaction or compromise in writing.

Rights of Corporation Under State Agency Financing Contract Following Agency Event of Default. Upon the occurrence and continuance of an Agency Event of Default, the Corporation, at its option, may exercise any one or more of the following remedies:

(a) By written notice to the State Agency, require that the State Agency promptly return possession and use of the Property to the Corporation at any location specified in the United States (at the cost and expense of the State Agency) in good repair, working order and condition, ordinary wear and tear excepted;

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

(c) Exercise any other rights or remedies it may have under the State Agency Financing Contract or under applicable law.

Rights of State Under Local Agency Financing Contract Following Agency Event of Default. Whenever an Agency Event of Default under the Local Agency Financing Contract shall have occurred and be continuing, the State shall have the following rights and may exercise any one or more of the following remedies:

(a) By written notice to the Local Agency, require that the Local Agency promptly return possession and use of the Property to the State at any location specified in the United States (at the cost and expense of the Local Agency) in good repair, working order and condition, ordinary wear and tear excepted;

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

(c) Exercise any other rights or remedies it may have under the Local Agency Financing Contract or under applicable law; and

(d) Decline to execute any future financing contract on behalf of the Local Agency under the Act.

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

APPENDIX C

PROPOSED FORM OF CERTIFICATE COUNSEL OPINION

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[FORM OF APPROVING LEGAL OPINION]

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

Re: State of Washington Certificates of Participation, Series 2017A
(State and Local Agency Real and Personal Property)

We have acted as special counsel to the State of Washington (the "State") in connection with the execution and delivery by U.S. Bank National Association (the "Trustee") of Certificates of Participation, Series 2017A (State and Local Agency Real and Personal Property), in the Initial Principal Amount of $103,130,000 (the "Certificates") pursuant to a Trust Agreement, Series 2017A (the "Trust Agreement"), dated as of March 2, 2017 (the "Dated Date"), by and among the State, acting by and through the State Treasurer of the State (the "State Treasurer"), the Trustee and the Washington Finance Officers Association (the "Corporation"), a Washington nonprofit corporation. Capitalized terms used in this opinion that are not otherwise defined have the meanings given such terms in Appendix 1 to the Trust Agreement.

The Certificates evidence and represent undivided proportionate ownership interests in the Principal Components and Interest Components of Installment Payments and Rent Payments to be made by the State ("State Payments") pursuant to a Master Financing Contract, Series 2017A (the "Master Financing Contract"), and a Master Financing Lease, Series 2017A (the "Master Financing Lease" and together with the Master Financing Contract, the "Master Financing Agreements"), each dated as of the Dated Date, entered into by and between the Corporation and the State, acting by and through the State Treasurer, to finance or refinance the acquisition and/or improvement of certain personal property and real property (the "Property") for State Agencies and Local Agencies (the "Agencies").

The Master Financing Contract constitutes a special, limited obligation of the State payable solely from the sources set forth therein, including Agency Installment Payments required to be paid by the State Agencies pursuant to State Agency Financing Contracts, Series 2017A (the "State Agency Financing Contracts"), and by Local Agencies pursuant to Local Agency Financing Contracts, Series 2017A (the "Local Agency Financing Contracts," and together with the State Agency Financing Contracts, the "Agency Financing Contracts"). The Master Financing Lease also constitutes a special, limited obligation of the State payable solely from the sources set forth therein, including Agency Rent Payments required to be paid by the State Agencies pursuant to State Agency Financing Leases, Series 2017A (the "State Agency Financing Leases"). The Agency Financing Contracts and State Agency Financing Leases together are the "Agency Financing Agreements." Pursuant to the Master Financing Agreements, the State Treasurer is conditionally obligated, to the extent of legally available appropriated funds, to pay Agency Installment Payments when due under Local Agency Financing Contracts upon the default of any Local Agency.

Pursuant to a Master Assignment, Series 2017A (Equipment), and a Master Assignment, Series 2017A (Real Property) (together, the "Master Assignments"), each dated as of the Dated Date, the Corporation has unconditionally granted, sold, assigned, transferred and conveyed to the Trustee without recourse (i) all of its rights to receive the State Payments under the Master Financing Agreements, and (ii) all of its remaining right, title and interest in, to and under the Master Financing Agreements, the Agency Financing Agreements and the Property (including any security interest therein), including but not limited to its right to take all actions and exercise all remedies under and pursuant to the Master Financing Agreements.

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

Under the Internal Revenue Code of 1986, as amended (the "Code"), the State and the Agencies are required to comply with certain requirements after the date of execution and delivery of the Certificates in order to maintain the exclusion of the interest represented by the Certificates from gross income for federal income tax purposes, including, without limitation, requirements concerning the qualified use of Certificate proceeds and the Property financed or refinanced with Certificate proceeds, limitations on investing gross proceeds of the Certificates in higher yielding investments in certain circumstances, and the arbitrage rebate requirement to the extent applicable to gross proceeds of the Certificates. The State and the Agencies have covenanted to comply with those requirements, but if the State or the Agencies fail to comply with those requirements, interest represented by the Certificates could become taxable retroactive to the date of execution and delivery of the Certificates. We have not undertaken and do not undertake to monitor compliance with such requirements.

Under the statutes, regulations, published rulings and court decisions existing on the date of this opinion and based on our review of such other documents, proceedings and certifications as we have deemed necessary, it is our opinion that:

1. The Master Financing Agreements have been duly authorized, executed and delivered by the State, acting by and through the State Treasurer and the respective State Agencies, and, assuming the due authorization, execution and delivery thereof by the Corporation, constitute valid, binding and enforceable obligations of the State payable solely from the sources set forth therein. The Master Financing Agreements do not constitute general obligations of the State, and neither the full faith and credit nor the taxing power of the State is pledged to the payment thereof.

2. The obligation of each State Agency to pay Agency Installment Payments or Agency Rent Payments during the term of its State Agency Financing Contract or State Agency Financing Lease, constitutes a valid and binding obligation of such State Agency, subject to appropriation by the State Legislature and to Executive Order reduction by the Governor of the State. Such obligation does not constitute a general obligation of the State, and neither the full faith and credit nor taxing power of the State is pledged to the payment thereof.

3. The conditional obligation of the State Treasurer pursuant to the Master Financing Contract to pay Agency Installment Payments under each Local Agency Financing Contract upon the default of any Local Agency is subject to appropriation by the State Legislature and to Executive Order reduction by the Governor of the State. Such conditional obligation does not constitute a general obligation of the State, and neither the full faith and credit nor taxing power of the State is pledged to the payment thereof.

4. Assuming (a) the due authorization, execution and delivery of the Master Assignments by the Corporation and the Trustee, (b) the due authorization, execution and delivery of the Trust Agreement by the Corporation and the Trustee, and (c) the execution and delivery of the Certificates by the Trustee, the Certificates are entitled to the benefits of the Master Assignments and the Trust Agreement.

5. Assuming compliance by the State and the Agencies after the date of execution and delivery of the Certificates with applicable requirements of the Code, the Interest Component of each State Payment ("Interest") under the Master Financing Agreements and received by the Owners of Certificates is excluded from gross income for federal income tax purposes and is not subject to the federal alternative minimum tax applicable to individuals; however, while Interest also is not an item of tax preference for purposes of the alternative minimum tax applicable to corporations, Interest received by corporations is to be taken into account in the computation of adjusted current earnings for purposes of the alternative minimum tax applicable to corporations, Interest received by certain S corporations may be subject to tax, and Interest received by foreign corporations with United States branches may be subject to a foreign branch profits tax.

We express no opinion regarding any other federal tax consequences arising with respect to the ownership of the Certificates. Owners of the Certificates should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences.

Our opinions with respect to the enforceability of various documents are subject to limitations imposed by bankruptcy, insolvency or other laws affecting creditors' rights and by the application of equitable principles and the exercise of judicial discretion in appropriate cases.

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

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

Respectfully submitted,

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APPENDIX D

THE STATE'S 2016 AUDITED FINANCIAL STATEMENTS

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Washington State Auditor's Office

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

November 1, 2016

The Honorable Jay Inslee
Governor, State of Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate discretely presented component units and remaining fund information of the State of Washington, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the State's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

Opinion Unit	Percent of Total Assets	Percent of Net Position	Percent of Total Revenues/ Additions
Governmental Activities	13.5%	25.2%	7.3%
Business-Type Activities	76.2%	100.0%	37.3%
Higher Education Special Revenue Fund	54.4%	55.7%	52.7%
Higher Education Endowment Fund	97.0%	96.9%	100.0%
Higher Education Student Services Fund	72.1%	95.8%	84.4%
Workers' Compensation Fund	94.3%	100.0%	24.9%
Guaranteed Education Tuition Program Fund	92.2%	100.0%	1.7%
Aggregate Discretely Presented Component Units and Remaining Fund Information	92.9%	93.8%	62.7%

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the Department of Retirement Systems, Local Government Investment Pool, University of Washington, and the funds managed by the State Investment Board were not audited in accordance with *Government Auditing Standards*.

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

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

Opinion

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate discretely presented component units and remaining fund information of the State of Washington, as of June 30, 2016, 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 $33.22 billion, which comprise 28.6 percent of total assets and 31.0 percent of net position of the aggregate discretely presented component units and remaining fund information. The fair values of these investments have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on information provided by the fund managers or, in the case of investments in partnerships, the general partners. Our opinion was not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Supplementary and Other Information

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

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

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we will also issue our report dated November 1, 2016, 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

OLYMPIA, WA

MD&A
Management's Discussion and Analysis

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MD&A
Management's Discussion & Analysis

As managers of the state of Washington, we offer this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2016. We present this information in conjunction with the information included in our letter of transmittal, which can be found preceding this narrative, and with the state's financial statements, which follow. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

Financial Highlights

- Total assets and deferred outflows of the state of Washington exceeded its liabilities and deferred inflows by $22.27 billion (reported as net position). Of this amount, $(11.42) 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 $15.79 billion, an increase of 7.5 percent compared with the prior year.
- The state's capital assets increased by $1.17 billion, total bond debt increased by $930.8 million, and the state's net investment in capital assets is $20.69 billion.

Overview of the Financial Statements

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

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

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

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

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

The business-type activities of the state of Washington include the workers' compensation and unemployment compensation programs, as well as Washington's lottery, the Guaranteed Education Tuition Program (GET), and various higher education student services such as housing and dining.

The government-wide financial statements can be found on pages 38-41 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 44-47 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, 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 48-57 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 four major component units, the Valley Medical Center, Northwest Hospital, the Washington State Public Stadium Authority and the Health Benefit Exchange, as well as four nonmajor component units. Refer to Note 1 on pages 70-71 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 60-65 of this report.

NOTES TO THE FINANCIAL STATEMENTS

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 67-173 of this report.

OTHER INFORMATION

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

Required supplementary information can be found on pages 175-202 of this report.

The combining statements referred to earlier are presented immediately following the required supplementary information. Combining financial statements and individual fund schedules can be found on pages 205-269 of this report.

STATE OF WASHINGTON

Statement of Net Position

(in millions of dollars)

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
ASSETS						
Current and other assets	$ 25,362	$ 23,812	$ 25,335	$ 24,557	$ 50,697	$ 48,369
Capital assets	38,962	37,783	2,918	2,925	41,880	40,708
Total assets	64,324	61,595	28,253	27,482	92,577	89,077
DEFERRED OUTFLOWS OF RESOURCES	771	481	126	83	897	564
LIABILITIES						
Current and other liabilities	5,643	5,339	926	1,035	6,569	6,374
Long-term liabilities outstanding	32,797	30,459	30,888	30,104	63,685	60,563
Total liabilities	38,440	35,798	31,814	31,139	70,254	66,937
DEFERRED INFLOWS OF RESOURCES	886	1,944	59	158	945	2,102
NET POSITION						
Net investment in capital assets	19,942	19,958	745	973	20,687	20,931
Restricted	8,518	8,320	4,485	4,240	13,003	12,560
Unrestricted	(2,691)	(3,944)	(8,724)	(8,945)	(11,415)	(12,889)
Total net position	$ 25,769	$ 24,334	$ (3,494)	$ (3,732)	$ 22,275	$ 20,602

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. For the state of Washington, total assets and deferred outflows of resources exceed liabilities and deferred inflows of resources by $22.27 billion at June 30, 2016, as compared to $20.60 billion as reported at June 30, 2015.

The largest portion of the state's net position (92.9 percent for fiscal year 2016 as compared to 101.6 percent for fiscal year 2015) 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 (58.4 percent for fiscal year 2016 as compared to 61.0 percent for fiscal year 2015) represents resources that are subject to external restrictions on how they may be used. The remaining balance of $(11.42) billion represents unrestricted net position. The state's overall negative balance in unrestricted net position is largely due to deficits in business-type activities.

In governmental activities, net position increased from $24.33 billion in fiscal year 2015 to $25.77 billion in fiscal year 2016. The increase reflects increases in grants and tax revenues that outpaced the increases in expenses.

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

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

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

STATE OF WASHINGTON

Changes in Net Position

(in millions of dollars)

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
REVENUES						
Program revenues:						
Charges for services	$ 6,039	$ 5,985	$ 6,915	$ 6,631	$ 12,954	$ 12,616
Operating grants and contributions	15,357	15,158	70	77	15,427	15,235
Capital grants and contributions	1,113	867	-	-	1,113	867
General revenues:						
Taxes	20,692	18,132	21	20	20,713	18,152
Interest and investment earnings (loss)	168	307	999	377	1,167	684
Total revenues	43,369	40,449	8,005	7,105	51,374	47,554
EXPENSES						
General government	(1,658)	(1,987)	-	-	(1,658)	(1,987)
Education - K-12	(10,153)	(9,426)	-	-	(10,153)	(9,426)
Education - Higher education	(7,532)	(7,095)	-	-	(7,532)	(7,095)
Human services	(17,209)	(16,890)	-	-	(17,209)	(16,890)
Adult corrections	(983)	(956)	-	-	(983)	(956)
Natural resources and recreation	(1,264)	(1,335)	-	-	(1,264)	(1,335)
Transportation	(2,363)	(2,309)	-	-	(2,363)	(2,309)
Interest on long-term debt	(991)	(981)	-	-	(991)	(981)
Workers' compensation	-	-	(3,238)	(3,018)	(3,238)	(3,018)
Unemployment compensation	-	-	(1,020)	(968)	(1,020)	(968)
Higher education student services	-	-	(2,494)	(2,314)	(2,494)	(2,314)
Washington's lottery	-	-	(535)	(466)	(535)	(466)
Guaranteed education tuition program	-	-	152	585	152	585
Other business-type activities	-	-	(161)	(158)	(161)	(158)
Total expenses	(42,153)	(40,979)	(7,296)	(6,339)	(49,449)	(47,318)
Excess (deficiency) of revenues over expenses before contributions to endowments and transfers	1,216	(530)	709	766	1,925	236
Contributions to endowments	67	66	-	-	67	66
Transfers	152	136	(152)	(136)	-	-
Special item			(319)	-	(319)	-
Increase (decrease) in net position	1,435	(328)	238	630	1,673	302
Net position - July 1, as restated	24,334	24,662	(3,732)	(4,362)	20,602	20,300
Net position - June 30	$ 25,769	$ 24,334	$ (3,494)	$ (3,732)	$ 22,275	$ 20,602

Governmental Activities. Governmental activities resulted in an increase in the state of Washington's net position of $1.44 billion. A number of factors were in play including increases in both spending on K-12 education and tax revenues.

- Expenses grew by $726.5 million for K-12 education in 2016 as compared to fiscal year 2015. The state is working to meet the requirements of the state Supreme Court's 2012 McCleary ruling to meet its constitutional duty to fund basic education.

- Tax revenues increased by $2.56 billion in fiscal year 2016 as compared to fiscal year 2015 reflecting positive growth in the economy. Sales and use taxes reported an increase of $739.4 million. Sales and use taxes are the main tax revenue for governmental activities. Real estate excise tax revenue increased by $320.3 million. Real estate excise taxes are levied on the sale of real estate. These tax revenue increases reflect the rebounding economy, recovering housing markets, and improving employment picture in Washington.

- Tuition and fee revenues at higher education institutions held steady in fiscal year 2016 compared with fiscal year 2015.

- Operating grants and contributions grew by $199.0 million in fiscal year 2016 compared with 2015 and were matched with an increase in human services expenses.

Business-Type Activities. Business-type activities increased the state of Washington's net position by $237.4 million. Workers' compensation, unemployment compensation, and guaranteed education tuition activities contributed to the increase. Key factors contributing to the operating results of business-type activities are:

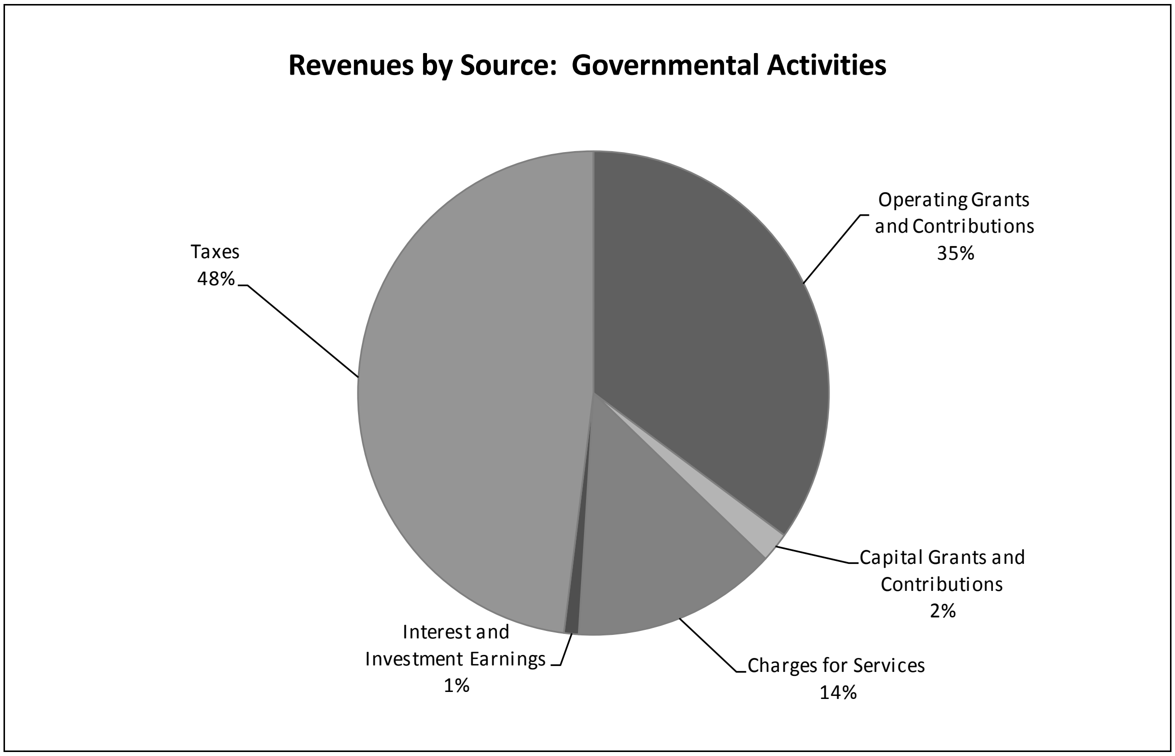
- The workers' compensation activity increase in net position in fiscal year 2016 was $202.2 million compared to a decrease of $400.9 million in fiscal year 2015. Premium revenue increased by $178.8 million as a result of an increase in the number of hours reported by employers, a mid-year premium rate increase, and an increase in the number of hours reported by businesses in higher rate classes. Claim costs increased by $207.5 million in fiscal year 2016 compared with fiscal year 2015 reflecting an increase in the number of time-loss claims and an increase in the state's average annual wage. Nonoperating investment income increased by $640.6 million due predominately to a net increase in realized and unrealized gains on debt securities. The workers' compensation portfolio is 87.4 percent debt securities.

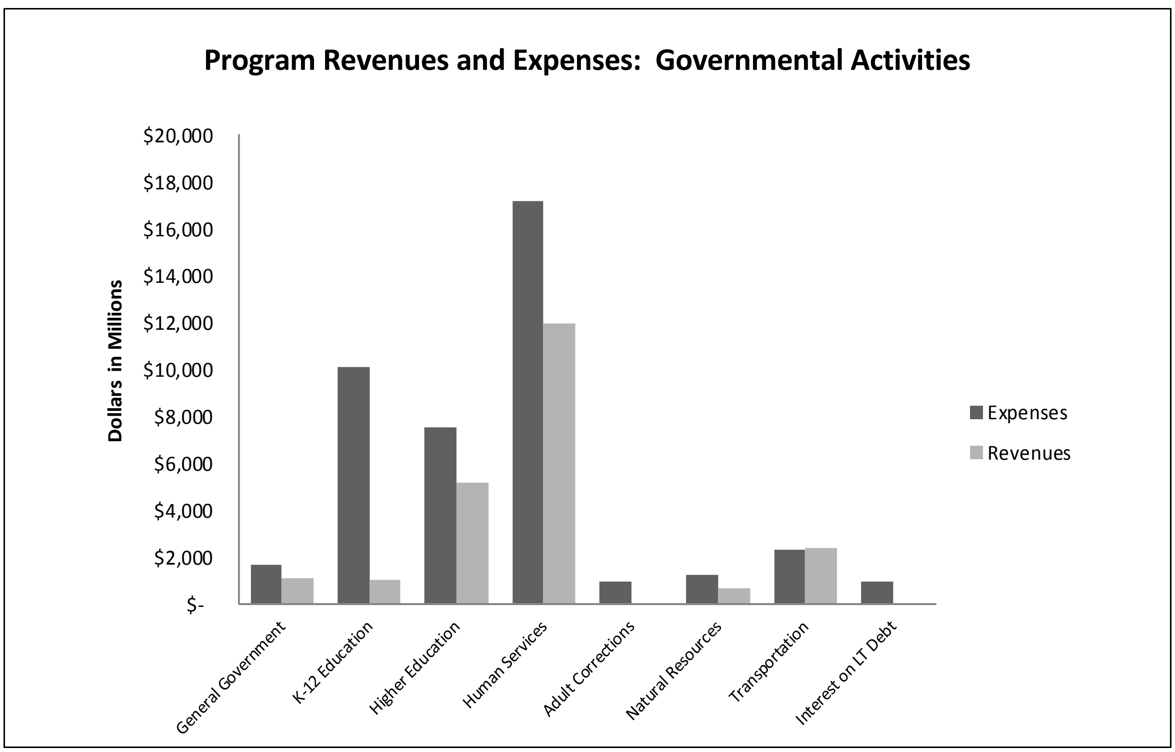
- The unemployment compensation activity reported an operating income in fiscal year 2016 of $157.6 million compared to $344.9 million in fiscal year 2015. Washington's unemployment insurance program is an experience-based system with the largest part of an individual employer's tax rate being based on the employer's layoff experience over the past four years. The economic recovery in the state has stabilized employment and resulted in a slight increase in unemployment insurance benefits of $52.0 million in fiscal year 2016 over fiscal year 2015. The unemployment rate for the state for June 2016, was 5.5 percent, up slightly from 5.3 percent in June 2015, and the insured rate declined to 1.4 percent in fiscal year 2016 from 1.5 percent in fiscal year 2015. The state's unemployment insurance premiums are experience based and the insured rate is declining, which resulted in premium revenue decreasing by 9.3 percent. The $17.8 million decline in federal aid also reflects the decrease in the unemployment rate.

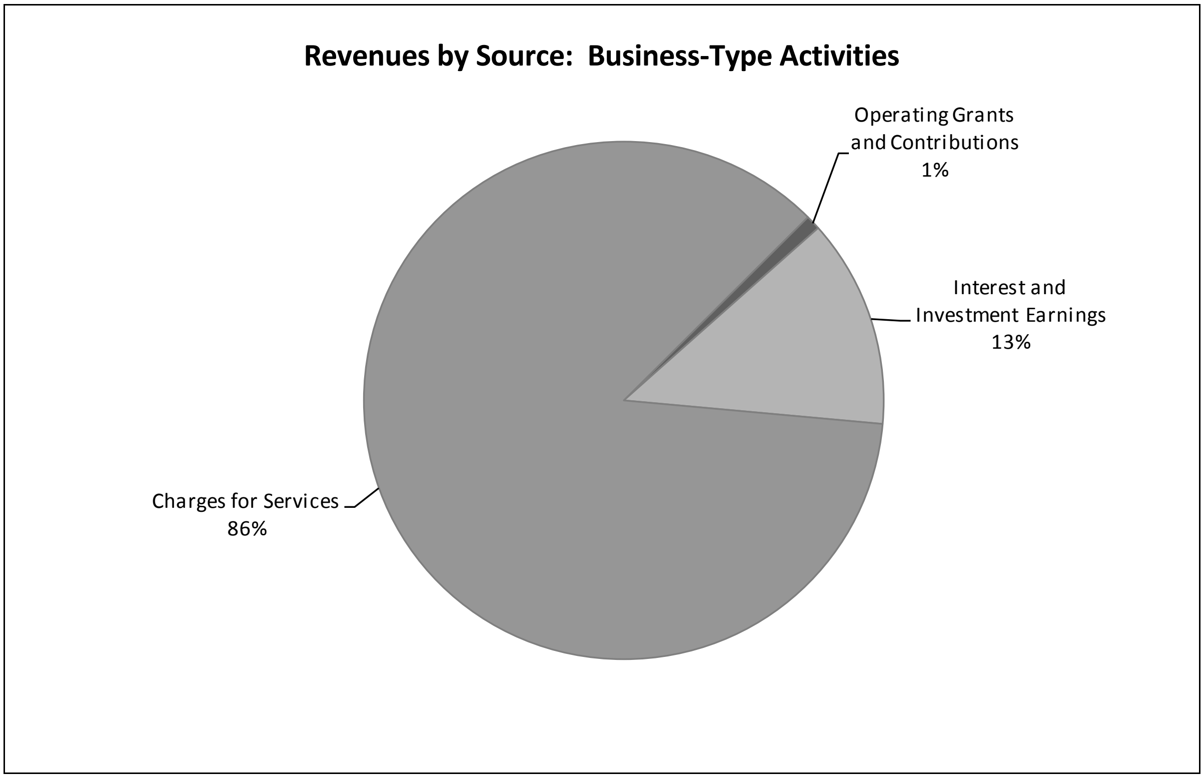
- The Guaranteed Education Tuition (GET) Program reported a decrease in net position of $201.0 million decreasing its funded status to 136 percent, down from 140.1 percent the previous year. This is due to the board authorizing account holders to request refunds of contributions with no penalties, the net effect of the refunds and associated valuation change was $318.8 million.

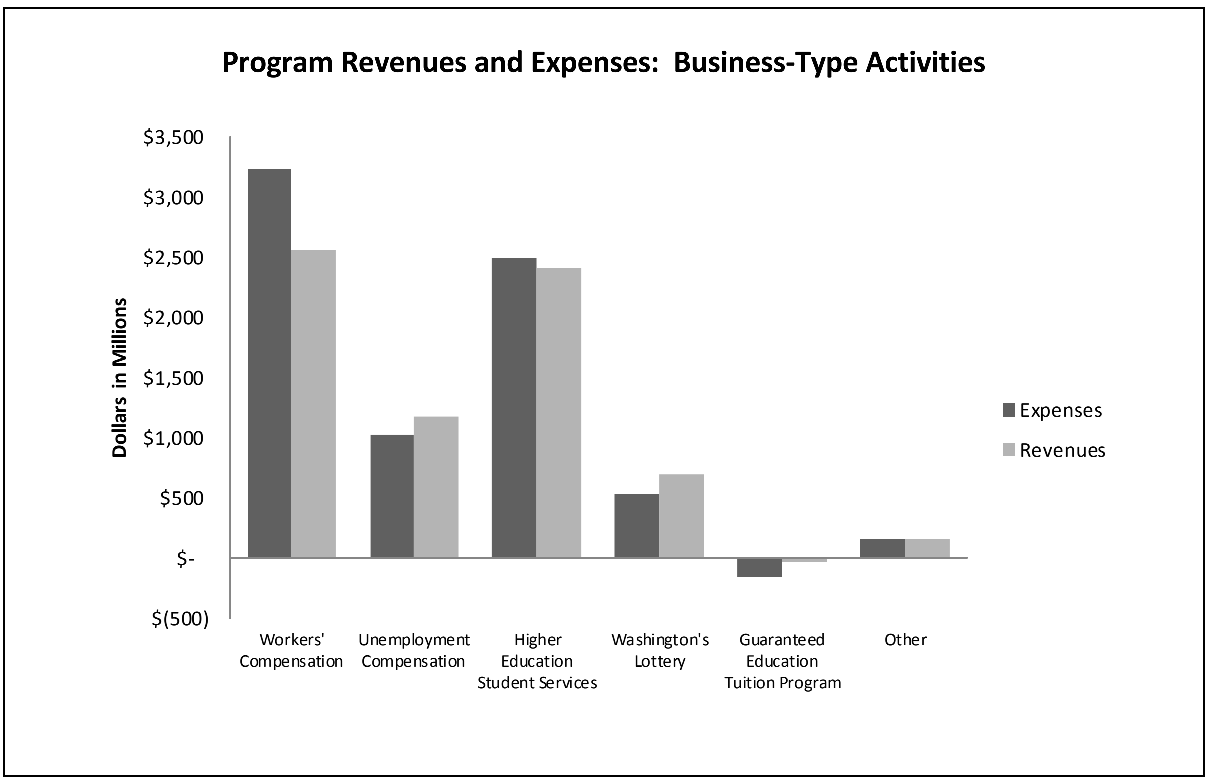
  While current year investment returns were down, the actuarial valuation of the obligation for future tuition benefits assumed a higher rate of investment return based on a recent experience study. The valuation also assumed a lower rate of tuition growth in response to recently enacted legislation. Overall the tuition benefit obligation decreased by 15.5 percent.

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


Revenues by Source: Governmental Activities
Operating Grants and Contributions 35%
Taxes 48%
Capital Grants and Contributions 2%
Interest and Investment Earnings 1%
Charges for Services 14%


Program Revenues and Expenses: Governmental Activities
Dollars in Millions
$20,000
$18,000
$16,000
$14,000
$12,000
$10,000
$8,000
$6,000
$4,000
$2,000
$-
Expenses
Revenues
General Government
K-12 Education
Higher Education
Human Services
Adult Corrections
Natural Resources
Transportation
Interest on LT Debt


Revenues by Source: Business-Type Activities
Operating Grants and Contributions 1%
Interest and Investment Earnings 13%
Charges for Services 86%


Program Revenues and Expenses: Business-Type Activities
$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 State's Funds

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

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

Fund Balances. At June 30, 2016, the state's governmental funds reported combined ending fund balances of $15.79 billion. Of this amount, $2.54 billion or 16.1 percent is nonspendable, either due to its form or legal constraints, and $4.61 billion or 29.2 percent is restricted for specific programs by external constraints, constitutional provisions, or contractual obligations. An additional $6.13 billion or 38.8 percent of total fund balance has been committed to specific purposes. Committed amounts cannot be used for any other purpose unless approved by the Legislature. An additional $1.17 billion or 7.4 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 $564.8 million in fiscal year 2016, as compared to an $854.3 million gain in fiscal year 2015. Increased revenues from taxes and targeted spending increases in K-12 education and social and health services combined with a concerted effort to hold the line on other spending were the key contributing factors. Assigned fund balance of $1.16 billion is reported for fiscal year 2016 and relates to certain accrued and non-cash revenues which are not considered by management to be available for budgetary purposes.

STATE OF WASHINGTON
General Fund
(in millions of dollars)

	Fiscal Year		Difference Increase
	2016	2015	(Decrease)
REVENUES			
Taxes	$ 18,188	$ 17,025	$ 1,163
Federal grants	12,196	12,053	143
Investment revenue (loss)	26	8	18
Other	728	698	30
Total	31,138	29,784	1,354
EXPENDITURES			
Human services	17,072	16,794	278
Education	11,403	10,177	1,226
Other	1,646	1,505	141
Total	30,121	28,476	1,645
Net transfers in (out)	(628)	(653)	25
Other financing sources	176	199	(23)
Net increase (decrease) in fund balance	$ 565	$ 854	$ (289)

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

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

- The change in net position of the Higher Education Special Revenue Fund in fiscal year 2016 was $31.6 million compared to $126.1 million in fiscal year 2015. The decline in fiscal year 2016 was largely due to a 1.4 percent decrease in charges for services. Revenues showed only a slight gain of 0.9 percent reflecting the state's decision to hold tuition steady.

- The fund balance for the Higher Education Endowment Fund decreased by $76.3 million in fiscal year 2016. Fiscal year 2016 reported a decrease of $184.3 million in investment earnings compared to last fiscal year.

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

- The Workers' Compensation Fund reported an increase in net position of $202.2 million in fiscal year 2016. Operating revenues increased by $181.3 million and operating expenses increased by $220.1 million as compared to fiscal year 2015. As previously reported, operating revenues increased due to an increase in reported hours in higher rate classes and claims expense increased due to an increase in the number of time-loss claims and an increase in the state's average annual wage. Investment income increased $640.6 million over fiscal year 2015 due to an increase in net realized and unrealized capital gains.

- Washington's Unemployment Compensation Fund reported an increase in net position of $244.5 million. As reported previously, premium revenue increased reflecting a growing workforce and higher taxable wage base. Unemployment benefit claims expense increased slightly by $52.0 million in fiscal year 2016 as compared to 2015 and federal aid decreased by $17.8 million over the same period. The slight increase in benefit claims and slight decrease in federal aid are consistent with an overall stable unemployment rate.

- The Guaranteed Education Tuition (GET) Program Fund reported a decrease in net position of $201.0 million in fiscal year 2016. As previously reported, the decrease is due primarily to account holders taking advantage this year of the opportunity to receive a refund on their contributions.

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

General Fund Budgetary Highlights

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

- Estimated biennial resources increased by $848.5 million over the course of the biennium. The major increase in estimated resources is additional sales tax and excise tax collected.

- Appropriated expenditure authority increased by $1.35 billion over the biennium to address increases in mandatory and high priority programs. The major increases in appropriation authority were in education. This is the state working on meeting its obligation under the McCleary ruling.

The state did not overspend its legal spending authority for the 2015-17 biennium. Actual General Fund revenues and expenditures were 49.6 and 47.2 percent of final budgeted resources and appropriations, respectively, for the 2015-17 biennium.

Capital Assets, Infrastructure, and Bond Debt Administration

Capital Assets. The state of Washington's investment in capital assets for its governmental and business-type activities as of June 30, 2016, totaled $41.88 billion (net of accumulated depreciation). This investment in capital assets includes land, infrastructure, museum and historical collections, buildings and other improvements, furnishings, equipment, and intangible assets, as well as construction in progress.

Washington's fiscal year 2016 investment in capital assets, net of current year depreciation, increased $1.17 billion over fiscal year 2015, including increases to the state's transportation infrastructure of $659.3 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 $2.66 billion.

Additional information on the state of Washington's capital assets can be found in Note 6 beginning on page 120 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 20,764 lane miles of pavement, 3,294 bridges, and 47 highway safety rest areas. Infrastructure asset categories are assessed on a two-year cycle, either on a calendar year or fiscal year basis.

In the past five fiscal years, the state has invested fewer resources for the preservation and maintenance of pavements and bridges than was planned, and invested more than planned for rest areas preservation and maintenance.

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STATE OF WASHINGTON

Capital Assets - Net of Depreciation

(in millions of dollars)

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Land	$ 2,666	$ 2,625	$ 58	$ 58	$ 2,724	$ 2,683
Transportation infrastructure and other assets not depreciated	24,030	23,376	5	5	24,035	23,381
Buildings	7,951	7,826	2,521	2,312	10,472	10,138
Furnishings, equipment, and intangible assets	1,793	1,829	180	183	1,973	2,012
Other improvements and infrastructure	1,277	1,236	77	75	1,354	1,311
Construction in progress	1,245	891	77	293	1,322	1,184
Total	$ 38,962	$ 37,783	$ 2,918	$ 2,926	$ 41,880	$ 40,709

The state's goal is to maintain 85 percent of pavements and 90 percent of bridges at a condition level of fair or better. The condition of these assets, along with the rating scales, and additional detail comparing planned to actual preservation and maintenance spending are available in the required supplementary information beginning on page 199.

The most recent pavements condition assessment indicates that 93.2 percent of pavements were in fair or better condition. The condition of pavements has remained steady in the last three assessment periods, averaging 92.4 percent in fair or better condition. For fiscal year 2016, actual maintenance and preservation expenditures were 0.5 percent higher than planned, and over the past five fiscal years, the actual expenditures were 5.2 percent lower than planned.

The most recent bridge condition assessment indicates that 92.1 percent of bridges were in good or fair condition. The condition of bridges has remained steady over the last three assessment periods, averaging 93 percent in good or fair condition. For fiscal year 2016, the actual maintenance and preservation expenditures were 11.7 percent lower than planned, and over the past five fiscal years, the actual expenditures were 9.3 percent lower than planned.

Bond Debt. At the end of fiscal year 2016, the state of Washington had general obligation bond debt outstanding including accreted interest and issuance premiums of $20.52 billion, an increase of 3.3 percent from fiscal year 2015. This debt is secured by a pledge of the full faith and credit of the state. Additionally, the state had authorized $11.70 billion general obligation debt that remains unissued.

General obligation debt is subject to the limitation prescribed by the State Constitution. The aggregate debt contracted by the state as of June 30, 2016, does not exceed that amount for which payments of principal and interest in any fiscal year would require the state to expend more than 8.5 percent of the arithmetic mean of its general state revenues for the six immediately preceding fiscal years. The arithmetic mean of its general state revenues for fiscal years 2010-2015 is $15.50 billion. The debt service limitation, 8.5 percent of this mean, is $1.32 billion. The state's maximum annual debt service as of June 30, 2016, subject to the constitutional debt limitation is $1.16 billion, or $162.0 million less than the debt service limitation.

For further information on the debt limit, refer to the statistical section on page 294 of this report or the Certification of the Debt Limitation of the State of Washington, available from the Office of the State Treasurer at: http://www.tre.wa.gov/documents/debt_cd2016.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, 2016, 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	
	2016	2015	2016	2015	2016	2015
General obligation (GO) bonds	$ 20,039	$ 19,396	$ -	$ 4	$ 20,039	$ 19,400
Accreted interest on zero interest rate GO bonds	479	472	-	-	479	472
Revenue bonds	2,377	2,316	2,215	1,991	4,592	4,307
Total	$ 22,895	$ 22,184	$ 2,215	$ 1,995	$ 25,110	$ 24,179

The state had revenue debt outstanding at June 30, 2016, of $4.59 billion, an increase of $285.0 million over fiscal year 2015. The increase is primarily related to grant anticipation revenue bonds issued by the Washington State Department of Transportation and revenue bonds issued by state colleges and universities. This debt is not supported or intended to be supported by the full faith and credit of the state. Revenue bond debt is generally secured by specific sources of revenue. The exception is the University of Washington and Washington State University which issue general revenue bonds that are payable from general revenues of each university.

General obligation and revenue bonds totaling $1.02 billion were refunded during the year. Washington's refunding activity produced $168.5 million in gross debt service savings.

Additional information on the state's bond debt obligations is presented in Note 7 beginning on page 124 of this report.

Conditions with Expected Future Impact

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

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

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

- Under legislation approved in 2012, and beginning with the 2013-15 biennium, Washington became the only state in the nation required to pass a budget that balances spending against anticipated revenue over a four-year period.

- The courts have also made it clear that in addressing budget shortfalls the past years, the state sometimes went too far in cutting services, such as for at-risk children and individuals with mental illness.

- Washington continues to address the requirements of the state Supreme Court 2012 McCleary ruling that found that the state has failed to meet its constitutional requirement to amply fund basic education. Although funding progress was made during the 2015-17 biennium, the court is still waiting for a plan that fully funds basic education.

General Election. There is a measure on the state's November 8, 2016, general election ballot that proposes a carbon emission tax on certain fossil fuels and fossil-fuel-generated electricity, reduces the sales tax by one percentage point, increases a low-income exemption, and reduces certain manufacturing taxes. This measure, if passed, could impact the state fiscally.

Election results are not final or official until certified. By law December 8, 2016, is the last day for the Office of the Secretary of State to certify General Election returns.

Information is posted as available on the Secretary of State's website at: http://www.sos.wa.gov.

Rainy Day Account. In November 2007, Washington state voters ratified Engrossed Substitute Senate Joint Resolution 8206, amending the state's Constitution and establishing the Budget Stabilization Account (BSA). The Constitution details a limited number of circumstances under which funds can be appropriated from the BSA, one of which is a favorable vote of at least three-fifths of the members of each house of the Legislature. On June 30, 2016, $185.7 million was transferred to the BSA from the General Fund in accordance with the provisions of the Constitution. During fiscal year 2016, by three-fifths vote of each house, the Legislature appropriated $189.5 million from the BSA solely for emergency fire service mobilization, fire suppression, and fire damage recovery costs. The BSA had a fund balance of $549.6 million as of June 30, 2016.

The Guaranteed Education Tuition (GET) Program. The funded status of the GET Program decreased during fiscal year 2016 reflecting account holders requesting refunds as authorized by Engrossed Second Substitute Bill (E2SSB) 5954 which was signed into law by the Governor on July 6, 2015. It reduced tuition at all public institutions of higher education during the 2015-16 and 2016-17 academic years and limits tuition growth in future years. Subsequent to the passage of E2SSB 5954, the State Guaranteed Education Tuition (GET) Program Committee authorized account holders, upon request, to receive a refund of their contributions or a fixed payout value, whichever is greater. Account holders have until September 1, 2017, or until 60 days after a new 529 savings plan opens (whichever is later), to request a refund. GET is closed to new enrollments until July 1, 2017. The financial impact of this action cannot reasonably be estimated as of the date of these financial statements.

Requests for Information

This financial report is designed to provide a general overview of the state of Washington's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of Financial Management, Accounting Division, P.O. Box 43127, Olympia, WA 98504-3127.

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Basic Financial Statements

Government-wide Financial Statements

Statement of Net Position

June 30, 2016

(expressed in thousands)

Continued

	Primary Government			
	Governmental Activities	Business-Type Activities	Total	Component Units
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES				
ASSETS				
Cash and pooled investments	$ 7,172,831	$ 7,100,084	$ 14,272,915	$ 182,494
Taxes receivable (net of allowance for uncollectibles)	3,883,499	-	3,883,499	-
Other receivables (net of allowance for uncollectibles)	2,276,547	1,536,551	3,813,098	172,137
Internal balances	160,859	(160,859)	-	-
Due from other governments	4,001,651	108,254	4,109,905	-
Inventories and prepaids	116,806	62,240	179,046	29,500
Restricted cash and investments	432,954	3,613	436,567	5,030
Restricted receivables, current	120,796	4,234	125,030	-
Investments, noncurrent	5,727,579	16,303,543	22,031,122	159,187
Restricted investments, noncurrent	-	58,622	58,622	16,873
Restricted receivables, noncurrent	1,521	-	1,521	-
Restricted net pension asset	1,467,363	296	1,467,659	-
Other assets	-	318,387	318,387	192,339
Capital assets:				
Non-depreciable assets	27,940,480	139,775	28,080,255	76,428
Depreciable assets (net of accumulated depreciation)	11,021,021	2,778,297	13,799,318	674,141
Total capital assets	38,961,501	2,918,072	41,879,573	750,569
Total Assets	64,323,907	28,253,037	92,576,944	1,508,129
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows on hedging derivatives	1,196	-	1,196	572
Deferred outflows on refundings	4,210	31,303	35,513	6,066
Deferred outflows on pensions	765,410	94,796	860,206	2,017
Total Deferred Outflows of Resources	770,816	126,099	896,915	8,655
Total Assets and Deferred Outflows of Resources	$ 65,094,723	$ 28,379,136	$ 93,473,859	$ 1,516,784

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

Statement of Net Position

June 30, 2016

(expressed in thousands)

Concluded

	Primary Government			
	Governmental Activities	Business-Type Activities	Total	Component Units
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION				
LIABILITIES				
Accounts payable	$ 1,536,982	$ 186,320	$ 1,723,302	$ 84,925
Contracts payable	105,497	17,147	122,644	-
Accrued liabilities	1,917,678	449,613	2,367,291	110,311
Obligations under security lending agreements	197,525	156,492	354,017	-
Due to other governments	1,481,497	59,569	1,541,066	-
Unearned revenues	403,991	56,849	460,840	10,239
Long-term liabilities:				
Due within one year	1,772,466	2,379,484	4,151,950	21,514
Due in more than one year	31,024,542	28,508,925	59,533,467	414,830
Total Liabilities	38,440,178	31,814,399	70,254,577	641,819
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows on refundings	160	-	160	-
Deferred inflows on pensions	885,770	59,158	944,928	2,226
Deferred inflows on property taxes	-	-	-	26,744
Total Deferred Inflows of Resources	885,930	59,158	945,088	28,970
NET POSITION				
Net investment in capital assets	19,942,180	744,524	20,686,704	353,558
Restricted for:				
Unemployment compensation	-	4,484,992	4,484,992	-
Nonexpendable permanent endowments	2,440,835	-	2,440,835	-
Expendable endowment funds	1,131,720	-	1,131,720	-
Pensions	1,467,363	296	1,467,659	-
Wildlife and natural resources	1,002,335	-	1,002,335	-
Transportation	957,382	-	957,382	-
Budget stabilization	549,581	-	549,581	-
Higher education	174,351	-	174,351	-
Capital projects	17,614	-	17,614	-
Other purposes	776,022	-	776,022	15,501
Unrestricted	(2,690,768)	(8,724,233)	(11,415,001)	476,936
Total Net Position	25,768,615	(3,494,421)	22,274,194	845,995
Total Liabilities, Deferred Inflows of Resources, and Net Position	$ 65,094,723	$ 28,379,136	$ 93,473,859	$ 1,516,784

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

Statement of Activities

For the Fiscal Year Ended June 30, 2016

(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	$ 1,657,671	$ 852,839	$ 230,138	$ 15,696
Education - elementary and secondary (K-12)	10,152,823	20,811	1,052,529	-
Education - higher education	7,531,460	2,762,044	2,375,616	31,174
Human services	17,209,376	723,787	11,267,258	15,578
Adult corrections	983,373	7,321	2,294	-
Natural resources and recreation	1,263,727	467,587	189,347	68,936
Transportation	2,363,429	1,205,527	240,532	981,251
Interest on long-term debt	991,215	-	-	-
Total Governmental Activities	42,153,074	6,039,916	15,357,714	1,112,635
Business-Type Activities:				
Workers' compensation	3,238,325	2,556,687	8,819	-
Unemployment compensation	1,020,368	1,139,070	38,911	-
Higher education student services	2,494,528	2,395,313	21,533	-
Washington's lottery	534,538	697,723	-	-
Guaranteed education tuition program	(152,302)	(28,863)	-	-
Other	160,936	155,041	418	-
Total Business-Type Activities	7,296,393	6,914,971	69,681	-
Total Primary Government	$ 49,449,467	$ 12,954,887	$ 15,427,395	$ 1,112,635
COMPONENT UNITS	$ 1,165,117	$ 1,092,866	$ 68,189	$ -
Total Component Units	$ 1,165,117	$ 1,092,866	$ 68,189	$ -

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

Special item - Guaranteed education tuition program refunds and valution change resulting from SB 5954

Change in Net Position

Net Position - Beginning, as restated

Net Position - Ending

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

Net (Expense) Revenue and Changes in Net Position			
Primary Government			
Governmental Activities	Business-Type Activities	Total	Component Units
$ (558,998)	$ -	$ (558,998)	
(9,079,483)	-	(9,079,483)	
(2,362,626)	-	(2,362,626)	
(5,202,753)	-	(5,202,753)	
(973,758)	-	(973,758)	
(537,857)	-	(537,857)	
63,881	-	63,881	
(991,215)	-	(991,215)	
(19,642,809)	-	(19,642,809)	
-	(672,819)	(672,819)	
-	157,613	157,613	
-	(77,682)	(77,682)	
-	163,185	163,185	
-	123,439	123,439	
-	(5,477)	(5,477)	
-	(311,741)	(311,741)	
(19,642,809)	(311,741)	(19,954,550)	
			$ (4,062)
			(4,062)
9,740,192	-	9,740,192	-
3,636,385	-	3,636,385	-
2,062,065	-	2,062,065	19,902
1,485,618	-	1,485,618	-
1,203,145	21,391	1,224,536	-
450,805	-	450,805	-
468,734	-	468,734	-
534,663	-	534,663	-
1,109,947	-	1,109,947	479
168,244	998,511	1,166,755	8,797
20,859,798	1,019,902	21,879,700	29,178
1,216,989	708,161	1,925,150	25,116
66,061	-	66,061	-
151,894	(151,894)	-	-
-	(318,837)	(318,837)	-
1,434,944	237,430	1,672,374	25,116
24,333,671	(3,731,851)	20,601,820	820,879
$ 25,768,615	$ (3,494,421)	$ 22,274,194	$ 845,995

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Basic Financial Statements

Fund Financial Statements

Balance Sheet
GOVERNMENTAL FUNDS
June 30, 2016
(expressed in thousands)

	General	Higher Education Special Revenue	Higher Education Endowment	Nonmajor Governmental Funds	Total
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES					
ASSETS					
Cash and pooled investments	$ 2,376,759	$ 164,346	$ 413,515	$ 3,407,647	$ 6,362,267
Investments	47,194	1,746,775	3,617,378	325,010	5,736,357
Taxes receivable (net of allowance)	3,676,344	8,537	-	198,618	3,883,499
Receivables (net of allowance)	198,327	1,111,947	102,444	841,060	2,253,778
Due from other funds	268,587	337,104	8	361,557	967,256
Due from other governments	1,039,195	264,023	-	2,562,093	3,865,311
Inventories and prepaids	15,104	26,362	-	48,082	89,548
Restricted cash and investments	37,815	15,448	-	184,591	237,854
Restricted receivables	56,580	5,633	-	3,570	65,783
Total Assets	7,715,905	3,680,175	4,133,345	7,932,228	23,461,653
DEFERRED OUTFLOWS OF RESOURCES					
Deferred outflows on hedging derivatives	-	-	-	1,196	1,196
Total Deferred Outflows of Resources	-	-	-	1,196	1,196
Total Assets and Deferred Outflows of Resources	$ 7,715,905	$ 3,680,175	$ 4,133,345	$ 7,933,424	$ 23,462,849
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES					
LIABILITIES					
Accounts payable	$ 980,499	$ 72,463	$ 37,453	$ 387,245	$ 1,477,660
Contracts payable	48,183	3,089	2,603	42,008	95,883
Accrued liabilities	249,024	394,640	683,985	157,969	1,485,618
Obligations under security lending agreements	110,095	719	211	78,575	189,600
Due to other funds	278,177	87,179	3,575	466,242	835,173
Due to other governments	1,041,557	23,672	-	195,240	1,260,469
Unearned revenue	98,907	231,824	-	70,395	401,126
Claims and judgments payable	49,085	-	-	82,774	131,859
Total Liabilities	2,855,527	813,586	727,827	1,480,448	5,877,388
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue	1,630,111	6,298	15,354	139,579	1,791,342
Deferred inflows on hedging derivatives	-	-	-	-	-
Total Deferred Inflows of Resources	1,630,111	6,298	15,354	139,579	1,791,342
FUND BALANCES					
Nonspendable fund balance	45,578	10,542	2,235,581	247,066	2,538,767
Restricted fund balance	558,708	50,449	1,154,583	2,845,265	4,609,005
Committed fund balance	114,958	2,781,000	-	3,232,887	6,128,845
Assigned fund balance	1,155,952	18,300	-	-	1,174,252
Unassigned fund balance	1,355,071	-	-	(11,821)	1,343,250
Total Fund Balances	3,230,267	2,860,291	3,390,164	6,313,397	15,794,119
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	$ 7,715,905	$ 3,680,175	$ 4,133,345	$ 7,933,424	$ 23,462,849

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, 2016

(expressed in thousands)

Total Fund Balances for Governmental Funds		$ 15,794,119
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	$ 27,895,566	
Depreciable assets	19,549,575	
Less: Accumulated depreciation	(9,265,013)	
Total capital assets		38,180,128
Some of the state's revenues will be collected after year-end, but are not available soon enough to pay for the current period's expenditures, and therefore are considered deferred inflows in the funds.		1,791,342
Certain pension trust funds have been funded in excess of the annual required contributions, creating a year-end asset. This asset is not a financial resource and therefore is not reported in the funds.		1,467,363
Deferred outflows of resources represent a consumption of fund equity that will be reported as an outflow of resources in a future period and therefore are not reported in the funds.		732,057
Deferred inflows of resources represent an acquisition of fund equity that will be recognized as an inflow of resources in a future period and therefore are not reported in the funds.		(865,913)
Unmatured interest on general obligation bonds is not recognized in the funds until due.		(399,534)
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.		(334,072)
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	$ (22,508,002)	
Accreted interest on bonds	(479,226)	
Compensated absences	(542,083)	
Other postemployment benefits obligations	(2,372,657)	
Net pension liability	(3,582,081)	
Unclaimed property	(165,215)	
Pollution remediation obligations	(154,145)	
Claims and judgments	(114,253)	
Other obligations	(679,213)	
Total long-term liabilities		(30,596,875)
Net Position of Governmental Activities		$ 25,768,615

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, 2016

(expressed in thousands)

	General	Higher Education Special Revenue	Higher Education Endowment	Nonmajor Governmental Funds	Total
REVENUES					
Retail sales and use taxes	$ 9,622,982	$ -	$ -	$ 117,210	$ 9,740,192
Business and occupation taxes	3,631,559	-	-	4,826	3,636,385
Property taxes	2,062,065	-	-	-	2,062,065
Excise taxes	933,247	39,155	-	230,743	1,203,145
Motor vehicle and fuel taxes	-	-	-	1,485,618	1,485,618
Other taxes	1,938,117	177,840	-	251,537	2,367,494
Licenses, permits, and fees	116,334	969	-	1,648,361	1,765,664
Other contracts and grants	241,734	940,751	-	254,331	1,436,816
Timber sales	3,993	-	21,107	123,567	148,667
Federal grants-in-aid	12,195,980	1,434,721	-	1,402,832	15,033,533
Charges for services	41,764	2,552,198	-	676,893	3,270,855
Investment income (loss)	25,662	52,082	11,268	79,232	168,244
Miscellaneous revenue	253,925	97,945	2,121	485,623	839,614
Contributions and donations	-	-	66,061	-	66,061
Unclaimed property	70,338	-	-	-	70,338
Total Revenues	31,137,700	5,295,661	100,557	6,760,773	43,294,691
EXPENDITURES					
Current:					
General government	802,422	1,350	149	484,956	1,288,877
Human services	17,071,814	-	-	964,774	18,036,588
Natural resources and recreation	534,497	-	1,250	678,610	1,214,357
Transportation	67,467	-	-	1,887,386	1,954,853
Education	11,403,114	5,081,840	1,681	435,070	16,921,705
Intergovernmental	119,340	-	-	372,829	492,169
Capital outlays	110,996	245,970	5,295	1,837,725	2,199,986
Debt service:					
Principal	8,339	22,489	-	1,008,841	1,039,669
Interest	3,262	18,334	-	977,154	998,750
Total Expenditures	30,121,251	5,369,983	8,375	8,647,345	44,146,954
Excess of Revenues Over (Under) Expenditures	1,016,449	(74,322)	92,182	(1,886,572)	(852,263)
OTHER FINANCING SOURCES (USES)					
Bonds issued	89,119	73,228	-	1,304,737	1,467,084
Refunding bonds issued	-	-	-	860,870	860,870
Payments to escrow agents for refunded bond debt	-	-	-	(1,040,394)	(1,040,394)
Issuance premiums	12,617	7,027	-	409,819	429,463
Other debt issued	74,636	27,223	-	67	101,926
Refunding COPs issued	-	31,095	-	1,625	32,720
Payment to escrow agents for refunded COP debt	-	(38,284)	-	(2,083)	(40,367)
Transfers in	577,490	763,475	26,873	2,949,351	4,317,189
Transfers out	(1,205,463)	(757,891)	(195,309)	(2,021,448)	(4,180,111)
Total Other Financing Sources (Uses)	(451,601)	105,873	(168,436)	2,462,544	1,948,380
Net Change in Fund Balances	564,848	31,551	(76,254)	575,972	1,096,117
Fund Balances - Beginning	2,665,419	2,828,740	3,466,418	5,737,425	14,698,002
Fund Balances - Ending	$ 3,230,267	$ 2,860,291	$ 3,390,164	$ 6,313,397	$ 15,794,119

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, 2016

(expressed in thousands)

Net Change in Fund Balances - Total Governmental Funds		$ 1,096,117
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	$ 1,802,838	
Less: Depreciation expense	(629,991)	1,172,847
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.		182,010
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.		(73,322)
Bond proceeds and other financing contracts provide current financial resources to governmental funds, while the repayment of the related debt principal consumes those financial resources. These transactions, however, have no effect on net position. In the current period, these amounts consist of:		
Bonds and other financing contracts issued	$ (2,870,185)	
Principal payments on bonds and other financing contracts	2,098,621	
Accreted interest on bonds	(7,275)	(778,839)
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	$ (24,640)	
Other postemployment benefits	(370,504)	
Pensions	462,027	
Pollution remediation	15,553	
Claims and judgments	(73,231)	
Accrued interest	(8,232)	
Unclaimed property	(34,559)	
Other obligations	(130,283)	(163,869)
Change in Net Position of Governmental Activities		$ 1,434,944

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

Statement of Net Position
PROPRIETARY FUNDS
June 30, 2016
(expressed in thousands)

	Business-Type Activities Enterprise Funds			
	Workers' Compensation	Unemployment Compensation	Higher Education Student Services	Guaranteed Education Tuition Program
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES				
ASSETS				
Current Assets:				
Cash and pooled investments	$ 43,560	$ 4,057,707	$ 887,674	$ 6,715
Investments	1,792,743	-	23,782	157,950
Receivables (net of allowance)	821,354	453,613	216,973	19,157
Due from other funds	70	3,092	27,438	15
Due from other governments	1,376	25,998	63,021	-
Inventories	201	-	40,652	-
Prepaid expenses	1,973	-	10,873	-
Restricted cash and investments	640	-	2,973	-
Restricted receivables	-	-	4,234	-
Total Current Assets	2,661,917	4,540,410	1,277,620	183,837
Noncurrent Assets:				
Investments, noncurrent	13,909,624	-	215,910	2,042,985
Restricted investments, noncurrent	2,048	-	56,574	-
Restricted receivables, noncurrent	-	-	-	-
Restricted net pension asset	-	-	296	-
Other noncurrent assets	2,975	-	145,465	169,942
Capital assets:				
Land and other non-depreciable assets	3,240	-	57,600	-
Buildings	65,134	-	3,503,869	-
Other improvements	1,289	-	97,128	-
Furnishings, equipment, and intangibles	102,826	-	625,420	104
Infrastructure	-	-	49,335	-
Accumulated depreciation	(114,591)	-	(1,574,429)	(93)
Construction in progress	9,554	-	66,722	-
Total Noncurrent Assets	13,982,099	-	3,243,890	2,212,938
Total Assets	16,644,016	4,540,410	4,521,510	2,396,775
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows on refundings	-	-	31,214	-
Deferred outflows on pensions	24,825	-	61,729	267
Total Deferred Outflows of Resources	24,825	-	92,943	267
Total Assets and Deferred Outflows of Resources	$ 16,668,841	$ 4,540,410	$ 4,614,453	$ 2,397,042

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

Continued

Nonmajor Enterprise Funds	Total	Governmental Activities Internal Service Funds
$ 111,739	$ 5,107,395	$ 750,666
18,214	1,992,689	16,144
25,454	1,536,551	22,769
15,549	46,164	76,399
4,685	95,080	35,002
8,268	49,121	14,523
273	13,119	12,734
-	3,613	195,100
-	4,234	55,013
184,182	8,847,966	1,178,350
135,024	16,303,543	34,976
-	58,622	-
-	-	1,521
-	296	-
5	318,387	-
1,540	62,380	6,182
12,828	3,581,831	517,328
2,376	100,793	15,581
32,284	760,634	923,659
-	49,335	2,043
(25,183)	(1,714,296)	(722,152)
1,119	77,395	38,732
159,993	19,598,920	817,870
344,175	28,446,886	1,996,220
89	31,303	366
7,975	94,796	37,196
8,064	126,099	37,562
$ 352,239	$ 28,572,985	$ 2,033,782

Statement of Net Position
PROPRIETARY FUNDS
June 30, 2016
(expressed in thousands)

	Business-Type Activities Enterprise Funds			
	Workers' Compensation	Unemployment Compensation	Higher Education Student Services	Guaranteed Education Tuition Program
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION				
LIABILITIES				
Current Liabilities:				
Accounts payable	$ 3,999	$ -	$ 173,064	$ 155
Contracts payable	7,770	57	9,319	186,000
Accrued liabilities	183,091	8,300	244,656	9,551
Obligations under security lending agreements	114,917	-	-	41,575
Bonds and notes payable	-	-	107,787	-
Due to other funds	6,126	15,358	166,661	154
Due to other governments	3	31,703	5,465	-
Unearned revenue	7,458	-	48,242	-
Claims and judgments payable	2,011,766	-	2,854	42
Total Current Liabilities	2,335,130	55,418	758,048	237,477
Noncurrent Liabilities:				
Claims and judgments payable	23,840,752	-	-	-
Bonds and notes payable	-	-	2,165,362	-
Net pension liability	129,684	-	321,183	1,345
Other long-term liabilities	61,730	-	256,348	1,540,602
Total Noncurrent Liabilities	24,032,166	-	2,742,893	1,541,947
Total Liabilities	26,367,296	55,418	3,500,941	1,779,424
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows on refundings	-	-	-	-
Deferred inflows on pensions	19,117	-	34,591	150
Total Deferred Inflows of Resources	19,117	-	34,591	150
NET POSITION				
Net investment in capital assets	67,452	-	657,959	11
Restricted for:				
Unemployment compensation	-	4,484,992	-	-
Pensions	-	-	296	-
Unrestricted	(9,785,024)	-	420,666	617,457
Total Net Position	(9,717,572)	4,484,992	1,078,921	617,468
Total Liabilities, Deferred Inflows of Resources, and Net Position	$ 16,668,841	$ 4,540,410	$ 4,614,453	$ 2,397,042

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

Concluded

Nonmajor Enterprise Funds	Total	Governmental Activities Internal Service Funds
$ 9,102	$ 186,320	$ 59,322
-	203,146	1,514
68,458	514,056	75,471
-	156,492	7,925
1,190	108,977	92,023
25,287	213,586	40,984
2,661	39,832	126,781
1,149	56,849	2,865
5,403	2,020,065	175,043
113,250	3,499,323	581,928
8,085	23,848,837	560,904
4,763	2,170,125	563,754
43,275	495,487	496,896
135,796	1,994,476	144,354
191,919	28,508,925	1,765,908
305,169	32,008,248	2,347,836
-	-	160
5,300	59,158	19,858
5,300	59,158	20,018
19,102	744,524	178,903
-	4,484,992	-
-	296	-
22,668	(8,724,233)	(512,975)
41,770	(3,494,421)	(334,072)
$ 352,239	$ 28,572,985	$ 2,033,782

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

For the Fiscal Year Ended June 30, 2016

(expressed in thousands)

	Business-Type Activities Enterprise Funds			
	Workers' Compensation	Unemployment Compensation	Higher Education Student Services	Guaranteed Education Tuition Program
OPERATING REVENUES				
Sales	$ -	$ -	$ 92,045	$ -
Less: Cost of goods sold	-	-	(57,648)	-
Gross profit	-	-	34,397	-
Charges for services	16	-	2,136,605	(29,047)
Premiums and assessments	2,516,256	1,124,773	-	-
Lottery ticket proceeds	-	-	-	-
Federal aid for unemployment insurance benefits	-	38,911	-	-
Miscellaneous revenue	40,421	14,296	167,805	185
Total Operating Revenues	2,556,693	1,177,980	2,338,807	(28,862)
OPERATING EXPENSES				
Salaries and wages	159,686	-	909,664	3,066
Employee benefits	62,817	-	264,603	726
Personal services	7,457	-	46,188	119
Goods and services	82,574	-	896,447	952
Travel	4,106	-	27,840	16
Premiums and claims	2,873,993	1,020,368	27	-
Guaranteed education tuition program expense	-	-	-	(157,184)
Lottery prize payments	-	-	-	-
Depreciation and amortization	10,206	-	172,988	3
Miscellaneous expenses	37,450	-	25,356	-
Total Operating Expenses	3,238,289	1,020,368	2,343,113	(152,302)
Operating Income (Loss)	(681,596)	157,612	(4,306)	123,440
NONOPERATING REVENUES (EXPENSES)				
Earnings (loss) on investments	874,953	86,894	31,996	(5,602)
Interest expense	(37)	-	(93,768)	-
Tax and license revenue	95	-	-	-
Other revenues (expenses)	8,814	-	20,391	(1)
Total Nonoperating Revenues (Expenses)	883,825	86,894	(41,381)	(5,603)
Income (Loss) Before Contributions and Transfers	202,229	244,506	(45,687)	117,837
Capital contributions	-	-	-	-
Transfers in	-	-	445,410	-
Transfers out	-	-	(421,755)	-
Special item - refunds and valuation changes resulting from SB 5954	-	-	-	(318,837)
Net Contributions, Transfers, and Special Items	-	-	23,655	(318,837)
Change in Net Position	202,229	244,506	(22,032)	(201,000)
Net Position - Beginning, as restated	(9,919,801)	4,240,486	1,100,953	818,468
Net Position - Ending	$ (9,717,572)	$ 4,484,992	$ 1,078,921	$ 617,468

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

		Governmental Activities
Nonmajor Enterprise Funds	Total	Internal Service Funds
$ 91,194	$ 183,239	$ 43,590
(61,197)	(118,845)	(36,093)
29,997	64,394	7,497
36,587	2,144,161	672,842
25,793	3,666,822	1,505,296
694,875	694,875	-
-	38,911	-
4,561	227,268	155,632
791,813	6,836,431	2,341,267
58,685	1,131,101	312,267
23,916	352,062	134,294
16,261	70,025	29,234
91,221	1,071,194	334,418
2,134	34,096	4,575
-	3,894,388	1,491,918
-	(157,184)	-
432,901	432,901	-
1,699	184,896	98,375
999	63,805	476
627,816	7,077,284	2,405,557
163,997	(240,853)	(64,290)
10,271	998,512	6,864
(6,462)	(100,267)	(25,951)
21,297	21,392	26
174	29,378	(10,559)
25,280	949,015	(29,620)
189,277	708,162	(93,910)
-	-	5,771
13,861	459,271	85,549
(189,411)	(611,166)	(70,732)
-	(318,837)	-
(175,550)	(470,732)	20,588
13,727	237,430	(73,322)
28,043	(3,731,851)	(260,750)
$ 41,770	$ (3,494,421)	$ (334,072)

Statement of Cash Flows
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2016
(expressed in thousands)

	Business-Type Activities Enterprise Funds			
	Workers' Compensation	Unemployment Compensation	Higher Education Student Services	Guaranteed Education Tuition Program
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	$ 2,461,807	$ 1,289,326	$ 2,219,659	$ 95,016
Customer requested refunds - authorized by GET board	-	-	-	(370,913)
Payments to suppliers	(2,228,394)	(1,052,652)	(1,021,202)	(210,637)
Payments to employees	(218,103)	-	(1,130,823)	(3,678)
Other receipts	40,420	58,984	167,804	184
Net Cash Provided (Used) by Operating Activities	55,730	295,658	235,438	(490,028)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers in	-	-	445,410	-
Transfers out	-	-	(421,755)	-
Operating grants and donations received	8,528	-	25,396	-
Taxes and license fees collected	95	-	-	-
Net Cash Provided (Used) by Noncapital Financing Activities	8,623	-	49,051	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Interest paid	(111)	-	(29,041)	-
Principal payments on long-term capital financing	(4,050)	-	(195,501)	-
Proceeds from long-term capital financing	-	-	266,545	-
Proceeds from sale of capital assets	14	-	5,634	-
Acquisitions of capital assets	(6,031)	-	(175,857)	-
Net Cash Provided (Used) by Capital and Related Financing Activities	(10,178)	-	(128,220)	-
CASH FLOWS FROM INVESTING ACTIVITIES				
Receipt of interest	657,532	86,894	10,698	148,776
Proceeds from sale of investment securities	7,751,271	-	35,863	1,691,868
Purchases of investment securities	(8,494,034)	-	(63,437)	(1,355,010)
Net Cash Provided (Used) by Investing Activities	(85,231)	86,894	(16,876)	485,634
Net Increase (Decrease) in Cash and Pooled Investments	(31,056)	382,552	139,393	(4,394)
Cash and Pooled Investments, July 1	75,256	3,675,155	751,254	11,109
Cash and Pooled Investments, June 30	$ 44,200	$ 4,057,707	$ 890,647	$ 6,715
CASH FLOWS FROM OPERATING ACTIVITIES				
Operating Income (Loss)	$ (681,596)	$ 157,612	$ (4,306)	$ (195,397)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operations:				
Depreciation	10,206	-	172,988	3
Revenue reduced for uncollectible accounts	35,625	-	1,232	-
Change in Assets: Decrease (Increase)				
Receivables	(54,900)	170,330	(2,099)	71,987
Inventories	32	-	(1,144)	-
Prepaid expenses	97	-	(713)	-
Other assets	-	-	84	-
Change in Deferred Outflows of Resources: Increase (Decrease)	(9,957)	-	(28,432)	(116)
Change in Liabilities: Increase (Decrease)				
Payables	780,721	(32,284)	162,708	(366,231)
Change in Deferred Inflows of Resources: Decrease (Increase)	(24,498)	-	(64,880)	(274)
Net Cash or Cash Equivalents Provided by (Used in) Operating Activities	$ 55,730	$ 295,658	$ 235,438	$ (490,028)

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

Continued

Nonmajor Enterprise Funds	Total	Governmental Activities Internal Service Funds
$ 842,214	$ 6,908,022	$ 2,186,430
-	(370,913)	-
(603,997)	(5,116,882)	(1,784,419)
(79,224)	(1,431,828)	(378,043)
4,180	271,572	157,044
163,173	259,971	181,012
13,861	459,271	85,549
(189,411)	(611,166)	(70,732)
416	34,340	267
21,298	21,393	26
(153,836)	(96,162)	15,110
(229)	(29,381)	(21,079)
(410)	(199,961)	(68,816)
-	266,545	116,442
44	5,692	6,384
(2,276)	(184,164)	(115,134)
(2,871)	(141,269)	(82,203)
45	903,945	5,719
16,889	9,495,891	1,982
(6,511)	(9,918,992)	(760)
10,423	480,844	6,941
16,889	503,384	120,860
94,850	4,607,624	824,906
$ 111,739	$ 5,111,008	$ 945,766
$ 163,997	$ (559,690)	$ (64,290)
1,699	184,896	98,375
23	36,880	137
(7,378)	177,940	(35,168)
233	(879)	3,123
141	(475)	(1,254)
(360)	(276)	-
(3,767)	(42,272)	(18,022)
17,145	562,059	238,471
(8,560)	(98,212)	(40,360)
$ 163,173	$ 259,971	$ 181,012

Statement of Cash Flows
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2016
(expressed in thousands)

	Business-Type Activities Enterprise Funds			
	Workers' Compensation	Unemployment Compensation	Higher Education Student Services	Guaranteed Education Tuition Program
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES				
Contributions of capital assets	$ -	$ -	$ -	$ -
Acquisition of capital assets through capital leases	-	-	-	-
Amortization of annuity prize liability	-	-	-	-
Increase (decrease) in fair value of investments	219,640	-	1,129	153,725
Debt refunding deposited with escrow agent	-	-	63,735	-
Amortization of debt premium/discount	-	-	66,671	-
Increase in ownership of joint venture	-	-	19,978	-

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

Concluded

Nonmajor Enterprise Funds	Total	Governmental Activities Internal Service Funds
$ -	$ -	$ 5,771
-	-	111
6,284	6,284	-
10,226	384,720	1,196
4,810	68,545	8,020
-	66,671	-
-	19,978	-

Statement of Net Position
FIDUCIARY FUNDS
June 30, 2016
(expressed in thousands)

	Private-Purpose Trust	Local Government Investment Pool	Pension and Other Employee Benefit Plans	Agency Funds
ASSETS				
Current Assets:				
Cash and pooled investments	$ 1,141	$ 5,321,793	$ 51,981	$ 125,547
Investments	-	3,415,096	-	42,795
Receivables, pension and other employee benefit plans:				
Employers	-	-	188,904	-
Members (net of allowance)	-	-	3,554	-
Interest and dividends	-	-	303,850	-
Investment trades pending	-	-	2,832,864	-
Due from other pension and other employee benefit funds	-	-	145,717	-
Other receivables, all other funds	-	2,423	82	8,056
Due from other governments	-	-	-	19,524
Total Current Assets	1,141	8,739,312	3,526,952	195,922
Noncurrent Assets:				
Investments, noncurrent, pension and other employee benefit plans:				
Public equity	-	-	37,175,122	-
Fixed income	-	-	17,794,542	-
Private equity	-	-	17,446,347	-
Real estate	-	-	13,247,481	-
Security lending	-	-	682,235	-
Liquidity	-	-	1,962,372	-
Tangible assets	-	-	2,528,197	-
Investments, noncurrent, all other funds	896	988,429	-	305
Other noncurrent assets	-	-	-	48,384
Capital assets:				
Furnishings, equipment, and intangibles	37	-	-	-
Accumulated depreciation	(27)	-	-	-
Total Noncurrent Assets	906	988,429	90,836,296	48,689
Total Assets	2,047	9,727,741	94,363,248	$ 244,611
LIABILITIES				
Accounts payable	127	-	-	$ 8,051
Contracts payable	-	-	-	37,283
Accrued liabilities	137	178,889	2,842,665	130,315
Obligations under security lending agreements	-	-	685,035	2,927
Due to other funds	-	76	-	-
Due to other pension and other employee benefit funds	-	-	145,717	-
Due to other governments	-	5,402	-	17,651
Unearned revenue	-	-	1,337	-
Claims and judgments payable	3	-	-	-
Other long-term liabilities	-	-	-	48,384
Total Liabilities	267	184,367	3,674,754	$ 244,611
NET POSITION				
Net position restricted for:				
Pensions	-	-	87,065,458	
Deferred compensation participants	-	-	3,623,036	
Local government pool participants	-	9,543,374	-	
Individuals, organizations, and other governments	1,780	-	-	
Total Net Position	$ 1,780	$ 9,543,374	$ 90,688,494	

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, 2016
(expressed in thousands)

	Private-Purpose Trust	Local Government Investment Pool	Pension and Other Employee Benefit Plans
ADDITIONS			
Contributions:			
Employers	$ -	$ -	$ 2,026,737
Members	-	-	1,342,628
State	-	-	77,611
Participants	-	15,868,992	213,531
Total Contributions	-	15,868,992	3,660,507
Investment Income:			
Net appreciation (depreciation) in fair value	-	-	432,435
Interest and dividends	-	27,633	1,883,126
Less: Investment expenses	-	-	(344,318)
Net Investment Income (Loss)	-	27,633	1,971,243
Other Additions:			
Unclaimed property	75,221	-	-
Transfers from other plans	-	-	5,880
Miscellaneous revenue	-	-	4
Total Other Additions	75,221	-	5,884
Total Additions	75,221	15,896,625	5,637,634
DEDUCTIONS			
Pension benefits	-	-	3,867,361
Pension refunds	-	-	524,825
Transfers to other plans	-	-	5,880
Administrative expenses	5,145	1,291	3,061
Distributions to participants	-	15,008,069	215,450
Payments to or on behalf of individuals, organizations and other governments in accordance with state unclaimed property laws	71,211	-	-
Total Deductions	76,356	15,009,360	4,616,577
Net Increase (Decrease)	(1,135)	887,265	1,021,057
Net Position - Beginning	2,915	8,656,109	89,667,437
Net Position - Ending	$ 1,780	$ 9,543,374	$ 90,688,494

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

Statement of Net Position
COMPONENT UNITS
June 30, 2016
(expressed in thousands)

	Public Stadium	Health Benefit Exchange	Valley Medical Center	Northwest Hospital
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES				
ASSETS				
Current Assets:				
Cash and pooled investments	$ 8,611	$ 755	$ 74,215	$ 18,726
Investments	-	-	16,374	86
Investments, restricted	3,740	-	-	1,290
Receivables (net of allowance)	916	11,760	79,026	47,515
Inventories	-	-	5,202	4,821
Prepaid expenses	24	767	13,894	4,524
Total Current Assets	13,291	13,282	188,711	76,962
Noncurrent Assets:				
Investments, noncurrent	-	-	113,628	45,559
Restricted investments, noncurrent	-	-	16,873	-
Other noncurrent assets	-	-	-	5,755
Capital assets:				
Land	34,677	-	13,414	10,817
Buildings	460,953	-	426,639	155,180
Other improvements	-	637	18,616	5,984
Furnishings, equipment and intangible assets	19,132	46,029	240,567	217,289
Accumulated depreciation	(233,084)	(42,652)	(360,011)	(281,467)
Construction in progress	-	-	13,508	4,012
Total Noncurrent Assets	281,678	4,014	483,234	163,129
Total Assets	294,969	17,296	671,945	240,091
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows on hedging derivatives	-	-	-	-
Deferred outflows on refundings	-	-	-	6,066
Deferred outflows on pensions	24	1,993	-	-
Total Deferred Outflows of Resources	24	1,993	-	6,066
Total Assets and Deferred Outflows of Resources	$ 294,993	$ 19,289	$ 671,945	$ 246,157

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

Continued

Nonmajor Component Units	Total
$ 8,753	$ 111,060
54,974	71,434
-	5,030
32,920	172,137
-	10,023
268	19,477
96,915	389,161
-	159,187
-	16,873
186,584	192,339
-	58,908
-	1,042,772
-	25,237
1,999	525,016
(1,670)	(918,884)
-	17,520
186,913	1,118,968
283,828	1,508,129
572	572
-	6,066
-	2,017
572	8,655
$ 284,400	$ 1,516,784

Statement of Net Position
COMPONENT UNITS
June 30, 2016
(expressed in thousands)

	Public Stadium	Health Benefit Exchange	Valley Medical Center	Northwest Hospital
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION				
LIABILITIES				
Current Liabilities:				
Accounts payable	$ 19	$ 11,079	$ 18,215	$ 17,200
Contracts payable	1,630	-	-	-
Accrued liabilities	4,289	695	82,263	41,703
Unearned revenue	-	-	-	-
Total Current Liabilities	5,938	11,774	100,478	58,903
Noncurrent Liabilities:				
Net pension liability	178	9,254	-	-
Other long-term liabilities	-	-	303,232	97,756
Total Noncurrent Liabilities	178	9,254	303,232	97,756
Total Liabilities	6,116	21,028	403,710	156,659
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows on property taxes	-	-	26,744	-
Deferred inflows on pensions	79	1,417	-	-
Total Deferred Inflows of Resources	79	1,417	26,744	-
NET POSITION				
Net investment in capital assets	277,940	4,014	40,601	30,674
Restricted for:				
Deferred sales tax	3,703	-	-	-
Other purposes	-	-	8,034	2,681
Unrestricted	7,155	(7,170)	192,856	56,143
Total Net Position	288,798	(3,156)	241,491	89,498
Total Liabilities, Deferred Inflows of Resources, and Net Position	$ 294,993	$ 19,289	$ 671,945	$ 246,157

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

Concluded

Nonmajor Component Units	Total
$ 38,412	$ 84,925
-	1,630
1,245	130,195
10,239	10,239
49,896	226,989
4,410	13,842
-	400,988
4,410	414,830
54,306	641,819
-	26,744
730	2,226
730	28,970
329	353,558
-	3,703
1,083	11,798
227,952	476,936
229,364	845,995
$ 284,400	$ 1,516,784

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

For the Fiscal Year Ended June 30, 2016

(expressed in thousands)

	Public Stadium	Health Benefit Exchange	Valley Medical Center	Northwest Hospital
EXPENSES	$ 18,769	$ 147,281	$ 578,984	$ 395,224
PROGRAM REVENUES				
Charges for services	3,605	82,041	565,897	372,750
Operating grants and contributions	-	47,675	-	14,936
Total Program Revenues	3,605	129,716	565,897	387,686
Net Program Revenues (Expense)	(15,164)	(17,565)	(13,087)	(7,538)
GENERAL REVENUES				
Earnings (loss) on investments	110	-	4,666	2,516
Property taxes	-	-	19,902	-
Other	-	174	-	297
Total General Revenues	110	174	24,568	2,813
Change in Net Position	(15,054)	(17,391)	11,481	(4,725)
Net Position - Beginning, as restated	303,852	14,235	230,010	94,223
Net Position - Ending	$ 288,798	$ (3,156)	$ 241,491	$ 89,498

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

Nonmajor Component Units	Total
$ 24,859	$ 1,165,117
68,573	1,092,866
5,578	68,189
74,151	1,161,055
49,292	(4,062)
1,505	8,797
-	19,902
8	479
1,513	29,178
50,805	25,116
178,559	820,879
$ 229,364	$ 845,995

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Index

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2016

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Note 1
Summary of Significant Accounting Policies

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

A. REPORTING ENTITY

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

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

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

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

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

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

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

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

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

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

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

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

Blended Component Units

Blended component units, although legally separate entities, are part of the state's operations in substance. Accordingly, they are reported as part of the state and blended into the appropriate funds. Financial information for the state's blended component units may be obtained from the Office of Financial Management, Accounting Division, P.O. Box 43127, Olympia, WA 98504-3127. The following entities are blended in the state's financial statements:

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

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

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

Washington Biomedical Research Properties I and II, and Washington Biomedical Research Facilities 3 and 3.2 were formed to acquire, construct, or renovate certain real properties for the benefit of the University of Washington in fulfilling its educational, medical, or scientific research missions.

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

Discrete Component Units

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

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

The following entities are discretely presented in the financial statements of the state in the component unit's column:

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

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

Washington Health Care Facilities Authority
410 11th Avenue SE, Suite 201
Olympia, WA 98501

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

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. At June 30, 2016, PSA capital assets, net of accumulated depreciation, total $281.7 million. The state issued general obligation bonds for a portion of the cost of the stadium construction. The total public share of the stadium and exhibition center cost did not exceed $300 million from all state and local government funding sources, as required in statute.

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

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

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

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

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

Washington Health Benefit Exchange
810 Jefferson Street SE
PO Box 657
Olympia, WA 98507

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

Northwest Hospital is a 209-bed full service acute care hospital. The University is the sole corporate member of Northwest Hospital. Financial reports of Northwest Hospital may be obtained at the following address:

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

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

Valley Medical Center
400 S. 43rd Street
Renton, WA 98055-5010

Joint Ventures

In 1998, the University of Washington Medical Center (Medical Center) entered into an agreement with Seattle Children's Hospital and Fred Hutchinson Cancer Research

Center to establish the **Seattle Cancer Care Alliance (SCCA)**. Each member of the SCCA has a one-third interest. The mission of the SCCA is to eliminate cancer as a cause of human suffering and death and to become recognized as the premier cancer research and treatment center in the Pacific Northwest. The SCCA integrates the cancer research, teaching, and clinical cancer programs of all three institutions to provide state-of-the-art cancer care. Under the agreement, the Medical Center provides the patient care to all adult inpatients of the SCCA.

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

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

The state accounts for the Medical Center's interest in the SCCA under the equity method of accounting. Income of $20 million was recorded in fiscal year 2016, bringing the total equity investment to $127.7 million which is recognized in the state's financial statements in the Higher Education Student Services Fund.

Separate financial statements for the SCCA may be obtained from:

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

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

Separate financial statements for CUMG may be obtained from:

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

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Government-wide Financial Statements

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

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

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

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

- Charges to customers for goods and services of the program. A customer is one who directly benefits from the goods or services or is otherwise directly affected by the program, such as a state citizen or taxpayer, or other governments or nongovernmental entities.
- Amounts received from outside entities that are restricted to one or more specific programs. These amounts can be operating or capital in nature.
- Earnings on investments that are restricted to a specific program are also considered program revenues.

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

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

Fund Financial Statements

The state uses 664 accounts that are combined into 51 rollup funds. The state presents separate financial statements for governmental funds, proprietary funds, and fiduciary funds. Major individual governmental funds and major individual proprietary funds are reported in separate columns in the fund financial statements, with nonmajor funds being combined into a single column regardless of fund type. Internal service and fiduciary funds are reported by fund type. Major funds include:

Major Governmental Funds:

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

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

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

Major Enterprise Funds:

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

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

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

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

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

Nonmajor Governmental Funds:

- **Special Revenue Funds** account for the proceeds of specific revenue sources (other than trusts for individuals, private organizations, 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 related to a future time period are recognized when received in cash. Revenues related to expenditure-driven grant agreements are recognized when the qualifying expenditures are made, provided that the availability criteria are met. Expenditure-driven grant revenue is considered available if it can be collected by the state at the same time cash is disbursed to cover the associated grant expenditure. Pledges are accrued when the eligibility requirements are met and resources are available. All other accrued revenue sources are determined to be available if collectible within 12 months.

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

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

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

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

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

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

1. Cash and Investments

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

The method of accounting for investments varies depending upon the fund classification. Investments in the state's Local Government Investment Pool (LGIP), a qualified external investment pool, are reported at amortized cost which approximates fair value. The Office of the State Treasurer prepares a stand-alone LGIP financial report. A copy of the report is available from the Office of the State Treasurer, PO Box 40200, Olympia, Washington 98504-0200, online at: http://www.tre.wa.gov/documents/lgipCafr/lgipCafrFY16.pdf, or phone number (360) 902-9000. TTY users dial 711 to be connected to the state TTY operator.

In the absence of readily ascertainable fair values, certain pension trust fund investments, including real estate and private equity, are reported at fair value based on the individual investment's capital account balance at the closest available reporting period, adjusted for subsequent activity. At June 30, 2016, these alternative investments are valued at $33.22 billion. Because of the inherent uncertainties in the estimation of fair value, it is possible that the estimates will change.

Short-term money market investments and participating interest-earning investment contracts that have a remaining maturity at time of purchase of one year or less are reported at amortized cost. Nonparticipating contracts, such as nonnegotiable certificates of deposit with redemption terms that do not consider market rates, are reported using a cost-based measure.

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

2. Receivables and Payables

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

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

3. Inventories and Prepaids

Consumable inventories, consisting of expendable materials and supplies held for consumption, are valued and reported in the state's financial statements if the fiscal year-end balance on hand at an inventory control point is estimated to be $50,000 or more. Consumable inventories are valued at cost using either the first-in, first-out or weighted average methods. Donated consumable inventories are recorded at fair 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 nonspendable fund balance indicating that they do not constitute “available spendable resources,” except for $4.6 million in federally donated consumable inventories, which are offset by unearned revenue because they are not earned until they are distributed to clients.

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

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

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

4. Restricted Assets

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

5. Capital Assets

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

It is the state’s policy to capitalize:

- All land, including land use rights with indefinite lives acquired with the purchase of the underlying land, and ancillary costs;
- The state highway system operated by the Department of Transportation;
- Infrastructure, other than the state highway system, with a cost of $100,000 or more;
- Buildings, building improvements, improvements other than buildings, and leasehold improvements with a cost of $100,000 or more;
- Intangible assets, either purchased or internally developed, with a cost of $1 million or more that are identifiable by meeting one of the following conditions:
    - The asset is capable of being separated or divided and sold, transferred, licensed, rented, or exchanged;
    - The asset arises from contractual or other legal rights, regardless of whether those rights are transferable or separable;
- All capital assets acquired with Certificates of Participation, a debt financing program administered by the Office of the State Treasurer; and
- All other capital assets with a unit cost (including ancillary costs) of $5,000 or greater, or collections with a total cost of $5,000 or greater except for assets held by the University of Washington (UW). The capitalization threshold for all other capital assets held by the UW is $2,000.

Assets acquired by capital leases are capitalized if the assets’ fair market value meets the state’s capitalization thresholds described above.

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

Donated capital assets, works of art and historical treasures are valued at their estimated acquisition value on the date of donation, plus all appropriate ancillary costs. When the acquisition value is not practically determinable due to lack of sufficient records, estimated cost is used. Where necessary, estimates of 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 2016,

$85.9 million in interest costs were incurred, and $13.2 million net interest costs were capitalized.

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

- The collection is held for public exhibition, education, or research in furtherance of public service, rather than financial gain.
- The collection is protected, kept unencumbered, cared for, and preserved.
- The collection is subject to policy requirements that the proceeds from sales of collection items be used to acquire other items for the collection.

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

Generally, estimated useful lives are as follows:

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

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

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

- Maintenance of an up-to-date inventory of system assets;
- Performance of condition assessments of the assets at least every three years with summarization of the results using a measurement scale; and
- Annual estimation of the amount to maintain and preserve the assets at the condition level established and disclosed.

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

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

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

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

6. Deferred Outflows/Inflows of Resources

In addition to assets, the Balance Sheet and Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of fund equity that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then. The category of deferred outflow of resources reported in the government-wide and proprietary fund statements of net position relates to debt refunding, pensions, and hedging derivative instruments.

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

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

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

In addition to liabilities, the Balance Sheet and Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of fund equity that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Deferred inflows of resources reported by the state relate to unavailable revenue, debt refunding, pensions, and hedging derivative instruments.

Unavailable revenue arises only under the modified accrual basis of accounting, and so is reported only on the governmental funds balance sheet. Governmental funds report deferred inflows for unavailable revenues primarily from two sources: taxes and long-term receivables. These amounts are recognized as inflows of resources in the periods that the amounts become available.

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

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

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

7. Compensated Absences

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

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

It is the state's policy to liquidate its compensated absences obligations with future resources rather than advance funding it with available spendable financial resources.

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

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

8. Long-Term Liabilities

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

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

9. Fund Equity

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

- **Nonspendable** fund balance represents amounts that are either not in a spendable form or are legally or contractually required to remain intact.
- **Restricted** fund balance represents amounts for which constraints are placed on their use by the state constitution, enabling legislation, or external resource

providers such as creditors, grantors, or laws or regulations of other governments.

- **Committed** fund balance represents amounts that can only be used for specific purposes pursuant to constraints imposed by state law as adopted by the state Legislature. The commitment remains in place until the Legislature changes or eliminates the state law.

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

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

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

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

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

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

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

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

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

E. OTHER INFORMATION

1. Insurance Activities

Workers' Compensation. Title 51 RCW establishes the state of Washington's workers' compensation program. The statute requires all employers to secure coverage for job-related injuries and diseases, with few exceptions, through the Workers' Compensation Fund or through self-insurance.

Direct private insurance is not authorized, although self-insurers are permitted to reinsure up to 80 percent of their obligations through private insurers.

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

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

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

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

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

Risk Management. The state of Washington operates a self-insurance liability program pursuant to RCW 4.92.130. The state manages its tort claims as an insurance business activity rather than a general governmental activity. The state's policy is generally not to purchase commercial insurance for the risk of losses to which it is exposed. Instead, the state's management believes it is more economical to manage its risks internally and set aside assets for claims settlement in the Risk Management Fund, an internal service fund. 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 65 percent of the eligible subscribers in fiscal year 2016. 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 a 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 $459.5 million. This amount is reported as restricted for expendable endowment funds on the government-wide Statement of Net Position.

Note 2

Accounting, Reporting, and Entity Changes

Reporting Changes. Effective for fiscal year 2016 reporting, the state adopted the following new standards issued by the Governmental Accounting Standards Board (GASB):

Statement No. 72 *Fair Value Measurement and Application.* GASB Statement No. 72 defines fair value and provides guidance for determining a fair value measurement for financial reporting purposes.

Statement No. 73 *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to certain Provisions of GASB Statements 67 and 68*. GASB Statement No. 73 addresses three separate subjects, two of which are effective for fiscal year 2016 reporting. It requires assets accumulated for pension purposes to be reported as assets of the employer. It also amends Statements 67 and 68 by:

- limiting disclosure of investment related factors that significantly affect trends in the amounts reported to factors that the pension plan or government have influence over;
- defining separately financed specific liabilities and financial reporting requirements for those liabilities; and
- requiring employers to recognize revenue for the support of nonemployer contributing entities not in a special funding situation in the period in which the contribution is reported as a change in the net pension liability.

Statement No. 76 *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. GASB Statement No. 76 identifies the hierarchy of generally accepted accounting principles for governmental financial reporting and establishes the framework for selecting those principles.

Statement No. 79 *Certain External Investment Pools and Pool Participants*. GASB Statement No. 79 establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. Certain provisions of Statement 79 related to portfolio quality, custodial credit risk, and shadow pricing are not effective until fiscal year 2017.

Fund Reclassification. During fiscal year 2016, an account was abolished and its assets and liabilities were transferred to another agency and account. As a result the beginning fund balance of the Data Processing Revolving Fund, a nonmajor internal service fund, was reduced by \$2.0 million, and the beginning fund balance of the General Services Fund, a nonmajor internal service fund, was increased by \$2.0 million.

Prior Period Adjustment. The Health Benefit Exchange, a major component unit, recorded a reduction to the beginning net position balance in the amount of \$8.6 million as a result of implementing GASB Statement No. 68.

The Public Stadium Authority, a major component unit, recorded a reduction to the beginning net position balance in the amount of \$132 thousand as a result of implementing GASB Statement No. 68.

The Washington Economic Development Finance Authority, a nonmajor component unit, recorded an increase to the beginning net position balance in the amount of \$2 thousand as a result of a change in accounting method.

Northwest Hospital, a major component unit, recorded a decrease to the beginning net position balance in the amount of \$1.3 million due to correction of an error.

Fund equity at July 1, 2015, has been restated as follows (expressed in thousands):

	Fund equity (deficit) at June 30, 2015, as previously reported	Fund Reclassification	Prior Period Adjustment	Fund equity (deficit) as restated, July 1, 2015
Governmental Funds:				
General	$ 2,665,419			$ 2,665,419
Higher Education Special Revenue	2,828,740			2,828,740
Higher Education Endowment	3,466,418			3,466,418
Nonmajor Governmental	5,737,425			5,737,425
Proprietary Funds:				
Enterprise Funds:				
Workers' Compensation	(9,919,801)			(9,919,801)
Unemployment Compensation	4,240,486			4,240,486
Higher Education Student Services	1,100,953			1,100,953
Guaranteed Education Tuition Program	818,468			818,468
Nonmajor Enterprise	28,043			28,043
Internal Service Funds	(260,750)			(260,750)
Fiduciary Funds:				
Private Purpose Trust	2,915			2,915
Local Government Investment Pool	8,656,109			8,656,109
Pension and Other Employee Benefit Plans	89,667,437			89,667,437
Component Units:				
Public Stadium	303,984		(132)	303,852
Health Benefit Exchange	22,842		(8,607)	14,235
Valley Medical Center	230,010			230,010
Northwest Hospital	95,550		(1,327)	94,223
Nonmajor Component Units	178,557		2	178,559

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, 2016, $1.30 billion of the state's deposits with financial institutions were insured or collateralized, with the remaining $5.7 million uninsured/uncollateralized.

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

1. Summary of Investment Policies

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

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

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

Eligible Investments. The WSIB is authorized by statute as having investment management responsibility for pension trust funds. The WSIB is authorized to invest as provided by statute (chapter 43.33A RCW) and WSIB policy in the following: U.S. treasury bills; discount notes; repurchase agreements; reverse repurchase agreements; banker's acceptances; commercial paper; guaranteed investment contracts; U.S. government and agency (government sponsored corporations eligible for collateral purposes at the Federal Reserve) securities; non-U.S. dollar bonds; investment grade corporate bonds; non-investment grade corporate bonds; publicly traded mortgage-backed securities; privately placed mortgages; private placements of corporate debt; U.S. and foreign common stock; U.S. preferred stock; convertible securities; private equity including but not limited to investment corporations, partnerships, and limited liability companies for venture capital, leveraged buy-outs, real estate, and other tangible assets, or other forms of private equity; asset-backed securities; and derivative securities including futures, options, options on futures, forward contracts, and swap transactions. There were no violations of these investment restrictions during fiscal year 2016.

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 the cash needs of each retirement plan.

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

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

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

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

To achieve the performance and diversification objectives of the pension trust funds, the public markets equity program seeks to achieve the highest return possible consistent with prudent risk management and the desire for downside protection, with passive equity strategies as the default whenever strategies with better risk/return profiles cannot be identified; provide diversification to the pension trust funds' overall investment program; maintain liquidity in public equity; and maintain transparency into all public equity strategies to the extent possible.

Public Markets Equities. 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 (MSCI) All Country World Investable Market Index. A mix of external managers approved by the WSIB is used to manage the program. Passive management delivers broad diversified equity market exposure at low cost and is used when active managers cannot be identified and monitored appropriately. Passive management is also used when it is considered an appropriate alternative to active management, typically in more efficient markets. Active management is used when the pension trust funds can identify, access, and monitor successful managers in markets that are less efficient. Active management seeks to enhance the risk/return profile of the program.

Fixed Income. 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, provide liquidity to the pension trust fund 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 issues 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 value 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 is targeted to be within plus or minus 20 percent of the duration of the Barclays Capital Universal Index.

The major sector allocations of the fixed income portfolio are limited to the following ranges: U.S. treasuries and government agencies – 10 percent to 45 percent, credit bonds – 10 percent to 80 percent, asset-backed securities – 0 percent to 10 percent, commercial mortgage-backed securities – 0 percent to 10 percent, and mortgage-backed securities – 5 percent to 45 percent.

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

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

Tangible Assets. The primary goal of the tangible asset portfolio is to generate a long-term, predictable and persistent income stream. The secondary goal is to generate appreciation approximately commensurate with inflation. The structure of the investments is primarily targeted to those private funds or separate accounts providing the WSIB with the most robust governance provisions related to acquisitions, dispositions, debt levels, and ongoing operational decisions for annual capital expenditures. For diversification purposes, the tangible asset portfolio focuses on income producing, physical assets in the upstream and midstream segments of four main industries: minerals and mining, energy, agriculture, and society essentials.

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.

Real Estate. 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 pension trust fund'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.

The pension trust fund may invest in any real estate opportunity demonstrating acceptable risk-adjusted returns, provided it is not prohibited by state law or WSIB policy. Investment structures may include real estate operating companies, joint ventures, commingled funds (closed or open-ended), and co-investments with existing WSIB real estate partners. Diversification within the real estate program is achieved through consideration of property type, capital structure, life cycle, geographic region, partner concentration, and property level.

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

Innovation Portfolio. 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 two investment strategies in the innovation portfolio involving private partnerships.

2. Valuation of Investments

The pension trust fund reports investments at fair value and categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. Unrealized gains and losses are included in the Statement of Changes in Net Position.

The following table presents fair value measurements as of June 30, 2016:

Pension Trust Funds
Investments Measured at Fair Value
June 30, 2016
(expressed in thousands)

		Fair Value Measurements Using		
Investments by fair value level	**Fair Value**	**Level 1 Inputs**	**Level 2 Inputs**	**Level 3 Inputs**
Debt securities				
Mortgage and other asset-backed securities	$ 1,078,558		$ 1,078,558	
Corporate bonds	9,085,459		9,085,459	
U.S. and foreign government and agency securities	7,630,526		7,630,526	
Total debt securities	17,794,543		17,794,543	
Equity securities				
Common and preferred stock	17,707,523	17,674,188	33,335	
Depository receipts and other miscellaneous	808,041	805,891	2,150	
Mutual funds and exchange traded funds	1,819	1,819	-	
Real estate investment trusts	321,959	321,959	-	
Private equity and tangible asset funds	158,538	158,538	-	
Total equity securities	18,997,880	18,962,395	35,485	
Total return swap contracts (Investment derivative)	22		22	
Total investments by fair value level	36,792,445	$ 18,962,395	$ 17,830,050	
Investments measured at net asset value (NAV)				
Private equity	17,346,426			
Real estate	13,247,480			
Tangible assets	2,469,580			
Collective investment trust funds (equity securities)	10,493,392			
Total investments measured at the NAV	43,556,878			
Total investments measured at fair value	$ 80,349,323			
Other assets (liabilities) measured at fair value				
Collateral held under securities lending agreements	682,234		682,234	
Net foreign exchange contracts receivable-forward and spot	10,333		10,333	
Margin variation receivable-futures contracts	17,523		17,523	
Obligations under securities lending agreements	(682,234)		(682,234)	
Total other assets (liabilities) measured at fair value	$ 27,856		$ 27,856	

Investments classified as level 1. Investments classified as level 1 in the previous table are exchange traded equity securities whose values are based on published market prices and quotations from national security exchanges as of the New York Stock Exchange close, as of each reporting period end.

Investments classified as level 2. Investments classified as level 2 in the above table are primarily comprised of publicly traded debt securities and exchange traded stocks traded in inactive markets. Publicly traded debt securities are sourced from reputable pricing vendors using models that are market-based measurements representing their good faith opinion as to the exit value of a security, in an orderly transaction under current market conditions. Such models take into account quoted prices, nominal yield spreads, benchmark yield curves, prepayment speeds, and other market corroborated inputs.

Investments measured at net asset value (NAV). The fair value of investments that are organized as limited partnerships and have no readily ascertainable fair value is determined by using the net asset value per share (or its equivalent) of the pension trust fund's ownership interest in partners' capital. These values are based on the individual investee's capital account balance reported at fair value by the general partner at the closest available reporting period, adjusted by subsequent contributions, distributions, management fees, and changes in values of foreign currency and published market prices for certain securities.

The limited partnerships' annual financial statements are audited by independent auditors. These investments are valued at approximately $33.22 billion as of June 30, 2016. Because of the inherent uncertainties in estimating fair values, it is possible that the estimates will change in the near-term or the subsequent sale of assets will be different than the June 30, 2016, reported net asset value.

With the exception of two publicly traded funds, these investments can never be redeemed. Instead, the nature of these investments provides for distributions through the liquidation of the underlying assets or net operating cash flows. It is anticipated that the various investments within each asset class will be liquidated over the following periods:

Pension Trust Funds
Alternative Assets Expected Liquidation Periods
June 30, 2016
(expressed in thousands)

	Investment Type				
Liquidation Periods	**Private Equity**	**Real Estate**	**Tangible Assets**	**Total**	**Percentage of Total**
Publicly traded-Level 1	$ 99,921	$ -	$ 58,617	$ 158,538	0.5%
Less than 3 years	124,550	168,555	40	293,145	0.9%
3 to 9 years	8,174,741	2,038,743	765,660	10,979,144	33.0%
10 or more years	9,047,135	11,040,182	1,703,880	21,791,197	65.6%
Total	$ 17,446,347	$ 13,247,480	$ 2,528,197	$ 33,222,024	100.0%

Private Equity. This includes 262 private equity limited liability partnerships that invest primarily in the United States, Europe, and Asia in leveraged buyouts, venture capital, distressed debt, and growth equity. The fair value of individual capital account balances is based on the valuation reported by private equity partnerships using the following methodologies to value the underlying portfolio companies:

- Valuations of publicly traded portfolio companies are based on active exchanges using quoted market prices as of the close of trading for each month-end.
- When a portfolio company investment does not have a readily available market price but has a return that is determined by reference to an asset for which a market price is readily available, valuations are based on the closing market price of the reference asset on the valuation date, adjusted for unique factors that affect the fair value of the investment held.
- When the portfolio company investments are private holdings and are not traded on active security exchanges, valuation methodologies consist primarily of income and market approaches. The income approach involves a discounted cash flow analysis based on portfolio companies' projections. The market approach involves valuing a company at a multiple of a specified financial measure, generally earnings before interest, taxes, depreciation, and amortization, based on multiples of comparable publicly traded companies.

Real Estate. This includes 31 real estate investments. Targeted investment structures within the real estate portfolio include real estate operating companies, limited liability companies, joint ventures, commingled funds, and co-investments. Real estate partnerships provide quarterly valuations to the pension trust fund management based on the most recent capital account balance. Individual properties are valued by the investment management at least annually and are adjusted as frequently as quarterly if material market or operational changes have occurred. Properties are generally externally appraised every one to five years, depending upon the investment. Structured finance investments receive quarterly adjustments by the partners, generally applying the assumption that all such positions will be held to maturity. Annual audits of most partnerships include a review of compliance with the partnership's valuation policies.

Tangible Assets. This includes 29 limited liability structures and funds. The primary goal of the tangible asset portfolio is to generate a long-term sustainable and stable income stream, as well as generate appreciation at least commensurate with inflation. Valuation practices of general partners and asset managers are consistent with private equity limited partnerships.

Collective Investment Trust Funds. The pension trust fund invests in three separate collective investment trust funds (fund). Each fund determines a fair value by obtaining fair values of the underlying holdings using reputable pricing sources and computing an overall net asset value per share. The holdings within each fund are publicly traded equity securities.

Two funds are passively managed to approximate the capitalization weighted total rates of return of the MSCI U.S. Investable Market Index and the MSCI Emerging Markets Investable Market Index. Each fund has daily openings and contributions, and withdrawals can be made on any business day. The fund manager, at their discretion, may require withdrawal proceeds to be made partially or wholly in kind. Under certain circumstances, the fund manager may choose to suspend valuation and/or the right to make contributions and withdrawals from the fund. Such circumstances include actual or anticipated closure, restriction, or suspension of trading activity in any markets or exchanges where the fund investments are traded; where the purchase, sale, or pricing of the fund's investments would not be reasonably practicable or advisable; or where suspending contributions or withdrawals would be in the best interest of the fund or participants.

The third fund seeks to achieve long-term capital appreciation through active investment management in emerging market countries. The index against which the fund compares its performance is the MSCI Emerging Market Index. The pension trust fund may redeem some or all of their holdings on each monthly valuation date. The fund manager may delay redemption proceeds if it determines that it is reasonably necessary to prevent a material adverse impact on the fund or other investors. The fund manager, at their discretion, may require withdrawal proceeds to be made partially or wholly in kind.

Other Assets and Liabilities measured at fair value. Forward exchange contracts are valued by interpolating a value using the spot foreign exchange rate and forward points (based on the spot rate and currency interest rate differentials), which are all inputs that are observable in active markets (level 2).

Cash collateral held and the offsetting obligations under securities lending agreements are valued by the pension trust fund lending agency and sourced from reputable pricing vendors using models that are market-based measurements representing their good faith opinion as to the exit value of a security in an orderly transaction under current market conditions. Such models take into account quoted prices, nominal yield spreads, benchmark yield curves, prepayment speeds, and other market corroborated inputs.

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 margin variation represents the current gain or loss remaining to be settled from the prior day. The custodial bank provides quoted prices for these securities from a reputable pricing vendor.

3. 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, 2016, the pension trust funds had unfunded commitments of $12.98 billion, $7.78 billion, $3.16 billion, and $22.0 million in private equity, real estate, tangible assets, and the innovation portfolio, respectively.

4. 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, 2016, was approximately $1.58 billion. The pension trust funds report securities on loan in their respective categories in the Statement of Net Position. At June 30, 2016, cash collateral received totaling $682.2 million is reported as securities lending obligation, and the fair value of the reinvested cash collateral totaling $682.2 million is reported as security lending collateral in the Statement of Net Position. Securities received as collateral for which the pension trust funds do not have the ability to pledge or sell unless the borrower defaults are not reported as assets and liabilities in the Statement of Net Position. Total securities received as collateral at June 30, 2016, was $895.2 million.

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

The following table summarizes the securities held by the pension trust funds from reinvestment of cash collateral and securities received as collateral at June 30, 2016 (in millions):

Mortgage-backed securities	$463.1
Treasuries	438.5
Repurchase agreements	271.1
Yankee CD	151.7
Cash equivalents and other	137.7
Commercial paper	115.3
Total collateral held	$1,577.4

During fiscal year 2016, securities lending transactions could be terminated on demand by either the pension trust funds or the borrower. As of June 30, 2016, the cash collateral held had an average duration of 17.2 days and an average weighted final maturity of 73.4 days.

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

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

During fiscal year 2016, 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 2016 resulting from a default by either the borrowers or the securities lending agents.

5. Interest Rate Risk

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

While the pension trust funds do not have a formal policy relating to interest rate risk, the pension trust funds' fixed income investments are actively managed to meet or exceed the return of the Barclays Capital Universal Index, with a duration target within plus or minus 20 percent of the duration of the portfolio's performance benchmark. As of June 30, 2016, the duration of the pension trust funds' fixed income investments was within the duration target of this index.

The two schedules below provide information about the interest rate risks associated with the pension trust funds' investments as of June 30, 2016. The schedules display various asset classes held by maturity in years, effective durations, and credit ratings. All debt securities are reported using the average life within the portfolio. The average life is a calculated estimate of the average time (in years) until maturity for these securities, taking into account possible prepayments of principal.

Pension Trust Funds
Schedule of Maturities and Effective Duration
June 30, 2016
(expressed in thousands)

Investment Type	Total Fair Value	Maturity: Less than 1 Year	1-5 Years	6-10 Years	More than 10 Years	Effective Duration (in years)
Mortgage and other asset-backed securities	$ 1,078,558	$ 100,102	$ 945,106	$ 33,350	$ -	2.8
Corporate bonds	9,085,459	546,733	3,706,340	3,472,984	1,359,402	6.0
U.S. government and agency securities	6,309,623	1,012,620	2,764,388	1,735,215	797,400	6.2
Foreign government and agency securities	1,320,903	119,778	438,223	476,259	286,643	5.6
Total investments categorized	17,794,543	$ 1,779,233	$ 7,854,057	$ 5,717,808	$ 2,443,445	5.9*
Investments not required to be categorized:						
Cash and cash equivalents	2,004,960					
Equity securities	29,332,734					
Alternative investments	33,222,024					
Total return swap contracts	22					
Total investments not categorized	64,559,740					
Total Investments	$ 82,354,283					

* *Excludes cash and cash equivalents*

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

Pension Trust Funds
Investment Credit Ratings
June 30, 2016
(expressed in thousands)

Moody's Credit Rating	Investment Type: Mortgage and Other Asset-Backed Securities	Corporate Bonds	Foreign Government and Agency Securities	Total Fair Value
Aaa	$ 1,072,096	$ 456,723	$ 148,161	$ 1,676,980
Aa1	-	17,599	59,430	77,029
Aa2	391	95,738	94,978	191,107
Aa3	-	670,193	209,994	880,187
A1	-	739,516	-	739,516
A2	-	457,102	-	457,102
A3	-	1,109,453	72,625	1,182,078
Baa1	-	1,190,615	105,031	1,295,646
Baa2	-	1,053,208	154,196	1,207,404
Baa3	5,149	1,987,802	174,930	2,167,881
Ba1 or lower	922	1,307,510	301,558	1,609,990
Total	$ 1,078,558	$ 9,085,459	$ 1,320,903	$ 11,484,920

6. 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, 2016, 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, 2016.

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. The pension trust funds do not have a policy relating to custodial credit risk. The WSIB mitigates custodial credit risk by having its investment securities (excluding cash, cash equivalents, and repurchase agreements held as securities lending collateral) registered and held in the name of the WSIB for the benefit of the pension trust funds.

7. Foreign Currency Risk

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

The following schedule presents the exposure of the pension trust funds' investments to foreign currency risk. The schedule provides information on deposits and investments held in various foreign currencies. Private equity and real estate are presented according to the financial reporting currency of the individual funds. This is not a presentation of currency exposure relating to the underlying holdings. The schedule is stated in U.S. dollars. In addition, the CTF has foreign currency exposure at June 30, 2016, of $745.8 million invested in two emerging markets commingled equity investment funds.

Pension Trust Funds
Foreign Currency Exposure by Country
June 30, 2016
(expressed in thousands)

	Investment Type in U.S. Dollar Equivalent						
Foreign Currency Denomination	**Cash and Cash Equivalents**	**Debt Securities**	**Equity Securities**	**Derivatives**	**Alternative Assets**	**Open Foreign Exchange Contracts-Net**	**Total**
Australia-Dollar	$ 5,815	$ 283,407	$ 463,756	$ -	$ 6,684	$ 1,871	$ 761,533
Brazil-Real	242	143,327	129,892	(177)	-	3,998	277,282
Canada-Dollar	9,819	-	658,774	-	-	(301)	668,292
Chile-Peso	195	61,019	14,404	-	-	(14)	75,604
Columbia-Peso	-	77,889	-	-	-	1,131	79,020
Denmark-Krone	537	-	177,924	-	-	(2,255)	176,206
E.M.U.-Euro	20,853	-	2,538,738	-	2,339,445	3,109	4,902,145
Hong Kong-Dollar	2,982	-	585,919	530	-	14	589,445
India-Rupee	361	104,219	231,437	-	-	16	336,033
Indonesia-Rupiah	127	29,769	67,838	-	-	(50)	97,684
Japan-Yen	25,246	-	1,928,348	-	-	1,469	1,955,063
Malaysia-Ringgit	748	52,792	60,579	-	-	320	114,439
Mexico-Peso	1,062	85,232	86,769	-	-	(197)	172,866
New Taiwan-Dollar	3,143	-	208,641	(31)	-	(510)	211,243
Philippines-Peso	37	29,922	27,738	-	-	29	57,726
Singapore-Dollar	1,133	-	169,869	-	-	106	171,108
South Africa-Rand	1,557	-	128,686	-	-	1,190	131,433
South Korea-Won	4,473	-	308,175	(294)	-	(1,036)	311,318
Sweden-Krona	2,038	-	283,755	-	-	631	286,424
Switzerland-Franc	372	-	995,881	-	-	(118)	996,135
Thailand-Baht	1,113	43,425	68,324	-	-	(50)	112,812
Turkey-Lira	1,032	48,883	74,942	3	-	1,253	126,113
United Kingdom-Pound	9,986	-	2,022,921	-	-	(2,826)	2,030,081
Other	1,762	92,541	153,232	-	-	2,552	250,087
Total	$ 94,633	$ 1,052,425	$ 11,386,542	$ 31	$ 2,346,129	$ 10,332	$14,890,092

8. Derivatives

Pension trust funds are authorized to utilize various derivative financial instruments including financial futures, forward contracts, interest rate swaps, credit default swaps, equity swaps, and options. Derivative transactions involve, to varying degrees, market and credit risk. At June 30, 2016, the pension trust funds held investments in financial futures, forward currency contracts, and total return swap contracts that are recorded at fair value with changes in value recognized in investment income in the Statement of Revenues, Expenses, and Changes in Net Position in the period of change. The derivative instruments are considered investment derivatives and not hedging derivatives.

Derivatives are generally used to achieve the desired market exposure of a security, index, or currency; adjust portfolio duration; or rebalance the total portfolio to the target asset allocation. Derivative contracts are instruments that derive their value from underlying assets, indices, reference interest rates, or a combination of these factors.

A derivative instrument could be a contract negotiated on behalf of the pension trust funds and a specific counterparty. This would typically be referred to as an over the counter (OTC) contract, such as forward and total return swap 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, 2016, the pension trust funds counterparty risk was approximately $39.3 million.

Futures contracts are standardized, exchange-traded contracts to purchase or sell a specific financial instrument at a predetermined price. As such, gains and losses on futures contracts are settled daily based on a notional (underlying) principal value and do not involve an actual transfer of the specific instrument. The exchange assumes the risk that the counterparty will not pay and requires margin payments to minimize such risk. Futures are generally used to achieve the desired market exposure of a security or index or to rebalance the total portfolio.

Forward currency contracts are agreements to exchange the currency of one country for the currency of another country at an agreed-upon price and settlement date. These forward commitments are not standardized and carry counterparty credit risk due to the possible nonperformance by a counterparty. The maximum potential loss is the aggregate face value in U.S. dollars at the time the contract was opened; however, the likelihood of such loss is remote.

At June 30, 2016, the pension trust funds had outstanding forward currency contracts with a net unrealized gain of $10.4 million. The aggregate forward currency exchange contracts receivable and payable were $2.47 billion and $2.46 billion, respectively. The contracts have varying maturity dates ranging from July 1, 2016, to September 21, 2016.

Total return swap contracts are agreements where one party makes payments based on a set rate, either fixed or variable, while the other party makes payments based on the return of the underlying or reference asset. Total return swaps allow the party receiving the total return to gain exposure and benefit from a reference asset without physically owning the security. The pension trust funds swap total bond market index returns for total equity index returns as the reference asset in emerging markets. The contracts have varying maturity dates ranging from July 20, 2016, to September 21, 2016. The values of these contracts are highly sensitive to interest rate changes.

At June 30, 2016, the pension trust funds' fixed income portfolio held derivative securities consisting of collateralized mortgage obligations with a fair value of $59.6 million. Domestic and foreign commingled investment trust 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 these funds is unavailable.

Derivatives which are exchange traded are not subject to credit risk. The counterparty credit ratings for forward currency and total return swap contracts that are subject to credit risk outstanding at June 30, 2016, had a credit rating of no less than A3 using Moody's rating scale.

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

Pension Trust Funds
Derivative Investments
June 30, 2016
(expressed in thousands)

	Changes in Fair Value - Included in Investment Income (Loss) Amount	Fair Value - Investment Derivative Amount	Notional
Futures Contracts:			
Bond index futures	$ 10,118	$ -	$ -
Equity index futures	20,569	17,523	172,530
Total	$ 30,687	$ 17,523	$ 172,530
Forward Currency Contracts	$ (4,514)	$ 10,375	$ 2,465,895
Total Return Swap Contracts:			
Total return swaps bond	$ 325	$ (217)	$ 5,239
Total return swaps equity	(246)	239	(33,099)
Total	$ 79	$ 22	$ (27,860)

9. Reverse Repurchase Agreements – None.

C. INVESTMENTS – WORKERS' COMPENSATION FUND

1. Summary of Investment Policies

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

The Workers' Compensation Fund consists of contributions from employers and their employees participating in the state workers' compensation program and related earnings on those contributions. The workers' compensation program provides medical, time-loss, and disability benefit payments to qualifying individuals sustaining work-related injuries.

In accordance with state laws, the Workers' Compensation Fund investments are managed to limit fluctuations in the industrial insurance premiums and, subject to this purpose, achieve a maximum return at a prudent level of risk. Based on this requirement, the order of the objectives is:

- Maintain the solvency of the funds.
- Maintain premium rate stability.
- Ensure sufficient assets are available to fund the expected liability payments.
- Subject to the objectives above, achieve a maximum return at a prudent level of risk.

Eligible Investments. Eligible investments are securities and deposits that are in accordance with the WSIB's investment policy and chapter 43.33A RCW. Eligible investments include:

- U.S. equities.
- International equities.
- U.S. treasuries and government agencies.
- Credit bonds.

- Mortgage-backed securities rated investment grade, as defined by Barclays Capital Global Family of Fixed Income Indices.

- Asset-backed securities rated investment grade, as defined by Barclays Capital Global Family of Fixed Income Indices.

- Commercial mortgage-backed securities rated investment grade, as defined by Barclays Capital Global Family of Fixed Income Indices.

- Investment grade non-U.S. dollar bonds.

Investment Restrictions. To meet stated objectives, investments of the Workers' Compensation Fund are subject to the following constraints:

- All assets under the management of the WSIB are to be invested to maximize return at a prudent level of risk in accordance with RCW 43.33A.110 and RCW 43.33A.140.

- No corporate fixed income issue cost shall exceed 3 percent of the fund's fair value at the time of purchase, nor shall its fair value exceed 6 percent of the fund's fair value at any time.

- Asset allocations are to be reviewed every three to four years or sooner if there are significant changes in funding levels or the liability durations.

- Assets are to be rebalanced across asset classes when the fair value of the assets falls outside the policy ranges. The timing of any rebalancing will be based on market opportunities, cash flows, and the consideration of transaction costs; therefore, they need not occur immediately.

- Sector allocation for U.S. equities should be within a range of 55 percent to 65 percent. Allocation for international equities should be within a range of 35 percent to 45 percent.

- The benchmark and structure for U.S. equities will be the broad U.S. stock market as defined by the Morgan Stanley Capital International (MSCI) U.S. Investable Market Index. The benchmark and structure for international equities will be the MSCI All Country World Ex U.S. Investable Market Index. Both portfolios will be 100 percent passively managed in commingled index funds. The commingled funds may use futures for hedging or establishing a long position.

- Sector allocation of fixed income investments must be managed within the following prescribed ranges: U.S. treasuries and government agencies – 5 percent to 25 percent, credit bonds – 20 percent to 80 percent, asset-backed securities – 0 percent to 10 percent, commercial mortgage-backed securities – 0 percent to 10 percent, and mortgage-backed securities – 0 percent to 25 percent. These targets are long-term in nature. Deviations may occur in the short term as a result of interim market conditions. However, if a range is exceeded, the portfolios must be rebalanced to the target allocations as soon as it is practical.

- Total market value of below investment grade credit bonds (as defined by Barclays Capital Global Family of Fixed Income Indices) shall not exceed 5 percent of the total market value of the funds. Although below investment grade mortgage-backed, asset-backed, and commercial mortgage-backed securities may not be purchased, portfolio holdings that are downgraded to those levels or are no longer rated may continue to be held. Total market value of below investment grade mortgage-backed, asset-backed, and commercial mortgage-backed securities shall not exceed 5 percent of total market value of the funds.

2. Valuation of Investments

The Workers' Compensation Fund reports investments at fair value and categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. Unrealized gains and losses are included in the Statement of Revenues, Expenses, and Changes in Net Position. The table below presents fair value measurements as of June 30, 2016.

Workers' Compensation Fund
Investments Measured at Fair Value
June 30, 2016
(expressed in thousands)

		Fair Value Measurements Using		
Investments by fair value level	**Fair Value**	**Level 1 Inputs**	**Level 2 Inputs**	**Level 3 Inputs**
Debt securities				
Mortgage and other asset-backed securities	$ 1,450,705		$ 1,450,705	
Corporate bonds	9,331,357		9,331,357	
U.S. and foreign government and agency securities	2,845,734		2,845,734	
Total investments by fair value level	13,627,796		$ 13,627,796	
Investments measured at net asset value (NAV)				
Commingled equity investment trusts	1,766,364			
Total investments measured at the NAV	1,766,364			
Total investments measured at fair value	$ 15,394,160			
Other assets (liabilities) measured at fair value				
Collateral held under securities lending agreements	114,581		114,581	
Obligations under securities lending agreements	(114,581)		(114,581)	
Total other assets (liabilities) measured at fair value	$ -		$ -	

Investments classified as level 2. Investments classified as level 2 in the above table are comprised of publicly traded debt securities. Publicly traded debt securities are sourced from reputable pricing vendors using models that are market-based measurements representing their good faith opinion as to the exit value of a security, in an orderly transaction under current market conditions. Such models take into account quoted prices, nominal yield spreads, benchmark yield curves, prepayment speeds, and other market corroborated inputs.

Investments measured at net asset value (NAV). The Workers' Compensation Fund invests in seven separate collective investment trust funds (fund), operated by a bank or trust company, and groups assets contributed into a commingled investment fund. These mutual fund-type investments are not available to the general public and are open-ended funds, which issue or reduce shares for contributions and redemptions from the fund. The commingled fund manager determines a periodic price per unit of the collective trust by obtaining fair values of the underlying holdings using reputable pricing sources and computing an overall net asset value per share. The holdings within each fund are publicly traded equity securities.

Six funds are passively managed to collectively approximate the capitalization weighted total rates of return of the MSCI All Country World Ex U.S. Investable Market Index. Each fund has monthly openings and contributions, and withdrawals can be made on each opening date. The fund manager, at its discretion, reserves the right to delay the processing of deposits and withdrawals from each fund in order to ensure that securities transactions will be carried out in an orderly manner. The fund may suspend valuation and withdrawal rights when, at the fund manager's sole discretion, prevailing market conditions or other circumstances, events, or occurrences make the disposition or valuation of investments impracticable or inadvisable, or when the fund manager otherwise considers such action to be in the best interest of the participants or believes that such action would assist in eliminating or mitigating an adverse effect on the fund or participants.

One fund is passively managed to approximate the capitalization weighted total rates of return of the MSCI U.S. Investable Market Index. The fund has daily openings and contributions, and withdrawals can be made on any business day. The fund manager, at its discretion, may require withdrawal proceeds to be made partially or wholly in kind. Under certain circumstances, the fund manager may choose to suspend valuation and/or the right to make contributions and withdrawals from the fund. Such circumstances include actual or anticipated closure, restriction, or suspension of trading activity in any markets or exchanges where the fund investments are traded; where the purchase, sale, or pricing of the fund's investments would not be reasonably practicable or advisable; or where suspending contributions or withdrawals would be in the best interest of the fund or participants.

3. 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, 2016, was approximately $112.0 million. The Workers' Compensation Fund reports securities on loan in the Statement of Net Position in their respective categories. At June 30, 2016, cash collateral received totaling $114.6 million is reported as a securities lending obligation, and the fair value of the reinvested cash collateral totaling $114.6 million is reported as security lending collateral in the Statement of Net Position. Securities received as collateral for which the Workers' Compensation Fund does not have the ability to pledge or sell unless the borrower defaults are not reported as assets and liabilities in the Statement of Net Position. Total securities received as collateral at June 30, 2016, was $316 thousand.

During fiscal year 2016, debt securities were loaned and collateralized by the Workers' Compensation Fund's agent with cash and U.S. government or U.S. agency securities including U.S. agency mortgage-backed securities (exclusive of letters of credit). When the loaned securities had collateral denominated in the same currency, the collateral requirement was 102 percent of the fair value, including accrued interest, of the securities loaned. All other securities were required to be collateralized at 105 percent of the fair value, including accrued interest, of the loaned securities.

The following table summarizes the securities held from reinvestment of cash collateral and securities received as collateral at June 30, 2016 (in millions):

Repurchase agreements	$45.5
Yankee CD	25.5
Cash equivalents and other	24.2
Commercial paper	19.4
Mortgage-backed securities	.3
Total collateral held	$114.9

During fiscal year 2016, securities lending transactions could be terminated on demand by either the Workers' Compensation Fund or the borrower. As of June 30, 2016, the cash collateral held had an average duration of 17.2 days and an average weighted final maturity of 73.4 days. Because the securities lending agreements were terminable at will, their duration did not generally match the duration of the investments made with the cash collateral. Non-cash collateral could not be pledged or sold absent borrower default. No more than 20 percent of the total on loan value can be held by a specific borrower. Collateral investment guidelines specifically prohibit European domiciled holdings. There are no restrictions on the amount of securities that can be lent.

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

During fiscal year 2016, 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 Workers' Compensation Fund incurred no losses during fiscal year 2016 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. While the Workers' Compensation Fund does not have a formal policy relating to interest rate risk, the risk is managed within the Workers' Compensation Fund portfolio using effective duration, which is the measure of a debt investment's exposure to fair value changes arising from changes in interest rates. Increases in prevailing interest rates generally translate into decreases in fair values of fixed income investments. As of June 30, 2016, the Workers' Compensation Fund portfolio durations were within the prescribed duration targets.

The following two schedules provide information about the interest rate risks associated with the Workers' Compensation Fund investments as of June 30, 2016. The schedules display various asset classes held by maturity in years, effective duration, and credit ratings. All debt securities are reported using the average life within the portfolio. The average life is a calculated estimate of the average time (in years) until maturity for these securities, taking into account possible prepayments of principal.

Workers' Compensation Fund
Schedule of Maturities and Effective Duration
June 30, 2016
(expressed in thousands)

Investment Type	Total Fair Value	Maturity: Less than 1 Year	Maturity: 1-5 Years	Maturity: 6-10 Years	Maturity: More than 10 Years	Effective Duration (in years)
Mortgage and other asset-backed securities	$ 1,450,705	$ 198,660	$ 1,118,071	$ 78,753	$ 55,221	3.3
Corporate bonds	9,331,357	1,082,926	2,678,109	2,239,181	3,331,141	7.6
U.S. government and agency securities	2,132,945	80,051	732,975	718,903	601,016	9.7
Foreign government and agencies	712,789	122,946	365,236	179,748	44,859	4.8
Total investments categorized	13,627,796	$ 1,484,583	$ 4,894,391	$ 3,216,585	$ 4,032,237	7.3*
Investments not required to be categorized:						
Commingled investment trusts	1,766,364					
Cash and cash equivalents	193,242					
Total investments not categorized	1,959,606					
Total Investments	$ 15,587,402					

* *Excludes cash and cash equivalents*

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

Workers' Compensation Fund
Investment Credit Ratings
June 30, 2016
(expressed in thousands)

Moody's Equivalent Credit Rating	Investment Type: Mortgage and Other Asset-Backed Securities	Investment Type: Corporate Bonds	Investment Type: Foreign Government and Agencies	Total Fair Value
Aaa	$ 1,428,590	$ 338,020	$ 161,976	$ 1,928,586
Aa1	22,115	30,036	-	52,151
Aa2	-	85,756	144,979	230,735
Aa3	-	1,193,132	287,957	1,481,089
A1	-	1,275,245	35,937	1,311,182
A2	-	1,040,920	-	1,040,920
A3	-	1,595,454	-	1,595,454
Baa1	-	1,282,335	28,502	1,310,837
Baa2	-	1,053,497	-	1,053,497
Baa3	-	1,014,163	53,438	1,067,601
Ba1 or lower	-	422,799	-	422,799
Total	$ 1,450,705	$ 9,331,357	$ 712,789	$ 11,494,851

5. 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, 2016, 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 issues 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, 2016.

Custodial Credit Risk. Custodial credit risk is the risk that, in the event a depository institution or counterparty fails, the Workers' Compensation Fund would not be able to recover the value of its deposits, investments, or collateral securities. The Workers' Compensation Fund does not have a policy relating to custodial credit risk. The WSIB mitigates custodial credit risk by having its investment securities (excluding cash, cash equivalents, and repurchase agreements held as securities lending collateral) registered and held in the name of the WSIB for the benefit of the Workers' Compensation Fund.

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 Workers' Compensation Fund does not have a formal policy to limit foreign currency risk. At June 30, 2016, the only securities held by the Workers' Compensation Fund with foreign currency exposure were $650.0 million (excludes U.S. dollar denominated securities) invested in an international commingled equity index fund.

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

Workers' Compensation Fund
Foreign Currency Exposure by Country
June 30, 2016
(expressed in thousands)

Foreign Currency Denomination	Equity Securities
Australia-Dollar	$ 33,460
Brazil-Real	10,132
Canada-Dollar	46,214
Denmark-Krone	8,826
E.M.U.-Euro	133,050
Hong Kong-Dollar	45,085
India-Rupee	13,153
Indonesia-Rupiah	4,009
Israel-Sheqel	3,128
Japan-Yen	114,864
Malaysia-Ringgit	4,523
Mexico-Peso	6,036
New Taiwan-Dollar	19,255
Norway-Krone	3,592
Philippines-Peso	2,262
Singapore-Dollar	6,634
South Africa-Rand	10,576
South Korea-Won	22,923
Sweden-Krona	14,626
Switzerland-Franc	40,760
Thailand-Baht	3,668
United Kingdom-Pound	92,194
Miscellaneous Foreign Currencies	11,053
Total	$ 650,023

7. Derivatives

To manage its exposure to fluctuations in interest and currency rates while increasing portfolio returns, the Workers' Compensation Fund is authorized to utilize various derivative financial instruments including collateralized mortgage obligations, financial futures, forward contracts, interest rate and equity swaps, and options. Derivative transactions involve, to varying degrees, market and credit risk. The Workers' Compensation Fund mitigates market risks arising from derivative transactions by requiring collateral in cash and investments to be maintained equal to the securities positions outstanding, thereby prohibiting the use of leverage or speculation. Credit risks arising from derivative transactions are mitigated by selecting and monitoring creditworthy counterparties and collateral issuers.

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

At June 30, 2016, the only derivative securities held directly by the Workers' Compensation Fund were collateralized mortgage obligations of $922.5 million.

8. Reverse Repurchase Agreements – None.

D. INVESTMENTS – LOCAL GOVERNMENT INVESTMENT POOL

1. Summary of Investment Policies

The Local Government Investment Pool (LGIP) is managed and operated by the Office of the State Treasurer (OST). The State Finance Committee is the administrator of the statute that created the pool and adopts appropriate rules. The State Treasurer is responsible for establishing the investment policy for the pool and reviews the policy annually. Any proposed changes are reviewed by the LGIP Advisory Committee. The terms of the policy are designed to ensure the safety and liquidity of the funds deposited in the LGIP.

The State Treasurer and designated investment officers shall adhere to all restrictions on the investment of funds established by law and by policy.

The LGIP portfolio is invested in a manner that meets the requirements set forth by the Governmental Accounting Standards Board for the maturity, quality, diversification and liquidity for external investment pools that wish to measure all of its investments at amortized costs. The funds are limited to high quality obligations with regulated maximum and average maturities, the effect of which is to minimize both market and credit risk. The LGIP transacts with its participants at a stable net asset value per share of one dollar, which results in the amortized cost reported equaling the number of shares in the LGIP.

The OST prepares a stand-alone LGIP financial report. A copy of the report is available from the OST, PO Box 40200, Olympia, Washington 98504-0200, online at: http://www.tre.wa.gov/documents/lgipCafr/lgipCafrFY16.pdf, or phone number (360) 902-9000. TTY users dial 711 to be connected to the state TTY operator.

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

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

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

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

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

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

- Certificates of deposit or demand deposits with financial institutions qualified by the Washington Public Deposit Protection Commission.
- Obligations of the state of Washington or its political subdivisions.

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

- Investments are restricted to fixed rate securities that mature in 397 days or less, except securities utilized in repurchase agreements and U.S. government floating or variable rate notes which may have a maximum maturity of 762 days, provided they have reset dates within one year and that on any reset date can reasonably be expected to have a market value that approximates their amortized cost.
- The weighted average maturity of the portfolio will not exceed 60 days.
- The weighted average life of the portfolio will not exceed 120 days.
- The purchase of investments in securities other than those issued by the U.S. government or its agencies will be limited.
- Cash generated through securities lending or reverse repurchase agreement transactions will not increase the dollar amount of specified investment types beyond stated limits.

Participant Transactions. Participants of the LGIP may contribute and withdraw funds on a daily basis and must inform the OST of any contribution or withdrawal over one million dollars no later than 9:00 a.m. on the same day the transaction is made. Contributions or withdrawals for one million dollars or less can be requested at any time prior to 10:00 a.m. on the day of the transaction. However, participants may complete transactions greater than one million dollars when notification is made between 9:00 a.m. and 10:00 a.m., at the sole discretion of the OST. The LGIP does not impose liquidity fees or redemption gates on participant withdrawals.

2. Valuation of Investments

Investments, other than bank deposits, are stated at amortized cost. Bank deposits are stated at their carrying amount. Both approximate fair value. Fair value is determined monthly. Security transactions are reported on a trade date basis in accordance with generally accepted accounting principles.

3. Securities Lending

State statutes permit the LGIP to lend its securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. The LGIP has contracted with Citibank, N.A. as a lending agent and receives a share of income earned from this activity. The lending agent lends securities and receives collateral, which can be in the form of cash or other securities. The collateral, which must be valued at 102 percent of the market value of the loaned securities, is priced daily and, if necessary, action is taken to maintain the collateralization level at 102 percent. Cash collateral received from the lending of non-coupon-bearing securities shall not be valued at less than 102 percent of market value, not to exceed par.

The cash is invested by the lending agent in accordance with investment guidelines approved by the LGIP. The securities held as collateral and the securities underlying the cash collateral are held by the LGIP's custodian. One option available to the lending agent is to invest cash collateral with the LGIP. Maturities of investments made with cash collateral are generally matched to maturities of securities loaned.

During fiscal year 2016, the LGIP lent U.S. agency and treasury securities. Cash collateral was reinvested in the LGIP and interest bearing bank deposits. At fiscal year end, the fair value of securities on loan was $49.9 million, and securities were received for collateral with a fair value of $51.0 million.

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 2016, the LGIP had no credit risk exposure to borrowers because the amounts owed to the borrowers exceeded the amounts the borrowers owed the LGIP. Furthermore, contracts require the lending agent to indemnify the LGIP if the borrowers fail to return securities and if collateral is inadequate to replace the securities lent, or if the borrower fails to pay the LGIP for income distribution by the securities' issuers while the securities are on loan.

The LGIP cannot pledge or sell collateral securities received unless the borrower defaults. The LGIP investment policy limits the amount of reverse repurchase agreements and securities lending to 30 percent of the total portfolio. There were no violations of legal or contractual provisions and no losses resulting from a default of a borrower or lending agent during the fiscal year.

4. Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt instruments will adversely affect the fair value of an investment. To mitigate the effect of interest rate risk, the

LGIP portfolio is invested in high quality, highly liquid obligations with limited maximum and average maturities. The LGIP's policy establishes weighted average maturity and weighted average life limits not to exceed 60 and 120 days, respectively. As of June 30, 2016, the LGIP had a weighted average maturity of 35 days and a weighted average life of 100 days.

The following schedule presents the LGIP investments and related maturities, and provides information about the associated interest rate risks as of June 30, 2016:

Local Government Investment Pool (LGIP)
June 30, 2016
(expressed in thousands)

		Maturity	
Investment Type	**Amortized Cost**	**Less than 1 Year**	**1-5 Years**
U.S. agency securities	$ 6,862,274	$ 5,923,736	$ 938,538
U.S. government securities	1,373,535	1,323,644	49,891
Repurchase agreements	3,584,529	3,584,529	-
Interest bearing bank accounts	1,038,622	1,038,622	-
Certificates of deposit	72,320	72,320	-
Total Investments	$ 12,931,280	$ 11,942,851	$ 988,429

5. Credit Risk

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

Banker's acceptances and commercial paper must be rated with the highest short-term credit rating of any two NRSROs at the time of purchase. The LGIP currently does not have any banker's acceptances, commercial paper, or obligations of the state of Washington or its political subdivisions in its portfolio.

Custodial Credit Risk. Custodial credit risk is the risk that, in the event a depository institution or counterparty fails, the LGIP will not be able to recover the value of its deposits, investments, or collateral securities that are in the possession of an outside party. The LGIP investment policy requires that securities purchased 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 ensure 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 27.7 percent of the total portfolio as of June 30, 2016. 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, 2016, U.S. treasury securities comprised 10.6 percent of the total portfolio. U.S. agency securities comprised 53.1 percent of the total portfolio, including Federal Home Loan Bank (34.9 percent), Federal Home Loan Mortgage Corporation (1 percent), Federal Farm Credit Bank (16.4 percent), and Federal National Mortgage Association (0.8 percent).

6. Foreign Currency Risk - None.

7. Derivatives - None.

8. Repurchase and Reverse Repurchase Agreements

The fair value plus accrued income of mortgage-backed securities utilized in repurchase agreements with more than seven days remaining until maturity will be 105 percent of the value of the repurchase agreement. The fair value plus accrued income of all other securities utilized in repurchase agreements will be 102 percent of the value of the repurchase agreement.

The securities utilized in repurchase agreements are priced daily and held by the LGIP's custodian in the state's name. Collateralized mortgage obligations utilized in repurchase agreements must pass the Federal Financial Institutions Examination Council test or not exceed a volatility rating of V-5 by Fitch Investor Services, or a similar rating of a nationally recognized rating agency. As of June 30, 2016, repurchase agreements totaled $3.58 billion.

State law also permits the LGIP to enter into reverse repurchase agreements which are, by contract, sales of securities with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest. The fair value of the securities pledged as collateral by the LGIP underlying the reverse repurchase agreements normally exceeds the cash received, providing the dealers a margin against a decline in the 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 2016, the LGIP did not enter into any reverse repurchase agreements.

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

1. Summary of Investment Policies

The investments of the University of Washington represent 75 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.

In 2016 the Board of Regents approved the establishment of the University of Washington Investment Management Company (UWINCO), an internal investment management company. The former investment management advisory committee was replaced with an investment management advisory board known as the UWINCO Board.

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, 2016, the Invested Funds Pool totaled $1.49 billion. The fund also owns units in the Consolidated Endowment Fund valued at $730.5 million on June 30, 2016.

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 2016. Endowment operating and gift accounts received 3 percent in fiscal year 2016 with the distributions directed to the University. The difference between the actual earnings of the Invested Funds Pool and the calculated distributions is used to support activities benefiting all University departments.

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

Under the CEF spending policy approved by the Board of Regents, quarterly distributions to programs are based on an annual percentage rate of 4 percent applied to the five-year rolling average of the CEF's market valuation. Additionally, the policy allows for an administrative fee of 1 percent supporting campus-wide fundraising and stewardship activities and offsetting the internal cost of managing endowment assets.

The University records its permanent endowments at the lower of original gift value or current market value in the Restricted Nonexpendable Net Position category. Of the endowments that are recorded at current market value, the net deficiency from the original gift value is $12.2 million at June 30, 2016.

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 $107.8 million at June 30, 2016. Income received from these trusts, which is included in investment income, was $4.5 million for the year ended June 30, 2016.

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 $41.1 million in fiscal year 2016 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 (depreciation) of these investments reported in the prior year(s). The net appreciation (depreciation) in the fair value of investments during the year ended June 30, 2016, was $(53.8) million.

2. Valuation of Investments

The University reports investments at fair value and categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The University holds significant amounts of investments that are measured at fair value on a recurring basis.

The following schedule presents the fair value of the University's investments by type at June 30, 2016:

University of Washington
Investments Measured at Fair Value
June 30, 2016
(expressed in thousands)

		Fair Value Measurements Using		
Investments by fair value level	**Fair Value**	**Level 1 Inputs**	**Level 2 Inputs**	**Level 3 Inputs**
Fixed income securities				
U.S. treasury	$ 640,448	$ 13,646	$ 626,802	$ -
U.S. government agency	535,750	-	535,750	-
Mortgage-backed	172,199	-	172,199	-
Asset-backed	133,567	-	133,567	-
Corporate and other	141,644	21,243	120,401	-
Total fixed income securities	1,623,608	34,889	1,588,719	-
Equity securities				
Global equity investments	626,622	573,552	52,025	1,045
Private equity and venture capital funds	11,291	6,160	-	5,131
Real estate	3,851	-	-	3,851
Other	226	-	-	226
Total equity securities	641,990	579,712	52,025	10,253
Total investments by fair value level	2,265,598	$ 614,601	$ 1,640,744	$ 10,253
Investments measured at net asset value (NAV)				
Global equity investments	1,055,272			
Absolute return strategy funds	463,366			
Private equity and venture capital funds	329,719			
Real asset funds	183,481			
Other	106,729			
Total investments measured at the NAV	2,138,567			
Total investments measured at fair value	4,404,165			
Cash equivalents at other than fair value	404,805			
Total Investments	$ 4,808,970			

Investments classified as level 1. Fixed income and equity securities classified in level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities.

Investments classified as level 2. Fixed income and equity securities classified in level 2 are valued using observable inputs including quoted prices for similar securities and interest rates.

Investments classified as level 3. Private equity, real assets, and other investments classified in level 3 are valued using either discounted cash flow or market comparable techniques.

Investments measured at net asset value (NAV). The University's interests in certain non-readily marketable alternative investments, such as hedge funds and private equity limited partnerships, as a practical expedient, are stated at fair value based on net asset value (NAV) estimates reported to the University by investment fund managers.

The valuation method for investments measured at the NAV per share (or its equivalent) is presented on the following table:

University of Washington
Investments Measured at the Net Asset Value
June 30, 2016
(expressed in thousands)

	Fair Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Global equity investments	$ 1,055,272	$ 23,846	Monthly to annually	30-60 days
Absolute return strategy funds	463,366	15,728	Quarterly to annually	30-60 days
Private equity and venture capital funds	329,719	204,399	n/a	-
Real asset funds	183,481	55,503	n/a	-
Other	106,729	850	Quarterly to annually	30-95 days
Total investments measured at the NAV	$ 2,138,567			

Global Equity. This investment category includes public equity investments in separately managed accounts, long-only comingled funds, unconstrained limited partnerships, and passive market indices. Fair values have been determined using the NAV per share of the investments except for the separately managed accounts. For 2016, approximately 62 percent of the value of the investments in this category can be redeemed within 60 days and 94 percent can be redeemed within one year. The remaining balance of these investments contain restrictions that do not allow for redemption within one year.

Absolute Return. This category includes investments in stable income and low-to-medium beta funds. Management of these funds seeks low correlation to broad equity markets by investing in assets that exhibit low volatility, deep discounts, and/or hedges against market downturns. Fair values have been determined using the NAV per share of the investments. Approximately 89 percent of the value of the investments in this category can be redeemed within one year. The remaining balance of these investments contain restrictions that do not allow for redemption within one year.

Private Equity. This category includes buyout, venture, and special situations funds. Fair values have been determined using the NAV per share (or its equivalent) of the ownership interest in partners' capital. These investments can never be redeemed with the funds. Distributions from each fund will be received as the underlying investments of the funds are liquidated. It is expected that the underlying assets of the funds will be liquidated over the next seven to ten years.

Real assets. This category includes real estate, natural resources, and other hard assets. Fair values have been determined using the NAV per share (or its equivalent) of the ownership interest in partners' capital. These investments can never be redeemed with the funds. Distributions from each fund will be received as the underlying investments of the funds are liquidated. It is expected that the underlying assets of the funds will be liquidated over the next seven to ten years.

Other. This category consists of fixed income and opportunistic investments and includes various types of non-investment grade and non-rated credit plus nominal equity exposure. Fair values have been determined using the NAV per share (or its equivalent) of the ownership interest in partners' capital. Approximately 45 percent of the value of the investments in this category can be redeemed or anticipate distribution within one year. The remaining balance of these investments contain restrictions on redemption within one year or will be distributed as underlying investments are liquidated. It is expected that the underlying assets of the funds will be liquidated over the next ten years.

3. Funding Commitments

The University enters into contracts with investment managers to fund alternative investments. As of June 30, 2016, the University had outstanding commitments to fund alternative investments in the amount of $300.3 million. These commitments are expected to be called over a multi-year timeframe. The University believes it has adequate liquidity and funding sources to meet these obligations.

4. Securities Lending

The University's investment policies permit it to lend its securities to broker dealers and other entities. As of June 30, 2016, the University had no securities on loan.

5. 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 2.77 years at June 30, 2016.

6. Credit Risk

Fixed income securities are subject to credit risk, which is the risk that the issuer or other counterparty to a financial instrument will not fulfill its obligations, or that negative perceptions of the issuer's ability to make these payments will cause prices to decline. The University's investment policies limit fixed income exposure to investment grade assets. The investment policy for the Invested Funds' cash pool requires each manager to maintain an average quality rating of AA as issued by a nationally recognized rating organization. The investment policy for the Invested Funds' liquidity pool requires each manager to maintain an average quality rating of A and to hold at least 25 percent of their portfolios in government and government agency issues.

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

Custodial Credit Risk. Custodial credit risk is the risk that, in the event of a failure of the counterparty to a transaction, the University will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. The University does not have a formal policy regarding custodial credit risk. However, all University investments in the CEF and the Invested Funds Pool are held in the name of the University and are not subject to custodial credit risk.

Concentration of Credit Risk. Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. The CEF investment policy limits concentration by manager, country (other than U.S.), and market sector. The University further mitigates concentration of credit risk through the due diligence of each manager and careful monitoring of asset concentrations.

A bond's duration is a calculation of the number of years required to recover to the true cost of a bond. The duration presented below represents a broad average across all fixed income securities held in the CEF, Invested Funds (IF), and debt service reserve funds. The CEF and IF portfolios are managed to have a duration below their policy benchmarks to protect principal and provide liquidity to the overall portfolio.

The following schedule summarizes the composition of the fixed income securities at June 30, 2016, along with credit quality and effective duration measures. The schedule excludes $13.9 million of fixed income securities held outside the CEF and the IF pool, which makes up 0.85 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, 2016
(expressed in thousands)

Investment Type	U.S. Government	Investment Grade*	Non-Investment Grade	Not Rated	Total	Effective Duration (in years)
U.S. treasuries	$ 636,485	$ -	$ -	$ -	$ 636,485	3.24
U.S. government agency	531,795	-	-	-	531,795	2.54
Mortgage-backed	-	94,054	54,797	23,348	172,199	2.20
Asset-backed	-	113,715	2,627	17,225	133,567	0.96
Corporate and other	-	111,977	20,225	3,500	135,702	4.04
Total	$ 1,168,280	$ 319,746	$ 77,649	$ 44,073	$ 1,609,748	2.77

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

7. 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, 2016, of $1.01 billion.

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

University of Washington
Consolidated Endowment Fund
Foreign Currency Risk
June 30, 2016
(expressed in thousands)

Foreign Currency	Amount
E.M.U.-Euro	$ 123,075
India-Rupee	122,738
China-Renminbi	109,170
Japan-Yen	79,512
Brazil-Real	74,582
Hong Kong-Dollar	58,655
South Korea-Won	53,278
Russia-Ruble	50,132
Britain-Pound	44,802
Canada-Dollar	30,634
Switzerland-Franc	28,931
Mexico-Peso	28,693
Taiwan-Dollar	27,573
Philippines-Peso	25,265
Remaining currencies	152,562
Total	$ 1,009,602

8. 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, 2016. The University had no hedging derivatives, only derivatives for investment purposes.

Details on foreign currency derivatives are disclosed under Foreign Currency Risk.

The following schedule presents the significant terms for derivatives held as investments by the University:

University of Washington
Derivative Investments
June 30, 2016
(expressed in thousands)

Category	Changes in Fair Value - Included in Investment Income (Loss) Amount	Fair Value - Investment Derivative Amount	Notional
Futures contracts	$ 790	$ 65,218	$ 64,428

9. Reverse Repurchase Agreements – None.

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

1. Summary of Investment Policies

The Office of the State Treasurer (OST) operates the state's Cash Management Account for investing Treasury/Trust funds in excess of daily requirements. Investment income earned is allocated based on average daily cash balance. Pursuant to state law, all earnings on investments of Treasury/Trust funds are credited to the General Fund except as specifically provided in RCW 43.79A.040 and RCW 43.84.092. In fiscal year 2016, a portion of the investment income reported by the General Fund was earned by other funds.

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

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

Eligible Investments. Eligible investments are only those securities and deposits authorized by statute (chapters 39.58, 39.59, 43.250, and 43.84.080 RCW). Eligible investments include:

- Obligations of the U.S. government.
- Obligations of U.S. government agencies or of corporations wholly owned by the U.S. government.
- Obligations of government-sponsored enterprises that are or may become eligible as collateral for advances to member banks as determined by the board of governors of the Federal Reserve.
- Banker's acceptances purchased on the secondary market rated with the highest short-term credit rating

of any two Nationally Recognized Statistical Rating Organizations (NRSROs) at the time of purchase. If the banker's acceptance is rated by more than two NRSROs, it must have the highest rating from all of the organizations.

- Commercial paper, provided that the OST adheres to policies and procedures of the Washington State Investment Board regarding commercial paper (RCW 43.84.080(7)).

- Certificates of deposit with financial institutions qualified by the Washington Public Deposit Protection Commission.

- Local Government Investment Pool (LGIP).

- Obligations of the state of Washington or its political subdivisions.

Investment Restrictions. To provide for the safety and liquidity of Treasury/Trust funds, the Cash Management Account investment portfolio is subject to the following restrictions:

- The final maturity of any security will not exceed ten years.

- Purchase of collateralized mortgage obligations is not allowed.

- The allocation to investments subject to high price sensitivity or reduced marketability will not exceed 15 percent of the daily balance of the portfolio.

Additionally, investments in non-government securities, excluding collateral of repurchase agreements, must fall within prescribed limits.

Limitations and Restrictions on LGIP Participant Withdrawals. Participants of the LGIP may contribute and withdraw funds on a daily basis and must inform the OST of any contribution or withdrawal over one million dollars no later than 9:00 a.m. on the same day the transaction is made. Contributions or withdrawals for one million dollars or less can be requested at any time prior to 10:00 a.m. on the day of the transaction. However, participants may complete transactions greater than one million dollars when notification is made between 9:00 a.m. and 10:00 a.m., at the sole discretion of the OST. The LGIP does not impose liquidity fees or redemption gates on participant withdrawals.

2. Valuation of Investments

The OST reports investments at fair value and categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The following table presents fair value measurements as of June 30, 2016:

Office of the State Treasurer (OST)
Cash Management Account
Investments Measured at Fair Value
June 30, 2016
(expressed in thousands)

		Fair Value Measurements Using		
Investments by fair value level	**Fair Value**	**Level 1 Inputs**	**Level 2 Inputs**	**Level 3 Inputs**
Debt securities				
U.S. government and agency securities	$ 2,938,844		$ 2,938,844	
Total investments measured at fair value	$ 2,938,844		$ 2,938,844	

Investments classified as level 2. The U.S. government and agency debt securities classified as level 2 in the above table are valued using observable inputs including quoted prices for similar securities and interest rates.

3. Securities Lending

State statutes permit the OST to lend its securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. The OST has contracted with Citibank, N.A. as a lending agent and receives a share of income earned from this activity. The lending agent lends securities and receives collateral, which can be in the form of cash or other securities. The collateral, which must be valued at 102 percent of the market value of the loaned securities, is priced daily and, if necessary, action is taken to maintain the collateralization level at 102 percent.

The cash is invested by the lending agent in repurchase agreements, deposit accounts, or money market instruments, 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. During fiscal year 2016, cash received as collateral was invested in the LGIP money market fund and/or demand deposit accounts, which allow withdrawals each business day to cover maturing loans. At June 30, 2016, the fair value of cash collateral held totaled $204.0 million.

Contracts require the lending agent to indemnify the OST if the borrowers fail to return securities and if the collateral is inadequate to replace the securities lent, or if the borrower fails to pay the OST for income distribution by the securities' issuers while the securities are on loan. The OST cannot pledge or sell collateral securities received unless the borrower defaults. At June 30, 2016, the fair value of securities on loan totaled $199.3 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 2016, 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.

4. Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt instruments will adversely affect the fair value of an investment. The Treasury/Trust investments are separated into portfolios with objectives based primarily on liquidity needs.

The OST's investment policy limits the weighted average maturity of its investments based on cash flow expectations. Policy also directs due diligence to be exercised with timely reporting of material deviation from expectations and actions taken to control adverse developments as may be possible.

The following schedule presents the OST investments and related maturities, and provides information about the associated interest rate risks as of June 30, 2016:

Office of the State Treasurer (OST)
Cash Management Account
June 30, 2016
(expressed in thousands)

Investment Type	Total Fair Value	Maturity: Less than 1 Year	Maturity: 1-5 Years
U.S. agency securities	$ 2,461,911	$ 659,584	$ 1,802,327
U.S. government securities	919,980	45,022	874,958
Certificates of deposit	151,014	151,014	-
Investments with LGIP	2,724,681	2,724,681	-
Interest bearing bank accounts	200,730	200,730	-
Total Investments	$ 6,458,316	$ 3,781,031	$ 2,677,285

5. 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 ensure 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 2016, the OST did not own any non-governmental securities subject to this restriction.

6. Foreign Currency Risk - None.

7. Derivatives - None.

8. Repurchase and Reverse Repurchase Agreements

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

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

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

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

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

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

Collateralized mortgage obligation securities utilized in repurchase agreements must pass the Federal Financial Institutions Examination Council test or not exceed a volatility rating of V-5 by Fitch Investor Services, or a similar rating of a nationally recognized rating agency. Only securities authorized in statute for the investment of public funds are utilized in repurchase agreements. There were no repurchase agreements as of June 30, 2016.

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

If the dealers default on their obligations to resell these securities to the OST or to provide equal value in securities or cash, the OST would suffer an economic loss equal to the differences between the market value plus accrued interest of the underlying securities and the agreement obligation, including accrued interest.

The OST investment policy limits the amount of reverse repurchase agreements to 30 percent of the total portfolio. There were no reverse repurchase agreements during fiscal year 2016.

Note 4

Receivables, Unearned and Unavailable Revenues

A. GOVERNMENTAL FUNDS

Taxes Receivable

Taxes receivable at June 30, 2016, consisted of the following (expressed in thousands):

Taxes Receivable	General	Higher Education Special Revenue	Higher Education Endowment	Nonmajor Governmental Funds	Total
Property	$ 1,026,642	$ -	$ -	$ -	$ 1,026,642
Sales	1,994,696	-	-	-	1,994,696
Business and occupation	699,174	-	-	-	699,174
Estate	1,843	8,408	-	-	10,251
Fuel	-	-	-	171,670	171,670
Beer and Wine	-	-	-	6,039	6,039
Marijuana	-	-	-	21,021	21,021
Real Estate Excise	2,899	-	-	113	3,012
Other	1,010	129	-	132	1,271
Subtotals	3,726,264	8,537	-	198,975	3,933,776
Less: Allowance for uncollectible receivables	49,920	-	-	357	50,277
Total Taxes Receivable	$ 3,676,344	$ 8,537	$ -	$ 198,618	$ 3,883,499

Receivables

Receivables at June 30, 2016, consisted of the following (expressed in thousands):

Receivables	General	Higher Education Special Revenue	Higher Education Endowment	Nonmajor Governmental Funds	Total
Public assistance [(1)]	$ 653,998	$ -	$ -	$ -	$ 653,998
Accounts receivable	181,062	1,009,633	81,792	377,800	1,650,287
Interest	4,304	7,346	5,301	9,979	26,930
Loans [(2)]	6,344	132,417	-	469,849	608,610
Long-term contracts [(3)]	2,344	-	15,354	82,161	99,859
Miscellaneous	20	184	-	49	253
Subtotals	848,072	1,149,580	102,447	939,838	3,039,937
Less: Allowance for uncollectible receivables	649,745	37,633	3	98,778	786,159
Total Receivables	$ 198,327	$ 1,111,947	$ 102,444	$ 841,060	$ 2,253,778

Notes:

(1) Public assistance receivables mainly represent amounts owed to 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 $114.5 million in the Higher Education Special Revenue Fund for student loans and $459.8 million in Nonmajor Governmental Funds for low income housing, public works, and economic development/revitalization loans.

(3) Long-term contracts in Nonmajor Governmental Funds are for timber sales contracts.

Unearned Revenue

Unearned revenue at June 30, 2016, consisted of the following (expressed in thousands):

Unearned Revenue	General	Higher Education Special Revenue	Higher Education Endowment	Nonmajor Governmental Funds	Total
Other taxes	$ 4,746	$ -	$ -	$ 1,645	$ 6,391
Charges for services	89,274	215,233	-	22,829	327,336
Donable goods	-	-	-	4,036	4,036
Grants and donations	3,073	1,516	-	6,313	10,902
Tolls	-	-	-	19,483	19,483
Transportation	-	-	-	8,919	8,919
Miscellaneous	1,814	15,075	-	7,170	24,059
Total Unearned Revenue	$ 98,907	$ 231,824	$ -	$ 70,395	$ 401,126

Unavailable Revenue

Unavailable revenue at June 30, 2016, consisted of the following (expressed in thousands):

Unavailable Revenue	General	Higher Education Special Revenue	Higher Education Endowment	Nonmajor Governmental Funds	Total
Property taxes	$ 1,005,181	$ -	$ -	$ -	$ 1,005,181
Other taxes	617,586	6,298	-	75	623,959
Timber sales	2,344	-	15,354	82,199	99,897
Transportation	-	-	-	27,272	27,272
Charges for services	-	-	-	3,256	3,256
Miscellaneous	5,000	-	-	26,777	31,777
Total Unavailable Revenue	$ 1,630,111	$ 6,298	$ 15,354	$ 139,579	$ 1,791,342

B. PROPRIETARY FUNDS

Receivables

Receivables at June 30, 2016, consisted of the following (expressed in thousands):

Receivables	Business-Type Activities Enterprise Funds: Workers' Compensation	Unemployment Compensation	Higher Education Student Services	Guaranteed Education Tuition Program	Nonmajor Enterprise Funds	Total	Governmental Activities: Internal Service Funds
Accounts receivable	$ 870,258	$ 537,085	$ 280,035	$ 14,058	$ 25,558	$ 1,726,994	$ 22,792
Interest	110,137	-	1,161	4,088	-	115,386	348
Investment trades pending	4	-	-	1,011	-	1,015	-
Miscellaneous	-	-	56	-	-	56	-
Subtotals	980,399	537,085	281,252	19,157	25,558	1,843,451	23,140
Less: Allowance for uncollectible receivables	159,045	83,472	64,279	-	104	306,900	371
Total Receivables	$ 821,354	$ 453,613	$ 216,973	$ 19,157	$ 25,454	$ 1,536,551	$ 22,769

Unearned Revenue

Unearned revenue at June 30, 2016, consisted of the following (expressed in thousands):

Unearned Revenue	Business-Type Activities Enterprise Funds: Workers' Compensation	Unemployment Compensation	Higher Education Student Services	Guaranteed Education Tuition Program	Nonmajor Enterprise Funds	Total	Governmental Activities: Internal Service Funds
Charges for services	$ -	$ -	$ 47,850	$ -	$ -	$ 47,850	$ 2,775
Grants and donations	5,663	-	-	-	-	5,663	90
Other taxes	560	-	-	-	-	560	-
Miscellaneous	1,235	-	392	-	1,149	2,776	-
Total Unearned Revenue	$ 7,458	$ -	$ 48,242	$ -	$ 1,149	$ 56,849	$ 2,865

C. FIDUCIARY FUNDS

Other Receivables

Other receivables at June 30, 2016, consisted of $10.6 million for interest and other miscellaneous amounts.

Unearned Revenue

Unearned revenue at June 30, 2016, consisted of $1.3 million for service credit restorations reported in Pension and Other Employee Benefit Plans.

Note 5
Interfund Balances and Transfers

A. INTERFUND BALANCES

Interfund balances as reported in the financial statements at June 30, 2016, 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	$ -	$ 2,990	$ -	$ 229,319	$ 530
Higher Education Special Revenue	155,329	-	-	14,647	554
Higher Education Endowment	-	-	-	3	-
Nonmajor Governmental Funds	78,238	61,431	3,575	199,889	3,019
Workers' Compensation	13	-	-	9	-
Unemployment Compensation	1,115	1,122	-	411	393
Higher Education Student Services	5,228	13,346	-	135	125
Guaranteed Education Tuition Program	-	-	-	-	-
Nonmajor Enterprise Funds	9,447	104	-	480	5
Internal Service Funds	28,807	8,186	-	21,349	1,500
Fiduciary Funds	-	-	-	-	-
Totals	$ 278,177	$ 87,179	$ 3,575	$ 466,242	$ 6,126

Except as noted below, interfund balances are expected to be paid within one year from the date of the financial statements. These balances resulted from the time lag between the dates that (1) interfund goods and services were provided and when the payments occurred and (2) interfund transfers were accrued and when the liquidations occurred.

Interfund balances include: (1) a $14.9 million loan from a nonmajor governmental fund to the General Fund which is expected to be paid over the next four years; (2) a $6.1 million loan between nonmajor governmental funds which is expected to be paid over the next six years, and (3) a $130 million revolving loan from the Higher Education Special Revenue Fund to the Higher Education Student Services Fund.

In addition to the interfund balances noted in the schedule above, there are interfund balances of $145.7 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
$ 2	$ 1	$ 142	$ 19,403	$ 16,200	$ -	$ 268,587
2	166,572	-	-	-	-	337,104
-	-	-	-	-	5	8
15,338	1	4	62	-	-	361,557
-	1	-	-	27	20	70
-	38	-	13	-	-	3,092
9	-	-	66	8,529	-	27,438
-	-	-	-	-	15	15
1	29	-	5,409	74	-	15,549
6	19	8	334	16,154	36	76,399
-	-	-	-	-	-	-
$ 15,358	$ 166,661	$ 154	$ 25,287	$ 40,984	$ 76	$ 1,089,819

B. INTERFUND TRANSFERS

Interfund transfers as reported in the financial statements for the year ended June 30, 2016, 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	$ -	$ 6,000	$ 300	$ 1,184,730	$ -
Higher Education Special Revenue	33,314	-	25,638	202,412	-
Higher Education Endowment	-	164,041	-	31,268	-
Nonmajor Governmental Funds	380,677	128,770	914	1,511,071	-
Workers' Compensation	-	-	-	-	-
Unemployment Compensation	-	-	-	-	-
Higher Education Student Services	-	414,441	21	7,138	-
Guaranteed Education Tuition Program	-	-	-	-	-
Nonmajor Enterprise Funds	163,499	-	-	12,051	-
Internal Service Funds	-	50,223	-	681	-
Totals	$ 577,490	$ 763,475	$ 26,873	$ 2,949,351	$ -

Except as noted below, transfers are used to (1) move revenues from the fund that statute requires to collect them to the fund that statute requires to expend them, (2) move receipts designated for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, (3) move unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations, (4) move profits from the Lottery Fund as required by law, and (5) transfer amounts to and from the General Fund as required by law.

On June 30, 2016, $185.7 million was transferred from the General Fund Basic Account to the Budget Stabilization Account (BSA) in accordance with the provisions of the Constitution. The Constitution details a limited number of circumstances under which funds can be appropriated from the BSA, one of which is a favorable vote of at least three-fifths of the members of each house of the Legislature. The BSA is reported as an Administrative Account within the General Fund.

In addition to the transfers noted in the schedule above, there were transfers of $5.9 million within the state's Pension Trust Funds.

Transferred To					
Unemployment Compensation	Higher Education Student Services	Guaranteed Education Tuition Program	Nonmajor Enterprise Funds	Internal Service Funds	Totals
$ -	$ -	$ -	$ -	$ 14,433	$ 1,205,463
-	445,395	-	-	51,132	757,891
-	-	-	-	-	195,309
-	-	-	-	16	2,021,448
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	155	421,755
-	-	-	-	-	-
-	-	-	13,861	-	189,411
-	15	-	-	19,813	70,732
$ -	$ 445,410	$ -	$ 13,861	$ 85,549	$ 4,862,009

Note 6
Capital Assets

Capital assets at June 30, 2016, 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, 2016 (expressed in thousands):

Capital Assets	Balances July 1, 2015	Additions	Deletions/ Adjustments	Balances June 30, 2016
Capital assets, not being depreciated:				
Land	$ 2,625,377	$ 67,254	$ (26,923)	$ 2,665,708
Transportation infrastructure	23,235,035	659,265	-	23,894,300
Intangible assets - indefinite lives	14,938	-	-	14,938
Art collections, library reserves, and museum and historical collections	126,295	1,159	(7,166)	120,288
Construction in progress	890,982	635,127	(280,863)	1,245,246
Total capital assets, not being depreciated	26,892,627			27,940,480
Capital assets, being depreciated:				
Buildings	12,788,384	480,568	(21,453)	13,247,499
Accumulated depreciation	(4,962,231)	(339,839)	5,993	(5,296,077)
Net buildings	7,826,153			7,951,422
Other improvements	1,463,812	40,939	(2,084)	1,502,667
Accumulated depreciation	(727,475)	(47,898)	5,355	(770,018)
Net other improvements	736,337			732,649
Furnishings, equipment, and intangible assets	5,123,735	312,343	(269,776)	5,166,302
Accumulated depreciation	(3,295,154)	(304,934)	227,277	(3,372,811)
Net furnishings, equipment, and intangible assets	1,828,581			1,793,491
Infrastructure	1,010,721	81,111	(114)	1,091,718
Accumulated depreciation	(511,196)	(35,694)	(1,369)	(548,259)
Net infrastructure	499,525			543,459
Total capital assets, being depreciated, net	10,890,596			11,021,021
Governmental Activities Capital Assets, Net	$ 37,783,223			$ 38,961,501

B. BUSINESS-TYPE CAPITAL ASSETS

The following is a summary of business-type capital asset activity for the year ended June 30, 2016 (expressed in thousands):

Capital Assets	Balances July 1, 2015	Additions	Deletions/ Adjustments	Balances June 30, 2016
Capital assets, not being depreciated:				
Land	$ 57,549	$ 176	$ -	$ 57,725
Intangible assets - indefinite lives	4,580	-	-	4,580
Art collections	75	-	-	75
Construction in progress	292,750	35,834	(251,189)	77,395
Total capital assets, not being depreciated	354,954			139,775
Capital assets, being depreciated:				
Buildings	3,264,238	331,227	(13,634)	3,581,831
Accumulated depreciation	(952,118)	(113,878)	5,127	(1,060,869)
Net buildings	2,312,120			2,520,962
Other improvements	98,489	2,539	(235)	100,793
Accumulated depreciation	(45,737)	(5,349)	558	(50,528)
Net other improvements	52,752			50,265
Furnishings, equipment, and intangible assets	714,107	60,554	(14,027)	760,634
Accumulated depreciation	(530,398)	(64,221)	13,781	(580,838)
Net furnishings, equipment, and intangible assets	183,709			179,796
Infrastructure	42,646	6,730	(41)	49,335
Accumulated depreciation	(20,654)	(1,448)	41	(22,061)
Net infrastructure	21,992			27,274
Total capital assets, being depreciated, net	2,570,573			2,778,297
Business-Type Activities Capital Assets, Net	$ 2,925,527			$ 2,918,072

C. DEPRECIATION

Depreciation expense for the year ended June 30, 2016, was charged by the primary government as follows (expressed in thousands):

		Amount
Governmental Activities:		
General government	$	79,163
Education - elementary and secondary (K-12)		5,836
Education - higher education		417,663
Human services		39,782
Adult corrections		39,770
Natural resources and recreation		36,095
Transportation		110,056
Total Depreciation Expense - Governmental Activities *	$	728,365
Business-Type Activities:		
Workers' compensation	$	10,206
Unemployment compensation		-
Higher education student services		172,988
Guaranteed education tuition program		3
Other		1,699
Total Depreciation Expense - Business-Type Activities	$	184,896

* Includes $98.4 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, 2016, are as follows (expressed in thousands):

Agency / Project Commitments	Construction In Progress June 30, 2016	Remaining Project Commitments
Consolidated Technology Services:		
State Data Center buildout	$ 9,386	$ 1,034
Employment Security Department:		
Unemployment Tax & Benefit system	11,867	5,225
Department of Enterprise Services:		
1063 Building project	33,438	53,863
Various projects	16,662	29,055
Military Department:		
Pierce County readiness center and other projects	35,445	8,697
Department of Social and Health Services:		
State hospitals	13,454	50,533
Residential housing unit renovations and other projects	18,533	18,263
Department of Veterans Affairs:		
Walla Walla Veterans Home and other projects	27,370 -	19,871
Department of Corrections:		
Correctional center units security and safety improvements, and other projects	12,644	12,645
Department of Transportation:		
State ferry vessels and terminals, locomotives, and other projects	240,125	92,592
Transportation infrastructure	-	1,197,732
Department of Fish and Wildlife:		
Soos Creek renovation, Fir Island farm restoration, and other projects	17,261	73,675
University of Washington:		
UW Medical Center expansion and renovation projects	17,479	29,048
McCarty, Madrona, and Willow Hall projects	21,511	35,074
Washington biomedical research facility	13,667	131,042
NanoEngineering & Sciences building, animal research & care facility, and other projects	353,002	178,595
Burke Gilman trail, student housing, parking, and other projects	2,553	3,057
Washington State University:		
Animal health research facility, digital classroom, Everett University center, Chinook building, and other facility projects	64,428	120,158
Indoor practice facility and other athletic projects	103	10,075
Cultural house, Tri Cities student union, and other projects	5,447	16,401
Troy Hall and other housing projects	12,030	36,612
Police station, smart grid, and other projects	11,906	3,869
Eastern Washington University:		
Interdisciplinary science center renovation	2,166	101,871
Pence Union Building, science center, water system upgrade, and other projects	11,523	48,041
Central Washington University:		
Samuelson communication & tech center, Bouillon & Lind Hall, and other projects	13,217	37,575
Science hall phase two project	51,427	7,939
The Evergreen State College:		
Housing and other projects	20,691	15,647
Western Washington University:		
Carver Hall renovation, residence hall, and other projects	33,318	86,585
Community and Technical Colleges:		
ctcLink project	79,859	20,141
Centralia TransAlta student commons	15,198	17,711
Clark Science, Technology, Engineering and Math building	32,135	-
Edmonds Science, Engineering and Technology building project	2,217	47,453
Peninsula health & early childhood development center, and Fort Worden building	14,152	15,673
Seattle integrated education center and Maritime Academy	17,557	24,765
Other miscellaneous community college projects	73,593	76,934
Other Agency Projects:	17,277	28,370
Total Construction in Progress	$ 1,322,641	$ 2,655,822

Note 7
Long-Term Liabilities

A. BONDS PAYABLE

Bonds payable at June 30, 2016, are reported by the state of Washington within governmental activities and business-type activities, as applicable.

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

Legislative authorization arises:

- From an affirmative vote of 60 percent of the members of each house of the Legislature, without voter approval, in which case the amount of such debt is generally subject to the constitutional debt limitation described below;
- When authorized by law for a distinct work or object and approved by a majority of the voters voting thereon at a general election, or a special election called for that purpose, in which case the amount of the debt so approved is not subject to the constitutional debt limitations described below;
- By the State Finance Committee without limitation as to amount, and without approval of the Legislature or approval of the voters.

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

Legal Debt Limitation

The State Constitution limits the amount of state debt that may be incurred by restricting the amount of general state revenues which may be allocated to pay principal and interest on debt subject to these limitations. In November 2012, voters passed a constitutional amendment specifying that maximum annual payments of principal and interest on all debt subject to the limit may not exceed a percentage of the average of the prior six years' general state revenues; this percentage currently stands at 8.5 percent and will decline to 8 percent by July 1, 2034. This limitation restricts the incurrence of new debt and not the amount of debt service that may be paid by the state in future years.

The State Constitution requires the State Treasurer to certify the debt service limitation for each fiscal year. In accordance with these provisions, the debt service limitation for fiscal year 2016 is $1.32 billion.

This computation excludes specific bond issues and types, which are not secured by general state revenues. Of the $19.04 billion general obligation bond debt principal outstanding at June 30, 2016, $11.35 billion is subject to the limitation.

Based on the debt limitation calculation, the debt service requirements as of June 30, 2016, 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_cd2016.pdf or to Schedule 11 in the Statistical Section of this report.

Authorized But Unissued

The state had a total of $11.70 billion in general obligation bonds authorized but unissued as of June 30, 2016, for the purpose of capital construction, higher education, transportation, and various other projects throughout the state.

Interest Rates

Interest rates on fixed rate general obligation bonds range from 0.4 to 6.4 percent. Interest rates on revenue bonds range from 0.9 to 8 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 2016. 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, 2016, are as follows (expressed in thousands):

	Governmental Activities		Business-Type Activities		Totals	
General Obligation Bonds	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**
By Fiscal Year:						
2017	$ 944,279	$ 936,214	$ -	$ -	$ 944,279	$ 936,214
2018	935,599	899,445	-	-	935,599	899,445
2019	933,739	861,151	-	-	933,739	861,151
2020	933,807	824,753	-	-	933,807	824,753
2021	916,290	768,772	-	-	916,290	768,772
2022-2026	4,680,504	4,290,276	-	-	4,680,504	4,290,276
2027-2031	4,473,668	2,022,042	-	-	4,473,668	2,022,042
2032-2036	3,297,990	857,772	-	-	3,297,990	857,772
2037-2041	1,836,850	234,482	-	-	1,836,850	234,482
2042-2046	85,365	3,925	-	-	85,365	3,925
Total Debt Service Requirements	$ 19,038,091	$ 11,698,832	$ -	$ -	$ 19,038,091	$ 11,698,832

Revenue Bonds

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

General Revenue.

The University of Washington and Washington State University issue general revenue bonds that are payable from general revenues, including student tuition, grant indirect cost recovery, sales and services revenue, and investment income. General revenue bonds outstanding as of June 30, 2016, include $777.2 million in governmental activities and $1.78 billion in business-type activities.

Pledged Revenue.

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

Total debt service requirements for revenue bonds to maturity as of June 30, 2016, are as follows (expressed in thousands):

	Governmental Activities		Business-Type Activities		Totals	
Revenue Bonds	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**
By Fiscal Year:						
2017	$ 118,889	$ 96,696	$ 97,924	$ 90,287	$ 216,813	$ 186,983
2018	116,431	101,056	83,644	88,704	200,075	189,760
2019	121,985	95,541	63,277	85,966	185,262	181,507
2020	126,041	89,760	64,772	82,945	190,813	172,705
2021	131,682	83,649	68,221	80,083	199,903	163,732
2022-2026	626,566	319,931	355,016	352,657	981,582	672,588
2027-2031	343,090	214,060	383,585	268,336	726,675	482,396
2032-2036	294,126	136,467	388,638	182,742	682,764	319,209
2037-2041	236,256	69,908	364,831	88,873	601,087	158,781
2042-2046	150,731	32,295	176,562	13,818	327,293	46,113
2047-2051	104,047	14,907	9,750	5,888	113,797	20,795
Total Debt Service Requirements	$ 2,369,844	$ 1,254,270	$ 2,056,220	$ 1,340,299	$ 4,426,064	$ 2,594,569

Governmental activities include revenue bonds outstanding at June 30, 2016, of $241.8 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 $356.6 million, payable through 2033. For the current year, both pledged revenue and debt service were $45.3 million.

Governmental activities include grant anticipation revenue bonds outstanding at June 30, 2016, of $723.7 million issued for the Washington State Department of Transportation. The bonds were issued to finance a portion of the costs of constructing the State Route 520 Floating Bridge and Eastside Project.

These bonds do not constitute either a legal or moral obligation of the state, nor does the state pledge its full faith, credit, or taxing power for payment of these bonds. The bonds are payable solely from Federal-Aid Highway Program funds, including federal reimbursements of debt service on the bonds and federal reimbursements to the state for projects or portions of projects not financed with bond proceeds. Total principal and interest remaining on the bonds is $897.3 million, payable through 2024. For the current year both pledged revenue and debt service were $100.1 million.

Governmental activities include the Transportation Infrastructure Finance and Innovation Act Bond (TIFIA Bond) outstanding at June 30, 2016, of $300 million. The bonds were issued to finance a portion of the State Route 520 Corridor Program.

The TIFIA Bond is payable solely from toll revenues and does not constitute either a legal or moral obligation of the state, nor does the state pledge its full faith, credit, or taxing power for payment of this bond. Total principal and interest remaining on the bond is $542.4 million, payable through 2051.

Governmental activities include revenue bonds outstanding at June 30, 2016, of $41.9 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 $56.2 million, payable through 2029. For the current year, both pledged revenue and debt service were $3.5 million.

Governmental activities include revenue bonds outstanding at June 30, 2016, of $280.5 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 $495.8 million, payable through 2039. For the current year, both pledged revenue and debt service were $21.6 million.

Additionally, governmental activities include revenue bonds outstanding at June 30, 2016, of $4.8 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 $5.4 million, payable through 2022. For the current year, both pledged revenue and debt service were $1.6 million.

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

Total pledged specific revenues for the state's colleges and universities to repay the principal and interest of revenue bonds as of June 30, 2016, are as follows (expressed in thousands):

Source of Revenue Pledged	Housing and Dining Revenues (Net of Operating Expenses)	Student Facilities Fees and Earnings on Invested Fees	Bookstore Revenues
Current revenue pledged	$ 30,556	$ 28,197	$ 169
Current year debt service	20,049	11,555	202
Total future revenues pledged *	302,316	115,286	3,640
Description of debt	Housing and dining bonds issued in 1998-2016	Student facilities bonds issued in 2006-2016	Student union and recreation center bonds issued in 2004
Purpose of debt	Construction and renovation of student housing and dining	Construction and renovation of student activity and sports facilities	Construct new bookstore as part of new student union and recreation center building
Term of commitment	2026-2042	2017-2039	2034
Percentage of debt service to pledged revenues (current year)	65.6%	41.0%	119.6%

* Total future principal and interest payments.

B. CERTIFICATES OF PARTICIPATION

Certificates of participation at June 30, 2016, 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, 2016, are as follows (expressed in thousands):

Certificates of Participation	Governmental Activities Principal	Governmental Activities Interest	Business-Type Activities Principal	Business-Type Activities Interest	Totals Principal	Totals Interest
By Fiscal Year:						
2017	$ 122,683	$ 45,980	$ 4,779	$ 1,791	$ 127,462	$ 47,771
2018	68,329	25,385	4,897	1,819	73,226	27,204
2019	65,842	22,428	4,719	1,607	70,561	24,035
2020	61,566	19,527	4,412	1,399	65,978	20,926
2021	50,171	16,839	3,596	1,207	53,767	18,046
2022-2026	177,563	53,960	12,727	3,867	190,290	57,827
2027-2031	105,891	20,317	7,589	1,456	113,480	21,773
2032-2036	40,498	5,310	2,902	381	43,400	5,691
2037-2041	9,177	371	658	27	9,835	398
Total Debt Service Requirements	$ 701,720	$ 210,117	$ 46,279	$ 13,554	$ 747,999	$ 223,671

C. DEBT REFUNDINGS

When advantageous and permitted by statute and bond covenants, the State Finance Committee authorizes the refunding of outstanding bonds and certificates of participation. Colleges and universities may also refund revenue bonds.

When the state refunds outstanding bonds, the net proceeds of each refunding issue are used to purchase U.S. government securities that are placed in irrevocable trusts with escrow agents to provide for all future debt service payments on the refunded bonds.

As a result, the refunded bonds are considered defeased and the liability is removed from the government-wide statement of net position.

Current Year Defeasances

Bonds

Governmental Activities.
On October 8, 2015, the state issued $188.3 million of various purpose general obligation refunding bonds with an average interest rate of 5 percent to refund $212.9 million of various purpose general obligation bonds with an average interest rate of 5 percent. The refunding resulted in a $33.1 million gross debt service savings over the next 9 years and a net present value savings of $31.0 million.

On February 16, 2016, the state issued $143.7 million of motor vehicle fuel tax general obligation refunding bonds with an average interest rate of 5 percent to refund $157.9 million of motor vehicle fuel tax general obligation bonds with an average interest rate of 5 percent. The refunding resulted in a $26.1 million gross debt service savings over the next 17 years and a net present value savings of $19.7 million.

Also on February 16, 2016, the state issued $528.8 million of various purpose general obligation refunding bonds with an average interest rate of 5 percent to refund $583.2 million of various purpose general obligation bonds with an average interest rate of 5 percent. The refunding resulted in a $97.9 million gross debt service savings over the next 17 years and a net present value savings of $74.5 million.

Business-Type Activities.
On September 1, 2015, the Evergreen State College issued $4.1 million in general revenue refunding bonds with an average interest rate of 2.4 percent to refund $4.1 million in housing and dining revenue bonds with an average interest rate of 3.8 percent. The refunding resulted in $363 thousand gross debt service savings over the next 10 years and an economic gain of $322 thousand.

On May 25, 2016, Washington State University issued $58.1 million in general revenue refunding bonds with an average interest rate of 4.9 percent to refund $21.5 million in housing and dining revenue bonds with an average interest rate of 5 percent, $17.6 million in athletic revenue bonds with an average interest rate of 4.3 percent, and $26.2 million in student recreation center revenue bonds with an average interest rate of 4.8 percent. The refunding resulted in an $11.0 million gross debt service savings over the next 16 to 23 years and an economic gain of $5.4 million.

Certificates of Participation (COPs)

On October 21, 2015, the state issued $21.8 million in refunding certificates of participation with an average interest rate of 5 percent to refund $24.7 million of various purpose general obligation bonds with an average interest rate of 4.4 percent. The refunding resulted in a $3.2 million gross debt service savings over the next 10 years and a net present value savings of $2.7 million.

On March 31, 2016, the state issued $35.7 million in refunding certificates of participation with an average interest rate of 4.5 percent to refund $43.6 million of various purpose general obligation bonds with an average interest rate of 4.2 percent. The refunding resulted in a $5.5 million gross debt service savings over the next 11 years and a net present value savings of $4.2 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 of participation in an irrevocable trust to provide for all future debt service payments on the prior bonds and certificates of participation.

Accordingly, the trust account assets and the liability for the defeased bonds and certificates of participation are not included in the state's financial statements.

General Obligation Bond Debt

On June 30, 2016, $3.96 billion of general obligation bond debt outstanding is considered defeased.

Revenue Bond Debt

On June 30, 2016, $145.1 million of revenue bond debt outstanding is considered defeased.

Certificates of Participation Debt

On June 30, 2016, $50.4 million of certificates of participation debt outstanding is considered defeased.

D. LEASES

Leases at June 30, 2016, 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, 2016, include the following (expressed in thousands):

	Governmental Activities	Business-Type Activities
Buildings	$ 1,705	$ 4,512
Equipment	7,937	12,150
Less: Accumulated Depreciation	(6,605)	(9,433)
Totals	$ 3,037	$ 7,229

The following schedule presents future minimum payments for capital and operating leases as of June 30, 2016 (expressed in thousands):

	Capital Leases		Operating Leases	
Capital and Operating Leases	Governmental Activities	Business-Type Activities	Governmental Activities	Business-Type Activities
By Fiscal Year:				
2017	$ 1,165	$ 2,262	$ 186,696	$ 63,898
2018	546	1,469	159,332	57,162
2019	545	1,383	134,004	54,992
2020	542	1,383	95,544	55,031
2021	508	1,383	66,141	39,952
2022-2026	1,112	2,428	107,576	76,684
2027-2031	-	-	35,109	46,887
2032-2036	-	-	19,543	52,530
2037-2041	-	-	19,380	55,868
2042-2046	-	-	9,463	31,621
Total Future Minimum Payments	4,418	10,308	832,788	534,625
Less: Executory Costs and Interest Costs	(288)	(935)	-	-
Net Present Value of Future Minimum Lease Payments	$ 4,130	$ 9,373	$ 832,788	$ 534,625

The total operating lease rental expense for fiscal year 2016 for governmental activities was $379.7 million, of which $28 thousand was for contingent rentals. The total operating lease rental expense for fiscal year 2016 for business-type activities was $38.4 million.

E. CLAIMS AND JUDGMENTS

Claims and judgments are materially related to three activities: workers' compensation, risk management, and health insurance. Workers' compensation is a business-type activity, and risk management and health insurance are governmental activities. A description of the risks to which the state is exposed by these activities, and the ways in which the state handles the risks, is presented in Note 1.E.

Workers' Compensation

At June 30, 2016, $37.25 billion of unpaid claims and claim adjustment expenses are presented at their net present and settlement value of $25.85 billion. These claims are discounted at assumed interest rates of 1.5 percent (non-pension and cost of living adjustments), 4.5 to 6.3 percent (pensions not yet granted), and 6.3 percent (granted pensions) to arrive at a settlement value.

The claims and claim adjustment liabilities of $25.85 billion as of June 30, 2016, include $12.26 billion for supplemental pension cost of living adjustments (COLAs) that by statute are not to be fully funded.

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

The remaining claims liabilities of $13.59 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 2015 and 2016 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
2015	$ 24,437,534	2,814,134	(2,185,519)	$ 25,066,149
2016	$ 25,066,149	3,024,336	(2,238,159)	$ 25,852,326

Risk Management

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

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

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

As of June 30, 2016, outstanding and actuarially determined claims against the state and its agencies, with the exception of the University of Washington and the Department of Transportation Ferries Division, including actuarially projected defense costs were $568.8 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, 2016, the Risk Management Fund held $54 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 2015 and 2016 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
2015	$ 549,988	110,648	(59,621)	(21,087)	$ 579,928
2016	$ 579,928	50,583	(38,755)	(22,935)	$ 568,821

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, 2016, health insurance claims liabilities totaling $87.4 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 2015 and 2016 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
2015	$ 70,249	934,082	(930,724)	$ 73,607
2016	$ 73,607	1,023,194	(1,009,431)	$ 87,370

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 23 projects in progress for which the state has recorded a liability of $56.2 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, 2016, the state has recorded a liability of $97.9 million for remaining project commitments.

Overall, the state has recorded a pollution remediation liability of $154.1 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, 2016, 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 2016 is as follows (expressed in thousands):

Governmental Activities:	Beginning Balance July 1, 2015*	Additions	Reductions	Ending Balance June 30, 2016	Amounts Due Within One Year
Long-Term Debt:					
GO Bonds Payable:					
General obligation (GO) bonds	$ 18,243,520	$ 2,122,605	$ 1,799,690	$ 18,566,435	$ 884,870
GO - zero coupon bonds (principal)	518,658	-	47,002	471,656	59,409
Subtotal - GO bonds payable	18,762,178	2,122,605	1,846,692	19,038,091	944,279
Accreted interest - GO - zero coupon bonds	471,951	7,275	-	479,226	69,284
Revenue bonds payable	2,289,434	205,349	124,939	2,369,844	118,889
Plus: Unamortized premiums on bonds sold	660,011	405,612	57,907	1,007,716	-
Total Bonds Payable	22,183,574	2,740,841	2,029,538	22,894,877	1,132,452
Other Liabilities:					
Certificates of participation	575,623	251,836	125,739	701,720	122,683
Plus: Unamortized premiums on COPs sold	4,812	12,460	1,377	15,895	-
Claims and judgments	864,129	161,492	43,562	982,059	385,605
Installment contracts	-	1,865	137	1,728	137
Leases	5,441	19,122	20,433	4,130	1,093
Compensated absences	552,937	401,438	373,093	581,282	75,804
Net pension liability	3,297,302	1,805,478	1,023,804	4,078,976	-
Other postemployment benefits	2,104,794	387,009	230	2,491,573	-
Pollution remediation obligations	169,698	6,773	22,326	154,145	-
Unclaimed property refunds	130,656	34,559	-	165,215	-
Other	655,352	199,021	128,965	725,408	54,692
Total Other Liabilities	8,360,744	3,281,053	1,739,666	9,902,131	640,014
Total Long-Term Debt	$ 30,544,318	$ 6,021,894	$ 3,769,204	$ 32,797,008	$ 1,772,466

* The beginning balance of other liabilities has been restated by $85.7 million as a result of liability reclassification.

For governmental activities, certificates of participation are being repaid approximately 21 percent from the General Fund, 39 percent from the Higher Education Special Revenue Fund, 23 percent from the Motor Vehicle (a nonmajor special revenue fund), and the balance from various governmental funds. The compensated absences liability will be liquidated approximately 42 percent by the General Fund, 35 percent by the Higher Education Special Revenue Fund, and the balance by various other governmental funds. The claims and judgments liability will be liquidated approximately 58 percent by the Risk Management Fund (an internal service fund), 12 percent by the Health Insurance Fund (a nonmajor internal service fund), and the balance by various other governmental funds. The other postemployment benefits liability will be liquidated approximately 46 percent by the General Fund, 30 percent by the Higher Education Special Revenue Fund, and the balance by various other governmental funds. The pollution remediation liability will be liquidated approximately 79 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 2016 is as follows (expressed in thousands):

Business-Type Activities	Beginning Balance July 1, 2015*	Additions	Reductions	Ending Balance June 30, 2016	Amounts Due Within One Year
Long-Term Debt:					
General obligation bonds payable	$ 4,050	$ -	$ 4,050	$ -	$ -
Revenue bonds payable	1,853,823	332,268	129,871	2,056,220	97,924
Plus: Unamortized premiums on bonds sold	137,482	37,660	16,583	158,559	-
Less: Unamortized discounts on bonds sold	(95)	167	72	-	-
Total Bonds Payable	1,995,260	370,095	150,576	2,214,779	97,924
Other Liabilities:					
Certificates of participation	39,850	18,511	12,082	46,279	4,779
Plus: Unamortized premiums on COPs sold	2,133	1,068	282	2,919	-
Claims and judgments	25,080,504	1,078,432	290,034	25,868,902	2,020,065
Lottery prize annuities payable	129,906	37,372	41,196	126,082	15,410
Tuition benefits payable	2,042,000	-	316,000	1,726,000	186,000
Leases	12,947	-	3,574	9,373	2,005
Compensated absences	77,502	30,634	27,396	80,740	49,032
Net pension liability	362,976	224,741	92,230	495,487	-
Other postemployment benefits	218,094	51,048	-	269,142	-
Other	149,328	15,138	115,760	48,706	4,269
Total Other Liabilities	28,115,240	1,456,944	898,554	28,673,630	2,281,560
Total Long-Term Debt	$ 30,110,500	$ 1,827,039	$ 1,049,130	$ 30,888,409	$ 2,379,484

* The beginning balance of other liabilities has been restated by $7.5 million as a result of liability reclassification.

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, 2016, balances for the "No Commitment" debt of the state's financing authorities (expressed in thousands):

Financing Authorities	Principal Balance
Washington State Housing Finance Commission	$ 3,727,679
Washington Higher Education Facilities Authority	742,667
Washington Health Care Facilities Authority	5,682,000
Washington Economic Development Finance Authority	678,160
Total No Commitment Debt	$ 10,830,506

Note 9
Governmental Fund Balances

A. GOVERNMENTAL FUND BALANCES

The state's governmental fund balances are reported according to the relative constraints that control how amounts can be spent. Classifications include nonspendable, restricted, committed, and assigned, which are further described in Note 1.D.9.

A summary of governmental fund balances at June 30, 2016, is as follows (expressed in thousands):

Fund Balances	General	Higher Education Special Revenue	Higher Education Endowment	Nonmajor Governmental Funds	Total
Nonspendable:					
Permanent funds	$ -	$ -	$ 2,235,581	$ 205,254	$ 2,440,835
Consumable inventories	14,578	10,542	-	41,812	66,932
Student loans receivable - long-term	-	-	-	-	-
Other receivables – long-term	31,000	-	-	-	31,000
Total Nonspendable Fund Balance	$ 45,578	$ 10,542	$ 2,235,581	$ 247,066	$ 2,538,767
Restricted for: *					
Higher education	$ -	$ 50,449	$ 1,149,559	$ 106,063	$ 1,306,071
Education	-	-	4,642	28,190	32,832
Transportation	-	-	-	941,052	941,052
Other purposes	-	-	-	7,211	7,211
Human services	-	-	382	480,339	480,721
Wildlife and natural resources	8,555	-	-	993,780	1,002,335
Local grants and loans	-	-	-	245	245
School construction	572	-	-	100,315	100,887
State facilities	-	-	-	17,614	17,614
Budget stabilization	549,581	-	-	-	549,581
Debt service	-	-	-	61,160	61,160
Pollution remediation	-	-	-	70,897	70,897
Operations and maintenance	-	-	-	9,048	9,048
Repair and replacement	-	-	-	2,925	2,925
Revenue stabilization	-	-	-	22,069	22,069
Third tier debt service	-	-	-	3,172	3,172
Fourth tier debt service	-	-	-	1,185	1,185
Total Restricted Fund Balance	$ 558,708	$ 50,449	$ 1,154,583	$ 2,845,265	$ 4,609,005
Committed for:					
Higher education	$ 80,368	$ 2,781,000	$ -	$ 59,337	$ 2,920,705
Education	57	-	-	2,230	2,287
Transportation	-	-	-	253,662	253,662
Other purposes	9,747	-	-	277,765	287,512
Human services	16,604	-	-	785,360	801,964
Wildlife and natural resources	8,182	-	-	406,058	414,240
Local grants and loans	-	-	-	1,084,597	1,084,597
State facilities	-	-	-	7,696	7,696
Debt service	-	-	-	356,182	356,182
Total Committed Fund Balance	$ 114,958	$ 2,781,000	$ -	$ 3,232,887	$ 6,128,845
Assigned for:					
Working capital	$ 1,155,952	$ 18,300	$ -	$ -	$ 1,174,252
Total Assigned Fund Balance	$ 1,155,952	$ 18,300	$ -	$ -	$ 1,174,252

*Net position restricted as a result of enabling legislation totaled $9.4 million.

B. BUDGET STABILIZATION ACCOUNT

In accordance with Article 7, Section 12 of the Washington State Constitution, the state maintains the Budget Stabilization Account ("Rainy Day Fund"). The Budget Stabilization Account is reported in the General Fund.

By June 30 of each fiscal year, an amount equal to 1 percent of the general state revenues for that fiscal year is transferred to the Budget Stabilization Account.

The Budget Stabilization Account balance can only be used as follows: (a) if the Governor declares a state of emergency resulting from a catastrophic event that necessitates government action to protect life or public safety, then for that fiscal year money may be withdrawn and appropriated from the Budget Stabilization Account, via separate legislation setting forth the nature of the emergency and containing an appropriation limited to the above-authorized purposes as contained in the declaration, by a favorable vote of a majority of the members elected to each house of the Legislature; (b) if the employment growth forecast for any fiscal year is estimated to be less than 1 percent, then for that fiscal year money may be withdrawn and appropriated from the Budget Stabilization Account by the favorable vote of a majority of the members elected to each house of the Legislature; (c) any amount may be withdrawn and appropriated from the Budget Stabilization Account at any time by the favorable vote of at least three-fifths of the members of each house of the Legislature.

When the balance in the Budget Stabilization Account, including investment earnings, equals more than 10 percent of the estimated general state revenues in that fiscal year, the Legislature by the favorable vote of a majority of the members elected to each house of the Legislature may withdraw and appropriate the balance to the extent that the balance exceeds 10 percent of the estimated general state revenues. These appropriations may be made solely for deposit to the Education Construction Fund.

At June 30, 2016, the Budget Stabilization Account had restricted fund balance of $549.6 million.

Note 10
Deficit Net Position

Data Processing Revolving Fund

The Data Processing Revolving Fund, an internal service fund, had a deficit net position of $91.8 million at June 30, 2016. The Data Processing Revolving Fund is primarily used to account for and report activities such as data processing and communication services to other state agencies.

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

The following schedule details the change in net position for the Data Processing Revolving Fund during the fiscal year ended June 30, 2016 (expressed in thousands):

Data Processing Revolving Fund	Net Position
Balance, July 1, 2015*	$ (73,844)
Fiscal year 2016 activity	(18,003)
Balance, June 30, 2016	$ (91,847)

*Beginning balance reflects a fund reclassification of $2 million from the abolishment of an account.

Higher Education Revolving Fund

The Higher Education Revolving Fund, an internal service fund, had a deficit net position of $54.7 million at June 30, 2016. The Higher Education Revolving Fund is used to manage college and university support service activities such as stores, data processing, and motor pool. Additionally, beginning in fiscal year 2015, the University of Washington is using the Higher Education Revolving Fund to allocate costs associated with its higher education supplemental retirement plan.

The Higher Education Revolving Fund is primarily supported by user charges and interest earnings. During fiscal year 2016, the University of Washington's supplemental retirement plan obligation exceeded the associated revenue, resulting in a deficit net position.

The following schedule details the change in net position for the Higher Education Revolving Fund during the fiscal year ended June 30, 2016 (expressed in thousands):

Higher Education Revolving Fund	Net Position
Balance, July 1, 2015	$ (2,457)
Fiscal year 2016 activity	(52,249)
Balance, June 30, 2016	$ (54,706)

Risk Management Fund

The Risk Management Fund, an internal service fund, had a deficit net position of $520.1 million at June 30, 2016. The Risk Management Fund is used to administer the Self-Insurance Liability Program (SILP). The SILP was initiated in 1990 and is intended to provide funds for the payment of all tort claims and defense expenses. The program investigates, processes, and adjudicates tort and sundry claims filed against Washington state agencies, with the exception of the University of Washington and the Department of Transportation Ferries Division.

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

The following schedule details the change in net position for the Risk Management Fund during the fiscal year ended June 30, 2016 (expressed in thousands):

Risk Management Fund	Net Position
Balance, July 1, 2015	$ (523,211)
Fiscal year 2016 activity	3,082
Balance, June 30, 2016	$ (520,129)

Note 11
Retirement Plans

A. GENERAL

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

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

The state Legislature establishes and amends laws pertaining to the creation and administration of all state public retirement systems. Additionally, the state Legislature authorizes state agency participation in plans other than those administered by the state.

Basis of Accounting. Pension plans administered by the state are accounted for using the accrual basis of accounting. Under the accrual basis of accounting, employee and employer contributions are recognized in the period in which employee services are performed; investment gains and losses are recognized as incurred; and benefits and refunds are recognized when due and payable in accordance with the terms of the applicable plan. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of all plans and additions to/deductions from all plan fiduciary net position have been determined in all material respects on the same basis as they are reported by the plans.

The following table represents the aggregate pension amounts for all plans subject to the requirements of GASB Statement No. 68 for the state as an employer, for fiscal year 2016, expressed in thousands:

Aggregate Pension Amounts - All Plans		
Pension liabilities	$	4,088,214
Pension assets	$	(1,467,659)
Deferred outflows of resources related to pensions	$	860,206
Deferred inflows of resources related to pensions	$	944,928
Pension expense/expenditures	$	100,603

Investments. The Washington State Investment Board (WSIB) has been authorized by statute as having investment management responsibility for the pension funds. The WSIB manages retirement fund assets to maximize return at a prudent level of risk.

Retirement funds are invested in the Commingled Trust Fund (CTF). Established on July 1, 1992, the CTF is a diversified pool of investments that invests in fixed income, public equity, private equity, real estate, and tangible assets. Investment decisions are made within the framework of a Strategic Asset Allocation Policy and a series of written WSIB-adopted investment policies for the various asset classes in which the WSIB invests.

Further information about the investment of pension funds by the WSIB, their valuation, classifications, concentrations, and maturities can be found in Note 3.B.

Department of Retirement Systems. As established in chapter 41.50 of the Revised Code of Washington (RCW), the Department of Retirement Systems (DRS) administers eight retirement systems covering eligible employees of the state and local governments. The Governor appoints the director of the DRS.

The DRS administered systems are comprised of 12 defined benefit pension plans and three defined benefit/defined contribution plans as follows:

- Public Employees' Retirement System (PERS)
  - Plan 1 - defined benefit
  - Plan 2 - defined benefit
  - Plan 3 - defined benefit/defined contribution

- Teachers' Retirement System (TRS)
  - Plan 1 - defined benefit
  - Plan 2 - defined benefit
  - Plan 3 - defined benefit/defined contribution

- School Employees' Retirement System (SERS)
  Plan 2 - defined benefit
  Plan 3 - defined benefit/defined contribution

- Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF)
  Plan 1 - defined benefit
  Plan 2 - defined benefit

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

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

- Judicial Retirement System (JRS)
  Defined benefit plan

- Judges' Retirement Fund (Judges)
  Defined benefit plan

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

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

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

The DRS prepares a stand-alone financial report that is compliant with the requirements of Statement 67 of the GASB. Copies of the report may be obtained by contacting the Washington State Department of Retirement Systems, PO Box 48380, Olympia, Washington 98504-8380 or online at http://www.drs.wa.gov/administration/annual-report/.

State Board for Volunteer Fire Fighters and Reserve Officers. As established in chapter 41.24 RCW, the State Board for Volunteer Fire Fighters and Reserve Officers administers the Volunteer Fire Fighters' and Reserve Officers' Relief and Pension Fund (VFFRPF), a defined benefit plan. Administration of VFFRPF is funded through legislative appropriation.

Administrative Office of the Courts. As established in chapter 2.14 RCW, the Administrative Office of the Courts administers the Judicial Retirement Account (JRA), a defined contribution plan. Administration of JRA is funded through member fees.

Higher Education. As established in chapter 28B.10 RCW, eligible higher education state employees may participate in higher education retirement plans. These plans include a defined contribution plan administered by a third party with a supplemental defined benefit component (on a pay-as-you-go basis) which is administered by the state.

B. STATE PARTICIPATION IN PLANS ADMINISTERED BY DRS

1. DRS Plans – Employer Disclosures

The state is not an employer in SERS Plan 2/3 nor LEOFF Plan 1.

Public Employees' Retirement System

Plan Description. The Legislature established the Public Employees' Retirement System (PERS) in 1947. PERS retirement benefit provisions are established in chapters 41.34 and 41.40 RCW and may be amended only by the Legislature. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior Courts (other than judges currently in a judicial retirement system); employees of legislative committees; community and technical colleges, college and university employees not in national higher education retirement programs; judges of district and municipal courts; and employees of local governments.

PERS is a cost-sharing, multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a combination defined benefit/defined contribution plan. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 defined benefit plan may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered a single defined benefit plan for reporting purposes. Plan

3 accounts for the defined contribution portion of benefits for Plan 3 members.

PERS members who joined the system by September 30, 1977, are Plan 1 members. Plan 1 is closed to new entrants. Those who joined on or after October 1, 1977, and by either: February 28, 2002, for state and higher education employees; or August 31, 2002, for local government employees; are Plan 2 members unless they exercised an option to transfer their membership to PERS Plan 3.

PERS participants joining the system on or after March 1, 2002, for state and higher education employees, or September 1, 2002, for local government employees, have the irrevocable option of choosing membership in either PERS Plan 2 or PERS Plan 3. The option must be exercised within 90 days of employment. Employees who fail to choose within 90 days default to PERS Plan 3.

Refer to Note 11.E for a description of the defined contribution component of PERS Plan 3.

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

PERS Plan 1 members are vested after the completion of five years of eligible service. Plan 1 members are eligible for retirement after 30 years of service, or at the age of 60 with five years of service, or at the age of 55 with 25 years of service. The monthly benefit is 2 percent of the average final compensation (AFC) per year of service, capped at 60 percent. The AFC is the average of the member's 24 highest consecutive service months.

PERS Plan 1 members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits. Plan 1 members may elect to receive an optional cost of living allowance (COLA) that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the benefit amount is 2 percent of the AFC for each year of service. This is reduced by 2 percent for each year that the member's age is less than 55. The total benefit is limited to 60 percent of the AFC. Plan 1 members may elect to receive an optional COLA amount based on the Consumer Price Index, capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 2 members are vested after completing five years of eligible service. Plan 2 members are eligible for normal retirement at the age of 65 with five years of service. The monthly benefit is 2 percent of the AFC per year of service. There is no cap on years of service credit and a COLA is granted based on the Consumer Price Index, capped at 3 percent annually. The AFC is the average of the member's 60 highest paid consecutive months.

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

The defined benefit portion of PERS Plan 3 provides members a monthly benefit that is 1 percent of the AFC per year of service. There is no cap on years of service credit. Plan 3 provides the same COLA as Plan 2. The AFC is the average of the member's 60 highest paid consecutive months.

Effective June 7, 2006, PERS Plan 3 members are vested in the defined benefit portion of their plan after 10 years of service; or after five years of service, if 12 months of that service are earned after age 44; or after five service credit years earned in PERS Plan 2 by June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan.

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

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

The Judicial Benefit Multiplier (JBM) Program began January 1, 2007. This program gave eligible justices and judges an option to increase the benefit multiplier used in their retirement benefit calculation for their judicial service periods of employement. Beginning January 1, 2007, any justice or judge who was in a judicial position at that time could chose to join JBM. Any justice or judge elected or appointed to office on or after January 1, 2007, who elects to join DRS membership will also be mandated into JBM. If they have already established membership in PERS or TRS Plan 1 they will rejoin that plan, but if they have never had membership they will be enrolled as a member of both PERS Plan 2 and JBM.

Contributions. PERS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions.

Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates, Plan 2 employer and employee contribution rates, and Plan 3 employer contribution rates. The methods used to determine contribution requirements are established under state statute.

Members in PERS Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest thereon, in lieu of any retirement benefit, upon separation from PERS-covered employment.

PERS JBM members and employers pay increased contributions that, along with investment earnings, fund the increased retirement benefits of those justices and judges who participate in the program.

Required contribution rates for fiscal year 2016 are presented in the table in Note 11.B.3.

Actuarial Assumptions. The total pension liability was determined by an actuarial valuation as of June 30, 2014, with the results rolled forward to the June 30, 2015, measurement date using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00%
Salary increases	3.75%
Investment rate of return	7.50%

Mortality rates were based on the RP-2000 Combined Healthy Table and Combined Disabled Table published by the Society of Actuaries. The Office of the State Actuary applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis, meaning members are assumed to receive additional mortality improvements in each future year, throughout their lifetime.

The actuarial assumptions used in the June 30, 2014, valuation were based on the results of the 2007-2012 Experience Study Report. Additional assumptions for subsequent events and law changes are current as of the 2014 actuarial valuation report.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which a best estimate of expected future rates of return (expected returns, net of pension plan investment expense, but including inflation) are developed for each major asset class by the WSIB. Those expected returns make up one component of WSIB's Capital Market Assumptions (CMAs). The CMAs contain the following three pieces of information for each class of assets the WSIB currently invests in:

- Expected annual return.
- Standard deviation of the annual return.
- Correlations between the annual returns of each asset class with every other asset class.

WSIB uses the CMAs and their target asset allocation to simulate future investment returns over various time horizons.

The long-term expected rate of return of 7.5 percent approximately equals the median of the simulated investment returns over a fifty-year time horizon, adjusted to remove or dampen any short term changes to WSIB's CMAs that aren't expected over the entire fifty-year measurement period.

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2015, are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Fixed Income	20%	1.7%
Tangible Assets	5%	4.4%
Real Estate	15%	5.8%
Global Equity	37%	6.6%
Private Equity	23%	9.6%
Total	100%	

The inflation component used to create the above table is 2.2 percent, and represents WSIB's most recent long-term estimate of broad economic inflation.

There were no material changes in assumptions, benefit terms or method changes for the reporting period.

Discount rate. The discount rate used to measure the total pension liability was 7.5 percent, the same as the prior measurement date. To determine the discount rate, an asset sufficiency test was completed to test whether the pension plan's fiduciary net position was sufficient to make all projected future benefit payments of current plan members. Consistent with current law, the completed asset sufficiency test included an assumed 7.7 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. Consistent with the long-term expected rate of return, a 7.5 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue to be made at contractually required rates (including PERS Plan 2/3, PSERS Plan 2, and SERS Plan 2/3 employers whose rates include a component for the PERS Plan 1 liability). Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.5 percent on pension plan investments was applied to determine the total pension liability.

Collective Net Pension Liability/(Asset). At June 30, 2016, the state reported $2.17 billion for its proportionate share of the collective net pension liability for PERS Plan 1 and $1.75 billion for PERS Plan 2/3. The state's proportion for PERS Plan 1 was 41.57 percent, a decrease of 0.8 percent since the prior reporting period, and 49.1 percent for PERS Plan 2/3, a decrease of 0.17 percent. The proportions are based on the state's contributions to the pension plan relative to the contributions of all participating employers.

Sensitivity of the Net Pension Liability/(Asset) to Changes in the Discount Rate. The following presents the net pension liability/(asset) of the state as an employer, calculated using the discount rate of 7.5 percent, as well as what the net pension liability/(asset) would be if it were calculated using a discount rate that is 1 percentage point lower (6.5 percent) or 1 percentage point higher (8.5 percent) than the current rate (expressed in thousands):

PERS Plan 1 Employer's proportionate share of Net Pension Liability (Asset)	
1% Decrease	$ 2,647,609
Current Discount Rate	$ 2,174,623
1% Increase	$ 1,767,898

PERS Plan 2/3 Employer's proportionate share of Net Pension Liability (Asset)	
1% Decrease	$ 5,130,009
Current Discount Rate	$ 1,754,418
1% Increase	$ (830,145)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. For the year ended June 30, 2016, the state recognized a PERS Plan 1 pension expense of $84.6 million, and recognized a PERS Plan 2/3 pension expense of $212.2 million. At June 30, 2016, PERS Plan 1 and PERS Plan 2/3 reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (expressed in thousands):

PERS Plan 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ -	$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	118,976
Change in proportion	-	-
State contributions subsequent to the measurement date	250,288	-
Total	$ 250,288	$ 118,976

PERS Plan 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 186,495	$ -
Changes of assumptions	2,827	-
Net difference between projected and actual earnings on pension plan investments	-	468,346
Change in proportion	14,635	5,319
State contributions subsequent to the measurement date	280,081	-
Total	$ 484,038	$ 473,665

For PERS Plan 1, $250.3 million, and for PERS Plan 2/3, $280.1 million, reported as deferred outflows of resources related to pensions resulting from state contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017.

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in the fiscal years ended June 30 (expressed in thousands):

PERS Plan 1	
2017	$ (46,111)
2018	$ (46,111)
2019	$ (46,111)
2020	$ 19,357
2021	$ -
Thereafter	$ -

PERS Plan 2/3		
2017	$	(122,869)
2018	$	(122,869)
2019	$	(125,795)
2020	$	101,825
2021	$	-
Thereafter	$	-

Teachers' Retirement System

Plan Description. The Legislature established the Teachers' Retirement System (TRS) in 1938. TRS retirement benefit provisions are established in chapters 41.32 and 41.34 RCW and may be amended only by the Legislature. Eligibility for membership requires service as a certificated public school employee working in an instructional, administrative, or supervisory capacity. TRS is comprised principally of non-state agency employees.

TRS is a cost-sharing, multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a defined benefit plan with a defined contribution component. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 defined benefit plan may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered a single defined benefit plan for reporting purposes. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members.

TRS members who joined the system by September 30, 1977, are a Plan 1 member. Plan 1 is closed to new entrants. Those who joined on or after October 1, 1977, and by June 30, 1996, are Plan 2 members unless they exercised an option to transfer their membership to Plan 3. TRS members joining the system on or after July 1, 1996, are members of TRS Plan 3.

Legislation passed in 2007 gives TRS members hired on or after July 1, 2007, 90 days to make an irrevocable choice to become a member of TRS Plan 2 or Plan 3. At the end of 90 days, any member who has not made a choice becomes a member of Plan 3.

Refer to Note 11.E for a description of the defined contribution component of TRS Plan 3.

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

TRS Plan 1 members are vested after the completion of five years of eligible service. Plan 1 members are eligible for retirement at any age after 30 years of service, or at the age of 60 with five years of service, or at the age of 55 with 25 years of service. The monthly benefit is 2 percent of the average final compensation (AFC) for each year of service credit, up to a maximum of 60 percent. The AFC is the total earnable compensation for the two consecutive highest-paid fiscal years, divided by two.

TRS Plan 1 members may elect to receive an optional cost of living allowance (COLA) amount based on the Consumer Price Index, capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

TRS Plan 2 retirement benefits are vested after completing five years of eligible service. Plan 2 members are eligible for normal retirement at the age of 65 with five years of service. The monthly benefit is 2 percent of the AFC per year of service. A COLA is granted based on the Consumer Price Index, capped at 3 percent annually. The AFC is the average of the member's 60 highest paid consecutive months.

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

The defined benefit portion of TRS Plan 3 provides members a monthly benefit that is 1 percent of the AFC per year of service. Plan 3 provides the same COLA as Plan 2. The AFC is the average of the member's 60 highest paid consecutive months.

TRS Plan 3 members are vested in the defined benefit portion of their plan after 10 years of service; or after five years of service, if 12 months of that service are earned after age 44; or after five service credit years earned in TRS Plan 2 by July 1, 1996. Plan 3 members are immediately vested in the defined contribution portion of their plan.

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

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

The Judicial Benefit Multiplier (JBM) Program began January 1, 2007. This program gave eligible justices and judges an option to increase the benefit multiplier used in their retirement benefit calculation for their judicial service periods of employement. Beginning January 1, 2007, any justice or judge who was in a judicial position at that time could chose to join JBM. Any justice or judge elected or appointed to office on or after January 1, 2007, who elects to join DRS membership will also be mandated into JBM. If they have already established memebership in PERS or TRS Plan 1 they will rejoin that plan, but if they have never had membership they will be enrolled as a member of both PERS Plan 2 and JBM.

Contributions. TRS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions.

Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates, Plan 2 employer and employee contribution rates, and Plan 3 employer contribution rates. The methods used to determine contribution requirements are established under state statute.

Members in TRS Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest thereon, in lieu of any retirement benefit, upon separation from TRS-covered employment.

TRS JBM members and employers pay increased contributions that, along with investment earnings, fund the increased retirement benefits of those justices and judges who participate in the program.

Required contribution rates for fiscal year 2016 are presented in the table in Note 11.B.3.

Actuarial Assumptions. The total pension liability was determined by an actuarial valuation as of June 30, 2014, with the results rolled forward to the June 30, 2015, measurement date using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00%
Salary increases	3.75%
Investment rate of return	7.50%

Mortality rates were based on the RP-2000 Combined Healthy Table and Combined Disabled Table published by the Society of Actuaries. The Office of the State Actuary applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis, meaning members are assumed to receive additional mortality improvements in each future year, throughout their lifetime.

The actuarial assumptions used in the June 30, 2014, valuation were based on the results of the 2007-2012 Experience Study Report. Additional assumptions for subsequent events and law changes are current as of the 2014 actuarial valuation report.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which a best estimate of expected future rates of return (expected returns, net of pension plan investment expense, but including inflation) are developed for each major asset class by the WSIB. Those expected returns make up one component of WSIB's Capital Market Assumptions (CMAs). The CMAs contain the following three pieces of information for each class of assets the WSIB currently invests in:

- Expected annual return.
- Standard deviation of the annual return.
- Correlations between the annual returns of each asset class with every other asset class.

WSIB uses the CMAs and their target asset allocation to simulate future investment returns over various time horizons.

The long-term expected rate of return of 7.5 percent approximately equals the median of the simulated investment returns over a fifty-year time horizon, adjusted to remove or dampen any short term changes to WSIB's CMAs that aren't expected over the entire fifty-year measurement period.

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2015, are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Fixed Income	20%	1.7%
Tangible Assets	5%	4.4%
Real Estate	15%	5.8%
Global Equity	37%	6.6%
Private Equity	23%	9.6%
Total	100%	

The inflation component used to create the above table is 2.2 percent, and represents WSIB's most recent long-term estimate of broad economic inflation.

There were no material changes in assumptions, benefit terms or method changes for the reporting period.

Discount Rate. The discount rate used to measure the total pension liability was 7.5 percent, the same as the prior measurement date. To determine the discount rate, an asset sufficiency test was completed to test whether the pension plan's fiduciary net position was sufficient to make all projected future benefit payments of current plan members. Consistent with current law, the completed asset sufficiency test included an assumed 7.7 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. Consistent with the long-term expected rate of return, a 7.5 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue to be made at contractually required rates (including TRS Plan 2/3, whose rates include a component for the TRS Plan 1 liability). Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.5 percent on pension plan investments was applied to determine the total pension liability.

Collective Net Pension Liability/(Asset). At June 30, 2016, the state reported a liability of $27.2 million for its proportionate share of the collective net pension liability for TRS Plan 1 and $6.1 million for TRS Plan 2/3. The state's proportion for TRS Plan 1 was 0.86 percent, an increase of 0.08 percent since the prior reporting period, and 0.72 percent for TRS Plan 2/3, an increase of 0.13 percent. The proportions are based on the state's contributions to the pension plan relative to the contributions of all participating employers.

Sensitivity of the Net Pension Liability/(Asset) to Changes in the Discount Rate. The following presents the net pension liability/(asset) of the state as an employer, calculated using the discount rate of 7.5 percent, as well as what the net pension liability/(asset) would be if it were calculated using a discount rate that is 1 percentage point lower (6.5 percent) or 1 percentage point higher (8.5 percent) than the current rate (expressed in thousands):

TRS Plan 1 Employer's proportionate share of Net Pension Liability (Asset)		
1% Decrease	$	34,175
Current Discount Rate	$	27,186
1% Increase	$	21,176

TRS Plan 2/3 Employer's proportionate share of Net Pension Liability (Asset)		
1% Decrease	$	25,841
Current Discount Rate	$	6,107
1% Increase	$	(8,563)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. For the year ended June 30, 2016, the state recognized a TRS Plan 1 pension expense of $4.2 million, and recognized a TRS Plan 2/3 pension expense of $2.3 million. At June 30, 2016, TRS Plan 1 and TRS Plan 2/3 reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (expressed in thousands):

TRS Plan 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ -	$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	2,012
Change in proportion	-	-
State contributions subsequent to the measurement date	3,056	-
Total	$ 3,056	$ 2,012

TRS Plan 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 967	$ -
Changes of assumptions	5	-
Net difference between projected and actual earnings on pension plan investments	-	2,369
Change in proportion	2,247	-
State contributions subsequent to the measurement date	2,738	-
Total	$ 5,957	$ 2,369

For TRS Plan 1, $3.1 million, and for TRS Plan 2/3, $2.7 million reported as deferred outflows of resources related to pensions resulting from state contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017.

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in the fiscal years ended June 30 (expressed in thousands):

TRS Plan 1		
2017	$	(780)
2018	$	(780)
2019	$	(781)
2020	$	329
2021	$	-
Thereafter	$	-

TRS Plan 2/3		
2017	$	(151)
2018	$	(151)
2019	$	(151)
2020	$	1,067
2021	$	236
Thereafter	$	-

Law Enforcement Officers' and Fire Fighters' Retirement System

Plan Description. The Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) was established in 1970 by the Legislature. LEOFF retirement benefit provisions are established in chapter 41.26 RCW and may be amended only by the Legislature. Membership includes all full-time, fully compensated, local law enforcement commissioned officers, firefighters, and as of July 24, 2005, emergency medical technicians. LEOFF membership is comprised primarily of non-state employees, with Department of Fish and Wildlife enforcement officers who were first included effective July 27, 2003, being an exception.

LEOFF is a cost-sharing, multiple-employer retirement system comprised of two separate defined benefit plans. LEOFF members who joined the system by September 30, 1977, are Plan 1 members. Plan 1 is closed to new entrants. Those who joined on or after October 1, 1977, are Plan 2 members.

Effective July 1, 2003, the LEOFF Plan 2 Retirement Board was established by Initiative 790 to provide governance of LEOFF Plan 2. The board's duties include adopting contribution rates and recommending policy changes to the Legislature.

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

LEOFF Plan 1 members are vested after the completion of five years of eligible service. Plan 1 members are eligible for retirement with five years of service at the age of 50. The benefit per year of service calculated as a percent of final average salary (FAS) is as follows:

Years of Service	Percent of FAS
20+	2.0%
10-19	1.5%
5-9	1.0%

A cost of living allowance (COLA) is granted based on the Consumer Price Index.

LEOFF Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members are eligible for retirement at the age of 53 with five years of service, or at age 50 with 20 years of service. Plan 2 members receive a benefit of 2 percent of the FAS per year of service. FAS is based on the highest consecutive 60 months. A COLA is granted based on the Consumer Price Index, capped at 3 percent annually.

LEOFF members have the option to retire early with reduced benefits.

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

Contributions. LEOFF retirement benefits are financed from a combination of investment earnings, employer and employee contributions, and a special funding situation in which the state pays through legislative appropriations.

Employer and employee contribution rates are developed by the Office of the State Actuary to fully fund the plans. Starting on July 1, 2000, Plan 1 employers and employees are not required to contribute as long as the plan remains fully funded. Plan 2 employers and employees are required to pay at the level adopted by the LEOFF Plan 2 Retirement Board. The methods used to determine contribution requirements are established under state statute.

Members in LEOFF Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest thereon, in lieu of any retirement benefit, upon separation from LEOFF-covered employment.

The Legislature, by means of a special funding arrangement, appropriates money from the state

General Fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the recommendations of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. For fiscal year 2015, the state contributed $58.3 million to LEOFF Plan 2.

Beginning in 2011, when state General Fund revenues increase by at least 5 percent over the prior biennium's revenues, the State Treasurer will transfer, subject to legislative appropriation, specific amounts into a Local Public Safety Enhancement Account. Half of this transfer will be proportionately distributed to all jurisdictions with LEOFF Plan 2 members. The other half will be transferred to a LEOFF Retirement System Benefits Improvement Account to fund benefit enhancements for LEOFF Plan 2 members. However, this special funding situation is not mandated by the State Constitution and this funding requirement could be returned to the employers by a change of statute.

Required contribution rates for fiscal year 2016 are presented in the table in Note 11.B.3.

The state is not an employer for LEOFF Plan 1; however, the state is a nonemployer contributing entity for LEOFF Plan 1. For LEOFF Plan 2 the state is both an employer and a nonemployer contributing entity. Refer to Note 11.B.2 for nonemployer contributing entity disclosures.

The following information applies to the state as a LEOFF Plan 2 employer:

Actuarial Assumptions. The total net pension asset was determined by an actuarial valuation as of June 30, 2014, with the results rolled forward to the June 30, 2015, measurement date using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00%
Salary increases	3.75%
Investment rate of return	7.50%

Mortality rates were based on the RP-2000 Combined Healthy Table and Combined Disabled Table published by the Society of Actuaries. The Office of the State Actuary applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis, meaning members are assumed to receive additional mortality improvements in each future year, throughout their lifetime.

The actuarial assumptions used in the June 30, 2014, valuation were based on the results of the 2007-2012 Experience Study Report. Additional assumptions for subsequent events and law changes are current as of the 2014 actuarial valuation report.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which a best estimate of expected future rates of return (expected returns, net of pension plan investment expense, but including inflation) are developed for each major asset class by the WSIB. Those expected returns make up one component of WSIB's Capital Market Assumptions (CMAs). The CMAs contain the following three pieces of information for each class of assets the WSIB currently invests in:

- Expected annual return.
- Standard deviation of the annual return.
- Correlations between the annual returns of each asset class with every other asset class.

WSIB uses the CMAs and their target asset allocation to simulate future investment returns over various time horizons.

The long-term expected rate of return of 7.5 percent approximately equals the median of the simulated investment returns over a fifty-year time horizon, adjusted to remove or dampen any short term changes to WSIB's CMAs that aren't expected over the entire fifty-year measurement period.

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2015, are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Fixed Income	20%	1.7%
Tangible Assets	5%	4.4%
Real Estate	15%	5.8%
Global Equity	37%	6.6%
Private Equity	23%	9.6%
Total	100%	

The inflation component used to create the above table is 2.2 percent, and represents WSIB's most recent long-term estimate of broad economic inflation.

There were no material changes in assumptions, benefit terms or method changes for the reporting period.

Discount Rate. The discount rate used to measure the total pension liability was 7.5 percent, the same as the prior measurement date. To determine the discount rate, an asset sufficiency test was completed to test whether the pension plan's fiduciary net position was sufficient to make all projected future benefit payments of current plan members. Consistent with current law, the completed asset sufficiency test included an assumed 7.7 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. Consistent with the long-term expected rate of return, a 7.5 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue to be made at contractually required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.5 percent on pension plan investments was applied to determine the total pension liability.

Collective Net Pension Liability/(Asset). At June 30, 2016, the state reported an asset of $8.6 million for its proportionate share of the collective net pension asset for LEOFF Plan 2. The state's proportion for LEOFF Plan 2 was 0.83 percent, a decrease of 0.01 percent since the prior reporting period. The proportions are based on the state's contributions to the pension plan relative to the contributions of all participating employers and the nonemployer contributing entity.

Sensitivity of the Net Pension Liability/(Asset) to Changes in the Discount Rate. The following presents the net pension liability/(asset) of the state as an employer, calculated using the discount rate of 7.5 percent, as well as what the employers' net pension liability/(asset) would be if it were calculated using a discount rate that is 1 percentage point lower (6.5 percent) or 1 percentage point higher (8.5 percent) than the current rate (expressed in thousands):

LEOFF Plan 2 Employer's proportionate share of Net Pension Liability (Asset)		
1% Decrease	$	8,592
Current Discount Rate	$	(8,580)
1% Increase	$	(21,502)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. For the year ended June 30, 2016, the state recognized a LEOFF Plan 2 pension expense of $(310) thousand. At June 30, 2016, LEOFF Plan 2 reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (expressed in thousands):

LEOFF Plan 2	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 751	$ -
Changes of assumptions	23	-
Net difference between projected and actual earnings on pension plan investments	-	2,600
Change in proportion	12	30
State contributions subsequent to the measurement date	763	-
Total	$ 1,549	$ 2,630

For LEOFF Plan 2, $763 thousand reported as deferred outflows of resources related to pensions resulting from state contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017.

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in the fiscal years ended June 30 (expressed in thousands):

LEOFF Plan 2		
2017	$	(870)
2018	$	(870)
2019	$	(870)
2020	$	594
2021	$	144
Thereafter	$	28

Public Safety Employees' Retirement System

Plan Description. The Public Safety Employees' Retirement System (PSERS) was created by the 2004 Legislature and became effective July 1, 2006. PSERS retirement benefit provisions are established in chapter 41.37 RCW and may be amended only by the Legislature. PSERS membership includes full-time employees meeting specific eligibility criteria that are employed by Department of Corrections, Department of Natural Resources, Gambling Commission, Liquor and Cannabis Board, Parks and Recreation Commission, Washington State Patrol, Washington state counties, corrections departments of Washington state cities except for Seattle, Tacoma, and Spokane, or correctional entities formed by PSERS employers under the Interlocal Cooperation Act.

PSERS is a cost-sharing, multiple-employer retirement system comprised of a single defined benefit plan, PSERS Plan 2.

Benefits Provided. PSERS provides retirement, disability, and death benefits to eligible members.

PSERS members are vested after an employee completes five years of eligible service. PSERS members may retire with a monthly benefit of 2 percent of the average final compensation (AFC) at the age of 65 with five years of service, or at the age of 60 with at least 10 years of PSERS service credit, or at age 53 with 20 years of service. A cost of living allowance (COLA) is granted based on the Consumer Price Index, capped at 3 percent annually. The AFC is the average of the member's 60 highest paid consecutive months.

PSERS members have the option to retire early with reduced benefits.

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

Contributions. PSERS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions.

Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates. The employer and employee contribution rates for Plan 2 are developed by the Office of the State Actuary to fully fund Plan 2. The methods used to determine contribution requirements are established under state statute.

Members in PSERS Plan 2 can elect to withdraw total employee contributions and interest thereon, in lieu of any retirement benefit, upon separation from PSERS-covered employment.

Required contribution rates for fiscal year 2016 are presented in the table in Note 11.B.3.

Actuarial Assumptions. The total net pension asset was determined by an actuarial valuation as of June 30, 2014, with the results rolled forward to the June 30, 2015, measurement date using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00%
Salary increases	3.75%
Investment rate of return	7.50%

Mortality rates were based on the RP-2000 Combined Healthy Table and Combined Disabled Table published by the Society of Actuaries. The Office of the State Actuary applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis, meaning members are assumed to receive additional mortality improvements in each future year throughout their lifetime.

The actuarial assumptions used in the June 30, 2014, valuation were based on the results of the 2007-2012 Experience Study Report. Additional assumptions for subsequent events and law changes are current as of the 2014 actuarial valuation report.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which a best estimate of expected future rates of return (expected returns, net of pension plan investment expense, but including inflation) are developed for each major asset class by the WSIB. Those expected returns make up one component of WSIB's Capital Market Assumptions (CMAs). The CMAs contain the following three pieces of information for each class of assets the WSIB currently invests in:

- Expected annual return.
- Standard deviation of the annual return.
- Correlations between the annual returns of each asset class with every other asset class.

WSIB uses the CMAs and their target asset allocation to simulate future investment returns over various time horizons.

The long-term expected rate of return of 7.5 percent approximately equals the median of the simulated investment returns over a fifty-year time horizon, adjusted to remove or dampen any short term changes to WSIB's CMAs that aren't expected over the entire fifty-year measurement period.

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2015, are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Fixed Income	20%	1.7%
Tangible Assets	5%	4.4%
Real Estate	15%	5.8%
Global Equity	37%	6.6%
Private Equity	23%	9.6%
Total	100%	

The inflation component used to create the above table is 2.2 percent, and represents WSIB's most recent long-term estimate of broad economic inflation.

There were no material changes in assumptions, benefit terms or method changes for the reporting period.

Discount Rate. The discount rate used to measure the total pension liability was 7.5 percent, the same as the prior measurement date. To determine the discount rate, an asset sufficiency test was completed to test whether the pension plan's fiduciary net position was sufficient to make all projected future benefit payments of current plan members. Consistent with current law, the completed asset sufficiency test included an assumed 7.7 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. Consistent with the long-term expected rate of return, a 7.5 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue to be made at contractually required rates (including PERS Plan 2/3, PSERS Plan 2, and SERS Plan 2/3 employers whose rates include a component for the PERS Plan 1 liability). Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.5 percent on pension plan investments was applied to determine the total pension liability.

Collective Net Pension Liability/(Asset). At June 30, 2016, the state reported a liability of $8.8 million for its proportionate share of the collective net pension asset for PSERS Plan 2. The state's proportion for PSERS Plan 2 was 47.93 percent, a decrease of 0.33 percent since the prior reporting period. The proportions are based on the state's contributions to the pension plan relative to the contributions of all participating employers.

Sensitivity of the Net Pension Liability/(Asset) to Changes in the Discount Rate. The following presents the net pension liability/(asset) of the state as an employer, calculated using the discount rate of 7.5 percent, as well as what the employers' net pension liability/(asset) would be if it were calculated using a discount rate that is 1 percentage point lower (6.5 percent) or 1 percentage point higher (8.5 percent) than the current rate (expressed in thousands):

PSERS Plan 2 Employer's proportionate share of Net Pension Liability (Asset)		
1% Decrease	$	66,475
Current Discount Rate	$	8,748
1% Increase	$	(32,315)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. For the year ended June 30, 2016, the state recognized a PSERS Plan 2 pension expense of $10.4 million. At June 30, 2016, PSERS Plan 2 reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (expressed in thousands):

PSERS Plan 2	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 8,196	$ -
Changes of assumptions	54	-
Net difference between projected and actual earnings on pension plan investments	-	4,339
Change in proportion	14	20
State contributions subsequent to the measurement date	9,621	-
Total	$ 17,885	$ 4,359

For PSERS Plan 2, $9.6 million reported as deferred outflows of resources related to pensions resulting from state contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017.

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in the fiscal years ended June 30 (expressed in thousands):

PSERS Plan 2		
2017	$	(357)
2018	$	(357)
2019	$	(358)
2020	$	2,231
2021	$	1,374
Thereafter	$	1,372

Washington State Patrol Retirement System

Plan Description. The Washington State Patrol Retirement System (WSPRS) was established by the Legislature in 1947. WSPRS benefits are established in chapter 43.43 RCW and may be amended only by the Legislature. Any commissioned employee of the Washington State Patrol is eligible to participate.

WSPRS is a single-employer, defined benefit retirement system. WSPRS members who joined the system by December 31, 2002, are Plan 1 members. Plan 1 is closed to new entrants. Those who joined on or after January 1, 2003, are Plan 2 members. For financial reporting and investment purposes, however, both plans are accounted for in the same pension fund.

Effective June 7, 2012, those WSPRS members who have service credit within PERS Plan 2 have options to transfer their service credit earned as commercial vehicle enforcement officers or as communications officers into the WSPRS, provided the member pays the full actuarial cost of the transfer.

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

For membership information refer to the table presented in Note 11.B.3.

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

There is no vesting requirement for active WSPRS members. Inactive WSPRS members are vested after the completion of five years of eligible service. Active members are eligible for retirement at the age of 55 with no minimum required service credit, or at any age with 25 years of service credit, and must retire at age 65. This mandatory requirement does not apply to the Chief of the Washington State Patrol.

The monthly benefit is 2 percent of the average final salary (AFS) per year of service, capped at 75 percent. A cost of living allowance is granted based on the Consumer Price Index, capped at 3 percent annually.

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

Contributions. WSPRS retirement benefits are financed from a combination of investment earnings and employer and employee contributions.

Each biennium, the state Pension Funding Council adopts the employee and state contribution rates, subject to revision by the Legislature. The preliminary employee and state contribution rates are developed by the Office of the State Actuary to fully fund the plan. The methods used to determine contribution requirements are established under state statute.

Members in WSPRS Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest thereon, in lieu of any retirement benefit, upon separation from WSPRS-covered employment.

Required contribution rates for fiscal year 2016 are presented in the table in Note 11.B.3.

Actuarial Assumptions. The total net pension asset was determined by an actuarial valuation as of June 30, 2014, with the results rolled forward to the June 30, 2015, measurement date using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00%
Salary increases	3.75%
Investment rate of return	7.50%

Mortality rates were based on the RP-2000 Combined Healthy Table and Combined Disabled Table published by the Society of Actuaries. The Office of the State Actuary applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis, meaning members are assumed to receive additional mortality improvements in each future year, throughout their lifetime.

The actuarial assumptions used in the June 30, 2014, valuation were based on the results of the 2007-2012 Experience Study Report. Additional assumptions for subsequent events and law changes are current as of the 2014 actuarial valuation report.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which a best estimate of expected future rates of return (expected returns, net of pension plan investment expense, but including inflation) are developed for each major asset class by the WSIB. Those expected returns make up one component of WSIB's Capital Market Assumptions (CMAs). The CMAs contain the following three pieces of information for each class of assets the WSIB currently invests in:

- Expected annual return.
- Standard deviation of the annual return.
- Correlations between the annual returns of each asset class with every other asset class.

WSIB uses the CMAs and their target asset allocation to simulate future investment returns over various time horizons.

The long-term expected rate of return of 7.5 percent approximately equals the median of the simulated investment returns over a fifty-year time horizon, adjusted to remove or dampen any short term changes to WSIB's CMAs that aren't expected over the entire fifty-year measurement period.

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2015, are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Fixed Income	20%	1.7%
Tangible Assets	5%	4.4%
Real Estate	15%	5.8%
Global Equity	37%	6.6%
Private Equity	23%	9.6%
Total	100%	

The inflation component used to create the above table is 2.2 percent, and represents WSIB's most recent long-term estimate of broad economic inflation.

There were no material changes in assumptions, benefit terms or method changes for the reporting period.

Discount Rate. The discount rate used to measure the total pension liability was 7.5 percent, the same as the prior measurement date. To determine the discount rate, an asset sufficiency test was completed to test whether the pension plan's fiduciary net position was sufficient to make all projected future benefit payments of current plan members. Consistent with current law, the completed asset sufficiency test included an assumed 7.7 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. Consistent with the long-term expected rate of return, a 7.5 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue to be made at contractually required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.5 percent on pension plan investments was applied to determine the total pension liability.

Refer to the table in Note 11.B.3 for the change in net pension liability.

Net Pension Liability/(Asset). At June 30, 2016, the state reported a net pension liability of $19.6 million.

Sensitivity of the Net Pension Liability/(Asset) to Changes in the Discount Rate. The following presents the net pension liability/(asset) of the state as an employer, calculated using the discount rate of 7.5 percent, as well as what the employers' net pension liability/(asset) would be if it were calculated using a discount rate that is 1 percentage point lower (6.5 percent) or 1 percentage point higher (8.5 percent) than the current rate (expressed in thousands):

WSPRS Plan 1/2 Net Pension Liability (Asset)		
1% Decrease	$	208,202
Current Discount Rate	$	19,551
1% Increase	$	(128,553)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. For the year ended June 30, 2016, the state recognized a WSPRS pension expense of $(1.0) million. At June 30, 2016, the WSPRS reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (expressed in thousands):

WSPRS Plan 1/2	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 6,345	$ -
Changes of assumptions	12	-
Net difference between projected and actual earnings on pension plan investments	-	38,282
Change in proportion	-	-
State contributions subsequent to the measurement date	7,044	-
Total	$ 13,401	$ 38,282

For WSPRS 1/2, $7.0 million reported as deferred outflows of resources related to pensions resulting from state contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017.

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in the fiscal years ended June 30 (expressed in thousands):

WSPRS Plan 1/2	
2017	$ (12,350)
2018	$ (12,350)
2019	$ (13,621)
2020	$ 6,396
2021	$ -
Thereafter	$ -

Judges' Retirement Fund

Plan Description. The Judges' Retirement Fund was created by the Legislature on March 22, 1937, to provide retirement benefits to judges elected or appointed to the Supreme Court, Court of Appeals, and Superior Courts of the state of Washington. Judges' retirement benefit provisions are established in chapter 2.12 RCW and may be amended only by the Legislature.

The Judges' Retirement Fund is a single-employer, defined benefit retirement system. There are currently no active members in this plan. For membership information refer to the table presented in Note 11.B.3.

Benefits Provided. The Judges' Retirement Fund provides retirement benefits to judges elected or appointed to the Supreme Court, Court of Appeals, and Superior Courts of the state of Washington. The system was closed to new entrants on August 8, 1971, with new judges joining the Judicial Retirement System.

Contributions. There are no active members remaining in the Judges' Retirement Fund. Past contributions were made based on rates set in statute. By statute, employees were required to contribute 6.5 percent of covered payroll with an equal amount contributed by the state.

Retirement benefits are financed on a pay-as-you-go basis from a combination of investment earnings and employer contributions. Each biennium, the Legislature, through appropriations from the state General Fund, contributes amounts sufficient to meet benefit payment requirements. For fiscal year 2015, no such appropriations or contributions were made.

Actuarial Assumptions. The total pension liability was determined by an actuarial valuation as of June 30, 2014, with the results rolled forward to the June 30, 2015, measurement date using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00%
Salary increases	N/A
Investment rate of return	4.00%

Mortality rates were based on the RP-2000 Combined Healthy Table and Combined Disabled Table published by the Society of Actuaries. The Office of the State Actuary applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis, meaning members are assumed to receive additional mortality improvements in each future year, throughout their lifetime.

The actuarial assumptions used in the June 30, 2014, valuation were based on the results of the 2007-2012 Experience Study Report. Additional assumptions for subsequent events and law changes are current as of the 2014 actuarial valuation report.

There were no material changes in assumptions, benefit terms or method changes for the reporting period.

Discount Rate. Contributions are made to the Judges' Retirement Fund to ensure cash is available to make benefit payments. Since this plan is operated on a pay-as-you-go basis, the discount rate used to measure the total pension liability was set equal to the Bond Buyer General Obligation 20-Bond Municipal Bond Index, or 3.8 percent for the June 30, 2015, measurement date.

Refer to the table in Note 11.B.3 for the change in net pension liability.

Net Pension Liability/(Asset). At June 30, 2016, the state reported a net pension liability of $2.6 million.

Sensitivity of the Net Pension Liability/(Asset) to Changes in the Discount Rate. The following presents the net pension liability/(asset) of the state as an employer, calculated using the discount rate of 3.8 percent, as well as what the employers' net pension liability/(asset) would be if it were calculated using a discount rate that is 1 percentage point lower (2.8 percent) or 1 percentage point higher (4.8 percent) than the current rate (expressed in thousands):

Judges' Net Pension Liability (Asset)		
1% Decrease	$	2,594
Current Discount Rate	$	2,602
1% Increase	$	2,399

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. For the year ended June 30, 2016, the state recognized a Judges' Retirement Fund pension expense of $400 thousand. At June 30, 2016, the Judges' Retirement Fund reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (expressed in thousands):

Judges'	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ -	$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	43	-
Change in proportion	-	-
State contributions subsequent to the measurement date	501	-
Total	$ 544	$ -

For the Judges's Retirement Fund, $501 thousand reported as deferred outflows of resources related to pensions resulting from state contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017.

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in the fiscal years ended June 30 (expressed in thousands):

Judges'		
2017	$	13
2018	$	13
2019	$	13
2020	$	4
2021	$	-
Thereafter	$	-

Judicial Retirement System

Plan Description. The Judicial Retirement System (JRS) was established by the Legislature in 1971. JRS retirement benefit provisions are established in chapter 2.10 RCW and may be amended only by the Legislature. Membership includes judges elected or appointed to the Supreme Court, Court of Appeals, and Superior Courts on or after August 9, 1971.

JRS is a single-employer, defined benefit retirement system. There are no active members remaining in the Judicial Retirement System. For membership information refer to the table presented in Note 11.B.3.

Benefits Provided. JRS provides retirement, disability, and death benefits to eligible members.

JRS members are eligible for retirement at the age of 60 with 15 years of service, or at the age of 60 after 12 years of service (if the member left office involuntarily) with at least 15 years after beginning judicial service. The system was closed to new entrants on July 1, 1988, with new judges joining PERS.

The benefit per year of service calculated as a percent of final average salary (FAS) is shown in the table below. This benefit is capped at 75 percent of FAS, exclusive of cost-of-living increases.

Years of Service	Percent of FAS
15+	3.5%
10-14	3.0%

Contributions. JRS retirement benefits are financed on a pay-as-you-go basis from a combination of investment earnings, employer contributions, and employee contributions.

Past contributions were made based on rates set in statute. By statute, employees were required to contribute 7.5 percent of covered payroll with an equal amount contributed by the state.

JRS member contributions to the plan are not refundable.

The state guarantees the solvency of JRS on a pay-as-you-go basis. Each biennium, the Legislature, through appropriations from the state General Fund, contributes amounts sufficient to meet benefit payment requirements. For fiscal year 2015, the state contributed $10.6 million.

Actuarial Assumptions. The total pension liability was determined by an actuarial valuation as of June 30, 2014, with the results rolled forward to the June 30, 2015, measurement date using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00%
Salary increases	N/A
Investment rate of return	4.00%

Mortality rates were based on the RP-2000 Combined Healthy Table and Combined Disabled Table published by the Society of Actuaries. The Office of the State Actuary applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis, meaning members are assumed to receive additional mortality improvements in each future year, throughout their lifetime.

The actuarial assumptions used in the June 30, 2014, valuation were based on the results of the 2007-2012 Experience Study Report. Additional assumptions for subsequent events and law changes are current as of the 2014 actuarial valuation report.

There were no material changes in assumptions, benefit terms or method changes for the reporting period.

Discount Rate. Contributions are made to JRS to ensure cash is available to make benefit payments. Since this plan is operated on a pay-as-you-go basis, the discount rate used to measure the total pension liability was set equal to the Bond Buyer General Obligation 20-Bond Municipal Bond Index, or 3.8 percent for the June 30, 2014, measurement date.

Refer to the table in Note 11.B.3 for the change in net pension liability.

Net Pension Liability/(Asset). At June 30, 2016, the state reported a net pension liability of $95.0 million.

Sensitivity of the Net Pension Liability/(Asset) to Changes in the Discount Rate. The following presents the net pension liability/(asset) of the state as an employer, calculated using the discount rate of 3.8 percent, as well as what the employers' net pension liability/(asset) would be if it were calculated using a discount rate that is 1 percentage point lower (2.8 percent) or 1 percentage point higher (4.8 percent) than the current rate (expressed in thousands):

JRS Net Pension Liability (Asset)		
1% Decrease	$	104,498
Current Discount Rate	$	94,979
1% Increase	$	86,846

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. For the year ended June 30, 2016, the state recognized a JRS pension expense of $10.2 million. At June 30, 2016, JRS reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (expressed in thousands):

JRS	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ -	$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	233	-
Change in proportion	-	-
State contributions subsequent to the measurement date	9,500	-
Total	$ 9,733	$ -

For JRS, $9.5 million reported as deferred outflows of resources related to pensions resulting from state contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017.

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in the fiscal years ended June 30 (expressed in thousands):

JRS		
2017	$	66
2018	$	66
2019	$	66
2020	$	35
2021	$	-
Thereafter	$	-

2. DRS Plans – Nonemployer Contributing Entity Disclosures

For fiscal year 2016, the state was considered a nonemployer contributing entity in special funding situations for two DRS-administered pension plans, LEOFF Plan 1 and LEOFF Plan 2. State contributions are required by statute to be made directly to these plans to fund pensions. Note 11.B.1 provides the detailed descriptions of these plans, their benefit terms, contribution requirements, significant assumptions used to measure pension liability and mortality, and the discount rate.

Basis for Nonemployer Contributing Entity Contributions. LEOFF Plan 1 has a net pension asset as of the June 30, 2015, measurement date. If needed, RCW 41.26.080 would require employer and employee contributions of 6 percent, and the remaining liabilities funded by the state pursuant to chapter 41.45 RCW. For fiscal year 2015, the nonemployer contributing entity's proportionate share of the net pension asset was considered substantial at 87.12 percent based on historical contributions to the plan.

LEOFF Plan 2 has a net pension asset as of the June 30, 2015, measurement date. In this plan, the state is an employer and also a nonemployer contributing entity. RCW 41.26.725 limits the employee contributions to 50 percent, employer contributions to 30 percent, and the state contribution to 20 percent of the cost of benefits. In no instance shall the state contribution exceed 4 percent of payroll. For fiscal year 2015, the nonemployer contributing entity's proportionate share of the net pension asset was considered substantial at 39.80 percent based on total plan contributions received in fiscal year 2015.

Collective Net Pension Liability/(Asset). At June 30, 2016, the state as nonemployer contributing entity reported a net pension asset of $1.05 billion and $409.1 million for its proportionate share of the collective net pension asset for LEOFF Plan 1 and LEOFF Plan 2 respectively. The nonemployer contributing entity's proportion for LEOFF Plan 1 was 87.12 percent, the same as the prior reporting period, and 39.80 percent for LEOFF Plan 2, an increase of 0.28 percent. The proportion of the state nonemployer contributions related to LEOFF Plan 1 was based on historical contributions from the state and employers plus fiscal year 2015 retirement benefit payments. The proportion of the state nonemployer contributions related to LEOFF Plan 2 was based on the state's contributions to the pension plan relative to the total state contributions and all participating employers.

Sensitivity of the Net Pension Liability/(Asset) to Changes in the Discount Rate. The following presents the net pension liability/(asset) of the nonemployer contributing entity calculated using the discount rate of 7.5 percent, as well as what the nonemployer contributing entity's net pension liability/(asset) would be if it were calculated using a discount rate that is 1 percentage point lower (6.5 percent) or 1 percentage point higher (8.5 percent) than the current rate (expressed in thousands):

LEOFF Plan 1 Nonemployer contributing entity proportionate share of Net Pension Liability (Asset)		
1% Decrease	$	(671,734)
Current Discount Rate	$	(1,049,988)
1% Increase	$	(1,372,380)

LEOFF Plan 2 Nonemployer contributing entity proportionate share of Net Pension Liability (Asset)		
1% Decrease	$	409,678
Current Discount Rate	$	(409,091)
1% Increase	$	(1,025,246)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. For the year ended June 30, 2016, the state as nonemployer contributing entity recognized $(207.6) million pension expense for LEOFF Plan 1 and $(14.8) million pension expense for LEOFF Plan 2.

At June 30, 2016, the state as nonemployer contributing entity reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (expressed in thousands):

LEOFF Plan 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ -	$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	177,259
Change in proportion	-	-
State contributions subsequent to the measurement date	(85)	-
Total	$ (85)	$ 177,259

LEOFF Plan 2	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 35,822	$ -
Changes of assumptions	1,079	-
Net difference between projected and actual earnings on pension plan investments	-	123,952
Change in proportion and difference between state contributions and proportionate share of contributions	565	1,424
State contributions subsequent to the measurement date	36,374	-
Total	$ 73,840	$ 125,376

For LEOFF Plan 1, $(85) thousand, and for LEOFF Plan 2, $36.4 million, reported as deferred outflows of resources related to pensions resulting from state contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017.

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in the fiscal years ended June 30 (expressed in thousands):

LEOFF Plan 1	
2017	$ (68,783)
2018	$ (68,783)
2019	$ (68,783)
2020	$ 29,090
2021	$ -
Thereafter	$ -

LEOFF Plan 2	
2017	$ (41,504)
2018	$ (41,504)
2019	$ (41,505)
2020	$ 28,364
2021	$ 6,874
Thereafter	$ 1,365

3. Tables for Plans Administered by the Department of Retirement Services

TABLE 1: Single Employer Plan Membership

Membership of the single employer plans administered by the Department of Retirement Systems consisted of the following at June 30, 2014, the date of the latest actuarial valuation for all plans:

Number of Participating Members				
Plans	Inactive Members (Or Beneficiaries) Currently Receiving Benefits	Inactive Members Entitled To But Not Yet Receiving Benefits	Active Members	Total Members
WSPRS 1	996	124	609	1,729
WSPRS 2	-	15	435	450
JRS	108	-	-	108
Judges	12	-	-	12
Total	1,116	139	1,044	2,299

TABLE 2: Change in Net Pension Liability/(Asset)

The following table presents the change in net pension liability/(asset) of the single employer plans administered by the Department of Retirement Systems at June 30, 2014, the date of the latest actuarial valuation for all plans (expressed in thousands):

Change in Net Pension Liability/(Asset)	WSPRS	JRS	Judges
TOTAL PENSION LIABILITY			
Service cost	$ 16,633	$ -	$ -
Interest	80,037	4,382	138
Changes of benefit terms	2,258	-	-
Differences between expected and actual experience	8,883	1,590	182
Changes of assumptions	17	4,335	95
Benefit payments, including refunds of member contributions	(50,075)	(9,336)	(444)
Net Change in Total Pension Liability	57,753	971	(29)
Total Pension Liability--Beginning	1,072,424	100,341	3,146
Total Pension Liability --Ending (a)	$ 1,130,177	$ 101,312	$ 3,117
PLAN FIDUCIARY NET POSITION			
Contributions--employer	$ 6,679	$ 10,600	$ -
Contributions--employee	6,323	-	-
Net investment income	49,046	38	4
Benefit payments, including refunds of member contributions	(50,075)	(9,336)	(444)
Administrative expense	(67)	-	-
Other	293	-	-
Net Change in Plan Fiduciary Net Position	12,199	1,302	(440)
Plan Fiduciary Net Position--Beginning	1,098,427	5,031	955
Plan Fiduciary Net Position--Ending (b)	$ 1,110,626	$ 6,333	$ 515
Plan's Net Pension Liability (Asset)--Beginning	$ (26,003)	$ 95,310	$ 2,191
Plan's Net Pension Liability (Asset)--Ending (a) - (b)	$ 19,551	$ 94,979	$ 2,602

TABLE 3: Required Contribution Rates

Required contribution rates (expressed as a percentage of current year covered payroll) for all retirement plans administered by the Department of Retirement Systems at the close of the fiscal year 2016, were as follows:

Required Contribution Rates	Employer				Employee		
	Plan 1	Plan 2	Plan 3		Plan 1	Plan 2	Plan 3
PERS							
Employees Not Participating in JBM							
State agencies, local governmental units	6.23%	6.23%	6.23%		6.00%	6.12%	**
Administrative fee	0.18%	0.18%	0.18%				
PERS Plan 1 UAAL	4.77%	4.77%	4.77%				
Total	11.18%	11.18%	11.18%	*			
State govt elected officials	11.73%	6.23%	6.23%		7.50%	6.12%	**
Administrative fee	0.18%	0.18%	0.18%				
PERS Plan 1 UAAL	4.77%	4.77%	4.77%				
Total	16.68%	11.18%	11.18%	*			
Employees Participating in JBM							
State agencies	8.73%	8.73%	8.73%		9.76%	12.80%	7.50%***
Administrative fee	0.18%	0.18%	0.18%				
PERS Plan 1 UAAL	4.77%	4.77%	4.77%				
Total	13.68%	13.68%	13.68%	*			
Local governmental units	6.23%	6.23%	6.23%		12.26%	15.30%	7.50%***
Administrative fee	0.18%	0.18%	0.18%				
PERS Plan 1 UAAL	4.77%	4.77%	4.77%				
Total	11.18%	11.18%	11.18%	*			
TRS							
Employees Not Participating in JBM							
State agencies, local governmental units	6.72%	6.72%	6.72%		6.00%	5.95%	**
Administrative fee	0.18%	0.18%	0.18%				
TRS Plan 1 UAAL	6.23%	6.23%	6.23%				
Total	13.13%	13.13%	13.13%	*			
State govt elected officials	6.72%	6.72%	6.72%		7.50%	5.95%	**
Administrative fee	0.18%	0.18%	0.18%				
TRS Plan 1 UAAL	6.23%	6.23%	6.23%				
Total	13.13%	13.13%	13.13%	*			
Employees Participating in JBM							
State agencies	6.72%	N/A	N/A		9.76%	N/A	N/A
Administrative fee	0.18%	N/A	N/A				
TRS Plan 1 UAAL	6.23%	N/A	N/A				
Total	13.13%						
LEOFF							
Ports and universities	N/A	8.41%	N/A		N/A	8.41%	N/A
Administrative fee	N/A	0.18%	N/A				
Total		8.59%					
Local governmental units	N/A	5.05%	N/A		N/A	8.41%	N/A
Administrative fee	0.18%	0.18%	N/A				
Total	0.18%	5.23%					
State of Washington	N/A	3.36%	N/A		N/A	N/A	N/A
WSPRS							
State agencies	8.16%	8.16%	N/A		6.84%	6.84%	N/A
Administrative fee	0.18%	0.18%	N/A				
Total	8.34%	8.34%					
PSERS							
State agencies, local governmental units	N/A	6.59%	N/A		N/A	6.59%	N/A
Administrative fee	N/A	0.18%	N/A				
PSERS Plan 1 UAAL	N/A	4.77%	N/A				
Total		11.54%					

* Plan 3 defined benefit portion only.

** Variable from 5% to 15% based on rate selected by the member.

*** Minimum rate.

N/A indicates data not applicable.

C. PLAN ADMINISTERED BY THE STATE BOARD FOR VOLUNTEER FIRE FIGHTERS' AND RESERVE OFFICERS

Volunteer Fire Fighters' and Reserve Officers' Relief and Pension Fund

Plan Description. The Volunteer Fire Fighters' Relief Act was created by the Legislature in 1935 and the pension portion of the act was added in 1945. As established in chapter 41.24 RCW, the Volunteer Fire Fighters' and Reserve Officers' Relief and Pension Fund (VFFRPF) is a cost-sharing, multiple-employer defined benefit plan and is administered by the State Board for Volunteer Fire Fighters and Reserve Officers. The board is appointed by the Governor and is comprised of five members of fire departments covered by chapter 41.24 RCW. Administration costs of the VFFRPF are funded through legislative appropriation.

As of June 30, 2016, there were approximately 500 municipalities contributing to the plan. Additionally, the state, a nonemployer contributing entity, contributes 40 percent of the fire insurance premium tax.

Plan Members. Membership in the VFFRPF requires volunteer firefighter service with a fire department of an electing municipality of Washington state, emergency work as an emergency medical technician with an emergency medical service district, or work as a commissioned reserve law enforcement officer.

At June 30, 2016 (the date of the latest valuation), VFFRPF membership consisted of the following:

Plan Membership	
Inactive plan members or beneficiaries currently receiving benefits	4,296
Inactive plan members entitled to but not yet receiving benefits	6,197
Active plan members	9,802
Total membership	20,295

Benefits Provided. VFFRPF provides retirement, disability, and death benefits to eligible members. Benefits are established in chapter 41.24 RCW which may be amended only by the Legislature.

Since retirement benefits cover volunteer service, benefits are paid based on years of service, not salary. Municipalities consist of fire departments, emergency medical service districts, and law enforcement agencies. After 25 years of active membership, members having reached the age of 65 and who have paid their annual retirement fee for 25 years are entitled to receive a monthly benefit of $50 plus $10 per year of service. The maximum monthly benefit is $300. Reduced pensions are available for members under the age of 65 or with less than 25 years of service.

Members are vested after ten years of service. VFFRPF members earn no interest on contributions and may elect to withdraw their contributions upon termination.

Death and active duty disability benefits are provided at no cost to the member. Death benefits in the line of duty consist of a lump sum of $214 thousand. Funeral and burial expenses are also paid in a lump sum of $2 thousand for members on active duty. Members receiving disability benefits at the time of death shall be paid $500.

Effective June 7, 2012, at any time prior to retirement or at the time of retirement, a member of the VFFRPF may purchase retirement pension coverage for years of eligible service prior to the member's enrollment in the system or for years of service credit lost due to the withdrawal of the member's pension fee contributions. A member choosing to purchase such retirement pension coverage must contribute to the system equal to the actuarial value of the resulting benefit increase.

There were no material changes in VFFRPF benefit provisions for the fiscal year ended June 30, 2016.

Contributions. VFFRPF retirement benefits are financed from a combination of investment earnings, member contributions, municipality contributions, and state contributions. In accordance with chapter 41.24 RCW, the state contribution is set at 40 percent of the fire insurance premium tax. The state is considered a nonemployer contributing entity; however, this is not considered a special funding situation. For fiscal year 2016, the fire insurance premium tax contribution was $7.2 million.

The municipality rate for emergency medical service districts (EMSD) and law enforcement agencies is set each year by the State Board for Volunteer Fire Fighters and Reserve Officers, based on the actual cost of participation as determined by the Office of the State Actuary (OSA). All other contribution rates are set by the Legislature. Municipalities may opt to pay the member's fee on their behalf.

The contribution rates set for 2016 were the following:

	Firefighters	EMSD & Reserve Officers
Member fee	$ 30	$ 30
Municipality fee	30	105
Total fee	$ 60	$ 135

Investments. The Washington State Investment Board (WSIB) has been authorized by statute as having investment management responsibility for the pension funds. The WSIB manages retirement fund assets to maximize return at a prudent level of risk.

Retirement funds are invested in the Commingled Trust Fund (CTF). Established on July 1, 1992, the CTF is a diversified pool of investments that invests in fixed income, public equity, private equity, real estate, and tangible assets. Investment decisions are made within the framework of a Strategic Asset Allocation Policy and a series of written WSIB-adopted investment policies for the various asset classes in which the WSIB invests.

Further information about the investment of pension funds by the WSIB, their valuation, classifications, concentrations, and maturities can be found in Note 3.B.

The Office of the State Treasurer (OST) manages a small portion of the assets for the VFFRPF. By statute, balances in the accounts in the state treasury and in the custody of the treasurer may be pooled for banking and investment purposes.

The overall objective of the OST investment policy is to construct, from eligible investments noted below, an investment portfolio that is optimal or efficient. An optimal or efficient portfolio is one that provides the greatest expected return for a given expected level of risk, or the lowest expected risk for a given expected return. Eligible investments are only those securities and deposits authorized by statute.

Further information about the investment of pension funds by the OST, their valuation, classifications, concentrations, and maturities can be found in Note 3.F.

Rate of Return. For the year ended June 30, 2016, the annual money-weighted rate of return on VFFRPF investments, net of pension plan investment expense, was 2.19 percent. This money-weighted rate of return expresses investment performance, net of pension plan investment expense, and reflects both the size and timing of external cash flows.

Pension Liability/(Asset). The components of the net pension liability of the participating VFFRPF municipalities at June 30, 2016, were as follows (dollars expressed in thousands):

Pension Liability	
Total pension liability	$ 191,494
Plan fiduciary net position	(208,663)
Participating municipality net pension liability (asset)	$ (17,169)
Plan fiduciary net position as a percentage of the total pension liability	108.97%

Actuarial Assumptions. The total pension liability was determined by an actuarial valuation as of June 30, 2015, and rolled forward to June 30, 2016, using the following actuarial assumptions, applied to all prior periods included in the measurement:

Inflation	3.00%
Salary increases	N/A
Investment rate of return	7.00%

Mortality rates were based on the RP-2000 Combined Healthy Table and Combined Disabled Table published by the Society of Actuaries. The Office of the State Actuary applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis, meaning members are assumed to receive additional mortality improvements in each future year, throughout their lifetime.

The actuarial assumptions used in the June 30, 2015, valuation were based on the results of the 2007-2012 Experience Studies. Additional assumptions for subsequent events and law changes are current as of the 2015 actuarial valuation report.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which a best estimate of expected future rates of return (expected returns, net of pension plan investment expense, but including inflation) are developed for each major asset class by the WSIB. Those expected returns make up one component of WSIB's Capital Market Assumptions (CMAs). The CMAs contain the following three pieces of information for each class of assets the WSIB currently invests in:

- Expected annual return.
- Standard deviation of the annual return.
- Correlations between the annual returns of each asset class with every other asset class.

WSIB uses the CMAs and their target asset allocation to simulate future investment returns over various time horizons.

The Office of the State Actuary (OSA) selected a 7.50 percent long–term expected rate of return on pension plan investments. In selecting this assumption, OSA reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered CMAs and simulated expected investment returns provided by WSIB. Please see the 2015 Report on Financial Condition and Economic Experience Study on the OSA website for additional background on how this assumption was selected.

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2016, are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Fixed Income	20%	1.70%
Tangible Assets	5%	4.40%
Real Estate	15%	5.80%
Global Equity	37%	6.60%
Private Equity	23%	9.60%
Total	100%	

The inflation component used to create the above table is 2.2 percent, and represents WSIB's most recent long-term estimate of broad economic inflation.

In consultation with OST, OSA selected a 4 percent long-term investment rate of return on assets managed by OST. Based upon the investment portfolio, this assumption was calculated as 100 basis points above OSA's current assumption for total inflation of 3 percent.

As the VFFRPF has assets managed by both WSIB and OST, the long-term expected rate of return of 7 percent represents an approximate weighted-average of the assets managed by WSIB (7.5 percent expected return) and the assets managed by OST (4 percent expected return).

Discount Rate. The discount rate used to measure the total pension liability was 7 percent. To determine the discount rate, an asset sufficiency test was completed to test whether the pension plan's fiduciary net position was sufficient to make all projected future benefit payments of current plan members. Consistent with current law, the completed asset sufficiency test included an assumed 7 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. Consistent with the long-term expected rate of return, a 7 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members, municipalities, and the state will be made at the current contribution rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7 percent on plan investments was applied to determine the total pension liability.

Sensitivity of the Net Pension Liability/(Asset) to Changes in the Discount Rate. The following presents the net pension liability/(asset) of the municipalities calculated using the discount rate of 7 percent, as well as what the municipalities' net pension liability/(asset) would be if it were calculated using a discount rate that is 1 percentage point lower (6 percent) or 1 percentage point higher (8 percent) than the current rate (expressed in thousands):

Municipalities' Net Pension Liability (Asset)		
1% Decrease	$	8,590
Current Discount Rate	$	(17,169)
1% Increase	$	(38,004)

D. HIGHER EDUCATION RETIREMENT PLAN SUPPLEMENTAL DEFINED BENEFIT PLANS

The Higher Education Defined Contribution Retirement Plans, described in Note 11.E, have a supplemental payment component, which guarantees a minimum retirement benefit based upon a one-time calculation at each employee's retirement date. The supplemental component, which was closed to new entrants as of July 1, 2011, is financed on a pay-as-you-go basis. State institutions of higher education make direct payments to qualifying retirees when the retirement benefits provided by the fund sponsors do not meet the benefit goals.

An actuarial valuation of the supplemental component of the Higher Education Retirement plans was done at the end of fiscal year 2015. The previous valuation was performed in 2013.

The Unfunded Actuarial Accrued Liability (UAL) calculated as of June 30, 2015, and 2013, was $596.7 million and $460.8 million, respectively, and is amortized over an 10 year period. The Annual Required Contribution (ARC) of $85.8 million includes amortization of the UAL ($60.3 million) and normal cost or current cost ($23.8 million).

The UAL and ARC were established using the entry age normal cost method. The actuarial assumptions included an investment rate of return of 4 percent and projected salary increases of 3.75 percent. Approximately $1.81 billion and $1.76 billion of payroll were covered under these plans during the valuation periods 2015 and 2013, respectively.

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

Net Pension Obligation	2016	2015	2014
Annual required contribution	$ 85.8	$ 85.8	$ 63.8
Payments to beneficiaries	(7.4)	(6.5)	(5.6)
Increase (decrease) in NPO	78.4	79.3	58.2
NPO at beginning of year	407.9	328.6	270.3
NPO at end of year	$ 486.3	$ 407.9	$ 328.5

E. DEFINED CONTRIBUTION PLANS

Public Employees' Retirement System Plan 3

The Public Employees' Retirement System (PERS) Plan 3 is a combination defined benefit/defined contribution plan administered by the state through the Department of Retirement Systems (DRS). Refer to Note 11.B for PERS Plan descriptions.

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

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

Members in PERS Plan 3 are immediately vested in the defined contribution portion of their plan, and can elect to withdraw total employee contributions, adjusted by earnings and losses from investments of those contributions, upon separation from PERS-covered employment.

Teachers' Retirement System Plan 3

The Teachers' Retirement System (TRS) Plan 3 is a combination defined benefit/defined contribution plan administered by the state through the Department of Retirement Systems (DRS). Refer Note 11.B for TRS Plan descriptions.

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

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

Members in TRS Plan 3 are immediately vested in the defined contribution portion of their plan, and can elect to withdraw total employee contributions, adjusted by earnings and losses from investments of those contributions, upon separation from TRS-covered employment.

Judicial Retirement Account

The Judicial Retirement Account (JRA) Plan was established by the Legislature in 1988 to provide supplemental retirement benefits. It is a defined contribution plan administered by the state Administrative Office of the Courts (AOC), under the direction of the Board for Judicial Administration. Membership includes judges elected or appointed to the Supreme Court, Court of Appeals, and Superior Courts, and who are members of PERS for their services as a judge. Vesting is full and immediate. At June 30, 2016, there were five active members and 135 inactive members in JRA. The state, through the AOC, is the sole participating employer.

Beginning January 1, 2007, any justice or judge who was in a judicial position at that time and who chose to join the Judicial Benefit Multiplier (JBM) Program could no longer participate in JRA. Any justice or judge elected or appointed to office on or after January 1, 2007, who elects to join DRS membership will also be mandated into JBM. If they have already established membership in PERS or TRS Plan 1 they will rejoin that plan, but if they have never had membership, they will be enrolled as a member of both PERS Plan 2 and JBM.

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

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

For fiscal year 2016 the state recognized pension expense for contributions of $21 thousand made to employee accounts. No plan refunds were made.

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

Higher Education Retirement Plans

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

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

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

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

For fiscal year 2016, employer and employee contributions were $202 and $201.8 million respectively, for a total of $403.8 million.

Note 12
Other Postemployment Benefits

In addition to pension benefits as described in Note 11, the state, through the Health Care Authority (HCA), administers an agent multiple-employer defined benefit other postemployment benefit (OPEB) plan.

Plan Description and Contributions Information

Per RCW 41.05.065, the Public Employees' Benefits Board (PEBB), created within the HCA, is authorized to design benefits and determine the terms and conditions of employee and retired employee participation and coverage. PEBB establishes eligibility criteria for both active employees and retirees. Benefits purchased by PEBB include medical, dental, life, and long-term disability.

The relationship between the PEBB OPEB plan and its member employers and their employees and retirees is not formalized in a contract or plan document. Rather, the benefits are provided in accordance with a substantive plan. A substantive plan is one in which the plan terms are understood by the employers and plan members. This understanding is based on communications between the HCA, employers and plan members, and the historical pattern of practice with regard to the sharing of benefit costs.

Employers participating in the PEBB plan include the state (which includes general government agencies and higher education institutions), 66 of the state's K-12 schools and educational service districts (ESDs), and 229 political subdivisions and tribal governments. Additionally, the PEBB plan is available to the retirees of the remaining 238 K-12 schools and ESDs. As of June 2016, membership in the PEBB plan consisted of the following:

	Active Employees	Retirees [1]	Total
State	110,856	31,584	142,440
K-12 schools and ESDs [2]	2,712	34,387	37,099
Political subdivisions	13,325	1,855	15,180
Total	126,893	67,826	194,719

[1] Retirees include retired employees, surviving spouses, and terminated members entitled to a benefit.

[2] In fiscal year 2016, there were 107,858 full-time equivalent active employees in the 238 K-12 schools and ESDs that elected to limit participation in PEBB only to their retirees.

For calendar year 2016, the estimated monthly cost for PEBB benefits for active employees (average across all plans and tiers) is as follows (expressed in dollars):

Required Premium [3]		
Medical	$	956
Dental		79
Life		4
Long-term disability		2
Total	$	1,041
Employer contribution	$	899
Employee contribution		142
Total	$	1,041

[3] Per 2016 PEBB Financial Projection Model 3.0

The PEBB retiree OPEB plan is available to employees who elect to continue coverage and pay the administratively established premiums at the time they retire under the provisions of the retirement system to which they belong. Retirees' access to the PEBB plan depends on the retirement eligibility of their respective retirement system. PEBB members are covered in the following retirement systems: PERS, PSERS, TRS, SERS, WSPRS, and Higher Education.

Per RCW 41.05.022, retirees who are not yet eligible for Medicare benefits may continue participation in the state's non-Medicare community-rated health insurance risk pool on a self-pay basis. Retirees in the non-Medicare risk pool receive an implicit subsidy. The implicit subsidy exists because retired members pay a premium based on a claims experience for active employees and other non-Medicare retirees. The subsidy is valued using the difference between the age-based claims costs and the premium. In calendar year 2015, the average weighted implicit subsidy was valued at $308 per member per month, and in calendar year 2016, the average weighted implicit subsidy is projected to be $304 per member per month.

Retirees who are enrolled in both Parts A and B of Medicare may participate in the state's Medicare community-rated health insurance risk pool. Medicare retirees receive an explicit subsidy in the form of reduced premiums. Annually, the HCA administrator recommends an amount for the next calendar year's explicit subsidy for inclusion in the Governor's budget. The final amount is approved by the state legislature. In calendar year 2015, the explicit subsidy was up to $150 per member per month, and it remained up to $150 per member per month in calendar year 2016.

Administrative costs as well as implicit and explicit subsidies are funded by required contributions from participating employers. The subsidies provide monetary assistance for medical benefits.

Contributions are set each biennium as part of the budget process. The benefits are funded on a pay-as-you-go basis.

Each participating employer in the plan is required to disclose additional information with regard to funding policy, the employer's annual OPEB costs and contributions made, the funded status and funding progress of the employer's individual plan, and actuarial methods and assumptions used.

For information on the results of an actuarial valuation of the employer provided subsidies associated with the PEBB plan, refer to: http://osa.leg.wa.gov/Actuarial_services/OPEB/OPEB.htm.

Summary of Significant Accounting Policies

The PEBB OPEB plan is funded on a pay-as-you-go basis and is reported by the state as an agency fund using the accrual basis. It has no assets. The PEBB OPEB plan does not issue a publically available financial report.

Annual OPEB Cost and Net OPEB Obligation

The state's (general government agencies and higher education institutions) annual 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 2016 and changes in the state's Net OPEB Obligation (NOO) (expressed in thousands). All contributions required by the funding method were paid.

Annual required contribution	$	516,899
Interest on net OPEB obligation		92,916
Amortization of net OPEB obligation		(89,152)
Annual OPEB cost (expense)		520,663
Contributions made*		(82,836)
Increase in net OPEB obligation		437,827
Net OPEB obligation - beginning of year		2,322,888
Net OPEB obligation - end of year*	$	2,760,715
*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 2016, 2015, and 2014 were as follows (dollars expressed in thousands):

	2016	2015	2014
Annual OPEB cost	$ 520,663	$ 502,376	$ 358,442
% of annual OPEB cost contributed	15.91%	14.70%	21.70%
Net OPEB obligation	$ 2,760,715	$ 2,322,888	$1,894,567

Funded Status and Funding Progress

The funded status of the state's portion of the plan as of January 1, 2015, the latest date for which information is available, was as follows (expressed in thousands):

Actuarial accrued liability (AAL)	$ 5,273,530
Actuarial value of plan assets	-
Unfunded actuarial accrued liabliity (UAAL)	$ 5,273,530
Funded ratio (actuarial value of plan assets/AAL)	0.00%
Covered payroll (active plan members)	$ 6,218,744
UAAL as a percentage of covered payroll	84.80%

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

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

Actuarial Methods and Assumptions

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

Significant methods and assumptions were as follows:

Actuarial valuation date	January 1, 2015
Actuarial cost method	Projected Unit Credit (PUC)
Amortization method	Closed, level percentage of projected payroll amortization method
Remaining amortization period	30 years for each new layer of NOO
Asset valuation method	N/A - no assets
Actuarial assumptions:	
Investment rate of return	4.0%
Projected salary increases	3.75%
Health care inflation rate	8.0% initial rate, 4.9% ultimate rate in 2094
Inflation rate	3.0%

Note 13
Derivative Instruments

Hedging Derivatives

In addition to investment derivatives as described in Note 3, the state, through the Washington State Department of Transportation Ferries Division (WSF) entered into commodity swap agreements to hedge a portion of WSF diesel fuel consumption.

The following table presents the hedging derivative instruments as of June 30, 2016 (expressed in thousands):

	Changes in Fair Value		Fair Value at June 30, 2016		Notional amount
	Classification	Amount	Classification	Amount	(in gallons)
Governmental Activites					
Cash Flow Hedges:					
Commodity Swaps	Deferred Outflow	$ (3,812)	Accounts Payable	$ 1,196	24,360

The commodity swaps noted above were reviewed for hedge accounting and were deemed effective using the regression analysis method.

Objective

The objective for the hedge transaction is to minimize the volatility of the price of diesel fuel and therefore stabilize the percentage of the WSF operating budget represented by fuel purchases. To accomplish this, a strategy of active hedging has been implemented by WSF to control the uncertain costs of fuel and allow for more accurate budget estimates.

Significant Terms

The significant terms of active hedges WSF entered into during fiscal year 2016 are presented in the table below:

Type	Counterparty	Contract price range per gallon	Variable rate received	Trade date	Settlement period	Monthly notional amount (in gallons)
Commodity Swap	Cargill	$2.76 - $2.82	NYMEX ULSD Heating Oil	9/9/2014	7/2015 - 6/2016	252,000
Commodity Swap	Cargill	$2.74 - $2.79	NYMEX ULSD Heating Oil	9/25/2014	7/2015 - 6/2016	252,000
Commodity Swap	Cargill	$1.94	NYMEX ULSD Heating Oil	12/30/2014	7/2015 - 6/2016	252,000
Commodity Swap	Cargill	$1.73 - $1.81	NYMEX ULSD Heating Oil	7/7/2015	8/2015 - 6/2016	252,000
Commodity Swap	Cargill	$1.83 - $1.90	NYMEX ULSD Heating Oil	7/7/2015	7/2016 - 6/2017	252,000
Commodity Swap	Cargill	$1.75 - $1.85	NYMEX ULSD Heating Oil	7/28/2015	7/2016 - 6/2017	252,000
Commodity Swap	Cargill	$1.42	NYMEX ULSD Heating Oil	5/10/2016	7/2016 - 6/2017	126,000 - 378,000
Commodity Swap	BofA - Merrill Lynch	$1.63 - $1.73	NYMEX ULSD Heating Oil	7/28/2015	8/2015 - 6/2016	126,000 - 378,000
Commodity Swap	BofA - Merrill Lynch	$1.96 - $2.03	NYMEX ULSD Heating Oil	7/2/2015	7/2016 - 6/2017	252,000
Commodity Swap	BofA - Merrill Lynch	$1.68 - $1.79	NYMEX ULSD Heating Oil	8/5/2015	7/2016 - 6/2017	252,000
Commodity Swap	BofA - Merrill Lynch	$1.31	NYMEX ULSD Heating Oil	1/15/2016	7/2017 - 6/2018	252,000
Commodity Swap	BofA - Merrill Lynch	$1.61	NYMEX ULSD Heating Oil	6/15/2016	7/2017 - 6/2018	252,000
Commodity Swap	BofA - Merrill Lynch	$1.42	NYMEX ULSD Heating Oil	1/15/2016	7/2018 - 6/2019	252,000
Commodity Swap	BofA - Merrill Lynch	$1.73	NYMEX ULSD Heating Oil	6/7/2016	7/2018 - 6/2019	252,000

The hedging strategy consists of a reference to futures contracts of New York Mercantile Exchange (NYMEX) Ultra Low Sulfur Diesel (ULSD) Heating Oil. This commodity remains highly correlated to the diesel fuel type being used by WSF. These fuel hedges require no initial cash investment and provide monthly settlements.

The monthly settlements are based on the daily prices of the respective commodities whereby WSF will either receive a payment, or make a payment to the counterparty depending on the average monthly prices of the commodities in relation to the contract prices.

Fair Value

The state reports its hedging derivative instruments at fair value as either accounts payable - liability (negative fair value amount) or as other receivables - asset (positive fair value amount). The fair value represents the current price to settle swap assets or liabilities in the market place if a swap were to be terminated. The changes in fair value for hedging derivatives represent the unrealized gain or loss on the contracts and are reported as deferred inflows or deferred outflows of resources respectively. At fiscal year end, the state reports the fair value and changes in fair value related to hedging derivative instruments on the Balance Sheet for Non-major Governmental Funds and the Government-wide Statement of Net Position.

Risks

The following risks are generally associated with commodity swap agreements:

Basis risk. Basis risk is the risk that arises when variable rates or prices of a hedging derivative instrument and a hedged item are based on different reference rates. Statistically, the relationship between heating oil prices and diesel fuel prices has been quite stable over the past five years with a 98 percent correlation. This means that the heating oil futures price explains 98 percent of the variance in the price that WSF pays for its diesel fuel, making it highly reliable. In order to mitigate basis risk, WSF continually monitors the relationship between futures prices and the price of diesel fuel delivered.

Termination Risk. Termination risk is the risk that there will be a mandatory early termination of the commodity swap that would result in WSF either paying or receiving a termination payment. Mandatory terminations generally result when a counterparty suffers degraded credit quality or fails to perform. Upon termination, payment may be required by either party, reflecting fair value at the time of termination.

Credit Risk. Credit risk is the risk that the counterparty fails to make the required payments or otherwise comply with the terms of the swap agreement. WSF is exposed to credit risk in the amount of the derivative's fair value. When the fair value of any derivative has a positive market value, then WSF is exposed to the actual risk that the counterparty will not fulfill its obligation. To mitigate credit risk, WSF monitors the credit ratings of the counterparties. At June 30, 2016, credit ratings of the state's counterparty were as follows:

Counterparty	Moody's	Standard & Poor's	Fitch
Cargill	A2	A	A
Bank of America Merrill Lynch International Limited	-	A	A

Note 14
Commitments and Contingencies

A. CAPITAL COMMITMENTS

Outstanding commitments related to state infrastructure and facility construction, improvement, and/or renovation totaled $2.66 billion at June 30, 2016.

B. ENCUMBRANCES

Encumbrances, which represent commitments related to unperformed contracts for goods or services, are included in restricted, committed or assigned fund balance, as appropriate. Operating encumbrances lapse at the end of the applicable appropriation. Capital outlay encumbrances lapse at the end of the biennium unless reappropriated by the Legislature in the ensuing biennium. Encumbrances outstanding against continuing appropriations at the end of fiscal year 2016 are (expressed in thousands):

General Fund	$ 111,830
Higher Education Special Revenue Fund	7,146
Nonmajor Governmental Funds	1,010,749

C. SUMMARY OF SIGNIFICANT LITIGATION

Pending Litigation

The state and its agencies are parties to numerous routine legal proceedings that normally occur in governmental operations. In addition, at any given point, there may be numerous lawsuits involving the implementation, reduction, or elimination of specific state programs that could significantly impact expenditures, revenues, and potentially have future budgetary impact. This summary considers significant litigation not covered by tort insurance. Tort case liabilities are disclosed in Note 7.E, Claims and Judgments, Risk Management.

The state is the defendant in a number of cases alleging inadequate funding of state programs or services. Claims include: funding inadequacies and inequities in basic education; inadequate funding for care of the disabled and elderly; and inadequate funding for the provision of daily personal care, medical and mental health services to children, the elderly, and the disabled. Collective claims in these programmatic and service cases exceed $35 million exclusive of the basic education case, which will be substantial but is difficult to quantify at this juncture. In addition, adverse rulings in some of these cases could result in significant future costs.

The state is also a defendant in a number of cases contesting the denial of health care benefits and the scope of covered care. Claims in this category total approximately $145 million.

The Department of Revenue routinely has claims for refunds or exemptions in various stages of administrative and legal review. Cases involving such claims currently total approximately $152 million, though an adverse ruling could result in additional claims being brought by similarly situated taxpayers.

The state is a defendant in a number of lawsuits related to habitat restoration and environmental remediation arising out of highway/roadway construction and maintenance. While estimates are not available for all lawsuits, claims for damages equate to approximately $155 million per annum.

The state is contesting these lawsuits and the outcomes are uncertain at this time.

Tobacco Settlement

In November 1998, Washington joined 45 other states in a Master Settlement Agreement (MSA) with the nation's largest tobacco manufacturers to provide restitution for monies spent under health care programs for the treatment of smoking-related illnesses. Washington's annual payment under the settlement was approximately $114.8 million in fiscal year 2016. Beginning in 2008, Washington received the first of ten "strategic contribution payments" under the MSA. This payment is subject to the same offsets, reductions, and adjustments as are applicable to the annual base payment. The fiscal year 2016 strategic contribution payment was approximately $38 million. The final strategic contribution payment due under MSA will be made in 2017.

In 2006, 2007, 2008, and 2009, determinations were made that disadvantages experienced by manufacturers as a result of participating in the MSA were a "significant factor" contributing to market share losses by those manufacturers. These determinations related to sales data for the years 2003, 2004, 2005, and 2006.

With respect to 2003 sales data, Washington and a number of other states participated in a single national arbitration of the nonparticipating manufacturer (NPM) adjustment dispute. In late 2013, the arbitration panel issued a decision in Washington's favor, unanimously concluding that Washington proved that it diligently enforced the qualifying statute during calendar year 2003 and, therefore, for that calendar year is not subject to an NPM adjustment under the MSA. Of the 15 states that went to an arbitration hearing, only nine were found to have diligently enforced. As a result of that decision, in fiscal year 2014, Washington received approximately $14 million more than it would have otherwise received due to the release of amounts placed in the MSA Disputed Payment Account (DPA) related to the 2003 calendar year. More importantly, if Washington had not prevailed in the arbitration, its fiscal year 2014 payment would have been reduced by approximately $100 million due to the application of the NPM adjustment.

The panel's decision addressed only the 2003 calendar year. Washington and other states currently are engaged in negotiations with participating manufacturers regarding potential arbitration proceedings involving the 2004 calendar year. Washington faces a potential "nonparticipating manufacturer (NPM) adjustment" in its share of between $0 and $137 million for the year 2004, $0 and $131 million for the year 2005, and $0 and $119 million for the year 2006.

In addition, the states and the participating manufacturers have entered into an agreement under which the states will not contest that the disadvantages experienced by manufacturers as a result of participating in the MSA were a significant factor contributing to market share losses for the years 2007 through 2013. Washington faces potential NPM adjustments that put at risk Washington's entire MSA payment. For example, the potential NPM adjustment for the year 2007 is between $0 and $123 million, and for the year 2008, it is between $0 and $173 million.

D. FEDERAL ASSISTANCE

The state has received federal financial assistance for specific purposes that are generally subject to review or audit by the grantor agencies.

Entitlement to this assistance is generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations, including the expenditure of assistance for allowable purposes. Any disallowance resulting from a review or audit may become a liability of the state.

The state estimates and recognizes claims and judgments liabilities for disallowances when determined by the grantor agency or for probable disallowances based on experience pertaining to these grants; however, these recognized liabilities and any unrecognized disallowances are considered immaterial to the state's overall financial condition.

E. ARBITRAGE REBATE

Rebatable arbitrage is defined by the Internal Revenue Service Code Section 148 as earnings on investments purchased from the gross proceeds of a bond issue that are in excess of the amount that would have been earned if the investments were invested at a yield equal to the yield on the bond issue.

The rebatable arbitrage must be paid to the federal government. The state estimates that rebatable arbitrage liability, if any, will be immaterial to its overall financial condition.

F. FINANCIAL GUARANTEES

School District Credit Enhancement Program

In accordance with Chapter 39.98 RCW (School District Credit Enhancement Program), the state has guaranteed outstanding voter-approved general obligation bonds of school districts within the state in the amount of $10.2 billion at June 30, 2016. The guarantees extend through the life of the bonds, with a final maturity date of the longest series in 2043.

In the event that a school district has insufficient funds to make a required debt service payment on a guaranteed bond, the state is required to transfer sufficient funds to make the payment. School districts for which the state has made all or part of a debt service payment shall reimburse the state treasurer for all money drawn on their behalf, as well as interest and penalties. The state has not paid debt service on any school debt since the inception of the program in 2000.

G. COLUMBIA RIVER CROSSING

The Washington State Department of Transportation (WSDOT) and the Oregon Department of Transportation (ODOT) worked together, along with federal and local agencies, on the Columbia River Crossing (CRC) project. The CRC project was a bridge, transit, highway, bicycle and pedestrian improvement project intended to replace the existing two highway spans on Interstate 5 (I-5) across the Columbia River, along with new interchanges on both the Washington and Oregon sides of the river. It also included extension of light rail public transit into Vancouver, Washington.

In 2014, the CRC project was shut down due to lack of funding by both the Washington and Oregon legislatures. During the project, WSDOT expended approximately $54 million in federal funds, of which $15 was jointly awarded to Washington and Oregon.

Under Federal Highway Administration (FHWA) policy, failure to advance a project to the construction phase within 10 years of the initial obligation of funds could trigger a requirement to repay federal funds used on the project. FHWA has granted Washington and Oregon an extension to September 30, 2019. WSDOT and ODOT continue discussions with FHWA regarding the I-5 bridge replacement, and the necessity and timing of repayment of federal funds.

H. GUARANTEED EDUCATION TUITION (GET) LOSS CONTINGENCY

Engrossed Second Substitute Senate Bill (E2SSB) 5954 was signed into law by the Governor on July 6, 2015, establishing the College Affordability Program. It reduced tuition at all public institutions of higher education during the 2015-16 and 2016-17 academic years and limits tuition growth in future years. Subsequent to the passage of E2SSB 5954, the State Guaranteed Education Tuition (GET) Program Committee authorized account holders, upon request, to receive a refund of their contributions or a fixed payout value, whichever is greater. Account holders have until September 1, 2017 or until 60 days after a new 529 savings plan opens (whichever is later), to request a refund. GET is closed to new enrollments until July 1, 2017. The financial impact of this action cannot reasonably be estimated as of the date of these financial statements.

I. OTHER COMMITMENTS AND CONTINGENCIES

Local Option Capital Asset Lending Program

On September 1, 1998, the state lease-purchase program was extended to local governments seeking low cost financing of essential equipment and in the year 2000 for real estate. The Local Option Capital Assets Lending (LOCAL) program allows local governments to pool their financing requests together with Washington state agencies in Certificates of Participation (COPs). Refer to Note 7.B for the state's COP disclosure.

These COPs do not constitute a debt or pledge of the full faith and credit of the state; rather, local governments pledge their full faith and credit in a general obligation pledge.

In the event that any local government fails to make any payment, the state is obligated to withhold an amount sufficient to make such payment from the local government's share, if any, of state revenues or other amounts authorized or required by law to be distributed by the state to such local government, if otherwise legally permissible.

Upon failure of any local government to make a payment, the state is further obligated, to the extent of legally available appropriated funds to make such payment on behalf of such local government. The local government remains obligated to make all COP payments and reimburse the state for any conditional payments.

As of June 30, 2016, outstanding certificates of participation notes totaled $77.5 million for 151 local governments participating in LOCAL. The state estimates that the LOCAL program liability, if any, will be immaterial to its overall financial condition.

Note 15
Subsequent Events

A. BOND ISSUES

In July 2016, the state issued:

- $390 million in general obligation bonds for various purposes.
- $531.3 million in general obligation refunding bonds to refund certain various purpose general obligation bonds of the state.
- $101.7 million in taxable general obligation bonds for capital projects and loan programs for low-income housing, basic infrastructure, various energy efficiency and renewable energy projects, and state programs for Columbia River Basin water supply development.
- $271.6 million in motor vehicle fuel tax general obligation refunding bonds.

In September 2016, the state issued:

- $134.2 million in motor vehicle fuel tax general obligation bonds for funding various transportation projects.
- $90.4 million in motor vehicle fuel tax general obligation bonds for the purpose of providing funding for the state route 520 corridor program.

In August 2016, Central Washington University issued $29.2 million in revenue refunding bonds to refund housing bonds.

Also in August 2016, Eastern Washington University issued $23.5 million in revenue refunding bonds to refund services and activities fee revenue bonds.

Later in the 2016 calendar year, Eastern Washington University is planning to issue approximately $38.4 million in general revenue bonds to renovate the Pence Union Building.

Later in the 2016 calendar year, the University of Washington is planning to issue approximately $328 million in general revenue bonds to fund capital projects and refund capital project bonds.

B. CERTIFICATES OF PARTICIPATION

In August 2016, the state issued $65.3 million in Certificates of Participation (COP), of which $32 million were refunding COPs, including $3.2 million of taxable COPs. The taxable portion of the COPs will be used to refund real property COPs of the state.

C. GENERAL ELECTION

There is a measure on the state's November 8, 2016, general election ballot that proposes a carbon emission tax on certain fossil fuels and fossil-fuel-generated electricity, reduces the sales tax by one percentage point, increases a low-income exemption, and reduces certain manufacturing taxes. This measure, if passed, could impact the state fiscally.

Election results are not final or official until certified. By law December 8, 2016, is the last day for the Office of the Secretary of State to certify General Election returns. Information is posted on the Secretary of State's website at http://www.sos.wa.gov.

D. STATE SUPREME COURT ORDER

Washington continues to face the requirements of the state Supreme Court 2012 McCleary ruling that found that the state has failed to meet its constitutional requirement to amply fund basic education. Although funding progress was made through the 2013-15 biennial budget, it was insufficient to satisfy the court. In September 2014, the court found the state in contempt and threatened sanctions if an acceptable funding plan was not in place by the end of the 2015 legislative session.

On August 13, 2015, shortly after the conclusion of the 2015 legislative session, the Washington State Supreme Court issued an order imposing daily penalties of $100 thousand to be held for basic education until the legislature presents an acceptable plan to fully fund basic education as ordered in prior court rulings. On October 6, 2016, the Court acknowledged further progress made in the 2015-17 biennial budget but maintained the $100 thousand per day penalties pending legislative action in the 2017 session.

E. OSO MUDSLIDE SETTLEMENT

In March 2014 a tragic mudslide occurred near Oso, Washington. A series of lawsuits were filed against the state, Snohomish County, and a timber company seeking damages for death, bodily injury and personal property damage and destruction. On October 9, 2016, a settlement was reached between the state and the plaintiffs. The state agreed to pay the plaintiffs $50 million plus $1.2 million in costs, fees, and sanctions.

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RSI

Required Supplementary Information

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BUDGETARY COMPARISON SCHEDULE
General Fund

Budgetary Comparison Schedule
General Fund
For the Fiscal Year Ended June 30, 2016
(expressed in thousands)

	Original Budget 2015-17 Biennium	Final Budget 2015-17 Biennium	Actual 2015-17 Biennium	Variance with Final Budget
Budgetary Fund Balance, July 1, as restated	$ 1,550,847	$ 1,550,847	$ 1,550,847	$ -
Resources				
Taxes	35,743,517	36,091,647	18,068,630	(18,023,017)
Licenses, permits, and fees	229,281	228,571	116,334	(112,237)
Other contracts and grants	550,314	550,885	241,734	(309,151)
Timber sales	6,616	6,650	3,993	(2,657)
Federal grants-in-aid	22,720,205	22,830,123	10,606,061	(12,224,062)
Charges for services	76,910	80,423	41,764	(38,659)
Investment income (loss)	16,824	18,266	12,222	(6,044)
Miscellaneous revenue	284,778	366,696	218,726	(147,970)
Unclaimed property	121,876	115,522	70,655	(44,867)
Transfers from other funds	1,975,011	2,285,083	877,975	(1,407,108)
Total Resources	63,276,179	64,124,713	31,808,941	(32,315,772)
Charges To Appropriations				
General government	4,087,194	4,127,600	1,868,980	2,258,620
Human services	32,532,950	32,607,771	15,521,157	17,086,614
Natural resources and recreation	695,716	837,001	433,186	403,815
Transportation	104,731	141,834	69,243	72,591
Education	23,047,518	23,823,106	11,418,014	12,405,092
Capital outlays	759,279	736,381	187,486	548,895
Transfers to other funds	715,878	1,015,293	402,992	612,301
Total Charges To Appropriations	61,943,266	63,288,986	29,901,058	33,387,928
Excess Available For Appropriation Over (Under) Charges To Appropriations	1,332,913	835,727	1,907,883	1,072,156
Reconciling Items				
Bond sale proceeds	319,039	319,039	89,119	(229,920)
Issuance premiums	-	-	1,400	1,400
Assumed reversions	172,500	207,204	-	(207,204)
Working capital adjustment	-	-	(141,000)	(141,000)
Allocations	-	-	-	-
Noncash activity (net)	-	-	83,472	83,472
Nonappropriated fund balances	-	-	86,437	86,437
Changes in reserves (net)	-	-	1,426	1,426
Total Reconciling Items	491,539	526,243	120,854	(405,389)
Budgetary Fund Balance, June 30	$ 1,824,452	$ 1,361,970	$ 2,028,737	$ 666,767

BUDGETARY COMPARISON SCHEDULE
General Fund - Budget to GAAP Reconciliation

General Fund
For the Fiscal Year Ended June 30, 2016
(expressed in thousands)

Sources/Inflows of Resources		
Actual amounts (budgetary basis) "Total Resources"		
from the Budgetary Comparison Schedule	$	31,808,941
Differences - budget to GAAP:		
The following items are inflows of budgetary resources but are not		
revenue for financial reporting purposes:		
Transfers from other funds		(877,975)
Budgetary fund balance at the beginning of the biennium, as restated		(1,550,847)
Appropriated loan principal repayment		(246)
The following items are not inflows of budgetary resources but are		
revenue for financial reporting purposes:		
Noncash commodities and electronic food stamp benefits		1,583,336
Revenues collected for other governments		119,367
Unanticipated receipts		6,510
Noncash revenues		28,244
Other		6,283
Biennium total revenues		31,123,613
Nonappropriated activity		14,087
Total Revenues (GAAP Basis) as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	$	31,137,700
Uses/Outflows of Resources		
Actual amounts (budgetary basis) "Total Charges to Appropriations"		
from the Budgetary Comparison Schedule	$	29,901,058
Differences - budget to GAAP:		
The following items are outflows of budgetary resources but are		
not expenditures for financial reporting purposes:		
Appropriated transfers to other funds		(1,474,831)
Other transfers to other funds		(402,992)
Appropriated loan disbursements		(29)
The following items are not outflows of budgetary resources but are		
recorded as current expenditures for financial reporting purposes:		
Noncash commodities and electronic food stamp benefits		1,583,335
Distributions to other governments		119,367
Certificates of participation and capital lease acquisitions		35,473
Expenditures related to unanticipated receipts		6,510
Other		6,513
Biennium total expenditures		29,774,404
Nonappropriated activity		346,847
Total expenditures (GAAP basis) as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds	$	30,121,251

BUDGETARY COMPARISON SCHEDULE
Higher Education Special Revenue Fund

Budgetary Comparison Schedule
Higher Education Special Revenue Fund
For the Fiscal Year Ended June 30, 2016
(expressed in thousands)

	Original Budget 2015-17 Biennium	Final Budget 2015-17 Biennium	Actual 2015-17 Biennium	Variance with Final Budget
Budgetary Fund Balance, July 1, as restated	$ 335,583	$ 335,583	$ 335,583	$ -
Resources				
Taxes	455,330	445,936	216,994	(228,942)
Other contracts and grants	310	310	-	(310)
Charges for services	21,888	21,888	-	(21,888)
Investment income (loss)	1,741	1,741	419	(1,322)
Miscellaneous revenue	2,270	2,270	(5)	(2,275)
Transfers from other funds	54,500	54,500	30,150	(24,350)
Total Resources	871,622	862,228	583,141	(279,087)
Charges To Appropriations				
Education	456,902	434,551	161,476	273,075
Transfers to other funds	53,900	53,900	30,149	23,751
Total Charges To Appropriations	510,802	488,451	191,625	296,826
Excess Available For Appropriation Over (Under) Charges To Appropriations	360,820	373,777	391,516	17,739
Reconciling Items				
Working Capital Adjustment	-	-	(2,240)	(2,240)
Noncash activity (net)	-	-	16,777	16,777
Nonappropriated fund balances	-	-	2,429,471	2,429,471
Changes in reserves (net)	-	-	(4,075)	(4,075)
Total Reconciling Items	-	-	2,439,933	2,439,933
Budgetary Fund Balance, June 30	$ 360,820	$ 373,777	$ 2,831,449	$ 2,457,672

BUDGETARY COMPARISON SCHEDULE

Higher Education Special Revenue Fund - Budget to GAAP Reconciliation

Higher Education Special Revenue Fund
For the Fiscal Year Ended June 30, 2016
(expressed in thousands)

Sources/Inflows of Resources		
Actual amounts (budgetary basis) "Total Resources"		
from the Budgetary Comparison Schedule	$	583,141
Differences - budget to GAAP:		
The following items are inflows of budgetary resources but are not		
revenue for financial reporting purposes:		
Transfers from other funds		(30,150)
Budgetary fund balance at the beginning of the biennium, as restated		(335,583)
The following items are not inflows of budgetary resources but are		
revenue for financial reporting purposes:		
Noncash revenues		85
Other		4
Biennium total revenues		217,497
Nonappropriated activity		5,078,164
Total Revenues (GAAP Basis) as reported on the Statement of Revenues,		
Expenditures, and Changes in Fund Balances - Governmental Funds	$	5,295,661
Uses/Outflows of Resources		
Actual amounts (budgetary basis) "Total Charges to Appropriations"		
from the Budgetary Comparison Schedule	$	191,625
Differences - budget to GAAP:		
The following items are outflows of budgetary resources but are		
not expenditures for financial reporting purposes:		
Other transfers to other funds		(30,149)
Biennium total expenditures		161,476
Nonappropriated activity		5,208,507
Total expenditures (GAAP basis) as reported on the Statement of Revenues,		
Expenditures, and Changes in Fund Balance - Governmental Funds	$	5,369,983

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 in the biennium. Capital appropriations are biennial and are generally made at the fund/account, agency, and project level.

The legal level of budgetary control is at the fund/account, agency, and appropriation level, with administrative controls established at lower levels of detail in certain instances. The accompanying budgetary schedule is not presented at the legal level of budgetary control. This is due to the large number of appropriations within individual agencies that would make such a presentation in the accompanying financial schedule extremely cumbersome. Section 2400.121 of the Governmental Accounting Standards Board Codification of Governmental Accounting and Financial Reporting Standards provides for the preparation of a separate report in these extreme cases.

For the state of Washington, a separate report has been prepared for the 2015-17 biennium to illustrate legal budgetary compliance. Appropriated budget versus actual expenditures, and estimated versus actual revenues and other financing sources (uses) for appropriated funds/accounts at agency and appropriation level are presented in the Budget-to-Actual Detail Report for governmental funds. The report is available on line at http://www.ofm.wa.gov/cafr/2016/default.asp.

Legislative appropriations are strict legal limits on expenditures; over-expenditures are prohibited. All appropriated and certain nonappropriated funds/accounts are further controlled by the executive branch through the allotment process. This process allocates the expenditure plan into monthly allotments by program, source of funds, and object of expenditure. State law does not preclude the over-expenditure of allotments.

Proprietary funds/accounts can earn revenues and incur expenses (i.e., depreciation or cost of goods sold) not covered by the allotment process. Budget estimates are generally made outside the allotment process according to prepared business plans. These proprietary fund/account business plan estimates are adjusted only at the beginning of each fiscal year.

Additional fiscal control is exercised through various means. OFM is authorized to estimate revenue and make expenditure allotments based on availability of unanticipated receipts, mainly federal government grant increases made during a fiscal year.

Operating encumbrances lapse at the end of the applicable appropriation. Capital outlay encumbrances lapse at the end of the biennium unless reappropriated by the Legislature in the ensuing biennium. Encumbrances outstanding against continuing appropriations at fiscal year-end are reported as restricted, committed, or assigned fund balance.

Budgetary Reporting vs. GAAP Reporting

Governmental funds are budgeted materially in conformance with generally accepted accounting principles. However, the presentation in the accompanying budgetary schedules is different in certain respects from the corresponding Statements of Revenues, Expenditures, and Changes in Fund Balance (governmental operating statement). In the accompanying budgetary schedules, budget and actual expenditures are reported only for appropriated activities. Expenditures are classified based on whether the appropriation is from the operating or capital budget. Expenditures funded by operating budget appropriations are reported as current expenditures classified by the function of the agency receiving the appropriation. Expenditures funded by capital budget appropriations are reported as capital outlays.

However, in the governmental operating statements, all governmental funds are included and expenditures are classified according to what was actually purchased. Capital outlays are capital asset acquisitions such as land, buildings, and equipment. Debt service expenditures are principal and interest payments. Current expenditures are all other governmental fund expenditures classified based on the function of the agency making the expenditures.

Certain governmental activities are excluded from the budgetary schedules because they are not appropriated. These activities include activities designated as nonappropriated by the Legislature. Nonappropriated activities can represent a portion of a fund such as the Higher Education Special Revenue Fund or all of a fund such as the Higher Education Endowment and Tobacco Settlement Securitization Bond Debt Service Funds. Additionally, certain items including federal surplus food commodities, electronic food stamp benefits, and resources collected and distributed to other governments are also excluded because they are not appropriated.

Further, certain expenditures are appropriated as operating transfers. These transfers are reported as operating transfers on the budgetary schedules and as expenditures on the governmental operating statements.

In the General Fund, Budgetary Fund Balance equals restricted fund balance reduced by a portion that is not available for budgeting, committed, and unassigned fund balances as reported on the Governmental Funds Balance Sheet. In the Higher Education Special Revenue Fund, Budgetary Fund Balance equals the sum of restricted and committed fund balance as reported on the Governmental Funds Balance Sheet. In all other funds except Wildlife and Natural Resources, Budgetary Fund Balance equals total fund balance less nonspendable fund balance as reported on the Governmental Funds Balance Sheet. The Budgetary Fund Balance in the Wildlife and Natural Resources fund is further reduced by a portion of restricted fund balance that is not available for budgeting.

PENSION PLAN INFORMATION
Single Employer Plans

Continued

Schedule of Changes in Net Pension Liability and Related Ratios
Washington State Patrol Retirement System - Plan 1/2
Last Three Measurement Years*
(expressed in thousands)

	2015	2014	2013
Total Pension Liability			
Service cost	$ 16,633	$ 18,041	N/A
Interest	80,037	75,249	N/A
Changes of benefit terms	2,258	-	N/A
Differences between expected and actual experience	8,883	-	N/A
Changes in assumptions	17	-	N/A
Benefit payments, including refunds of employee contributions	(50,075)	(47,510)	N/A
Net Change in Total Pension Liability	57,753	45,780	N/A
Total Pension Liability - Beginning	1,072,424	1,026,644	N/A
Total Pension Liability - Ending (a)	$ 1,130,177	$ 1,072,424	$ 1,026,644
Plan Fiduciary Net Position			
Contributions - employer	$ 6,679	$ 6,587	N/A
Contributions - employee	6,323	6,555	N/A
Net investment income	49,046	176,856	N/A
Benefit payments, including refunds of employee contributions	(50,075)	(47,510)	N/A
Administrative expense	(67)	(84)	N/A
Other	293	509	N/A
Net Change in Plan Fiduciary Net Position	12,199	142,913	N/A
Plan Fiduciary Net Position - Beginning	1,098,427	955,514	N/A
Plan Fiduciary Net Position - Ending (b)	$ 1,110,626	$ 1,098,427	$ 955,514
State's Net Pension Liability/(Asset) - Ending (a) - (b)	$ 19,551	$ (26,003)	$ 71,130
Plan Fiduciary Net Position as a percentage of the Total Pension Liability /(Asset)	98.27%	102.42%	93.07%
Covered-employee payroll	$ 84,388	$ 85,046	$ 81,895
State's Net Pension Liability/(Asset) as a percentage of covered-employee payroll	23.17%	-30.58%	86.86%

N/A indicates data not available.
*This schedule is to be built prospectively until it contains ten years of data.
Note: Figures may not total due to rounding.

Source: Washington State Office of the State Actuary

PENSION PLAN INFORMATION
Single Employer Plans

Continued

Schedule of Changes in Net Pension Liability and Related Ratios
Judicial Retirement System
Last Three Measurement Years*
(expressed in thousands)

	2015	2014	2013
Total Pension Liability			
Service cost	$ -	$ -	N/A
Interest	4,382	4,319	N/A
Changes of benefit terms	-	-	N/A
Differences between expected and actual experience	1,590	-	N/A
Changes in assumptions	4,335	-	N/A
Benefit payments, including refunds of employee contributions	(9,336)	(9,480)	N/A
Net Change in Total Pension Liability	971	(5,161)	N/A
Total Pension Liability - Beginning	100,341	105,502	N/A
Total Pension Liability - Ending (a)	$ 101,312	$ 100,341	$ 105,502
Plan Fiduciary Net Position			
Contributions - employer	$ 10,600	$ 10,600	N/A
Contributions - employee	-	-	N/A
Net investment income	38	25	N/A
Benefit payments, including refunds of employee contributions	(9,336)	(9,480)	N/A
Administrative expense	-	-	N/A
Other	-	-	N/A
Net Change in Plan Fiduciary Net Position	1,302	1,145	N/A
Plan Fiduciary Net Position - Beginning	5,031	3,886	N/A
Plan Fiduciary Net Position - Ending (b)	$ 6,333	$ 5,031	$ 3,886
State's Net Pension Liability/(Asset) - Ending (a) - (b)	$ 94,979	$ 95,310	$ 101,616
Plan Fiduciary Net Position as a percentage of the Total Pension Liability/(Asset)	6.25%	5.01%	3.68%
Covered-employee payroll [1]	N/A	N/A	$ 160
State's Net Pension Liability/(Asset) as a percentage of covered-employee payroll [1]	N/A	N/A	63510%

N/A indicates data not available.
[1] Covered-employee payroll is not applicable because there are no active plan employees.
*This schedule is to be built prospectively until it contains ten years of data.
Note: Figures may not total due to rounding.

Source: Washington State Office of the State Actuary

PENSION PLAN INFORMATION
Single Employer Plans

Concluded

Schedule of Changes in Net Pension Liability and Related Ratios
Judges' Retirement Fund
Last Three Measurement Years*
(expressed in thousands)

	2015	2014	2013
Total Pension Liability			
Service cost	$ -	$ -	N/A
Interest	138	137	N/A
Changes of benefit terms	-	-	N/A
Differences between expected and actual experience	182	-	N/A
Changes in assumptions	95	-	N/A
Benefit payments, including refunds of employee contributions	(444)	(444)	N/A
Net Change in Total Pension Liability	(29)	(307)	N/A
Total Pension Liability - Beginning	3,146	3,453	N/A
Total Pension Liability - Ending (a)	$ 3,117	$ 3,146	$ 3,453
Plan Fiduciary Net Position			
Contributions - employer	$ -	$ -	N/A
Contributions - employee	-	-	N/A
Net investment income	4	7	N/A
Benefit payments, including refunds of employee contributions	(444)	(444)	N/A
Administrative expense	-	-	N/A
Other	-	-	N/A
Net Change in Plan Fiduciary Net Position	(440)	(437)	N/A
Plan Fiduciary Net Position - Beginning	955	1,392	N/A
Plan Fiduciary Net Position - Ending (b)	$ 515	$ 955	$ 1,392
State's Net Pension Liability/(Asset) - Ending (a) - (b)	$ 2,602	$ 2,191	$ 2,061
Plan Fiduciary Net Position as a percentage of the Total Pension Liability/(Asset)	16.52%	30.36%	40.31%
Covered-employee payroll (1)	N/A	N/A	N/A
State's Net Pension Liability/(Asset) as a percentage of covered-employee payroll (1)	N/A	N/A	N/A

N/A indicates data not available.
(1) Covered-employee payroll is not applicable because there are no active plan employees.
* This schedule is to be built prospectively until it contains ten years of data.
Note: Figures may not total due to rounding.

Source: Washington State Office of the State Actuary

PENSION PLAN INFORMATION
Single Employer Plans

Continued

Schedule of Contributions
Washington State Patrol Retirement System - Plan 1/2
Last Ten Fiscal Years
(expressed in thousands)

Year	Actuarially Determined Contributions	Contributions in relation to the Actuarial Determined Contributions	Contribution deficiency (excess)	Covered-employee payroll	Contributions as a percentage of covered-employee payroll
2016	$ 7,618	$ 7,044	$ 574	$ 86,660	8.13%
2015	6,810	6,679	131	84,388	7.91%
2014	6,677	6,587	90	85,046	7.75%
2013	2,500	6,478	(3,978)	81,895	7.91%
2012	2,900	6,454	(3,554)	81,578	7.91%
2011	2,300	5,251	(2,951)	81,882	6.41%
2010	6,600	5,271	1,329	82,764	6.37%
2009	5,000	6,371	(1,371)	82,719	7.70%
2008	6,800	6,064	736	78,781	7.70%
2007	5,300	3,278	2,022	72,688	4.51%

Prior to 2014, the Annual Required Contribution (ARC) amounts are presented for the Actuarially Determined Contributions.

Note: Figures may not total due to rounding.

Source: Washington State Office of the State Actuary

PENSION PLAN INFORMATION
Single Employer Plans

Continued

Schedule of Contributions
Judicial Retirement System
Last Ten Fiscal Years
(expressed in thousands)

Year	Actuarially Determined Contributions	Contributions in relation to the Actuarial Determined Contributions	Contribution deficiency (excess)	Covered-employee payroll	Contributions as a percentage of covered-employee payroll
2016	$ 8,999	$ 9,500	$ (501)	$ -	N/A
2015	9,132	10,600	(1,468)	-	N/A
2014	9,205	10,600	(1,395)	-	N/A
2013	21,700	10,112	11,588	160	6320.00%
2012	22,600	8,131	14,469	407	1997.79%
2011	18,600	10,906	7,694	611	1784.94%
2010	20,400	11,649	8,751	1,053	1106.27%
2009	21,200	10,305	10,895	1,394	739.24%
2008	26,600	9,712	16,888	1,496	649.20%
2007	37,300	9,650	27,650	1,478	652.91%

Contributions in relation to the Actuarially Determined Contributions are based on state contributions.

N/A indicates data not available. Beginning in 2014, there are no active members.

Prior to 2014, the Annual Required Contribution (ARC) amounts are presented for the Actuarially Determined Contributions.

Note: Figures may not total due to rounding.

Source: Washington State Office of the State Actuary

PENSION PLAN INFORMATION
Single Employer Plans

Concluded

Schedule of Contributions
Judges' Retirement Fund
Last Ten Fiscal Years
(expressed in thousands)

Year	Actuarially Determined Contributions	Contributions in relation to the Actuarial Determined Contributions	Contribution deficiency (excess)	Covered-employee payroll	Contributions as a percentage of covered-employee payroll
2016	$ 444	$ 501	$ (57)	$ -	N/A
2015	539	-	539	-	N/A
2014	425	-	425	-	N/A
2013	400	-	400	-	N/A
2012	300	-	300	-	N/A
2011	100	-	100	-	N/A
2010	-	-	-	-	N/A
2009	-	-	-	-	N/A
2008	-	300	(300)	-	N/A
2007	-	300	(300)	-	N/A

Contributions in relation to the Actuarially Determined Contributions are based on state contributions.

N/A indicates data not available. There are no active employees.

Prior to 2014, the Annual Required Contribution (ARC) amounts are presented for the Actuarially Determined Contributions.

Note: Figures may not total due to rounding.

Source: Washington State Office of the State Actuary

PENSION PLAN INFORMATION
Cost Sharing Employer Plans

Continued

Schedule of the State's Proportionate Share of the Net Pension Liability
Public Employees' Retirement System (PERS) Plan 1
Measurement Date of June 30 *
(expressed in thousands)

	2015	2014
State PERS Plan 1 employers' proportion of the net pension liability/(asset)	41.57%	42.37%
State PERS Plan 1 employers' proportionate share of the net pension liability/(asset)	$ 2,174,623	$ 2,134,189
State PERS Plan 1 employers' covered-employee payroll	$ 120,686	$ 143,836
State PERS Plan 1 employers' proportionate share of the net pension liability/(asset) as a percentage of its covered-employee payroll	1801.89%	1483.77%
Plan fiduciary net position as a percentage of the total pension liability/(asset)	59.10%	61.19%

* This schedule is to be built prospectively until it contains ten years of data.

Schedule of the State's Proportionate Share of the Net Pension Liability
Public Employees' Retirement System (PERS) Plan 2/3
Measurement Date of June 30 *
(expressed in thousands)

	2015	2014
State PERS Plan 2/3 employers' proportion of the net pension liability/(asset)	49.10%	49.27%
State PERS Plan 2/3 employers' proportionate share of the net pension liability/(asset)	$ 1,754,418	$ 995,856
State PERS Plan 2/3 employers' covered-employee payroll	$ 4,363,171	$ 4,215,934
State PERS Plan 2/3 employers' proportionate share of the net pension liability/(asset) as a percentage of its covered-employee payroll	40.21%	23.62%
Plan fiduciary net position as a percentage of the total pension liability/(asset)	89.20%	93.29%

* This schedule is to be built prospectively until it contains ten years of data.

PENSION PLAN INFORMATION
Cost Sharing Employer Plans

Continued

Schedule of the State's Proportionate Share of the Net Pension Liability
Teachers' Retirement System (TRS) Plan 1
Measurement Date of June 30 *
(expressed in thousands)

	2015	2014
State TRS Plan 1 employers' proportion of the net pension liability/(asset)	0.86%	0.78%
State TRS Plan 1 employers' proportionate share of the net pension liability/(asset)	$ 27,186	$ 22,924
State TRS Plan 1 employers' covered-employee payroll	$ 3,913	$ 4,611
State TRS Plan 1 employers' proportionate share of the net pension liability/(asset) as a percentage of its covered-employee payroll	694.76%	497.15%
Plan fiduciary net position as a percentage of the total pension liability/(asset)	65.70%	68.77%

* This schedule is to be built prospectively until it contains ten years of data.

Schedule of the State's Proportionate Share of the Net Pension Liability
Teachers' Retirement System (TRS) Plan 2/3
Measurement Date of June 30 *
(expressed in thousands)

	2015	2014
State TRS Plan 2/3 employers' proportion of the net pension liability/(asset)	0.72%	0.59%
State TRS Plan 2/3 employers' proportionate share of the net pension liability/(asset)	$ 6,107	$ 1,913
State TRS Plan 2/3 employers' covered-employee payroll	$ 33,705	$ 25,673
State TRS Plan 2/3 employers' proportionate share of the net pension liability/(asset) as a percentage of its covered-employee payroll	18.12%	7.45%
Plan fiduciary net position as a percentage of the total pension liability/(asset)	92.48%	96.81%

* This schedule is to be built prospectively until it contains ten years of data.

PENSION PLAN INFORMATION
Cost Sharing Employer Plans

Continued

Schedule of the State's Proportionate Share of the Net Pension Liability
Public Safety Employees' Retirement System (PSERS) Plan 2
Measurement Date of June 30 *
(expressed in thousands)

	2015	2014
State PSERS Plan 2 employers' proportion of the net pension liability/(asset)	47.93%	48.26%
State PSERS Plan 2 employers' proportionate share of the net pension liability (asset)	$ 8,748	$ (6,988)
State PSERS Plan 2 employers' covered-employee payroll	$ 140,977	$ 130,172
State PSERS Plan 2 employers' proportionate share of the net pension liability/(asset) as a percentage of its covered-employee payroll	6.21%	-5.37%
Plan fiduciary net position as a percentage of the total pension liability/(asset)	95.08%	105.01%

* This schedule is to be built prospectively until it contains ten years of data.

Schedule of the State's Proportionate Share of the Net Pension Liability
Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) Plan 1
Measurement Date of June 30 *
(expressed in thousands)

	2015	2014
State's nonemployer proportion of the net pension liability/(asset)	87.12%	87.12%
State as nonemployer contributing entity proportionate share of the net pension liability/(asset)	$(1,049,988)	$(1,056,583)
Plan fiduciary net position as a percentage of the total pension liability/(asset)	127.36%	126.91%

* This schedule is to be built prospectively until it contains ten years of data.

PENSION PLAN INFORMATION
Cost Sharing Employer Plans

Concluded

Schedule of the State's Proportionate Share of the Net Pension Liability
Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) Plan 2
Measurement Date of June 30 *
(expressed in thousands)

	2015	2014
State LEOFF Plan 2 employers' proportion of the net pension liability/(asset)	0.83%	0.84%
State as nonemployer contributing entity proportion of the net pension liability/(asset)	39.80%	39.52%
State LEOFF Plan 2 employers' proportionate share of the net pension liability/(asset)	$ (8,580)	$ (11,164)
State as nonemployer contributing entity total proportionate share of the net pension liability/(asset)	(409,091)	(524,419)
Total	$ (417,671)	$ (535,583)
State LEOFF Plan 2 employers' covered-employee payroll	$ 18,744	$ 18,259
State LEOFF Plan 2 employers' proportionate share of the net pension liability/(asset) as a percentage of its covered-employee payroll	-45.77%	-61.14%
Plan fiduciary net position as a percentage of the total pension liability/(asset)	111.67%	116.75%

* This schedule is to be built prospectively until it contains ten years of data.

PENSION PLAN INFORMATION
Cost Sharing Employer Plans

Continued

Schedule of Contributions
Public Employees' Retirement System (PERS) Plan 1
Fiscal Year Ended June 30*
(dollars in thousands)

	2016	2015	2014
Contractually Required Contribution	$ 11,058	$ 11,270	$ 13,245
Contributions in relation to the contractually required contribution	11,058	11,270	13,245
Contribution deficiency (excess)	$ -	$ -	$ -
Covered-employee payroll	$ 103,235	$ 120,686	$ 143,836
Contributions as a percentage of covered-employee payroll	10.71%	9.34%	9.21%

* This schedule is to be built prospectively until it contains ten years of data.

Schedule of Contributions
Public Employees' Retirement System (PERS) Plan 2/3
Fiscal Year Ended June 30*
(dollars in thousands)

	2016	2015	2014
Contractually Required Contribution	$ 478,431	$ 401,057	$ 386,812
Contributions in relation to the contractually required contribution	478,431	401,057	386,812
Contribution deficiency (excess)	$ -	$ -	$ -
Covered-employee payroll	$ 4,648,843	$ 4,363,171	$ 4,215,935
Contributions as a percentage of covered-employee payroll	10.29%	9.19%	9.17%

* This schedule is to be built prospectively until it contains ten years of data.

Schedule of Contributions
Teachers' Retirement System (TRS) Plan 1
Fiscal Year Ended June 30*
(dollars in thousands)

	2016	2015	2014
Contractually Required Contribution	$ 397	$ 392	$ 476
Contributions in relation to the contractually required contribution	397	392	476
Contribution deficiency (excess)	$ -	$ -	$ -
Covered-employee payroll	$ 5,735	$ 3,913	$ 4,611
Contributions as a percentage of covered-employee payroll	6.92%	10.02%	10.32%

* This schedule is to be built prospectively until it contains ten years of data.

PENSION PLAN INFORMATION
Cost Sharing Employer Plans

Concluded

Schedule of Contributions
Teachers' Retirement System (TRS) Plan 2/3
Fiscal Year Ended June 30*
(dollars in thousands)

	2016	2015	2014
Contractually Required Contribution	$ 5,157	$ 3,534	$ 2,947
Contributions in relation to the contractually required contribution	5,157	3,534	2,947
Contribution deficiency (excess)	$ -	$ -	$ -
Covered-employee payroll	$ 41,803	$ 33,705	$ 25,673
Contributions as a percentage of covered-employee payroll	12.34%	10.49%	11.48%

* This schedule is to be built prospectively until it contains ten years of data.

Schedule of Contributions
Public Safety Employees' Retirement System (PSERS) Plan 2
Fiscal Year Ended June 30*
(dollars in thousands)

	2016	2015	2014
Contractually Required Contribution	$ 17,852	$ 14,793	$ 13,604
Contributions in relation to the contractually required contribution	17,852	14,793	13,604
Contribution deficiency (excess)	$ -	$ -	$ -
Covered-employee payroll	$ 155,768	$ 140,977	$ 130,172
Contributions as a percentage of covered-employee payroll	11.46%	10.49%	10.45%

* This schedule is to be built prospectively until it contains ten years of data.

Schedule of Contributions
Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) Plan 2*
Fiscal Year Ended June 30
(dollars in thousands)

	2016	2015	2014
Contractually Required Contribution	$ 1,374	$ 1,261	$ 1,222
Contributions in relation to the contractually required contribution	1,374	1,261	1,222
Contribution deficiency (excess)	$ -	$ -	$ -
Covered-employee payroll	$ 19,828	$ 18,744	$ 18,259
Contributions as a percentage of covered-employee payroll	6.93%	6.73%	6.69%

* This schedule is to be built prospectively until it contains ten years of data.

PENSION PLAN INFORMATION
Notes to Required Supplementary Information

Methods and assumptions used in calculations of Actuarially Determined Contributions (ADC) for PERS, TRS, LEOFF, and WSPRS. The Office of the State Actuary (OSA) calculates the ADC based on the results of an actuarial valuation consistent with the state's funding policy defined under chapter 41.45 RCW. Consistent with the state's contribution rate adoption process, the results of an actuarial valuation with an odd-numbered year valuation date determine the ADC for the biennium that ensues two years later. For example, the actuarial valuation with a June 30, 2013, valuation date, completed in the fall of 2014, determines the ADC for the period beginning July 1, 2015, and ending June 30, 2017.

Methods and assumptions used in calculations of the ADC for JRS and Judges. The OSA calculates the ADC based on the results of an actuarial valuation, and sets the ADC equal to the expected benefit payments from the plan. Consistent with the state's funding policy defined under chapters 2.10.90 and 2.12.60 RCW, the Legislature makes biennial appropriations in order to ensure the fund is solvent to make the necessary benefit payments.

OSA calculates the ADC consistent with the methods described above. Adopted contribution rates may be different pending the actions of the governing bodies. For instance, for the period beginning July 1, 2015 and ending June 30, 2017, the contribution rates adopted by the Pension Funding Council, and unchanged by the Legislature, reflect a phase-in of the increase to contribution rates that resulted from a change to the mortality assumption. The increase is expected to be phased-in over three biennia for PERS 1/2/3, TRS 1/2/3, SERS 2/3, PSERS 2, and WSPRS 1/2.

For cost-sharing plans, OSA calculates the Contractually Required Contributions (CRC) using the same assumptions and methods as the ADC except the CRC reflect the adopted contribution rates for the time period shown, which may differ from the contribution rates produced for the ADC.

Volunteer Fire Fighters' and Reserve Officers' Relief and Pension Fund

Schedule of Net Pension Liability
Last Four Fiscal Years*
(expressed in thousands)

	2016	2015	2014	2013
Total Pension Liability - Ending	$ 191,494	$ 188,584	$ 186,527	$ 183,578
Plan Fiduciary Net Position - Ending	208,663	207,855	204,195	177,134
Plan's Net Pension Liability/(Asset) - Ending	$ (17,169)	$ (19,271)	$ (17,668)	$ 6,444
Plan fiduciary net position as a percentage of the total pension liability/(asset)	108.97%	110.22%	109.47%	96.49%
Covered-employee payroll	N/A	N/A	N/A	N/A
Plan's net pension liability/(asset) as a percentage of covered-employee payroll	N/A	N/A	N/A	N/A

N/A indicates data not applicable. This is a volunteer organization.
*This schedule is to be built prospectively until it contains ten years of data.
Note: Figures may not total due to rounding. Percentages are calculated using unrounded totals.

Source: Washington State Office of the State Actuary

PENSION PLAN INFORMATION

Volunteer Fire Fighters' and Reserve Officers' Relief and Pension Fund

Schedule of Change in Net Pension Liability
Last Four Fiscal Years*
(expressed in thousands)

	2016	2015	2014	2013
Total Pension Liability				
Service cost	$ 893	$ 919	$ 1,240	N/A
Interest	12,887	12,656	12,480	N/A
Changes of benefit terms	-	-	-	N/A
Differences between expected and actual experience	(176)	(2,948)	-	N/A
Changes in assumptions	101	1,931	-	N/A
Benefit payments, including refunds of member contributions	(10,795)	(10,501)	(10,771)	N/A
Net Change in Total Pension Liability	2,910	2,057	2,949	N/A
Total Pension Liability - Beginning	188,584	186,527	183,578	N/A
Total Pension Liability - Ending	$ 191,494	$ 188,584	$ 186,527	$ 183,578
Plan Fiduciary Net Position				
Contributions - Municipalities	$ 918	$ 913	$ 953	N/A
Contributions - Member	67	76	95	N/A
Contributions - State as nonemployer contributing entity	7,235	5,903	6,383	N/A
Net investment income	4,588	8,289	31,892	N/A
Benefit payments, including refunds of member contributions	(10,795)	(10,501)	(10,771)	N/A
Administrative expense	(1,205)	(1,020)	(1,469)	N/A
Other	-	-	(22)	N/A
Net Change in Plan Fiduciary Net Position	808	3,660	27,061	N/A
Plan Fiduciary Net Position - Beginning	207,855	204,195	177,134	N/A
Plan Fiduciary Net Position - Ending	$ 208,663	$ 207,855	$ 204,195	$ 177,134
Plan's Net Pension Liability/(Asset) - Ending	$ (17,169)	$ (19,271)	$ (17,668)	$ 6,444

N/A indicates data not available.
*This schedule is to be built prospectively until it contains ten years of data.
Note: Figures may not total due to rounding.

Source: Washington State Office of the State Actuary

PENSION PLAN INFORMATION
Volunteer Fire Fighters' and Reserve Officers' Relief and Pension Fund

Schedule of Contributions
Last Ten Fiscal Years
(expressed in thousands)

Year	Actuarially Determined Contribution	Contributions in relation to the Actuarial Determined Contribution	Contribution deficiency (excess)
2016	$ 6,846	$ 8,153	$ (1,307)
2015	6,653	6,816	(163)
2014	6,421	7,336	(915)
2013	4,600	6,946	(2,346)
2012	4,700	6,484	(1,784)
2011	5,300	6,778	(1,478)
2010	2,800	6,787	(3,987)
2009	2,500	6,223	(3,723)
2008	1,900	6,102	(4,202)
2007	3,000	7,063	(4,063)

Neither covered-employee payroll nor contributions as a percentage of covered-employee payroll are applicable. This is a volunteer organization.

Prior to 2014, the Annual Required Contribution (ARC) amounts are presented for the Actuarially Determined Contributions.

Note: Figures may not total due to rounding.

Source: Washington State Office of the State Actuary

Schedule of Investment Returns
Last Three Fiscal Years*

	2016	2015	2014
Annual money-weighted rate of return, net of investment expense	2.19%	4.05%	18.50%

*This schedule is to be built prospectively until it contains ten years of data.

Source: Washington State Office of the State Actuary

Volunteer Fire Fighters' and Reserve Officers' Relief and Pension Fund
Notes to Required Supplementary Information

The Office of the State Actuary (OSA) calculates the Actuarially Determined Contributions (ADC) based on the results of an actuarial valuation consistent with funding policy defined under chapter 41.24 RCW and adopted policies made by the State Board for Volunteer Fire Fighters and Reserve Officers. Consistent with the Board's contribution rate adoption process, the results of an actuarial valuation determine the ADC two years after the valuation date. For example, the actuarial valuation with a June 30, 2014, valuation date, completed in the fall of 2015, determines the ADC for the period ending June 30, 2016.

OTHER POSTEMPLOYMENT BENEFITS INFORMATION

Schedule of Funding Progress
Other Postemployment Benefits
(expressed in millions)

	2015	2013	2011
Actuarial valuation date	1/1/2015	1/1/2013	1/1/2011
Actuarial value of plan assets	$ -	$ -	$ -
Actuarial accrued liability (AAL)*	5,274	3,707	3,492
Unfunded actuarial accrued liability (UAAL)	5,274	3,707	3,492
Funded ratio	0%	0%	0%
Covered payroll	6,219	5,787	5,937
UAAL as a percentage of covered payroll	85%	64%	59%

* Based on projected unit credit actuarial cost method.

Source: Washington State Office of the State Actuary

INFRASTRUCTURE ASSETS REPORTED USING THE MODIFIED APPROACH

Condition Assessment

The state of Washington reports certain networks of infrastructure assets under the modified approach of the Governmental Accounting Standards Board Statement No. 34. Expenditures to maintain and preserve these assets are budgeted, recorded, and reported in lieu of depreciation expense. The state must meet the following requirements to report networks of assets under the modified approach:

- Maintain an up-to-date inventory of eligible infrastructure assets in an asset management system.
- Disclose the condition level established by administrative or executive policy, or by legislative action at which assets are to be preserved or maintained.
- Perform condition assessments of eligible assets and summarize the results using a measurement scale.
- Document that assets are being preserved approximately at or above the disclosed condition level.
- Annually estimate the cost to maintain and preserve the assets at the established condition level.

Assets accounted for under the modified approach include the state's network of highway pavements, bridges, and rest areas. In fiscal year 2016, the state was responsible to maintain and preserve 20,764 pavement lane miles, 3,294 bridges and tunnels, and 47 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% 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% 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% of wheel track length having "hairline" alligator cracking will have a PSC of 50.
Poor	20 – 39	Structural deterioration. Example: Flexible pavement with 25% 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% of wheel track length having "medium (spalled)" severity alligator cracking will have a PSC of 10. May require extensive repair and thicker overlays.

The IRI scale is measured in inches per mile. The WSDOT assesses pavements with a ride performance measure less than 221 inches per mile to be in fair or better condition.

Rutting is measured in inches with a measurement of 0.58 inches or less assessed at a condition of fair or better.

PSC, IRI, and rutting are combined to rate a section of pavement which is assigned the lowest condition of any of the three indices.

The following table shows the combined conditions and the ratings for each index:

Category	PSC	IRI	Rutting
Very Good	80 – 100	< 96	< 0.24
Good	60 – 79	96 – 170	0.24 – 0.41
Fair	40 – 59	171 – 220	0.42 – 0.58
Poor	20 – 39	221 – 320	0.59 – 0.74
Very Poor	0 – 19	> 320	> 0.74

The WSDOT's policy is to maintain 85 percent of pavements at a condition level of fair or better. The following table shows pavement condition ratings for state highways:

Pavements Percentage in Fair or Better Condition* Two Year Cycle Ending Calendar Year			
2015	**2013**	**2011**	**Average of Last Three Assessments**
93.2%	92.8%	91.2%	92.4%

* The percentage for 2011 is based solely on number of lane miles, whereas 2013 and 2015 are based on vehicle miles traveled. Vehicle miles traveled are key data for highway planning and management, and a common measure of roadway use.

The following table reflects the state's estimated and actual expenditures necessary to preserve state highways at the established condition level:

Pavements Preservation and Maintenance - Planned to Actual - Fiscal Year *(expressed in thousands)*					
	2016	**2015**	**2014**	**2013**	**2012**
Planned	$ 160,423	$ 173,716	$ 122,868	$ 137,779	$ 148,811
Actual	161,211	142,789	143,598	108,972	148,366
Variance	$ (788)	$ 30,927	$ (20,730)	$ 28,807	$ 445
	-0.5%	17.8%	-16.9%	20.9%	0.3%

Actual expenditures may vary from planned amounts for a variety of reasons which include, but are not limited to, management's decision to accelerate, defer, or reduce preservation or maintenance activity in response to economic forecasts and other factors.

For more information about pavements, refer to the WSDOT's website at:
http://www.wsdot.wa.gov/Business/MaterialsLab/Pavements/default.htm.

BRIDGE CONDITION

The WSDOT performs sample condition assessments on state owned bridges in excess of 20 feet in length each year with all bridges inspected over a two year cycle. Underwater bridge components are inspected at least once every five years in accordance with Federal Highway Administration (FHWA) requirements.

The WSDOT uses a performance measure established in FHWA's "Recording and Coding Guide for the Structural Inventory and Appraisal of the Nation's Bridges," which classifies the physical condition of bridges as good, fair, or poor based on structural sufficiency standards for the following bridge components: bridge superstructure, substructure, and deck. The appraisal data is collected in the National Bridge Inventory (NBI) and assigned a code from 0 to 9, with 0 being in a failed condition and 9 being in excellent condition.

Category	National Bridge Inventory Code*	Description
Good	7 or more	A range from no problems noted to some minor problems.
Fair	5 or 6*	All primary structural elements are sound but may have deficiencies such as minor section loss, deterioration, cracking, spalling, or scour.
Poor	4 or less	Advanced deficiencies such as section loss, deterioration, cracking, spalling, scour, or seriously affected primary structural components.

*For 2015 the NBI code of 6 has changed from good condition to fair condition. This change aligns with federal reporting requirements.

The WSDOT's policy is to maintain 90 percent of bridges at a condition level of fair or better. The following table shows condition ratings for state bridges:

Bridges Percentage in Fair or Better Condition* Two Year Cycle Ending Fiscal Year			
2015	2013	2011	Average of Last Three Assessments
92.1%	91.4%	95.4%	93%

* In 2013 the methodology changed from number of bridges to square footage of the bridge deck. This change aligns with federal reporting requirements.

The following table reflects the state's estimated and actual expenditures necessary to preserve the bridges at the established condition level:

Bridges Preservation and Maintenance - Planned to Actual - Fiscal Year *(expressed in thousands)*					
	2016	2015	2014	2013	2012
Planned	$ 75,160	$ 71,078	$ 92,192	$ 98,519	$ 66,510
Actual	66,339	64,060	87,271	87,306	61,026
Variance	$ 8,821	$ 7,018	$ 4,921	$ 11,213	$ 5,484
	11.7%	9.9%	5.3%	11.4%	8.2%

Actual expenditures may vary from planned amounts for a variety of reasons which include, but are not limited to, management's decision to accelerate, defer, or reduce preservation or maintenance activity in response to economic forecasts and other factors.

For more information about bridges, refer to WSDOT's website at: http://www.wsdot.wa.gov/Bridge/Structures/.

SAFETY REST AREA CONDITION

The WSDOT performs safety rest area condition assessments over a two fiscal year cycle. Sites and buildings are divided into functional components that are assessed with a numerical rating of one to five. The rating is based on guidelines and parameters established by the WSDOT Capital Facilities Program and weighted by the criticality of the functional component.

The WSDOT's policy is to maintain 95 percent of safety rest areas in a condition of fair or better. The following table shows condition ratings for safety rest areas:

Safety Rest Areas Percentage in Fair or Better Condition Two Year Cycle Ending Fiscal Year			
2015	2013	2011	Average of Last Three Assessments
100%	100%	100%	100%

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)*					
	2016	2015	2014	2013	2012
Planned	$ 7,204	$ 8,463	$ 7,488	$ 6,607	$ 6,278
Actual	7,185	8,369	7,591	6,676	6,467
Variance	$ 19	$ 94	$ (103)	$ (69)	$ (189)
	0.3%	1.1%	-1.4%	-1.0%	-3.0%

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 Certificates. The Certificates will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for each Principal Payment Date of the Certificates, each in the aggregate principal amount represented by such Certificates, and will be deposited with DTC.

2. DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a S&P Global Ratings rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com (which website is not incorporated herein by reference).

3. Purchases of Certificates under the DTC system must be made by or through Direct Participants, which will receive a credit for the Certificates on DTC's records. The ownership interest of each actual purchaser of each Certificate ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. 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 Certificates are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Certificates, except in the event that use of the book-entry system for the Certificates is discontinued.

4. To facilitate subsequent transfers, all Certificates deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of Certificates with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Certificates; DTC's records reflect only the identity of the Direct Participants to whose accounts such Certificates are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

5. When notices are given, they shall be sent by the Trustee to DTC only. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

6. Prepayment notices will be sent to DTC. If less than all of the Certificates of a Principal Payment Date are being prepaid, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be prepaid.

7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Certificates unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the State as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Certificates are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Principal, prepayment and interest payments on the Certificates will be made to Cede & Co. or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the State or the Trustee, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee or the State, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, prepayment and interest payments to Cede & Co. (or any other nominee as may be requested by an authorized representative of DTC) is the responsibility of the State or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

9. DTC may discontinue providing its services as depository with respect to the Certificates at any time by giving reasonable notice to the State or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, Certificates are required to be printed and delivered.

10. The State may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Certificates will be printed and delivered to DTC.