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Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2023

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 (WSU) 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 (DRS), 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 Firefighters' 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 DRS is appointed by the Governor.

There are three additional retirement systems administered outside of the DRS. The Volunteer Firefighters' and Reserve Officers' Relief and Pension Fund is administered through the State Board for Volunteer Firefighters 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 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.

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 (UW Neighborhood Clinics) were established for the exclusive benefit of the UWSOM, UWP and its affiliated medical centers, Harborview Medical Center, and the UW Medical Center (UWMC). The UW 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, 3.2, and 3.3 were formed to acquire, construct, or renovate certain real properties for the benefit of the UW in fulfilling its educational, medical, or scientific research missions.

Portage Bay Insurance (PBI) was established to provide the UW with alternative risk financing options for self-insurance reserves. PBI is responsible for insuring UW for medical professional liability, educator's legal liability including employment practices liability, and general, and automobile liability.

TOP 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.

Students Book Corporation is a legally separate entity, owned by the students of WSU, which operates bookstores on each of the WSU campuses.

Washington State University Alumni Association (WSUAA) is a 501(c)3 corporation that is focused on proactively increasing WSUAA membership and expanding the ways alumni and friends of WSU can become engaged with the University.

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 institutions. The state also has the ability to influence the operations of the institutions through legislation.

The state's discrete component units each have a year end of June 30 with the exception of the Washington Economic Development Finance Authority which has a December 31 year end.

The following entities are discretely presented in the financial statements of the state in the component unit's column:

Fred Hutchinson Cancer Center (FHCC) was created in April 2022 from the merger of Seattle Cancer Care Alliance (SCCA) and Fred Hutchinson Cancer Research Center, along with the execution of the Restructuring and Enhanced Collaboration Agreement between the UW and FHCC. FHCC is focused on adult oncology research and care that is a clinically integrated part of UWMC.

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

Fred Hutchinson Cancer Center
1100 Fairview Ave N
Seattle, WA 98109-1024

Valley Medical Center (VMC) 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 341-bed full service acute care hospital and more than 50 specialty clinics located throughout south King County.

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

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

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 became self-sustaining through Medicaid program cost reimbursements, premium tax assessments, and other assessments.

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

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

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.

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

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

The **Washington Economic Development Finance Authority,** the **Washington Health Care Facilities Authority,** the **Washington Higher Education Facilities Authority,** and the **Washington State Housing Finance Commission** (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

Joint Ventures

The UW 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.

CUMG employs UWSOM faculty physicians and bills and collects for their services as an agent for UWSOM. The UW records revenue from CUMG based on the income distribution plan effective December 31, 2008. The UW's patient services receivable includes amounts due from CUMG of $18.3 million in 2023.

Separate financial statements for CUMG may be obtained from:

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

In October 2018, the UW became an equity member in PNWCIN, LLC dba Embright, a Limited Liability Company. Embright is jointly owned by the UW, MultiCare Health System, and LifePoint Health. As a clinically integrated network owned by healthcare provider organizations, Embright enables the members to partner together to further the Triple Aim of improving the patient care experience and improving the health of populations while reducing costs. Together, the members represent 21 hospitals, more than 8,500 providers, and over 1,500 clinics. As of June 30, 2023, the UW's ownership interest in Embright totaled $2.2 million.

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

Embright
1114 Post Avenue
Seattle, WA 98101

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 program. These amounts can be operating or capital in nature.
- Earnings on investments that are restricted to a specific program.

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 783 accounts that are combined into 53 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 and Other Permanent Funds** 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.

- **Health Insurance Fund** is used to account for premiums collected and payments for public and school employees' insurance benefits.

The state includes the following 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, the Guaranteed Education Tuition program, paid family and medical leave compensation, and other activities.

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

Nonmajor 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 Funds** account for the external portion of the local government investments, which is reported by the state as the sponsoring government.

- **Private-Purpose Trust Funds** are 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.

- **Custodial Funds** account for resources held by the state in a custodial capacity for other governments, private organizations, or individuals that are not required to be reported in pension (and other employee benefit) trust funds, investment funds, or private-purpose trust funds.

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. Revenue from the federal government for unemployment benefits is also reported as operating revenues for the Unemployment Compensation Fund as this revenue source provides significant funding for the payment of unemployment benefits – the fund's principal activity. 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, current liabilities, 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. 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 fiduciary 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 fiduciary 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, LIABILITES, 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 Cash Equivalents." The Office of the State Treasurer invests state treasury cash surplus 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, WA 98504-0200, online at: LGIP Annual Comprehensive Financial Reports or phone number (360) 902-9000. TTY users dial 711 to be connected to the state TTY operator.

The fair value of certain pension trust fund investments that are organized as limited partnerships and have no readily ascertainable fair values (including real estate, private equity, and tangible assets) has been determined by using the net asset value per share of the Pension Funds' ownership interest in partners' capital. These values are based on the individual investee's capital account balance reported at fair value at the closest available reporting period, adjusted for subsequent activity. At June 30, 2023, these alternative investments are valued at $90.72 billion. Because of the inherent uncertainties in the estimation of 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, 2023, reported net asset value.

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 or weighted average 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 $6.8 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 fiduciary 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 (excluding intangible right-to-use lease 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.
- Lease assets with total payments over the lease term of $500,000 or greater.
- All capital assets acquired with Certificates of Participation, a debt financing program administered by the Office of the State Treasurer.
- 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.

Assets acquired by lease-to-own agreements are capitalized if the assets' fair 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.

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, excluding intangible right-to-use lease assets and subscription assets.

Generally, estimated useful lives are as follows:

Buildings & building components	5-50 years
Furnishings, equipment, and 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 in the Required Supplementary Information. 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.

- 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. Leases and Subscription-Based Information Technology Arrangements

Lessee and Subscription-Based Information Technology Arrangement (SBITA) Activities. The state is a lessee for various noncancellable leases of land, buildings, equipment, and vehicles. The state also has noncancellable SBITAs for the right to use information technology hardware and software.

For leases and SBITAs that meet the capitalization threshold, the state recognizes a lease or subscription liability, respectively, and an intangible right-to-use lease asset or subscription asset (capital assets), respectively, on the Statement of Net Position in the government-wide and proprietary and fiduciary fund financial statements.

For governmental fund financial reporting, the initial value of the lease or subscription liability is reported as other financing sources with a corresponding capital outlay at lease or subscription commencement.

The lease liability is initially measured at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the amount of the lease liability, plus any lease payments made at or before the lease commencement date and initial direct costs ancillary to placing the underlying asset into service, less any lease incentives received at or before the lease commencement date. Subsequently, the lease asset is amortized on a straight-line basis over the shorter of the lease term or the useful life of the underlying asset. If the state is reasonably certain of exercising a purchase option contained in a lease, the lease asset will be amortized over the useful life of the underlying asset.

The subscription liability is initially measured at the present value of payments expected to be made during the subscription term. Subsequently, the subscription liability is reduced by the principal portion of subscription payments made. The subscription asset is initially measured as the amount of the subscription liability, plus any subscription payments made at or before the subscription commencement date and capitalizable implementation costs, less any vendor incentives received at or before the subscription commencement date. Subsequently, the subscription asset is amortized on a straight-line basis over the shorter of the subscription term or the useful life of the underlying asset.

Generally, the state's incremental borrowing rate is used as the discount rate for leases and SBITAs unless the rate that the lessor/vendor charges is known. The incremental borrowing rate for leases is based on the rate of interest the state would be charged if it issued certificates of participation to borrow an amount equal to the payments for a similar asset type and under similar terms at the commencement or remeasurement date. The University of Washington and Washington State University each use an incremental borrowing rate specific to their university as the discount rate for leases and SBITAs.

The lease or subscription term includes the noncancellable periods of the lease or SBITA, respectively, plus any additional periods covered by either the state or lessor option to (1) extend for which it is reasonably certain to be exercised, or (2) terminate for which it is reasonably certain not to be exercised. Periods in which both the state and the lessor have a unilateral option to terminate (or if both parties have to agree to extend) are excluded from the lease or subscription term.

Certain payments are evaluated to determine if they should be included in the measurement of the lease and subscription liabilities, including those payments that require a determination of whether they are reasonably certain of being made, such as residual value guarantees, purchase options, payments for termination penalties, and other payments.

The state monitors changes in circumstances that may require remeasurement of a lease or subscription liability. When certain changes occur that are expected to significantly affect the amount of the lease, the liability is remeasured and a corresponding adjustment is made to the lease or subscription asset.

For leases and SBITAs below the capitalization threshold and leases and SBITAs with a maximum possible term of 12 months or less at commencement, an expense/ expenditure is recognized based on the provisions of the contract.

Lessor Activities. The state is a lessor for various noncancellable leases of land, buildings, and other assets such as communication towers.

For leases that meet the capitalization threshold, at lease commencement, the state recognizes a lease receivable and a deferred inflow of resources on the Statement of Net Position in the government-wide and proprietary and fiduciary fund financial statements and on the governmental funds Balance Sheet.

The lease receivable is initially measured at the present value of payments expected to be received during the lease term. Subsequently, the lease receivable is reduced by the principal portion of lease payments made. The deferred inflow of resources is initially measured as the amount of the lease receivable, plus lease payments made at or before the lease commencement date, less any lease incentives paid to, or on behalf of, the lessee at or before the lease commencement date. Subsequently, the deferred inflow of resources is recognized as lease revenue on a straight-line basis over the lease term.

Generally, the state's incremental borrowing rate for leases is used as the discount rate for lease receivables. The University of Washington and Washington State University each use an incremental borrowing rate specific to their university as the discount rate for lease contracts where the university is the lessor.

The lease terms include the noncancellable period of the lease plus any additional periods covered by either a lessee or lessor option to (1) extend for which it is reasonably certain to be exercised, or (2) terminate for which it is reasonably certain not to be exercised. Periods in which both the lessee and the state have a unilateral option to terminate (or if both parties have to agree to extend) are excluded from the lease term.

The state monitors changes in circumstances that may require remeasurement of a lease receivable. When certain changes occur that are expected to significantly affect the amount of the lease, the receivable is remeasured and a corresponding adjustment is made to the deferred inflow of resources.

For leases below the capitalization threshold and leases with a maximum possible term of 12 months or less at commencement, revenue is recognized based on the provisions of the lease contract.

7. 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 net assets that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then.

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 net assets that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

Refer to Note 12 for a disaggregation of deferred outflows of resources and deferred inflows of resources.

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.

8. 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, death or retirement). Proprietary 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.

9. 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 premiums or discounts. 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. Issuance costs are reported as debt service expenditures.

10. Net Position/ Fund Balance

In governmental fund type accounts, the difference between assets, liabilities, deferred outflows of resources, and deferred inflows of resources 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, the difference between assets, liabilities, deferred outflows of resources, and deferred inflows of resources 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 position is 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 (COLAs) 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 Workers' Compensation Program purchases catastrophe reinsurance for risks in excess of its retention on the workers' compensation insurance policy to reduce its exposure to the financial risks associated with a catastrophe. Reinsurance permits recovery of a portion of losses from reinsurers, although it does not discharge the primary liability of the Workers' Compensation Program as direct insurer of the risks reinsured.

Amounts that are recoverable from reinsurers and that relate to paid claims and claim adjustment expenses are classified as assets, with an allowance for estimated uncollectible amounts. Estimated amounts recoverable from reinsurers that relate to the liabilities for unpaid claims and claims adjustment expenses are deducted from those liabilities. Ceded unearned premiums are netted with related unearned premiums. Receivables and payables from the same reinsurer, including amounts withheld, are netted. Reinsurance premiums ceded and reinsurance recoveries on claims are netted against related earned premiums and incurred claims costs in the Statement of Revenues, Expenses, and Changes in Net Position.

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 44000, Olympia, WA 98504-4000 or by visiting their website at: State Fund Financial Reports.

Risk Management. The state of Washington operates a self-insurance liability program pursuant to RCW 4.92.130. 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. Coverage is provided up to $10 million for each claim with no deductible. Commercial insurance is purchased for various liabilities and to limit the exposure to catastrophic losses. 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, through the Public Employees Benefits Board (PEBB) and School Employees Benefits Board (SEBB) Programs, administers and provides medical, vision, dental, life, and long-term disability insurance benefits for eligible state employees, school employees, retirees, and their dependents. Employer groups, comprised of counties, municipalities, political subdivisions, tribal governments, the Washington Health Benefit Exchange, and employee organizations representing state civil service employees are allowed to contract with the state to provide these benefits to their employees through the PEBB Program. The state establishes eligibility requirements and approves the plan design of all participating insurers.

The Health Insurance Fund is accounted for as an enterprise fund.

The state and the employee contribute to the total monthly premium for benefits. The state's share of the cost of benefits is based on a per capita amount determined annually by the Legislature, which is allocated to state agencies and school districts. The employee's share is determined by the benefit coverages elected by the employee.

The Health Care Authority (HCA), as administrator of the PEBB and SEBB Programs, collects the total monthly premium. State agencies and school districts submit payment for each eligible employee. Separated employees, employees who lose eligibility, and employees who are temporarily not in pay status are able to continue benefits on a self-pay basis for medical and dental benefits. Retirees also pay for benefits on a self-pay basis. Employer groups submit payment to HCA for the total cost of their employees' benefits. For additional information, refer to Note 16.

The state secures commercial insurance for certain coverage offered in addition to plans offered via the Uniform Medical Plan, the state's self-insured offering. The Uniform Medical Plan enrolled approximately 57 percent of the eligible subscribers in fiscal year 2023. Claims are paid from premiums collected, and claims adjudication is contracted through a third-party administrator.

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

2. Postemployment Benefits

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

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

Retirement Benefits. Refer to Note 15 Retirement Plans and Note 16 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 and other 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 policies, distributions to programs approximate an annual percentage rate of 3.76 percent of a five-year rolling average of the endowments' market valuation.

The net appreciation available for authorization for expenditure by governing boards totaled $1.14 billion. This amount is reported as restricted for expendable endowment funds on the government-wide Statement of Net Position.

Note 2
Accounting and Reporting Changes

Reporting Changes. Effective for fiscal year 2023, the state adopted the following new standards issued by the Governmental Accounting Standards Board (GASB):

Statement No. 91, *Conduit Debt Obligations*. This statement provides a single method of reporting conduit debt obligations by clarifying the definition of conduit debt and establishes standards for accounting and financial reporting.

Statement No. 94, *Public-Private and Public-Public Partnerships (PPPs) and Availability Payment Arrangements (APAs)*. This statement establishes accounting and financial reporting guidance for arrangements between governments and an external entity. PPP arrangements generally result in the government conveying control of the right to operate or use a capital asset to an external entity for a period of time in an exchange or exchange-like transaction. APAs are agreements in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction.

Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITAs)*. This statement establishes accounting and financial reporting guidance for SBITAs. A SBITA is defined as a contract that conveys control of the right to use another party's IT software, alone or in combination with tangible underlying IT assets, in an exchange or exchange-like transaction for a period exceeding 12 months. The government is required to recognize a subscription liability and an intangible right-to-use subscription asset. Cash outlays necessary to place the subscription asset in service can be capitalized during the initial project implementation stage.

Statement No. 99, *Omnibus 2022*. This statement improves consistency by addressing practice issues identified during implementation and application of certain GASB statements and addressing accounting and financial reporting for financial guarantees.

Prior Period Adjustments. The state recorded an increase to the beginning fund balance of $327 thousand in the Higher Education Student Services Fund, a major enterprise fund, and an increase of $331 thousand in the Higher Education Revolving Fund, an internal service fund, as a result of implementing GASB Statement No. 96.

The state recorded a decrease of $650 thousand in the beginning fund balance in the Higher Education Special Revenue Fund, a major governmental fund, a decrease in beginning fund balance of $307 thousand in the Higher Education Facilities Fund, a non-major governmental fund, and an increase of $84 thousand in beginning fund balance in the Higher Education Student Services Fund, a major enterprise fund. This was a result of lease activity that should have been previously recorded under GASB Statement No. 87.

The state recorded an increase of $4.5 million in the beginning fund balance in the Higher Education Special Revenue Fund, a major governmental fund, a decrease of $1.9 million in beginning fund balance in the Higher Education Facilities Fund, a non-major governmental fund, a decrease of $70.0 million in beginning fund balance in the Higher Education Student Services Fund, a major enterprise fund, an increase of $70.3 million in beginning fund balance of the General Obligation Bond Fund, a non-major governmental fund, and an increase of $23.9 million in Other Custodial Funds, a fiduciary fund, due to corrections of errors.

The state recorded an increase of $220.1 million in the beginning fund balance in the General Fund for federal revenues that the U.S. Department of Health and Human Services, Center for Medicare and Medicaid Services determined the state had not drawn in previous fiscal years.

The state recorded an increase of $5.1 million in beginning net position in the Unemployment Compensation Fund, a major enterprise fund, to adjust the prior year liabilities for claims collected for overpayments that are due to the federal government.

The Health Benefit Exchange, a major component unit, recorded a decrease in beginning net position of $166 thousand as a result of implementing GASB Statement No. 96.

The Public Stadium Authority, a nonmajor component unit, recorded an increase in beginning net position of $29 thousand for transactions recorded in the component unit's fiscal year 2022 financial statements after the state of Washington's fiscal year 2022 Annual Comprehensive Financial Report was published.

Governmental Capital Assets and Long-term Obligations. The state recorded an increase to the beginning balance of governmental capital assets of $139.8 million and an increase to the beginning balance of long-term obligations associated with governmental funds of $111.1 million as a result of implementing GASB Statement No. 96.

The state recorded an increase to the beginning balance of governmental capital assets of $4.8 million and an increase to the beginning balance of long-term obligations associated with governmental funds of $5.0 million to record lease activity that should have previously been recorded per GASB Statement No. 87.

Net position/fund balance at July 1, 2022, has been restated as follows (expressed in thousands):

	Net position/fund balance (deficit) at June 30, 2022, as previously reported	Prior Period Adjustment	Net position/fund balance (deficit) at July 1, 2022, as restated
Governmental Funds:			
General	$ 9,059,792	$ 220,102	$ 9,279,894
Higher Education Special Revenue	5,312,127	3,809	5,315,936
Higher Ed. Endowment & Other Permanent Funds	5,107,086	—	5,107,086
Nonmajor Governmental	9,937,335	68,062	10,005,397
Proprietary Funds:			
Enterprise Funds			
Workers' Compensation	(19,580,356)	—	(19,580,356)
Unemployment Compensation	3,458,819	5,079	3,463,898
Higher Education Student Services	1,393,623	(69,615)	1,324,008
Health Insurance	133,167	—	133,167
Nonmajor Enterprise	831,066	—	831,066
Internal Service Funds	(1,135,936)	331	(1,135,605)
Fiduciary Funds:			
Private-Purpose Trust Fund	12,553	—	12,553
Local Government Investment Pool	18,788,501	—	18,788,501
Pension (and Other Employee Benefit) Trust Funds	160,704,257	—	160,704,257
Custodial Funds	1,200,681	23,871	1,224,552
Component Units:			
Fred Hutchinson Cancer Center	944,383	—	944,383
Health Benefit Exchange	22,499	(166)	22,333
Valley Medical Center	224,040	—	224,040
Nonmajor Component Units	948,672	29	948,701

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, 2023, $1.21 billion of the state's deposits with financial institutions were insured or collateralized, with the remaining $739 thousand 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 of the plans and related earnings on those contributions, as managed by the WSIB. The Washington State Retirement System is administered by the Department of Retirement Systems (DRS). The DRS acts as the administrating agency for all plans, except for the Volunteer Firefighters' and Reserve Officers' Relief and Pension Fund, which is administered by the Board for Volunteer Firefighter and Reserve Officers, and the Higher Education Retirement Pension Supplemental Benefit Funds, which are administered by each higher education entity. 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 the 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 instrument securities including futures, options, options on futures, forward contracts, and swap transactions. There were no violations of these investment restrictions during fiscal year 2023.

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 20 separate retirement plans. 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, most retirement plans hold 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 and 2/3; Teachers' Retirement System (TRS) Plans 1 and 2/3; School Employees' Retirement System (SERS) Plan 2/3; Law Enforcement Officers' and Firefighters' Retirement Plans 1 and 2, and the Benefits Improvement Fund; Washington State Patrol Retirement System Plans 1 and 2; Public Safety Employees' Retirement System Plan 2; Volunteer Firefighters' and Reserve Officers' Relief and Pension Fund; and the Higher Education Retirement Pension (HERP) Supplemental Benefit Fund, which consists of plans for seven higher education entities: University of Washington, Washington State University, Eastern Washington University, Central Washington University, The Evergreen State College, Western Washington University, the State Board for Community and Technical Colleges, and the Retirement Strategy Fund (RSF). 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 CTF is a component of each RSF vintage years' glide path. The RSF is a self-directed investment option for the defined contribution and deferred compensation plans and programs. 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, real estate, tangible assets, 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 fair 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.

Public Markets Equity. To achieve the performance and diversification objectives of the pension trust funds, the public markets equity program seeks to achieve the highest return possible consistent with prudent risk management and the desire for downside protection, with passive equity strategies as the default whenever strategies with better risk/return profiles cannot be identified; provide diversification to the pension trust funds' overall investment program; maintain liquidity in public equity; and maintain transparency into all public equity strategies to the extent possible.

The public markets equity portion of the pension trust funds invests in publicly traded equities globally, including equity securities in the U.S., developed non-U.S. markets, and emerging markets. The program has a global benchmark, currently the Morgan Stanley Capital International (MSCI) All Country World Index 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 manage interest rate and credit risk, provide diversification to the overall investment program, provide liquidity to the pension trust funds investment program, and to meet or exceed the return of the Bloomberg U.S. Universal Index. Sources of outperformance are expected to include interest rate anticipation, sector rotation, credit selection, and diversification.

RCW 43.33A.140 prohibits a corporate fixed income issues cost from exceeding 3 percent of the CTF's fair value at the time of purchase and 6 percent of its fair 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 fair 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 Bloomberg Global Family of Fixed Income Indices). Total fair value of below investment grade credit bonds shall not exceed 15 percent of the fair 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 fair value of below investment grade mortgage-backed, asset-backed, and commercial mortgage-backed securities shall not exceed 5 percent of the fair value of the fixed income portfolio. The duration of the portfolio is targeted to be within plus or minus 25 percent of the duration of the Bloomberg U.S. Universal Index.

The major sector allocations of the fixed income portfolio are limited to the following ranges:

U.S. treasuries and government agencies	10% - 45%
Credit bonds	10% - 80%
Asset-backed securities	0% - 10%
Commercial mortgage-backed securities	0% - 10%
Mortgage-backed securities	5% - 45%

Asset allocation policy constraints may, from time to time, place unintended burdens on the portfolios. Therefore, policy exceptions are allowed under certain circumstances. These events include changes in market interest rates, portfolio rebalancing to strategic targets, and bond rating downgrades. The portfolio can remain outside of policy guidelines until it can be rebalanced without harming the portfolio.

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 exceed the returns of the MSCI All Country World Index Investable Market Index, lagged by one calendar quarter, by 300 basis points in the long run. 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.

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 funds' real estate partnerships typically invest in private real estate assets that are held for long-term income and appreciation. Many of the pension trust funds' 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 funds 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 capital level.

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

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 publicly traded securities, 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 400 basis points above the U.S. Consumer Price Index over a long-term investment horizon defined as at least five years.

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 10 investment strategies in the innovation portfolio involving private partnerships.

2. Valuation of Investments

The pension trust funds 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, 2023:

Pension Trust Funds
Investments Measured at Fair Value
June 30, 2023
(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				
Corporate bonds	$ 15,759,067	$ —	$ 15,759,067	$ —
U.S. and foreign government and agency securities	6,300,864	—	6,300,864	—
Mortgage and other asset-backed securities	1,776,238	—	1,776,238	—
Total Debt Securities	23,836,169	—	23,836,169	—
Equity Securities				
Common and preferred stock	21,345,326	21,302,743	40,205	2,378
Depository receipts and other miscellaneous	583,037	583,034	—	3
Real estate investment trusts	198,911	198,911	—	—
Total Equity Securities	22,127,274	22,084,688	40,205	2,381
Alternative Investments				
Real estate	1,054,924	—	—	1,054,924
Tangible assets	359,428	353,307	—	6,121
Total Alternative Investments	1,414,352	353,307	—	1,061,045
Total Investments by Fair Value Level	47,377,795	$ 22,437,995	$ 23,876,374	$ 1,063,426
Investments Measured at Net Asset Value (NAV)				
Private equity	45,925,856			
Real estate	32,447,864			
Collective investment trust funds (equity securities)	17,478,379			
Tangible assets	10,564,954			
Innovation	1,784,089			
Total Investments Measured at the NAV	108,201,142			
Total Investments Measured at Fair Value	$ 155,578,937			
Other Assets (Liabilities) at Fair Value				
Collateral held under securities lending agreements	$ 247,762	$ —	$ 247,762	$ —
Net foreign exchange contracts receivable-forward and spot	116,398	—	116,398	—
Margin variation receivable-futures contracts	244	244	—	—
Obligations under securities lending agreements	(247,762)	—	(247,762)	—
Total Other Assets (Liabilities) Measured at Fair Value	$ 116,642	$ 244	$ 116,398	$ —

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 appropriate market close, as of each reporting period end.

Investments classified as level 2. Investments classified as level 2 in the previous 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 debt 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 classified as level 3. Investments classified as level 3 in the previous table are publicly traded equity securities and other investments that have noncurrent or "stale" values and are included in the table at the last traded price. The stale pricing occurred due to trading suspensions, delisting from an active exchange, or lack of investor demand. The current fair values of these securities are unknown.

Investments measured at net asset value (NAV). Investments measured at net asset value in the pension trust funds are the collective investment trust funds and alternative investments, including private equity, real estate, tangible assets, and innovation.

Collective Investment Trust Funds. The pension trust funds 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 managers, at their discretion, may require withdrawal proceeds to be made partially or wholly in kind. Under certain circumstances, the fund managers 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 funds 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.

Alternative Assets. 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 funds' 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 for subsequent contributions, distributions, management fees, 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 $90.72 billion as of June 30, 2023. 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, 2023, reported net asset value.

These investments can never be redeemed. Instead, the nature of these investments provides for distributions through the sale or liquidation of the underlying assets and from 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, 2023
(expressed in thousands)

	Investment Type					
Liquidation Periods	**Private Equity**	**Real Estate**	**Tangible Assets**	**Innovation**	**Total**	**Percentage of Total**
Less than 3 years	$ 34,808	$ 2,947	$ 54,516	$ 1,376	$ 93,647	0.1 %
3 to 9 years	3,642,017	1,841,492	628,503	—	6,112,012	6.7 %
10 or more years	42,249,031	30,603,425	9,881,935	1,782,713	84,517,104	93.2 %
Total	$ 45,925,856	$ 32,447,864	$ 10,564,954	$ 1,784,089	$ 90,722,763	100.0 %

Private Equity. This includes 296 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 21 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 funds 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 externally appraised generally 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 66 limited liability structures and funds. Valuation practices of general partners and asset managers are consistent with private equity limited partnerships.

Innovation. This includes 13 limited liability structures and funds. Valuation practices of general partners and asset managers are consistent with private equity limited partnerships.

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 securities held and the offsetting obligations under securities lending agreements are valued by the pension trust funds' lending agent 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 custodian 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, 2023, the pension trust funds had total unfunded commitments of $36.99 billion in the following asset classes: $20.21 billion in private equity, $10.54 billion in real estate, $5.34 billion in tangible assets, and $897.1 million in innovation.

4. Securities Lending

State law and WSIB 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, 2023, was approximately $326.8 million. The pension trust funds report securities on loan in their respective categories in the Statement of Net Position. At June 30, 2023, cash collateral received totaling $247.8 million is reported as securities lending obligation, and the fair value of the reinvested cash collateral totaling $247.8 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, 2023, was $90.9 million.

During the fiscal year, 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, 2023 (in millions):

U.S. treasuries	$	109.1
Commercial paper		72.2
Yankee CD		61.4
Repurchase agreements		48.3
Cash equivalents and other		47.7
Total Collateral Held	$	338.7

During fiscal year 2023, securities lending transactions could be terminated on demand by either the pension trust funds or the borrower. As of June 30, 2023, the cash collateral held had an average duration of 12.84 days and an average weighted final maturity of 99.61 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 2023, 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 2023 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 Bloomberg U.S. Universal Index, with volatility similar to or less than the index. The fixed income portfolio's duration is targeted within plus or minus 25 percent of the duration of the portfolio's performance benchmark. As of June 30, 2023, the duration of the pension trust funds' fixed income investments was within the duration target of this index.

The two following schedules provide information about the interest rate risks associated with the pension trust funds' investments as of June 30, 2023. 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, 2023
(expressed in thousands)

		Maturity				
Investment Type	**Total Fair Value**	**Less than 1 Year**	**1-5 Years**	**6-10 Years**	**More than 10 Years**	**Effective Duration (in years)***
Corporate bonds	$ 15,759,067	$ 110,980	$ 6,232,825	$ 6,096,374	$ 3,318,888	6.7
U.S. government and agency securities	4,318,699	861,075	2,566,469	222,133	669,022	4.4
Foreign government and agency securities	1,982,165	6,805	691,459	799,900	484,001	7.0
Mortgage and other asset-backed securities	1,401,865	6,979	1,033,935	274,891	86,060	4.3
Total internally managed fixed income	23,461,796	985,839	10,524,688	7,393,298	4,557,971	6.1
Mortgage-backed to be announced forwards	374,373	374,373	—	—	—	—
Total Investments Categorized	23,836,169	$ 1,360,212	$ 10,524,688	$ 7,393,298	$ 4,557,971	6.1
Investments Not Required to be Categorized:						
Alternative investments	92,137,115					
Equity securities	39,605,653					
Cash and cash equivalents	2,120,799					
Total investments not categorized	133,863,567					
Total Investments	$157,699,736					

* 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, 2023
(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 Agency Securities	Total Fair Value
Aaa	$ 1,776,048	$ 318,348	$ 38,740	$ 2,133,136
Aa1	—	174,135	175,263	349,398
Aa2	—	45,606	176,139	221,745
Aa3	—	923,726	60,475	984,201
A1	—	1,397,354	276,423	1,673,777
A2	—	1,489,357	115,114	1,604,471
A3	—	2,707,009	—	2,707,009
Baa1	—	2,342,487	—	2,342,487
Baa2	190	2,316,034	539,797	2,856,021
Baa3	—	1,878,338	101,779	1,980,117
Ba1 or lower	—	2,166,673	498,435	2,665,108
Total	$ 1,776,238	$ 15,759,067	$ 1,982,165	$ 19,517,470

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, 2023, 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 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. There was no concentration of credit risk exceeding these policy guidelines as of June 30, 2023.

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, real estate, and tangible assets 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 a maximum additional foreign currency exposure at June 30, 2023, of $816.8 million invested in one emerging market commingled equity investment trust fund.

Pension Trust Funds
Foreign Currency Exposure by Country
June 30, 2023
(expressed in thousands)

	Investment Type in U.S. Dollar Equivalent					
Foreign Currency Denomination	**Cash and Cash Equivalents**	**Debt Securities**	**Equity Securities**	**Alternative Assets**	**Open Foreign Exchange Contracts-Net**	**Total**
Australia-Dollar	$ 3,797	$ —	$ 550,600	$ 469,543	$ (19,978)	$ 1,003,962
Brazil-Real	1,817	—	424,458	—	(31,587)	394,688
Canada-Dollar	4,187	—	935,238	—	(1,096)	938,329
China-Yuan Renminbi	5,189	12,218	523,693	—	13,488	554,588
Denmark-Krone	686	—	463,473	—	2,070	466,229
E.M.U.-Euro	17,887	—	3,531,843	5,080,188	37,053	8,666,971
Hong Kong-Dollar	7,682	—	748,423	—	3	756,108
India-Rupee	1,431	—	622,290	—	611	624,332
Indonesia-Rupiah	1,715	—	98,053	—	29	99,797
Japan-Yen	25,097	—	2,312,215	—	144,885	2,482,197
Mexico-Peso	446	—	124,745	—	(16,643)	108,548
New Taiwan-Dollar	996	—	406,491	—	(110)	407,377
Norway-Krone	1,404	—	105,318	—	(1,013)	105,709
Singapore-Dollar	2,289	—	98,631	—	(69)	100,851
South Africa-Rand	462	—	40,056	33,306	(984)	72,840
South Korea-Won	1,032	—	441,652	—	1,875	444,559
Sweden-Krona	2,201	—	345,282	—	(499)	346,984
Switzerland-Franc	3,692	—	794,230	—	18,197	816,119
United Kingdom-Pound	8,749	—	1,721,323	—	13,438	1,743,510
Other	7,539	67,585	316,970	—	(43,272)	348,822
Total	$ 98,298	$ 79,803	$ 14,604,984	$ 5,583,037	$ 116,398	$ 20,482,520

8. Derivative Instruments

Pension trust funds are authorized to utilize various derivative instrument financial instruments including financial futures, forward contracts, interest rate swaps, credit default swaps, equity swaps, and options. Derivative instrument transactions involve, to varying degrees, market and credit risk. At June 30, 2023, 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 Changes in Net Position in the period of change. The derivative instruments are considered investment derivative instruments and not hedging derivative instruments.

Derivative instruments 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 instrument 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 derivative instruments, the pension trust funds are exposed to counterparty credit risk on all open OTC positions. Counterparty credit risk is the risk that a derivative instrument counterparty may fail to meet its payment obligation under the derivative instrument contract. As of June 30, 2023, the pension trust funds counterparty risk was approximately $558.4 million. The majority of the counterparties (68.8 percent) held a credit rating of Aa3 or higher on Moody's rating scale. All counterparties held investment grade credit ratings of Baa2 and above.

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. Derivative instruments, which are exchange traded, are not subject to credit risk.

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 in the future. 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, 2023, the pension trust funds had outstanding forward currency contracts with a net unrealized gain of $116.4 million. The aggregate forward currency exchange contracts receivable and payable were $18.53 billion and $18.42 billion, respectively. The contracts have varying maturity dates ranging from July 3, 2023, to March 19, 2025.

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 values of these contracts are highly sensitive to interest rate changes. During the current fiscal year ended June 30, 2023, the pension trust funds held no total return swap contracts.

At June 30, 2023, the pension trust funds' fixed income portfolio held derivative instrument securities consisting of collateralized mortgage obligations with a fair value of $51.5 million. Domestic and foreign commingled investment trust fund managers may also utilize various derivative instrument securities to manage exposure to risk and increase portfolio returns. Information on the extent of use and holdings of derivative instrument securities by these funds is unavailable.

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

Pension Trust Funds
Derivative Instrument Investments
June 30, 2023
(expressed in thousands)

	Changes in Fair Value - Included in Investment Income (Loss) Amount	Fair Value - Investment Derivative Instrument Amount	Notional
Futures Contracts:			
Bond index futures	$ (104,777)	$ (9,817)	$ 994,500
Equity index futures	217,155	10,062	2,527
Total	$ 112,378	$ 245	$ 997,027
Forward Currency Contracts	$ 26,244	$ 116,420	$ 18,565,669

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 mainly of the investment of insurance premiums collected from employers in Washington state. 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. Subject to this purpose, these portfolios seek to 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 Bloomberg Global Family of Fixed Income Indices.
- Asset-backed securities rated investment grade, as defined by Bloomberg Global Family of Fixed Income Indices.
- Commercial mortgage-backed securities rated investment grade, as defined by Bloomberg Global Family of Fixed Income Indices.
- Investment grade non-U.S. dollar bonds.
- Real estate.

Investment Policies and 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 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.

Equity. The benchmark and structure for global equities will be the Morgan Stanley Capital International (MSCI) All Country World Investable Market Index with U.S. Gross. The global equity portfolio will be passively managed in commingled index funds. The commingled fund managers may use futures for hedging or establishing a long position.

Fixed Income. It is the goal of the fixed income portfolios to match the target durations. The fixed income portfolios' required duration targets are to be reviewed every four years or sooner if there are significant changes in the funding levels or the liability durations.

Sector allocation of fixed income investments must be managed within the ranges presented below. 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.

Target Allocations for the Fixed Income Sectors:	
U.S. treasuries and government agencies	5% - 25%
Credit bonds	20% - 80%
Asset-backed securities	0% - 10%
Commercial mortgage-backed securities	0% - 10%
Mortgage-backed securities	0% - 25%

Total fair value of below investment grade credit bonds (as defined by Bloomberg Global Family of Fixed Income Indices) shall not exceed 5 percent of the total fair 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 fair value of below investment grade mortgage-backed, asset-backed, and commercial mortgage-backed securities shall not exceed 5 percent of total fair value of the funds.

Real Estate. The objectives and characteristics of the real estate portfolio are as follows:

- To generate a 6 percent annual investment return over a rolling 10-year period. This objective also serves as the total net return benchmark for the portfolio.
- The majority of the return will be generated by current income, and the portfolio will be intentionally constructed to focus on yield rather than total return.
- The portfolio will be diversified across geography and property type.

- No more than 15 percent of the long-term target allocation for the real estate portfolio will be invested in the equity position for a single property at the time of acquisition.

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 following table presents fair value measurements as of June 30, 2023:

Workers' Compensation Fund
Investments Measured at Fair Value
June 30, 2023
(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				
Corporate bonds	$ 10,674,076	$ —	$ 10,674,076	$ —
U.S. and foreign government and agency securities	3,908,756	—	3,908,756	—
Mortgage and other asset-backed securities	616,407	—	616,407	—
Total Investments by Fair Value Level	15,199,239	$ —	$ 15,199,239	$ —
Investments Measured at Net Asset Value (NAV)				
Collective investment trusts	3,127,235			
Real estate	73,315			
Total investments measured at the NAV	3,200,550			
Total Investments Measured at Fair Value	$ 18,399,789			

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). Investments measured at net asset value in the Workers' Compensation Fund include collective investment trust funds and alternative investments.

Collective Investment Trust Funds. The Workers' Compensation Fund invests in a single collective investment trust fund (fund). The fund is passively managed to track the investment return of a broad, global equity index, the MSCI All Country World Investable Market Index with U.S. Gross. The fund determines a fair value by obtaining the values of underlying holdings using reputable pricing sources and computing an overall net asset value per share. The underlying holdings within each fund are publicly traded equity securities.

The 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.

Alternative Investments. 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 Workers' Compensation Funds' 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 most recently available reporting period, adjusted for subsequent contributions, distributions, management fees, 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 $73.3 million as of June 30, 2023. Because of the inherent uncertainties in estimating fair values, it is possible these estimates will change in the near-term or the subsequent sale of assets will be different than the June 30, 2023, reported net asset value.

These investments can never be redeemed. Instead, the nature of these investments provides for distributions through the sale or liquidation of the underlying assets and from net operating cash flows. It is anticipated that the investments will be held for at least ten years or longer.

Real Estate. This includes four real estate investments. Targeted investment structures within the Workers' Compensation Fund real estate portfolio include limited liability companies, limited partnerships, joint ventures, commingled funds, and co-investments. Real estate partnerships generally provide quarterly valuations 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 externally appraised generally at least every five years, depending upon the investment. Annual audits of most partnerships include a review of compliance with the partnership's valuation policies.

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.

When debt securities are loaned during the fiscal year, they are 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 have collateral denominated in the same currency, the collateral requirement is 102 percent of the fair value, including accrued interest, of the securities loaned. All other securities are required to be collateralized at 105 percent of the fair value, including accrued interest, of the loaned securities. No securities were lent by the Workers' Compensation Fund during the current fiscal year and, accordingly, no collateral was held at June 30, 2023.

Securities lending transactions can be terminated on demand by either the Workers' Compensation Fund or the borrower. Non-cash collateral cannot 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 are lent with the agreement that they will 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 2023, no securities were lent and, accordingly, 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 2023 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, 2023, 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, 2023. 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.

Workers' Compensation Fund
Schedule of Maturities and Effective Duration
June 30, 2023
(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)*
Corporate bonds	$ 10,674,076	$ 356,550	$ 3,488,730	$ 3,377,417	$ 3,451,379	7.3
U.S. government and agency securities	2,700,917	338,485	1,175,090	28,925	1,158,417	8.5
Foreign government and agencies	1,207,839	76,177	491,049	400,551	240,062	6.1
Mortgage and other asset-backed securities	616,407	6,635	526,507	83,265	—	3.8
Total Investments Categorized	15,199,239	$ 777,847	$ 5,681,376	$ 3,890,158	$ 4,849,858	7.3
Investments Not Required to be Categorized:						
Collective investment trusts	3,127,235					
Cash and cash equivalents	567,344					
Real estate	73,315					
Total investments not categorized	3,767,894					
Total Investments	$ 18,967,133					

** 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, 2023
(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	$ 616,407	$ 366,301	$ 67,965	$ 1,050,673
Aa1	—	200,197	202,742	402,939
Aa2	—	111,674	162,604	274,278
Aa3	—	893,701	142,624	1,036,325
A1	—	1,533,695	336,725	1,870,420
A2	—	1,641,556	77,270	1,718,826
A3	—	1,994,357	—	1,994,357
Baa1	—	1,987,375	—	1,987,375
Baa2	—	1,388,682	152,032	1,540,714
Baa3	—	380,755	23,364	404,119
Ba1 or lower	—	175,783	42,513	218,296
Total	$ 616,407	$ 10,674,076	$ 1,207,839	$ 12,498,322

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, 2023, 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, 2023.

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, 2023, the only securities held by the Workers' Compensation Fund with foreign currency exposure were $1.15 billion (excludes U.S. dollar denominated securities) invested in international commingled equity index funds.

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, 2023
(expressed in thousands)

Foreign Currency Denomination	Equity Securities
Australia-Dollar	$ 60,278
Brazil-Real	18,778
Canada-Dollar	90,893
China-Yuan Renminbi	13,718
Denmark-Krone	23,505
E.M.U.-Euro	253,079
Hong Kong-Dollar	87,502
Japan-Yen	187,026
Mexico-Peso	9,322
New Taiwan-Dollar	55,946
Saudi Arabia-Riyal	14,120
Singapore-Dollar	10,499
South Africa-Rand	10,869
South Korea-Won	42,893
Sweden-Krona	28,004
Switzerland-Franc	72,890
United Kingdom-Pound	116,326
Other	53,824
Total	$ 1,149,472

7. Derivative Instruments

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 instrument transactions involve, to varying degrees, market and credit risk. The Workers' Compensation Fund mitigates market risks arising from derivative instrument 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 instrument 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 instrument securities to manage exposure to risk and increase portfolio returns. Information on the extent of use and holdings of derivative instrument securities by passive equity index fund managers is unavailable.

At June 30, 2023, the only derivative instrument securities held directly by the Workers' Compensation Fund were collateralized mortgage obligations of $213.6 million.

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 elect to measure, for financial reporting purposes, 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, WA 98504-0200, online at: LGIP Annual Comprehensive Financial Reports, or phone number (360) 902-9000. TTY users dial 711 to be connected to the state TTY operator.

Investment Objectives. In priority order, the objectives of the LGIP investment policy 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 is liquid to enable the State Treasurer to meet all cash requirements that might reasonably be anticipated.

The LGIP is 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 and 39.59 RCW, and RCW 43.84.080). 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 supranational institutions provided that, at the time of investment, the institution has the U.S. government as its largest shareholder.
- 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.
- Certificates of deposit or demand deposits with financial institutions qualified by the Washington Public Deposit Protection Commission.

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 and supranational floating or variable rate securities which may have a maximum maturity of 762 days, provided they have reset dates within one year and that on any reset date can reasonably be expected to have a fair value that approximates their amortized cost.
- The weighted average maturity of the portfolio will not exceed 60 days.
- The weighted average life of the portfolio will not exceed 120 days.
- The purchase of investments in securities other than those issued by the U.S. government or its agencies will be limited.
- Cash generated through securities lending or reverse repurchase agreement transactions will not increase the dollar amount of specified investment types beyond stated limits.

Participant Transactions. The LGIP transacts with its participants at a stable net asset value per share of one dollar, the same method used for reporting. 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 are stated at amortized cost which approximates fair value. For bank deposits and repurchase agreements, the cost-based measure equals their carrying amount.

Monthly, the fair value net asset value per share is calculated and compared to the amortized cost net asset value per share to verify that the LGIP's shadow price does not deviate by more than one half of 1 percent from the amortized cost of the portfolio.

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 Northern Trust as a lending agent and Northern Trust receives a share of income earned from this activity. The lending agent lends securities and receives collateral, which can be in the form of cash or other securities. The collateral, which must be valued at 102 percent of the fair value of the loaned securities, is priced daily and, if necessary, action is taken to maintain the collateralization level at 102 percent. Cash collateral received from the lending of non-coupon-bearing securities shall not be valued at less than 102 percent of fair value, not to exceed par.

The cash is invested by the lending agent in accordance with investment guidelines approved by the LGIP. The securities held as collateral and the securities underlying the cash collateral are held by the LGIP's custodian. One option available to the lending agent is to invest cash collateral with the LGIP. Maturities of investments made with cash collateral are generally matched to maturities of securities loaned.

During fiscal year 2023, the LGIP lent U.S. agency and U.S. treasury securities while other securities were received as collateral. At June 30, 2023, the fair value of securities on loan was $831.8 million and the fair value of securities received for collateral was $849.9 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 2023, 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 borrowers fail 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, 2023, the LGIP had a weighted average maturity of 34 days and a weighted average life of 91 days.

The following schedule presents the LGIP investments and related maturities as of June 30, 2023:

Local Government Investment Pool (LGIP)
Schedule of Maturities
June 30, 2023
(expressed in thousands)

Investment Type	Amortized Cost	Maturity: Less than 1 Year	Maturity: 1-5 Years
U.S. treasury securities	$ 9,610,556	$ 9,435,565	$ 174,991
U.S. agency securities	5,683,043	4,817,079	865,964
Interest bearing bank accounts	3,926,065	3,926,065	—
Repurchase agreements	3,400,000	3,400,000	—
Supranational securities	395,301	395,301	—
Certificates of deposit	190,000	190,000	—
Total Investments	$ 23,204,965	$ 22,164,010	$ 1,040,955

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 supranational institutions, obligations of government-sponsored corporations, and deposits with qualified public depositories.

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.

As of June 30, 2023, U.S. treasury securities comprised 41.4 percent of the total portfolio. U.S. agency securities comprised 24.5 percent of the total portfolio, including Federal Farm Credit Bank (16.7 percent) and Federal Home Loan Bank (7.8 percent). Supranational securities comprised 1.7 percent of the total portfolio. Repurchase agreements comprise 14.6 percent of the total portfolio as of June 30, 2023. 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.

6. Repurchase Agreements

The fair value plus accrued income of securities utilized in repurchase agreements must be 102 percent of the value of the repurchase agreement plus accrued interest per policy.

The securities utilized in repurchase agreements are limited to government securities, are priced daily, and are held by the LGIP's custodian in the state's name. As of June 30, 2023, repurchase agreements totaled $3.40 billion.

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

1. Summary of Investment Policies

The investments of the University of Washington represent 80 percent of the total investments in Higher Education Special Revenue, Endowment, and Student Services Funds.

The University of Washington's Board of Regents is vested by statute with responsibility for the University's properties and investments, and for establishing investment policy. The University of Washington Investment Management Company (UWINCO), led by the chief investment officer, carries out the day-to-day activities of the investment portfolios. The UWINCO Board, which consists of both Board of Regents' members and external investment professionals, serves as an advisory board to UWINCO.

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 investment balances in the Invested Funds Pool. At June 30, 2023, the Short-term and Intermediate-term Invested Funds Pools totaled $2.77 billion. The Invested Funds Long-term Pool owns units in the Consolidated Endowment Fund valued at $1.08 billion on June 30, 2023. In addition, the Long-term Pool owns a passive global equity index valued at $145.0 million as of June 30, 2023.

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 0.75 percent in fiscal year 2023. University Advancement received 3.0 percent of the average balances in endowment operating and gift accounts in fiscal year 2023. 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 3.6 percent applied to the five-year rolling average of the CEF's fair value. Additionally, the policy allows for an administrative fee of 0.9 percent to support campus-wide fundraising and stewardship activities and to offset the internal cost of managing endowment assets.

The University records its permanent endowments at the lower of original gift value or current fair value in the Restricted Nonexpendable Net Position category. Of the endowments recorded at current fair value at June 30, 2023, the net deficiency from the original gift value was $5.5 million.

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 $113.2 million in fiscal year 2023 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, 2023, was $351.0 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, 2023:

University of Washington
Investments Measured at Fair Value
June 30, 2023
(expressed in thousands)

Investments by Fair Value Level	Fair Value	Fair Value Measurements Using: Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Fixed Income Securities				
U.S. treasury	$ 1,633,297	$ 6,974	$ 1,626,323	$ —
U.S. government agency	344,292	9,713	334,579	—
Mortgage-backed	209,132	—	209,132	—
Asset-backed	604,460	—	604,460	—
Corporate and other	316,793	17,009	299,784	—
Total Fixed Income Securities	3,107,974	33,696	3,074,278	—
Equity Securities				
Global equity investments	725,563	398,844	326,719	—
Real estate	18,519	14,810	—	3,709
Other	157,622	151,751	—	5,871
Total Equity Securities	901,704	565,405	326,719	9,580
Externally Managed Trusts	131,385	—	—	131,385
Total Investments by Fair Value Level	4,141,063	$ 599,101	$ 3,400,997	$ 140,965
Investments Measured at Net Asset Value (NAV)				
Global equity investments	2,022,467			
Absolute return strategy funds	875,128			
Private equity and venture capital funds	902,345			
Real asset funds	225,282			
Other	50,452			
Total Investments Measured at the NAV	4,075,674			
Total Investments Measured at Fair Value	8,216,737			
Cash equivalents at amortized cost	145,643			
Total Investments	$ 8,362,380			

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 other observable inputs including quoted prices for similar securities and interest rates.

Investments classified as level 3. Private equity, real asset, and other investments classified in level 3 are valued using either discounted cash flow or market comparable techniques.

Investments measured at net asset value. The University's interests in certain non-readily marketable alternative investments, such as hedge funds and private equity limited partnerships, are stated at fair value based on net asset value (NAV) estimates used as a practical expedient and reported to the University by investment fund managers.

The information related to investments measured at the NAV per share (or its equivalent) is presented in the following table:

University of Washington
Investments Measured at the Net Asset Value
June 30, 2023
(expressed in thousands)

	Fair Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Global equity investments	$ 2,022,467	$ 31,707	Monthly to annually	15-180 days
Absolute return strategy funds	875,128	—	Quarterly to annually	30-90 days
Private equity and venture capital funds	902,345	561,441	n/a	—
Real asset funds	225,282	70,335	n/a	—
Other	50,452	32,250	Quarterly to annually	30-95 days
Total Investments Measured at the NAV	$ 4,075,674			

Global Equity. This investment category includes public equity investments in separately managed accounts, long-only commingled funds, unconstrained limited partnerships, and passive index funds. As of June 30, 2023, approximately 74 percent of the value of the investments in this category can be redeemed within 90 days, and approximately 89 percent can be redeemed 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. As of June 30, 2023, approximately 93 percent of the value of the investments in this category can be redeemed within one year.

Private Equity and Venture Capital. This category includes buyout, venture, and special situations funds. These investments cannot be redeemed at the request of the University. Distributions from each fund will be received as the underlying investments of the funds are liquidated. It is expected that underlying assets of the funds will be liquidated over the next one to ten years.

Real Assets. This category includes real estate, natural resources, and other hard assets. These investments cannot be redeemed at the request of the University. Distributions from each fund will be received as the underlying investments of the funds are liquidated. It is expected that underlying assets of the funds will be liquidated over the next one to ten years.

Other. This category consists of opportunistic investments and includes various types of non-investment grade and non-rated credit plus nominal equity exposure. As of June 30, 2023, approximately 34 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 contains 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 10 years.

3. Funding Commitments

The University enters into contracts with investment managers to fund alternative investments. As of June 30, 2023, the University had outstanding commitments to fund alternative investments in the amount of $695.7 million. These commitments are expected to be called over a multi-year timeframe, generally two to five years depending on the type of fund. The University believes it has adequate liquidity and funding sources to meet these obligations.

4. Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of fixed income securities. The University manages interest rate risk through its investment policies and the investment guidelines established with each manager. Each fixed income manager is assigned a maximum boundary for duration as compared to the manager's relevant benchmark index. The goal is to allow ample freedom for the manager to perform while controlling the interest rate risk in the portfolio.

Effective duration is a commonly used measure of interest rate risk. The longer the duration, the more sensitive the portfolio is to changes in interest rates. The weighted average effective duration of the University's fixed income portfolio was 1.96 years at June 30, 2023.

5. Credit Risk

Fixed income securities are subject to credit risk, which is the risk that the issuer or other counterparty to a financial instrument will not fulfill its obligations, or that negative perceptions of the issuer's ability to make these payments will cause prices to decline. The University's investment policies limit fixed income exposure to investment grade assets. The investment policy for the Invested Funds' short-term 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' intermediate-term 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.

Duration is a calculation of the number of years required to recover 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 Pool (IF or operating funds), 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 along with credit quality and effective duration measures at June 30, 2023. The schedule excludes $35.6 million of fixed income securities held by blended component units. These amounts make up 1.15 percent of the University's fixed income investments.

University of Washington
Invested Funds Pool and Consolidated Endowment Fund
Fixed Income Credit Quality and Effective Duration
June 30, 2023
(expressed in thousands)

Investment Type	U.S. Government	Investment Grade*	Non-Investment Grade	Not Rated	Total	Effective Duration (in years)
U.S. treasury securities	$ 1,626,323	$ —	$ —	$ —	$ 1,626,323	1.86
U.S. government agency	337,789	—	—	—	337,789	4.88
Mortgage-backed	—	53,787	74,929	80,417	209,133	1.41
Asset-backed	4,725	493,355	15,239	91,140	604,459	0.86
Corporate and other	—	227,247	—	67,393	294,640	1.80
Total	$ 1,968,837	$ 774,389	$ 90,168	$ 238,950	$ 3,072,344	1.96

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

6. Foreign Currency Risk

Foreign currency risk is the risk that investments denominated in foreign currencies may lose value due to adverse fluctuations in the value of the U.S. dollar relative to foreign currencies. The University's investment policies permit investments in international equity and other asset classes that can include foreign currency exposure. To manage foreign currency exposure, the University also enters into foreign currency forward contracts, futures contracts, and options. The University held non-U.S. denominated securities at June 30, 2023, of $1.69 billion.

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

University of Washington
Consolidated Endowment Fund
Foreign Currency Risk
June 30, 2023
(expressed in thousands)

Foreign Currency	Amount
Australia-Dollar	$ 46,221
Brazil-Real	54,818
Britain-Pound	131,615
Canada-Dollar	56,766
China-Renminbi	249,307
Denmark-Krone	16,942
E.M.U.-Euro	381,161
Hong Kong-Dollar	38,729
India-Rupee	147,387
Indonesia-Rupiah	16,088
Japan-Yen	171,251
Mexico-Peso	10,184
Norway-Krone	15,098
Singapore-Dollar	16,558
South Africa-Rand	18,354
South Korea-Won	49,467
Sweden-Krona	44,505
Switzerland-Franc	41,299
Taiwan-Dollar	34,648
Other	152,486
Total	$ 1,692,884

7. Derivative Instruments

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. Derivative instruments are recorded on the contract date and are carried at fair value using listed price quotations or amounts that approximate fair value.

As of June 30, 2023, the University had outstanding futures contracts with notional amounts totaling $98.2 million and accumulated unrealized gains on these contracts totaled $171 thousand. These accumulated unrealized gains are included in investments on the Statement of Net Position.

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, 2023. The University had no hedging derivative instruments or derivative instruments for investment purposes as of June 30, 2023.

Details on foreign currency derivative instruments are disclosed under Foreign Currency Risk.

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 2023, a portion of the investment income reported by the General Fund was earned by other funds.

The State Treasurer and designated investment officers shall adhere to all restrictions on the investment of funds established by law and by policy.

Investment Objectives. All Treasury/Trust funds will be invested in conformance with federal, state, and other legal requirements. The primary objectives of the portfolio shall be safety and liquidity, with return on investment a secondary objective.

Investments shall be undertaken in a manner that seeks preservation of capital in the overall portfolio. Because the investment portfolio must remain liquid to enable the State Treasurer to meet all cash requirements that can reasonably be anticipated, investments will be managed to maintain cash balances needed to meet daily obligations of the state. After assuring needed levels of safety and liquidity, the investment portfolio will be structured to attain a market rate of return.

Eligible Investments. Eligible investments are only those securities and deposits authorized by statute (chapters 39.58, 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.
- U.S. dollar denominated obligations of supranational institutions, provided that at the time of investment the institution has the U.S. government as its largest shareholder.
- 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.

- Commercial paper, provided that the OST adheres to policies and procedures of the Washington State Investment Board (WSIB) regarding commercial paper (RCW 43.84.080(5)).

- Corporate notes, provided that the OST adheres to the investment policies and procedures adopted by the WSIB (RCW 43.84.080(7)).

- General obligation municipal bonds that have at the time of investment one of the three highest credit ratings of a nationally recognized rating agency.

- Investment deposits with financial institutions qualified by the Washington Public Deposit Protection Commission (RCW 39.58.010(9)) and deposits made pursuant to RCW 39.58.080.

- 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 minimum restrictions listed below. Certain investment instruments are subject to more restrictive limitations.

- 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, 2023:

Office of the State Treasurer
Cash Management Account
Investments Measured at Fair Value
June 30, 2023
(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 securities	$ 6,034,205	$ —	$ 6,034,205	$ —
U.S. agency securities	4,619,418	—	4,619,418	—
Supranational securities	2,138,830	—	2,138,830	—
Corporate notes	668,314	—	668,314	—
Total Investments Measured at Fair Value	$ 13,460,767	$ —	$ 13,460,767	$ —

Investments classified as level 2. The 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 Northern Trust as a lending agent and Northern Trust receives a share of income earned from this activity. The lending agent lends U.S. government, U.S. agency, and supranational securities and receives collateral, which can be in the form of cash or other securities. The collateral, which must be valued at 102 percent of the fair value of the loaned securities, is priced daily and, if necessary, action is taken to maintain the collateralization level at 102 percent.

The cash is invested by the lending agent in 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 2023, there was no cash collateral from securities lending.

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, 2023, the fair value of securities on loan totaled $1.51 billion.

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 2023, 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, and there were 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. 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 to mitigate the effect of interest rate risk. 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 schedules present the OST investments and related maturities, and provide information about the associated interest rate risks as of June 30, 2023:

Office of the State Treasurer
Cash Management Account
Schedule of Maturities
June 30, 2023
(expressed in thousands)

		Maturity		
Investment Type	**Total Fair Value**	**Less than 1 Year**	**1-5 Years**	**6-10 Years**
U.S. government securities	$ 8,174,739	$ 4,089,995	$ 4,084,744	$ —
U.S. agency securities	5,718,098	1,965,106	3,727,753	25,239
Supranational securities	2,286,971	894,213	1,392,758	—
Investments with LGIP	2,209,706	2,209,706	—	—
Interest bearing bank accounts	743,051	743,051	—	—
Corporate notes	668,314	215,878	452,436	—
Certificates of deposit	58,753	58,753	—	—
Total Investments	$ 19,859,632	$ 10,176,702	$ 9,657,691	$ 25,239

Credit ratings of investments are presented using the Standard and Poor's (S&P) rating scale as follows:

Office of the State Treasurer
Cash Management Account
Investment Credit Ratings
June 30, 2023
(expressed in thousands)

	Investment Type		
S&P Credit Rating	**Corporate Notes**	**Supranationals**	**Total Fair Value**
S&P short-term credit rating			
A-1+	$ —	$ 148,141	$ 148,141
S&P long-term credit rating			
AAA	37,711	2,068,117	2,105,828
AA+	82,160	70,713	152,873
AA	141,072	—	141,072
AA-	64,425	—	64,425
A+	125,903	—	125,903
A	159,851	—	159,851
A-	23,766	—	23,766
Unrated*	33,426	—	33,426
Total	$ 668,314	$ 2,286,971	$ 2,955,285

*Investments are rated Aa2 by Moody's

5. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The OST limits credit risk by adhering to the OST investment policy which restricts the types of investments the OST can participate in to U.S. government and agency securities, U.S. dollar denominated obligations of supranational institutions, commercial paper, corporate notes, general obligation municipal bonds, and deposits with qualified public depositories. Investments in non-government securities may not exceed set percentages of the total daily portfolio size.

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 adheres to the WSIB policy on commercial paper and corporate notes investments which limits its exposure to concentration of credit risk by restricting the amount of investments to no more than 3 percent of the portfolio to any single issuer.

6. Repurchase Agreements

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

- Transactions will be conducted under the terms of a written master repurchase agreement and only with primary dealers, the state's bank of record, or master custodial bank.
- Purchased securities utilized in repurchase agreements will be limited to government securities. Repurchase agreements with any single primary dealer or financial institution will not exceed 20 percent of the portfolio. 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.
- The fair value, plus accrued income, of securities utilized in repurchase agreements will be priced at 102 percent of the value of the repurchase agreement, plus accrued income.

The OST invested in repurchase agreements during fiscal year 2023. There were no repurchase agreements as of June 30, 2023.

Note 4

Receivables and Unearned/Unavailable Revenues

A. GOVERNMENTAL FUNDS

Taxes Receivable

Taxes receivable at June 30, 2023, consisted of the following (expressed in thousands):

Taxes Receivable	General	Higher Education Special Revenue	Higher Education Endowment and Other Permanent Funds	Nonmajor Governmental Funds	Total
Property	$ 2,221,928	$ —	$ —	$ —	$ 2,221,928
Sales	1,768,244	—	—	11,177	1,779,421
Business and occupation	1,206,150	51,965	—	13,006	1,271,121
Estate	—	30,658	—	15,072	45,730
Fuel	—	—	—	133,836	133,836
Beer and wine	—	—	—	5,740	5,740
Cannabis	—	—	—	41,811	41,811
Real estate excise	34,837	5,828	—	10,449	51,114
Insurance Premium	97	—	—	—	97
Public utilities	47,092	13	—	2,331	49,436
Hazardous substance	—	—	—	26,448	26,448
Other	835,650	797	—	45,246	881,693
Subtotal	6,113,998	89,261	—	305,116	6,508,375
Less: Allowance for uncollectible receivables	599,242	3,333	—	4,138	606,713
Total Taxes Receivable	$ 5,514,756	$ 85,928	$ —	$ 300,978	$ 5,901,662

Receivables

Receivables at June 30, 2023, consisted of the following (expressed in thousands):

Receivables	General	Higher Education Special Revenue	Higher Education Endowment and Other Permanent Funds	Nonmajor Governmental Funds	Total
Public assistance (1)	$ 408,221	$ —	$ —	$ —	$ 408,221
Accounts receivable	1,114,475	789,322	57,992	532,463	2,494,252
Interest	55,035	20,822	3,638	26,526	106,021
Loans (2)	3,600	73,360	—	803,463	880,423
Long-term contracts (3)	4,810	—	13,778	105,360	123,948
Leases receivable	279	361,379	—	21,689	383,347
Miscellaneous	1,486	851	—	941	3,278
Subtotal	1,587,906	1,245,734	75,408	1,490,442	4,399,490
Less: Allowance for uncollectible receivables	485,747	51,934	9	154,378	692,068
Total Receivables	$ 1,102,159	$ 1,193,800	$ 75,399	$ 1,336,064	$ 3,707,422

Notes:

(1) Public assistance receivables mainly represent amounts owed to the state as 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; these 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 $54.3 million in the Higher Education Special Revenue Fund for student loans and $765.6 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, 2023, consisted of the following (expressed in thousands):

Unearned Revenue	General	Higher Education Special Revenue	Higher Education Endowment and Other Permanent Funds	Nonmajor Governmental Funds	Total
Other taxes	$ 4,283	$ —	$ —	$ —	$ 4,283
Charges for services	195,089	236,842	—	33,139	465,070
Donable goods	—	—	—	5,614	5,614
Grants and donations [1]	1,140,943	8,435	—	8,408	1,157,786
Tolls	—	—	—	26,213	26,213
Transportation	—	—	—	11,449	11,449
Miscellaneous	1,328	9,871	—	10,026	21,225
Total Unearned Revenue	$ 1,341,643	$ 255,148	$ —	$ 94,849	$ 1,691,640

Notes:

[1] Unearned revenue from grants and donations includes $1.01 billion in federal stimulus funds received from the U.S. Department of the Treasury under the American Rescue Plan, but not yet spent.

Unavailable Revenue

Unavailable revenue at June 30, 2023, consisted of the following (expressed in thousands):

Unavailable Revenue	General	Higher Education Special Revenue	Higher Education Endowment and Other Permanent Funds	Nonmajor Governmental Funds	Total
Property taxes	$ 2,178,459	$ —	$ —	$ —	$ 2,178,459
Other taxes	1,569,855	31,909	—	23,636	1,625,400
Timber sales	4,810	—	13,778	105,360	123,948
Transportation	—	—	—	98	98
Charges for services	3,216	—	—	10,170	13,386
Miscellaneous	—	—	—	13,992	13,992
Total Unavailable Revenue	$ 3,756,340	$ 31,909	$ 13,778	$ 153,256	$ 3,955,283

B. PROPRIETARY FUNDS

Receivables

Receivables at June 30, 2023, consisted of the following (expressed in thousands):

Receivables	Business-Type Activities Enterprise Funds		
	Workers' Compensation	Unemployment Compensation	Higher Education Student Services
Accounts receivable	$ 1,183,296	$ 2,015,937	$ 542,706
Interest	131,969	—	1,050
Investment trades pending	—	—	—
Loans	—	—	281
Leases receivable	—	—	4,574
Miscellaneous	83	—	492
Subtotal	1,315,348	2,015,937	549,103
Less: Allowance for uncollectible receivables	266,137	689,368	21,966
Total Receivables	$ 1,049,211	$ 1,326,569	$ 527,137

Unearned Revenue

Unearned revenue at June 30, 2023, consisted of the following (expressed in thousands):

Unearned Revenue	Business-Type Activities Enterprise Funds		
	Workers' Compensation	Unemployment Compensation	Higher Education Student Services
Charges for services	$ —	$ —	$ 133,009
Premiums and assessments	2,047	—	—
Miscellaneous	3,603	11,179	291
Total Unearned Revenue	$ 5,650	$ 11,179	$ 133,300

Taxes Receivables

Taxes receivables at June 30, 2023, consisted of $2.1 million for petroleum products, net of allowance.

C. FIDUCIARY FUNDS

Other Receivables

Receivables at June 30, 2023, consisted of $70.3 million for interest and other miscellaneous amounts.

Unearned Revenue

Unearned revenue at June 30, 2023, consisted of $1.0 million for service credit restorations reported in Pension and Other Employee Benefit Plans.

		Governmental Activities
Health Insurance	Nonmajor Enterprise Funds	Total	Internal Service Funds
$ 60,287	$ 525,916	$ 4,328,142	$ 89,102
1,344	2,690	137,053	18
—	59	59	—
—	—	281	116
—	—	4,574	—
—	—	575	95
61,631	528,665	4,470,684	89,331
192	4,880	982,543	3,375
$ 61,439	$ 523,785	$ 3,488,141	$ 85,956

			Governmental Activities
Health Insurance	Nonmajor Enterprise Funds	Total	Internal Service Funds
$ 1,867	$ 1,209	$ 136,085	$ 8,605
—	49,381	51,428	—
—	2	15,075	260
$ 1,867	$ 50,592	$ 202,588	$ 8,865

Note 5

Interfund Balances and Transfers

A. INTERFUND BALANCES

Interfund balances as reported in the financial statements at June 30, 2023, consisted of the following (expressed in thousands):

	Due From				
Due To	**General**	**Higher Education Special Revenue**	**Higher Education Endowment and Other Permanent Funds**	**Nonmajor Governmental Funds**	**Workers' Compensation**
General	$ —	$ 7,487	$ —	$ 1,106,252	$ 305
Higher Education Special Revenue	173,257	—	866,078	20,310	1,483
Higher Education Endowment and Other Permanent Funds	—	—	—	55	—
Nonmajor Governmental Funds	88,571	749	2,216	377,039	24
Workers' Compensation	8	115	—	72	—
Unemployment Compensation	1,734	1,721	—	517	50
Higher Education Student Services	88	16,766	—	22	60
Health Insurance	18	—	—	—	—
Nonmajor Enterprise Funds	23,282	49	—	8,199	—
Internal Service Funds	47,710	5,298	—	36,785	5,893
Totals	$ 334,668	$ 32,185	$ 868,294	$ 1,549,251	$ 7,815

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) $135.3 million on a revolving loan from the Higher Education Special Revenue Fund to the Higher Education Student Services Fund, (2) $6.7 million on a loan from the Higher Education Special Revenue Fund to the Higher Education Student Services Fund which is expected to be paid over the next nine years, and (3) $10.6 million on a loan from the Higher Education Special Revenue Fund to the Higher Education Student Services Fund which is expected to be paid over the next 29 years.

In addition to the interfund balances noted in the schedule above, there are interfund balances of $101.7 million within the state's Pension Trust Funds.

Due From						
Unemployment Compensation	Higher Education Student Services	Health Insurance	Nonmajor Enterprise Funds	Internal Service Funds	Local Government Investment Pool	Totals
$ 10	$ —	$ —	$ 80,111	$ 138,162	$ —	$ 1,332,327
—	220,836	176	141	21,713	—	1,303,994
—	—	—	—	—	—	55
2,907	3	49	357	6,513	89	478,517
—	—	—	—	60	—	255
—	—	—	25	84	—	4,131
—	—	—	—	80	—	17,016
—	—	—	—	1	—	19
—	3	—	36,768	817	20	69,138
—	74	357	715	8,904	—	105,736
$ 2,917	$ 220,916	$ 582	$ 118,117	$ 176,334	$ 109	$ 3,311,188

B. INTERFUND TRANSFERS

Interfund transfers as reported in the financial statements for the year ended June 30, 2023, consisted of the following (expressed in thousands):

	Transferred To				
Transferred From	General	Higher Education Special Revenue	Higher Education Endowment and Other Permanent Funds	Nonmajor Governmental Funds	Workers' Compensation
General	$ —	$ 1,285	$ 10,300	$ 2,260,053	$ —
Higher Education Special Revenue	129,439	—	93,387	197,340	—
Higher Education Endowment and Other Permanent Funds	—	282,084	—	30,772	—
Nonmajor Governmental Funds	432,231	59,134	1,959	3,651,888	—
Workers' Compensation	385	—	—	—	—
Unemployment Compensation	—	—	—	—	—
Higher Education Student Services	—	674,112	—	9,618	—
Health Insurance	29	—	—	1,486	—
Nonmajor Enterprise Funds	252,623	—	—	13,898	—
Internal Service Funds	385	25,436	—	173	—
Totals	$ 815,092	$ 1,042,051	$ 105,646	$ 6,165,228	$ —

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, 2023, $310.0 million was transferred from the General Fund Basic Account to the Budget Stabilization Account (BSA) in accordance with the provisions of the state Constitution. The state Constitution details a limited number of circumstances under which funds can be appropriated from the BSA, one of which is a favorable vote of at least three-fifths of the members of each house of the Legislature.

In addition to the transfers noted in the schedule above, there were transfers of $97.0 million within the state's Pension Trust Funds.

Transferred To					
Unemployment Compensation	Higher Education Student Services	Health Insurance	Nonmajor Enterprise Funds	Internal Service Funds	Totals
$ —	$ —	$ 25	$ 215,924	$ 242,094	$ 2,729,681
—	734,437	—	—	17,546	1,172,149
—	—	—	—	—	312,856
—	75	—	—	—	4,145,287
—	—	—	—	—	385
—	—	—	—	—	—
—	—	—	—	437	684,167
—	—	—	—	—	1,515
—	—	—	—	—	266,521
—	1,497	—	—	16	27,507
$ —	$ 736,009	$ 25	$ 215,924	$ 260,093	$ 9,340,068

Note 6
Capital Assets

Capital assets at June 30, 2023, 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, 2023 (expressed in thousands):

Capital Assets	Balances July 1, 2022*	Additions	Deletions/ Adjustments	Balances June 30, 2023
Capital Assets, Not Being Depreciated:				
Land	$ 3,057,586	$ 75,991	$ (54,497)	$ 3,079,080
Transportation infrastructure	27,028,550	793,314	—	27,821,864
Intangible assets - indefinite lives	37,221	—	—	37,221
Art collections, library reserves, and museum and historical collections	159,085	2,867	(306)	161,646
Construction in progress	1,829,818	1,017,306	(647,903)	2,199,221
Total Capital Assets, Not Being Depreciated	32,112,260			33,299,032
Capital Assets, Being Depreciated:				
Buildings	16,708,022	852,903	(60,988)	17,499,937
Accumulated depreciation	(7,806,915)	(511,291)	22,742	(8,295,464)
Net buildings	8,901,107			9,204,473
Other improvements	1,733,358	34,907	(445)	1,767,820
Accumulated depreciation	(1,035,444)	(45,169)	137	(1,080,476)
Net other improvements	697,914			687,344
Furnishings, equipment, and intangible assets	6,440,116	493,757	(430,498)	6,503,375
Accumulated depreciation	(4,365,106)	(334,143)	311,416	(4,387,833)
Net furnishings, equipment, and intangible assets	2,075,010			2,115,542
Infrastructure	1,458,871	30,757	(22,700)	1,466,928
Accumulated depreciation	(806,143)	(45,860)	2,871	(849,132)
Net infrastructure	652,728			617,796
Total Capital Assets, Being Depreciated, Net	12,326,759			12,625,155
Lease and Subscription Assets, Net (see Note 10)	1,502,460	118,385	(28,010)	1,592,835
Governmental Activities Capital Assets, Net	$ 45,941,479			$ 47,517,022

*The beginning balances reflect prior period adjustments due to the implementation of GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, and GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, as well as leases that should have been previously recorded under GASB Statement No. 87, *Leases*, which resulted in an increase in capital assets of $217.3 million and an increase in accumulated amortization/depreciation of $2.6 million.

B. BUSINESS-TYPE CAPITAL ASSETS

The following is a summary of business-type capital asset activity for the year ended June 30, 2023 (expressed in thousands):

Capital Assets	Balances July 1, 2022*	Additions	Deletions/ Adjustments	Balances June 30, 2023
Capital Assets, Not Being Depreciated:				
Land	$ 74,748	$ —	$ (27)	$ 74,721
Intangible assets - indefinite lives	4,580	—	—	4,580
Art collections	40	128	—	168
Construction in progress	234,509	120,478	(180,467)	174,520
Total Capital Assets, Not Being Depreciated	313,877			253,989
Capital Assets, Being Depreciated:				
Buildings	4,818,328	58,366	(102,013)	4,774,681
Accumulated depreciation	(1,997,791)	(151,414)	12,824	(2,136,381)
Net buildings	2,820,537			2,638,300
Other improvements	156,994	10,042	—	167,036
Accumulated depreciation	(82,896)	(7,148)	—	(90,044)
Net other improvements	74,098			76,992
Furnishings, equipment, and intangible assets	978,247	190,103	(21,311)	1,147,039
Accumulated depreciation	(783,066)	(91,242)	31,080	(843,228)
Net furnishings, equipment, and intangible assets	195,181			303,811
Infrastructure	64,593	1,280	(2,270)	63,603
Accumulated depreciation	(37,877)	(2,040)	1,628	(38,289)
Net infrastructure	26,716			25,314
Total Capital Assets, Being Depreciated, Net	3,116,532			3,044,417
Lease and Subscription Assets, Net (see Note 10)	269,177	42,565	(1,483)	310,259
Business-Type Activities Capital Assets, Net	$ 3,699,586			$ 3,608,665

*The beginning balances reflect prior period adjustments due to the implementation of GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, as well as leases that should have been previously recorded under GASB Statement No. 87, *Leases*, which resulted in an increase in capital assets of $34.2 million and an increase in accumulated amortization/depreciation of $6.9 million.

C. DEPRECIATION AND AMORTIZATION

Depreciation/amortization expense for the year ended June 30, 2023, was charged by the primary government as follows (expressed in thousands):

	Lease Assets	Subscription Assets	Remaining Capital Assets, being depreciated
Governmental Activities:			
General government	$ 43,903	$ 34,810	$ 92,581
Education - elementary and secondary (K-12)	124	190	3,975
Education - higher education	45,527	23,626	574,862
Human services	85,358	17,115	57,568
Adult corrections	8,286	2,704	46,674
Natural resources and recreation	6,116	1,477	53,859
Transportation	11,126	3,310	106,944
Total Depreciation/Amortization Expense - Governmental Activities *	$ 200,440	$ 83,232	$ 936,463
Business-Type Activities:			
Workers' compensation	$ 8,817	$ 2,769	$ 2,027
Unemployment compensation	—	—	—
Higher education student services	38,369	11,485	243,712
Health Insurance	850	—	46
Other	1,733	1,335	6,059
Total Depreciation/Amortization Expense - Business-Type Activities	$ 49,769	$ 15,589	$ 251,844

*Includes internal service fund depreciation/amortization expense that was allocated to governmental activities as a component of net internal service fund activity in the amounts of $23.7 million for lease assets, $24.0 million for subscription assets, and $95.9 million for other capital assets, being depreciated/amortized.

D. CONSTRUCTION IN PROGRESS

Major construction commitments of the state at June 30, 2023, are as follows (expressed in thousands):

Continued

Agency / Project Commitments	Construction in Progress June 30, 2023	Remaining Project Commitments
Office of the Secretary of State:		
Library-Archives building	$ 7,576	$ 153,704
Office of Financial Management:		
One Washington	70,101	106,157
Department of Retirement Systems:		
CORE: Pension Administration Modernization	3,000	63,000
Department of Enterprise Services:		
Legislative Campus modernization and other projects	37,128	222,107
Liquor and Cannabis Board:		
Systems modernization project	15,503	2,912
Department of Labor and Industries:		
Division of Occupational Safety and Health Lab and Training Facility	52,114	2,476
Military Department:		
Thurston County and Anacortes Readiness Centers, and other projects	25,641	9,954
Department of Social and Health Services:		
Residential, rehabilitation, and other facilities	69,959	72,675
State hospitals / treatment centers	132,701	97,973
Department of Children, Youth, and Families:		
Green Hill school recreation center replacement, Echo Glen housing unit, and other projects	32,550	13,494
Department of Corrections:		
Correctional center units security and safety improvements	16,532	8,527
Other projects	1,087	8,288
Center for Deaf and Hard of Hearing Youth:		
Academic and physical education facility	7,162	50,201
Department of Transportation:		
Olympic and Dayton Ave Regional Headquarter building projects	106,820	480
State ferry vessels and terminals	506,464	34,658
Transportation infrastructure	—	5,550,851
Other projects	3,133	3,260
State Parks and Recreation Commission:		
Schafer State Park campground relocation and other projects	11,977	1,891

Concluded

Agency / Project Commitments	Construction in Progress June 30, 2023	Remaining Project Commitments
Department of Fish and Wildlife:		
Deschutes watershed and Wooten wildlife area projects	$ 15,603	$ 34,481
Samish, Naselle, and Wallace River hatcheries and other hatchery projects	32,672	36,055
Other projects	19,297	41,047
Employment Security Department:		
Internal Accounting Financial System, WorkSource Integrated Technology, Long-Term Services and Support System and other projects	5,288	38,025
University of Washington:		
Interdisciplinary Education & Research building, water infiltration repairs, Behavioral Health teaching facility, Haring Center renovation, campus building stabilization, UW Bothell STEM building, and other projects	578,501	186,632
Intramural Activities (IMA) locker rooms/pool upgrades and other projects	28,119	8,462
UW Medical Center expansion, upgrades, and renovation projects	45,952	24,482
Other projects	4,594	6,486
Washington State University:		
Rogers interior renovations and other housing and dining projects	385	237
Taylor Sports Complex and Golf Team Clubhouse	481	13
Vancouver Life Sciences building, Spokane Biomedical and Health Sciences building, Johnson Hall replacement and other facility projects	82,330	17,979
Other projects	20,480	4,283
Eastern Washington University:		
Science Center renovation, energy plant, and other projects	52,903	87,334
Central Washington University:		
Health Education building and other projects	72,120	—
Western Washington University:		
Electrical Engineering and Computer Science Building and other projects	20,977	67,690
Community and Technical Colleges:		
Bellevue Center for Transdisciplinary Learning and other projects	1,575	39,362
Columbia Basin student recreation center	32,799	—
Everett Learning Resource Center and other projects	47,294	7,306
Grays Harbor Student Services Instructional building	34,866	—
Pierce College buildings, and other projects	23,591	55,016
Seattle Library renovation, Automotive Technology building renovation, and other projects	64,675	8,032
Spokane Fine Applied Arts and MOSS buildings, and other projects	27,213	22,714
Tacoma Center for Innovative Learning and Engagement and other projects	2,710	46,178
Other community college projects	34,868	20,038
Other Agency Projects:	25,000	14,075
Total Construction in Progress	$ 2,373,741	$ 7,168,535

Note 7
Long-Term Liabilities

A. BONDS AND NOTES PAYABLE

Bonds payable at June 30, 2023, include general obligation bonds, revenue bonds, and notes payable. They 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).

Authorization arises in the following situations:

- 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 8.25 percent and will decline to 8.00 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 2023 is $1.99 billion.

This computation excludes specific bond issues and types that are not secured by general state revenues. Of the $20.94 billion general obligation bond debt principal outstanding at June 30, 2023, $13.71 billion is subject to the limitation.

Based on the debt limitation calculation, the debt service requirements as of June 30, 2023, did not exceed the authorized debt service limitation.

For further information on the debt limit, refer to the Report on the State of Washington's Debt Limitation available from the Office of the State Treasurer at: Report on the State of Washington's Debt Limitation or to Schedule 11 in the Statistical Section of this report.

Authorized But Unissued

The state had a total of $16.39 billion in general obligation bonds authorized but unissued as of June 30, 2023, 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 0.21 to 5.70 percent. Interest rates on revenue bonds range from 0.19 to 8.00 percent.

Debt Service Requirements to Maturity

General Obligations Bonds

General obligation bonds have been authorized and issued primarily to provide funds for the following purposes:

- Acquisition and construction of state and common school capital facilities.

- Transportation construction and improvement projects.

- Assistance to local governments for public works capital projects.

- Refunding of general obligation bonds outstanding.

Outstanding general obligation bonds are presented in the Washington State Treasurer's Annual Report. A copy of the report is available from the Office of the State Treasurer, PO Box 40200, Olympia, WA 98504-0200, phone number (360) 902-9000 or TTY 711, or by visiting their website at: Annual Reports.

Total debt service requirements to maturity for general obligation bonds as of June 30, 2023, are as follows (expressed in thousands):

	Governmental Activities		Business-Type Activities		Totals	
General Obligation Bonds	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**
By Fiscal Year:						
2024	$ 1,145,959	$ 1,026,521	$ —	$ —	$ 1,145,959	$ 1,026,521
2025	1,134,375	996,226	—	—	1,134,375	996,226
2026	1,149,111	942,946	—	—	1,149,111	942,946
2027	1,149,834	890,670	—	—	1,149,834	890,670
2028	1,143,256	840,302	—	—	1,143,256	840,302
2029-2033	5,642,453	3,217,077	—	—	5,642,453	3,217,077
2034-2038	4,560,680	1,840,376	—	—	4,560,680	1,840,376
2039-2043	3,586,685	802,130	—	—	3,586,685	802,130
2044-2048	1,425,665	154,010	—	—	1,425,665	154,010
Total Debt Service Requirements	$ 20,938,018	$ 10,710,258	$ —	$ —	$ 20,938,018	$ 10,710,258

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, 2023, include $859.2 million in governmental activities and $1.83 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, 2023, are as follows (expressed in thousands):

	Governmental Activities		Business-Type Activities		Totals	
Revenue Bonds	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**
By Fiscal Year:						
2024	$ 164,140	$ 63,711	$ 170,966	$ 90,559	$ 335,106	$ 154,270
2025	142,558	56,082	95,238	87,005	237,796	143,087
2026	51,900	51,759	98,455	83,447	150,355	135,206
2027	55,629	49,590	101,905	79,509	157,534	129,099
2028	56,823	47,270	101,936	75,444	158,759	122,714
2029-2033	301,267	200,588	509,441	317,637	810,708	518,225
2034-2038	322,135	132,178	502,452	216,024	824,587	348,202
2039-2043	247,523	66,479	459,747	102,897	707,270	169,376
2044-2048	171,289	33,699	170,715	33,430	342,004	67,129
2049-2053	64,364	7,378	15,130	941	79,494	8,319
Total Debt Service Requirements	$ 1,577,628	$ 708,734	$ 2,225,985	$ 1,086,893	$ 3,803,613	$ 1,795,627

Governmental activities include revenue bonds outstanding at June 30, 2023, of $33.3 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 $40.4 million, payable through 2033. For the current year, both pledged revenue and debt service were $31.2 million.

Governmental activities include grant anticipation revenue bonds outstanding at June 30, 2023, of $185.0 million issued for the Washington State Department of Transportation. The bonds were issued to finance a portion of the cost 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 $194.2 million, payable through 2024. For the current year, both pledged revenue and debt service were $99.4 million.

Governmental activities include the Transportation Infrastructure Finance and Innovation Act Bond (TIFIA Bond) outstanding at June 30, 2023, of $280.1 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 $466.3 million, payable through 2051. For the current year, both pledged revenue and debt service were $12.7 million.

Governmental activities include revenue bonds outstanding at June 30, 2023, of $24.8 million issued by 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 $28.2 million, payable through 2029. For the current year, both pledged revenue and debt service were $4.4 million.

Governmental activities include revenue bonds outstanding at June 30, 2023, of $195.3 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 $287.8 million, payable through 2039. For the current year, both pledged revenue and debt service were $18.1 million.

The state's colleges and universities may 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.

The state colleges and universities may also enter into financing agreements, not offered for public sale, directly with investors or lenders.

Total pledged specific revenues for the state's colleges and universities to repay the principal and interest of revenue bonds as of June 30, 2023, 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	$ 38,281	$ 18,102	$ —
Current year debt service	22,914	10,506	202
Total future revenues pledged *	431,219	128,412	2,225
Description of debt	Housing and dining bonds issued in 2010-2020	Student facilities bonds issued in 2013-2022	Bookstore bonds issued in 2013
Purpose of debt	Construction and renovation of student housing and dining facilities	Construction and renovation of student activity and sports facilities	Bookstore remodel
Term of commitment	2026-2049	2028-2047	2034
Percentage of debt service to pledged revenues (current year)	59.86 %	58.04 %	— %

* Total future principal and interest payments.

Other Notes Payable

Total debt service requirements for other notes payable to maturity as of June 30, 2023, are as follows (expressed in thousands):

	Governmental Activities		Business-Type Activities		Totals	
Notes Payable	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**
By Fiscal Year:						
2024	$ 961	$ 34	$ —	$ —	$ 961	$ 34
2025	129	—	—	—	129	—
2026	115	—	—	—	115	—
Total	$ 1,205	$ 34	$ —	$ —	$ 1,205	$ 34

B. CERTIFICATES OF PARTICIPATION

Certificates of participation at June 30, 2023, 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, 2023, are as follows (expressed in thousands):

	Governmental Activities		Business-Type Activities		Totals	
Certificates of Participation	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**
By Fiscal Year:						
2024	$ 140,053	$ 46,111	$ 6,123	$ 2,016	$ 146,176	$ 48,127
2025	52,053	20,444	17,220	6,763	69,273	27,207
2026	50,243	17,869	16,621	5,912	66,864	23,781
2027	44,974	15,404	14,878	5,096	59,852	20,500
2028	36,454	13,461	12,060	4,453	48,514	17,914
2029-2033	123,110	46,478	40,727	15,376	163,837	61,854
2034-2038	93,852	22,041	31,048	7,291	124,900	29,332
2039-2043	34,231	5,672	11,324	1,876	45,555	7,548
2044-2048	4,235	286	1,402	94	5,637	380
Total Debt Service Requirements	$ 579,205	$ 187,766	$ 151,403	$ 48,877	$ 730,608	$ 236,643

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 May 10, 2023, the state issued $828.7 million in various purpose general obligation refunding bonds with an average interest rate of 5.00 percent to refund $936.0 million of various purpose general obligation bonds with an average interest rate of 4.48 percent. The refunding resulted in $127.2 million gross debt service savings over the next 15 years and an economic gain of $105.6 million.

Also on May 10, 2023, the state issued $514.4 million in motor vehicle fuel tax general obligation refunding bonds with an average interest rate of 5.00 percent to refund $586.9 million of motor vehicle fuel tax general obligation bonds with an average interest rate of 4.23 percent. The refunding resulted in $75.8 million gross debt service savings over the next 20 years and an economic gain of $55.1 million.

Certificates of Participation

On June 7, 2023, the state issued $1.1 million in refunding certificates of participation with an average interest rate of 5.00 percent to refund $1.3 million of certificates of participation with an average interest rate of 4.41 percent. The refunding resulted in a $92 thousand gross debt service savings over the next 10 years and a net present value savings of $83 thousand.

Current Year In-Substance Defeasances

Bonds

Governmental Activities
For the fiscal year ended June 30, 2023, the state deposited $3.2 million of existing resources into an irrevocable escrow account for the defeasance of debt service coming due in future fiscal years.

Business-Type Activities
For the fiscal year ended June 30, 2023, the state deposited $10.3 million of existing resources into an irrevocable escrow account for the defeasance of debt service coming due in future fiscal years.

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, 2023, $1.52 billion of general obligation bond debt outstanding is considered defeased.

Revenue Bond Debt

On June 30, 2023, $112.7 million of revenue bond debt outstanding is considered defeased.

Certificates of Participation Debt

On June 30, 2023, $1.4 million of certificates of participation debt outstanding is considered defeased.

D. CLAIMS AND JUDGMENTS

Claims and judgments are materially related to three activities: workers' compensation, risk management, and health insurance. Workers' compensation and health insurance are business-type activities, and risk management is a governmental activity. A description of the risks to which the state is exposed by these activities and the ways in which the state handles the risks are presented in Note 1.E.

Workers' Compensation

At June 30, 2023, $53.80 billion of unpaid claims and claim adjustment expenses are presented at their net present and settlement value of $39.67 billion. These claims are discounted at assumed interest rates of 1.5 percent for non-pension and cost of living adjustments, 5.6 percent for all self-insured pension annuities, and 4.0 percent for state fund pension annuities to arrive at a settlement value.

The claims and claim adjustment liabilities of $39.67 billion as of June 30, 2023, include $23.46 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.

The remaining claims liabilities of $16.21 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 2022 and 2023 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
2022	$ 34,582,309	6,763,887	(2,643,440)	$ 38,702,756
2023	$ 38,702,756	3,768,468	(2,799,764)	$ 39,671,460

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 and social factors.

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

As of June 30, 2023, outstanding and actuarially determined claims against the state and its agencies, with the exception of the University of Washington, including actuarially projected defense costs were $1.52 billion 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.

Changes in the balances of risk management claims liabilities during fiscal years 2022 and 2023 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
2022	$ 1,194,462	867,469	(481,502)	(24,331)	$ 1,556,098
2023	$ 1,556,098	178,467	(183,706)	(32,697)	$ 1,518,162

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, 2023, health insurance claims liabilities totaling $179.0 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 2022 and 2023 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
2022	$ 174,541	2,438,098	(2,371,405)	$ 241,234
2023	$ 241,234	2,590,412	(2,652,661)	$ 178,985

E. 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 38 projects in progress for which the state has recorded a liability of $159.4 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, 2023, the state has recorded a liability of $139.6 million for remaining project commitments.

Overall, the state has recorded a pollution remediation liability of $298.9 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.

F. ASSET RETIREMENT OBLIGATIONS

The state reports asset retirement obligations in accordance with GASB Statement No. 83. The liability reported is based on the best estimate, using all available evidence, of the current value of outlays expected to be incurred.

The state and its agencies have identified several legally enforceable liabilities associated with the retirement of tangible capital assets due to requirements included in state laws and contracts. The types of assets include nuclear radiation plants, communication towers, and medical equipment such as cyclotrons, magnetic resonance imaging machines, and tandem accelerators. The estimated remaining useful lives of the tangible capital assets range from 1-15 years.

The state has recorded an asset retirement obligation of $31.2 million, measured at its current value. The overall estimate is based on professional judgment, experience, and historical cost data.

The liability could change over time as new information becomes available as a result of changes in technology, legal or regulatory requirements, and types of equipment, facilities, or services that will be used to meet the obligation to retire the tangible capital assets. Additionally, the responsibilities and liabilities discussed in this disclosure are referenced solely in the accounting context for purposes of this disclosure.

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.

Some tangible capital assets have been identified as having a legally enforceable liability associated with the retirement of a tangible capital asset, but the liability is not yet reasonably estimable. Some examples include dams, sewer lagoons, waste ponds, and state owned communication towers. Estimates are not currently available as the state has no past experience decommissioning these types of assets, or the assets are maintained indefinitely so an estimated remaining useful life is unknown. Once the liability is reasonably estimable, the state will record a liability for the obligation.

G. LONG-TERM LIABILITY ACTIVITY

Long-term liability activity at June 30, 2023, 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 2023 is as follows (expressed in thousands):

Governmental Activities:	Beginning Balance July 1, 2022*	Additions	Reductions	Ending Balance June 30, 2023	Amounts Due Within One Year
Long-Term Debt:					
GO Bonds Payable:					
General obligation (GO) bonds	$ 20,519,125	$ 2,870,180	$ 2,615,515	$ 20,773,790	$ 1,118,730
GO - zero coupon bonds (principal)	191,300	—	27,072	164,228	27,229
Subtotal - GO bonds payable	20,710,425	2,870,180	2,642,587	20,938,018	1,145,959
Accreted interest - GO - zero coupon bonds	312,355	—	20,095	292,260	50,006
Revenue bonds payable	1,749,031	5,841	177,244	1,577,628	164,140
Plus: Unamortized premiums on bonds sold	2,970,379	421,796	240,605	3,151,570	—
Less: Deferred issuance discounts	(58)	—	—	(58)	—
Total Bonds Payable	25,742,132	3,297,817	3,080,531	25,959,418	1,360,105
Other Liabilities:					
Certificates of participation	629,793	46,067	96,655	579,205	140,053
Plus: Unamortized premiums on COPs sold	19,026	2,982	4,183	17,825	—
Claims and judgments payable	1,976,599	252,597	168,702	2,060,494	562,288
Installment contracts	906	—	138	768	137
Right-to-use lease liabilities	1,419,211	151,619	177,188	1,393,642	182,566
Subscription liabilities	130,317	217,094	74,069	273,342	93,867
Notes payable	1,801	339	935	1,205	961
Compensated absences	862,205	610,605	566,107	906,703	152,224
Net pension liability	834,391	1,824,898	1,336,437	1,322,852	—
Total OPEB liability	5,556,460	1,432,588	3,376,542	3,612,506	91,174
Pollution remediation obligations	230,095	79,343	10,492	298,946	—
Unclaimed property refunds	123,520	27,533	1,735	149,318	3,567
Asset retirement obligations	30,522	649	—	31,171	—
Other	408,091	150,427	108,742	449,776	52,812
Total Other Liabilities	12,222,937	4,796,741	5,921,925	11,097,753	1,279,649
Total Long-Term Debt	$ 37,965,069	$ 8,094,558	$ 9,002,456	$ 37,057,171	$ 2,639,754

*The beginning balances reflect prior period adjustments due to the implementation of GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, and leases that should have been previously recorded under GASB Statement No. 87, *Leases*, which resulted in an increase in right-to-use lease liabilities of $5.6 million and an increase in subscription liabilities of $130.3 million.

For governmental activities, certificates of participation are being repaid approximately 43.09 percent from the Higher Education Special Revenue Fund, 30.01 percent from the General Fund, and the balance from various other governmental funds. The claims and judgments liability will be liquidated approximately 73.68 percent by the Risk Management Fund, 11.17 percent by the Higher Education Revolving Fund (both are nonmajor internal service funds), and the balance by various other governmental funds. The right-to-use lease liability will be liquidated approximately 66.64 percent by the General Fund, 14.18 percent by the Higher Education Special Revenue Fund, and the balance by various other governmental funds. The subscription liabilities will be liquidated approximately 41.90 percent by the General Fund, 32.38 percent by the Human Services Special Revenue Fund (a nonmajor governmental fund), and the balance by various other governmental funds. The compensated absences liability will be liquidated approximately 45.24 percent by the General Fund, 33.03 percent by the Higher Education Special Revenue Fund, and the balance by various other governmental funds. The net pension liability will be liquidated approximately 49.41 percent by the General Fund, 33.06 percent by the Higher Education Special Revenue Fund, and the balance by various other governmental funds. The other post employment benefits liability will be liquidated approximately 49.43 percent by the General Fund, 30.12 percent by the Higher Education Special Revenue Fund, and the balance by various other governmental funds. The pollution remediation liability will be liquidated approximately 72.73 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 the future unclaimed property deposited to the General Fund. Installment contract obligations, notes payable, asset retirement obligations, and other liabilities will be repaid from various other governmental funds.

Long-term liability activity for business-type activities for fiscal year 2023 is as follows (expressed in thousands):

Business-Type Activities	Beginning Balance July 1, 2022*	Additions	Reductions	Ending Balance June 30, 2023	Amounts Due Within One Year
Long-Term Debt:					
Revenue bonds payable	$ 2,288,134	$ —	$ 62,149	$ 2,225,985	$ 170,966
Plus: Unamortized premiums on bonds sold	172,422	2,323	19,355	155,390	—
Total Bonds Payable	2,460,556	2,323	81,504	2,381,375	170,966
Other Liabilities:					
Certificates of participation	158,413	76	7,086	151,403	6,123
Plus: Unamortized premiums on COPs sold	24,972	—	1,414	23,558	—
Claims and judgments payable	39,125,110	2,915,703	1,796,939	40,243,874	2,859,565
Installment contracts	2,168	—	710	1,458	723
Lottery prize annuities payable	110,713	8,077	18,184	100,606	12,335
Tuition benefits payable	1,150,999	72,395	81,394	1,142,000	103,000
Right-to-use lease liabilities	256,894	100,993	67,373	290,514	38,936
Subscription liabilities	22,794	19,948	6,473	36,269	13,744
Notes payable	985	—	985	—	—
Compensated absences	126,299	57,649	50,486	133,462	93,653
Net pension liability	121,778	237,616	163,854	195,540	—
Total OPEB liability	910,880	299,230	577,211	632,899	15,973
Other	231,059	17,398	89,840	158,617	1,302
Total Other Liabilities	42,243,064	3,729,085	2,861,949	43,110,200	3,145,354
Total Long-Term Debt	$ 44,703,620	$ 3,731,408	$ 2,943,453	$ 45,491,575	$ 3,316,320

*The beginning balances reflect prior period adjustments due to the implementation of GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, and leases that should have been previously recorded under GASB Statement No. 87, *Leases*, which resulted in an increase in right-to-use lease liabilities of $3.4 million and an increase in subscription liabilities of $22.8 million.

Note 8
No Commitment Debt

The Washington State Housing Finance Commission, Washington Higher Education Facilities Authority, Washington Health Care Facilities Authority, and Washington Economic Development Finance Authority (financing authorities) were created by the Legislature.

For financial reporting purposes, they are discretely presented as component units. These financing authorities issue bonds and other debt for the purpose of making loans to qualified borrowers for capital acquisitions, construction, and related improvements.

The debt does not constitute either a legal or moral obligation of the state for these financing authorities, nor does the state or these financing authorities pledge their full faith and credit for the payment of such debt.

Debt service is payable solely from payments made by the borrowers pursuant to loan agreements. Due to their no commitment nature, the debt issued by these financing authorities is excluded from the state's financial statements.

The schedule below presents the June 30, 2023, balances for the "No Commitment" debt of the state's financing authorities (expressed in thousands):

Financing Authorities	Principal Balance
Washington State Housing Finance Commission	$ 7,132,884
Washington Health Care Facilities Authority	5,118,964
Washington Higher Education Facilities Authority	708,385
Washington Economic Development Finance Authority	1,018,460
Total No Commitment Debt	**$ 13,978,693**

Note 9

Conduit Debt

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 a 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, 2023, outstanding COP notes totaled $136.2 million for 137 local governments participating in the LOCAL program. The state estimates that the LOCAL program liability, if any, would be immaterial to its overall financial condition.

Note 10

Leases and Subscription-Based Information Technology Arrangements

A. LESSEE AND SBITA ACTIVITY

The state leases land, facilities, office equipment, and other assets under a variety of long-term, non-cancelable lease agreements. The state also has noncancellable subscription-based information technology arrangements (SBITAs) for the right to use information technology hardware and software.

Lease and subscription assets at June 30, 2023, are reported by the state of Washington within governmental activities and business-type activities, as applicable.

Lease and Subscription Assets

The following is a summary of governmental right-to-use lease and subscription asset activity for the year ended June 30, 2023 (expressed in thousands):

Governmental Activities	Balances July 1, 2022*	Additions	Deletions/ Adjustments	Balances June 30, 2023
Land lease assets	$ 435,544	$ 4	$ (9,666)	$ 425,882
Accumulated amortization	(32,665)	(9,880)	—	(42,545)
Net land lease assets	402,879			383,337
Building lease assets	1,441,711	169,346	(114,999)	1,496,058
Accumulated amortization	(520,639)	(182,290)	97,187	(605,742)
Net building lease assets	921,072			890,316
Equipment and other lease assets	44,411	522	(811)	44,122
Accumulated amortization	(18,678)	(8,270)	279	(26,669)
Net equipment and other lease assets	25,733			17,453
Subscription assets	162,609	232,185	(234)	394,560
Accumulated amortization	(9,833)	(83,232)	234	(92,831)
Net subscription assets	152,776			301,729
Governmental Activities Lease and Subscription Assets, Net	$ 1,502,460			$ 1,592,835

*The beginning balances reflect prior period adjustments due to the implementation of GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, and leases that should have been previously recorded under GASB Statement No. 87, *Leases*, which resulted in an increase in capital assets of $156.6 million and a decrease in accumulated amortization/depreciation of $1.7 million.

The following is a summary of business-type right-to-use lease and subscription asset activity for the year ended June 30, 2023 (expressed in thousands):

Business-Type Activities	Balances July 1, 2022*	Additions	Deletions/ Adjustments	Balances June 30, 2023
Building lease assets	$ 299,069	$ 30,880	$ (23,514)	$ 306,435
Accumulated amortization	(88,664)	(32,360)	22,155	(98,869)
Net building lease assets	210,405			207,566
Equipment and other lease assets	67,490	47,390	—	114,880
Accumulated amortization	(32,885)	(17,409)	—	(50,294)
Net equipment and other lease assets	34,605			64,586
Subscription assets	31,654	29,653	—	61,307
Accumulated amortization	(7,487)	(15,589)	(124)	(23,200)
Net subscription assets	24,167			38,107
Business-Type Activities Lease and Subscription Assets, Net	$ 269,177			$ 310,259

*The beginning balances reflect prior period adjustments due to the implementation of GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, and leases that should have been previously recorded under GASB Statement No. 87, *Leases*, which resulted in an increase in capital assets of $34.2 million and an increase in accumulated amortization/depreciation of $6.9 million.

Lease and Subscription Liabilities

The following schedule presents future annual lease payments for governmental and business-type activities as of June 30, 2023 (expressed in thousands):

	Governmental Activities		Business-Type Activities		Totals	
Right-to-Use Lease Agreements	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**
By Fiscal Year:						
2024	$ 182,566	$ 28,258	$ 38,936	$ 5,715	$ 221,502	$ 33,973
2025	151,201	27,580	51,229	4,779	202,430	32,359
2026	113,066	26,730	35,789	4,094	148,855	30,824
2027	88,034	24,937	33,127	3,534	121,161	28,471
2028	66,948	23,705	31,362	2,998	98,310	26,703
2029-2033	180,589	114,073	51,190	10,241	231,779	124,314
2034-2038	89,109	111,789	35,301	4,748	124,410	116,537
2039-2043	78,331	108,810	13,580	1,028	91,911	109,838
2044-2048	55,786	84,915	—	—	55,786	84,915
2049-2053	85,891	65,673	—	—	85,891	65,673
2054-2058	129,485	45,757	—	—	129,485	45,757
Thereafter	172,636	17,250	—	—	172,636	17,250
Total	$ 1,393,642	$ 679,477	$ 290,514	$ 37,137	$ 1,684,156	$ 716,614

The following schedule presents future annual SBITA payments for governmental and business-type activities as of June 30, 2023 (expressed in thousands):

	Governmental Activities		Business-Type Activities		Totals	
Subscription-Based IT Arrangements (SBITAs)	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**
By Fiscal Year:						
2024	$ 93,867	$ 8,586	$ 13,744	$ 622	$ 107,611	$ 9,208
2025	67,525	1,609	10,672	498	78,197	2,107
2026	50,963	918	7,270	297	58,233	1,215
2027	42,136	462	1,628	147	43,764	609
2028	16,010	142	1,325	104	17,335	246
2029-2033	2,841	59	1,630	169	4,471	228
Total	$ 273,342	$ 11,776	$ 36,269	$ 1,837	$ 309,611	$ 13,613

Variable payments, other than those payments that depend on an index or rate or are fixed in substance, and other payments that are not known or certain to be exercised are excluded from the measurement of the lease and subscription liabilities. During the fiscal year ending June 30, 2023, the state of Washington, recognized $99.3 million for variable and other lease payments not included in the measurement of the lease liability and $35.8 million for variable and other SBITA payments not included in the measurement of the subscription liability.

As of June 30, 2023, the state of Washington has four leases for facilities that have not yet commenced with lease payments due on an undiscounted basis of $153.7 million. These leases will commence in fiscal years 2024 and 2026, with lease terms ranging between 5 and 40 years.

As of June 30, 2023, the state of Washington has eight SBITAs that have not yet commenced with payments due on an undiscounted basis of $106.6 million. These SBITAs will commence in fiscal years 2024 and 2025, with subscription terms ranging between three and seven years.

B. LESSOR ACTIVITY

The state leases state-owned land, buildings, and communication towers to preserve land and generate revenue for public services. In addition, the state subleases office building space. The state of Washington records lease receivables and deferred inflows of resources based on the present value of expected receipts over the term of the respective leases. The expected receipts are discounted using the state's incremental borrowing rate.

During the fiscal year ending June 30, 2023, the amount recognized as lease revenue and lease interest was $51.5 million and $13.9 million, respectively.

Variable lease receipts, other than those that depend on an index or rate or are fixed in substance, are excluded from the measurement of the lease receivable. During the fiscal year ended June 30, 2023, the state of Washington, recognized revenue of $35.8 million for variable lease and other payments not included in the measurement of the lease receivable.

Note 11

Public-Private and Public-Public Partnerships

On January 9, 2017, the State Parks and Recreation Commission entered into an agreement with Daniels Real Estate, to design and construct improvements to the existing facility and operate and maintain the St. Edward's lodge for 62 years, setting and retaining lodge fees. In addition, Daniels Real Estate transferred land to the state in 2017, increasing the size of the lodge grounds. The construction was completed in 2018. The state has recognized capital assets for the land and building improvements and a deferred inflow of resources equal to the initial value of the capital assets. As of June 30, 2023, the land is valued at its historical cost of $1.5 million, the carrying value of the building improvements is $47.2 million, and the related deferred inflow of resources is $48.9 million.

On November 14, 2016, the Washington State Department of Transportation (WSDOT) entered into an agreement with King County to design, construct, operate, and maintain a passenger-only ferry terminal for 75 years at the Seattle Multimodal Terminal on the state's tidelands. The terminal's construction was completed in 2019. King County will set and retain fares and advertising revenue. The state has recognized a receivable for future payments from King County for the tidelands lease discounted by an interest rate of 1.51 percent and a related deferred inflow of resources. As of June 30, 2023, the receivable is $349 thousand and the deferred inflow of resources is $347 thousand. The ownership of the building will transfer to WSDOT at the end of the agreement, at which time the building is not expected to have any remaining value.

On July 1, 2021, Washington State University (WSU) entered into a 1,055-month agreement with CP Sagamore University Crossing, LLC to construct and manage student-oriented apartment complexes on the Pullman campus, known as University Crossing. The operator will set and retain fees. Construction was completed in 2023. As of June 30, 2023, the value of the receivable is $2.7 million for the future annual fixed payments the operator is required to make, discounted by an interest rate of 3.50 percent. The value of the related deferred inflow of resources as of June 30, 2023, is $2.4 million. The ownership of the building will transfer to WSU at the end of the agreement, at which time the building is not expected to have any remaining value.

On June 1, 2023, WSU entered into a 713-month agreement with Vineyard Apartments, LLC to build and manage student housing complexes on the Tri-Cities campus. The operator will set and retain fees. Construction was completed in 2018. As of June 30, 2023, the value of the receivable is $1.8 million for the future monthly fixed payments made by the operator, discounted by an interest rate of 4.44 percent. The value of the deferred inflow of resources as of June 30, 2023, is $1.8 million. The ownership of the building will transfer to WSU at the end of the agreement, at which time the building is not expected to have any remaining value.

Note 12
Deferred Outflows of Resources and Deferred Inflows of Resources

Deferred outflows of resources and deferred inflows of resources reported on the Statement of Net Position for governmental and business-type activities as of June 30, 2023, consisted of the following (expressed in thousands):

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Discrete Component Units
Deferred Outflows of Resources:				
Refundings of debt	$ 2,704	$ 25,031	$ 27,735	$ 11,805
Pensions	3,064,201	415,430	3,479,631	7,835
Other postemployment benefits	586,644	231,995	818,639	920
Asset retirement obligations	11,772	—	11,772	—
Hedging derivatives	232	—	232	—
Total Deferred Outflows of Resources	$ 3,665,553	$ 672,456	$ 4,338,009	$ 20,560
Deferred Inflows of Resources:				
Refundings of debt	$ 183	$ 128	$ 311	$ —
Pensions	3,085,070	351,709	3,436,779	6,595
Other postemployment benefits	3,002,635	499,516	3,502,151	3,402
Irrevocable split interest agreements	18,465	—	18,465	—
Right-to-use lease agreements	360,324	90,022	450,346	24,143
Public-private and public-public partnerships	49,242	—	49,242	—
Hedging derivatives	52	—	52	9,613
Other purposes	—	—	—	24,849
Total Deferred Inflows of Resources	$ 6,515,971	$ 941,375	$ 7,457,346	$ 68,602

Of the $3.06 billion of deferred outflows of resources related to pensions reported in governmental activities, $113.6 million is reported in the internal service funds.

Of the remaining $601.4 million of deferred outflows of resources reported in governmental activities, $35.9 million is reported in the internal service funds. This amount is comprised of $33.6 million related to other postemployment benefits and $2.3 million related to debt refunding.

Of the $3.09 billion of deferred inflows of resources related to pensions reported in governmental activities, $106.7 million is reported in the internal service funds.

Of the remaining $3.43 billion of deferred inflows of resources reported in governmental activities, $125.5 million is reported in the internal service funds. This amount is comprised of $125.4 million related to other postemployment benefits and $67 thousand related to debt refunding.

For both the governmental activities and business-type activities, pension and other postemployment benefits make up a significant portion of the deferred inflows of resources and the deferred outflows of resources. For more details on pension and other postemployment benefits, including deferred inflows of resources and deferred outflows of resources, refer to Note 15 and Note 16, respectively.

Under the modified accrual basis of accounting, governmental funds reported $3.96 billion in unavailable revenue as deferred inflows of resources, consisting primarily of taxes received more than 30 days after the close of the current fiscal year. For more details about the unavailable revenue, refer to Note 4.

Note 13

Governmental Fund Balances

A. GOVERNMENTAL FUNDS

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.10.

A summary of governmental fund balances at June 30, 2023, is as follows (expressed in thousands):

Fund Balances	General	Higher Education Special Revenue	Higher Education Endowment and Other Permanent Funds	Nonmajor Governmental Funds	Total
Nonspendable:					
Permanent funds	$ —	$ —	$ 3,234,347	$ 221,845	$ 3,456,192
Consumable inventories and prepaids	18,929	51,634	—	67,086	137,649
Other receivables – long-term	41,539	—	—	—	41,539
Total Nonspendable Fund Balance	$ 60,468	$ 51,634	$ 3,234,347	$ 288,931	$ 3,635,380
Restricted for: *					
Higher education	$ —	$ 40,076	$ 2,065,726	$ —	$ 2,105,802
Education	—	—	18,495	59,997	78,492
Transportation	—	—	—	2,068,085	2,068,085
Other purposes	30	—	—	3,707	3,737
Human services	—	—	—	767,967	767,967
Wildlife and natural resources	4,872	—	1	1,358,318	1,363,191
Local grants and loans	34,847	—	—	41	34,888
School construction	38	—	—	370,607	370,645
Budget stabilization	652,375	—	—	—	652,375
Debt service	—	—	—	46,016	46,016
Pollution remediation	—	—	—	52,649	52,649
Operations and maintenance	—	—	—	11,856	11,856
Repair and replacement	—	—	—	40,561	40,561
Revenue stabilization	—	—	—	28,353	28,353
Deferred sales tax	—	—	—	9,000	9,000
Third tier debt service	—	—	—	3,182	3,182
Fourth tier debt service	—	—	—	1,968	1,968
Total Restricted Fund Balance	$ 692,162	$ 40,076	$ 2,084,222	$ 4,822,307	$ 7,638,767
Committed for:					
Higher education	$ 310,446	$ 5,670,645	$ —	$ 23,562	$ 6,004,653
Education	885	—	—	10,065	10,950
Transportation	—	—	—	1,122,765	1,122,765
Other purposes	175,612	—	—	673,604	849,216
Human services	2,592,597	—	—	1,531,479	4,124,076
Wildlife and natural resources	49,346	—	—	1,766,462	1,815,808
Local grants and loans	236,341	—	—	800,854	1,037,195
State facilities	—	—	—	38,228	38,228
Debt service	—	—	—	343,797	343,797
Total Committed Fund Balance	$ 3,365,227	$ 5,670,645	$ —	$ 6,310,816	$ 15,346,688
Assigned for:					
Working capital	$ 1,862,952	$ 109,939	$ —	$ —	$ 1,972,891
Total Assigned Fund Balance	$ 1,862,952	$ 109,939	$ —	$ —	$ 1,972,891

*Net position restricted as a result of enabling legislation totaled $7.2 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, 2023, the Budget Stabilization Account had restricted fund balance of $652.4 million.

Note 14
Deficit Net Position

Risk Management Fund

The Risk Management Fund, an internal service fund, had a deficit net position of $1.56 billion at June 30, 2023. 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, 2023 (expressed in thousands):

Risk Management Fund	Net Position
Net Position - Beginning	$ (1,787,082)
Change in Net Position	222,284
Net Position - Ending	$ (1,564,798)

Lottery Fund

The Lottery Fund, an enterprise fund, had a deficit net position of $26.8 million at June 30, 2023. The Lottery Fund is primarily used to record lottery ticket revenues and to account for activities such as administrative and operating expenses of the Lottery Commission and the distribution of revenues.

The Lottery Fund is supported by operating revenue which is comprised of sales from Draw and Scratch games, as well as administration fees charged to retailers. Operating expenses include cost of sales and administrative expenses.

The Lottery Fund is statutorily required to distribute the majority of its net income to fund education.

The implementation of Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions* and Statement No. 75, *Accounting and Financial Reporting for Other Postemployment Benefits Other Than Pensions* required the assignment of the state's proportionate share of these liabilities to each fund. Recording these unfunded liabilities resulted in deficit net position.

The following schedule details the change in net position for the Lottery Fund during the fiscal year ended June 30, 2023 (expressed in thousands):

Lottery Fund		Net Position
Net Position - Beginning	$	(22,232)
Change in Net Position		(4,578)
Net Position - Ending	$	(26,810)

Note 15

Retirement Plans

A. GENERAL

Washington's pension plans were created by statutes rather than through trust documents. They are administered in a way equivalent to pension trust arrangements as defined by the Governmental Accounting Standards Board (GASB).

In accordance with GASB 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, 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 for the state as an employer, for fiscal year 2023 (expressed in thousands):

Aggregate Pension Amounts - All Plans		
Pension liabilities	$	1,518,392
Pension assets	$	(5,581,494)
Deferred outflows of resources on pensions	$	3,479,633
Deferred inflows of resources on pensions	$	3,436,780
Pension expense/expenditures	$	(142,997)

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.

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 3 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 Firefighters' 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 (JRF)
  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 JRF plans is funded by means of legislative appropriations.

Pursuant to RCW 41.50.770, the state offers its employees and employees of 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 GASB Statement No. 67. Copies of the report may be obtained by contacting the Washington State Department of Retirement Systems, PO Box 48380, Olympia, WA 98504-8380 or online at: DRS Annual Financial Reports.

State Board for Volunteer Firefighters' and Reserve Officers. As established in chapter 41.24 RCW, the State Board for Volunteer Firefighters' and Reserve Officers administers the Volunteer Firefighters' and Reserve Officers' Relief and Pension Fund (VFFRPF), a defined benefit plan. Administration of the 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 (funded on a pay-as-you-go basis) which is administered by the state.

The state has elected to use the current fiscal year end as the measurement date for reporting net pension liabilities for the Higher Education Supplemental Retirement Plan.

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.

Plan Descriptions

Public Employees' Retirement System. 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 Court, Court of 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 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 2.

Refer to Note 15.E for a description of the defined contribution component of PERS Plan 3.

Teachers' Retirement System. 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 Plan 1 members. 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 2.

Refer to Note 15.E for a description of the defined contribution component of TRS Plan 3.

Law Enforcement Officers' and Firefighters'. The Law Enforcement Officers' and Firefighters' 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 the exception of Department of Fish and Wildlife enforcement officers who were included effective July 27, 2003.

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.

Public Safety Employees' Retirement System. The Public Safety Employees' Retirement System (PSERS) was created by the 2004 Legislature and became effective July 1, 2006. PSERS retirement benefit provisions are established 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.

Washington State Patrol Retirement System. 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 15.B.3.

Judicial Retirement System. The Judicial Retirement System (JRS) was established by the Legislature in 1971. The 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.

The 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 15.B.3.

Judges' Retirement Fund. The Judges' Retirement Fund (JRF) 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 JRF 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 15.B.3.

Benefits Provided

PERS. 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.

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.

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. 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. 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.

TRS. 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 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. 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.

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. 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 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.

PERS and TRS Judicial Benefit Multiplier: The Judicial Benefit Multiplier (JBM) 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 employment. Beginning January 1, 2007, any justice or judge who was in a judicial position at that time could choose 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 Plan 1 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.

LEOFF. 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%

Other benefits include a cost of living adjustment (COLA).

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 at least 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 Plan 2 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.

PSERS. 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, or at age 53 with 20 years of service. A cost of living allowance 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.

WSPRS. WSPRS plans provide retirement, disability, and death benefits to eligible members.

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. Inactive members can retire at age 60 or at age 55 with a reduced benefit to account for the receipt of benefits over a longer period of time.

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.

JRS. The 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 are age 60 or older, left office involuntarily with 12 years of service credit, and at least 15 years have passed since the beginning of the initial term. 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+	3.50%
10-14	3.00%

JRF. The JRF provides disability and retirement benefits to eligible members. The system was closed to new entrants on August 8, 1971, with new judges joining the JRS.

Members are eligible to receive a full retirement allowance at age 70 with 10 years of credited service, or at any age with 18 years of credited service. Members are eligible to receive a partial retirement allowance after 12 years of credited service as a judge.

Contributions

PERS, TRS, PSERS, WSPRS: Defined benefit retirement benefits are financed from a combination of investment earnings and employer and/or employee contributions.

PERS Plan 1 and TRS Plan 1 member contribution rates are established in statute. PERS Plan 2/3 and TRS Plans 2/3 employer and employee contribution rates are developed by the Office of the State Actuary (OSA) to fully fund Plan 2 and the defined benefit portion of Plan 3. PSERS Plans 2 and WSPRS Plan 1/2 employer and employee contribution rates are also developed by the OSA to fully fund the plans.

Each biennium, the state Pension Funding Council adopts employer contribution rates for PERS Plan 1 and 3 and for TRS Plan 1 and 3; employee and employer contribution rates for PERS Plan 2, TRS Plan 2, and PSERS Plan 2; and employee and state contribution rates for WSPRS Plans 1 and 2.

The methods used to determine contribution requirements are established under statute and are subject to change by the Legislature.

PERS and 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.

Upon separation from covered employment, members can elect to withdraw total employee contributions and interest thereon, in lieu of any retirement benefit.

Required contribution rates for fiscal year 2023 are presented in the table in Note 15.B.3.

LEOFF: 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 (OSA) to fully fund the plans. Starting on July 1, 2000, LEOFF Plan 1 employers and employees are not required to contribute as long as the plan remains fully funded. LEOFF 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 LEOFF Plan 2 in accordance with the recommendations of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. For fiscal year 2023, the state contributed $88.0 million to LEOFF Plan 2.

Required contribution rates for fiscal year 2023 are presented in the table in Note 15.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 15.B.2 for nonemployer contributing entity disclosures.

JRS and JRF: The JRS and JRF have no active members; therefore, no employer or employee contributions are required. The state guarantees the solvency of the JRS and JRF on a pay-as-you-go basis from a combination of investment earnings and funding from the state.

Past contributions were made based on rates set in statute. By statute, JRF employees were required to contribute 6.5 percent of covered payroll with an equal amount contributed by the state. JRS employees were required to contribute 7.5 percent of covered payroll with an equal amount contributed by the state.

Each biennium, the Legislature, through appropriations from the state General Fund, contributes amounts sufficient to meet the benefit payment requirements. For fiscal year 2023 the state contributed $300 thousand for JRF and $6.7 million for JRS.

Actuarial Assumptions

PERS, TRS, LEOFF, PSERS, and WSPRS: The total pension liability was determined by an actuarial valuation as of June 30, 2021, with the results rolled forward to the June 30, 2022, measurement date using the following actuarial assumptions applied to all periods included in the measurement:

Inflation	2.75 %
Salary increases	3.25 %
Investment rate of return	7.00 %

Mortality rates were developed using the Society of Actuaries' Pub. H-2010 mortality rates which vary by member status (e.g. active, retiree, or survivor), as the base table. The Office of the State Actuary (OSA) applied age offsets for each system, as appropriate, to better tailor the mortality rates to the demographics of each plan. OSA applied the long-term MP-2017 generational improvement scale, also developed by the Society of Actuaries, to project mortality rates for every year after the 2010 base table. Under "generational" mortality, a member is assumed to receive additional mortality improvements in each future year throughout their lifetime.

The actuarial assumptions used in the June 30, 2021, valuation were based on the results of the 2013-2018 Demographic Experience Study Report and the 2021 Economic Experience Study. Additional assumptions for subsequent events and law changes are current as of the 2021 actuarial valuation report.

The 7.00 percent 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 Washington State Investment Board (WSIB). Refer to the 2021 Report on Financial Condition and Economic Experience Study located on the OSA website for additional information and background on the development of the long-term rate of return assumption.

The WSIB's Capital Market Assumptions (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.

The WSIB uses the CMAs and their target asset allocation to simulate future investment returns over various time horizons.

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, 2021, are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Fixed income	20 %	1.5 %
Tangible assets	7 %	4.7 %
Real estate	18 %	5.4 %
Global equity	32 %	5.9 %
Private equity	23 %	8.9 %
Total	100 %	

The inflation component used to create the above table is 2.20 percent, and represents the WSIB's most recent long-term estimate of broad economic inflation.

JRS and JRF: JRS and JRF are excluded from the actuarial valuations performed by OSA due to their small, closed populations and the plans have no remaining active members.

Mortality rates for JRS and JRF are consistent with those used for members of PERS. Members of JRF do not receive a COLA and the JRS COLA assumption is based on a national, instead of local, CPI measure. A 2.75 percent national annual inflation is assumed for the JRS COLA.

Discount rate

PERS, TRS, LEOFF, PSERS, and WSPRS: The discount rate used to measure the total pension liability was 7.00 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.

Based on the assumptions in OSA's Certification Letter, 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 7.00 percent on pension plan investments was applied to determine the total pension liability.

PERS Plan 2/3, PSERS Plan 2, and SERS Plan 2/3 employers' rates include a component for the PERS Plan 1 liability. TRS Plan 2/3 rates include a component for TRS Plan 1 liability.

JRS and JRF: Contributions are made to ensure cash is available to make benefit payments. Since these plans are 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 3.54 percent for the June 30, 2022, measurement date.

Refer to the table in Note 15.B.3 for the change in net pension liability.

Pension Expense

The state recognized the following pension expense for the year ended June 30, 2023 (expressed in thousands):

Pension Expense	
Plans	
PERS Plan 1	$ 508,782
PERS Plan 2/3	(614,398)
TRS Plan 1	14,104
TRS Plan 2/3	(438)
LEOFF Plan 2	2,438
PSERS Plan 2	13,089
WSPRS	(24,001)
JRS	(3,510)
JRF	81

Collective Net Pension Liability/(Asset)

PERS, TRS, LEOFF and PSERS: The following presents the state's proportionate share of the collective net pension liability/(asset), the state's proportionate share percentage, and the change in proportionate share as of June 30, 2023 (expressed in thousands):

	PERS Plan 1	PERS Plan 2/3	TRS Plan 1	TRS Plan 2/3	LEOFF Plan 2	PSERS Plan 2
Proportionate share of the collective net pension liability/(asset)	$ 1,174,475	$ (1,891,211)	$ 24,942	$ (2,577)	$ (20,285)	$ (46,868)
State's proportion	42.18%	50.99%	1.31%	1.31%	0.75%	65.55%
Increase/(decrease)	-1.17%	-0.26%	—%	0.03%	-0.05%	-1.03%

Net Pension Liability/(Asset)

WSPRS, JRS, and JRF: The following presents the state's net pension liability/(asset) as of June 30, 2023 (expressed in thousands):

	WSPRS	JRS	JRF
Proportionate share of the collective net pension liability/(asset)	$ (52,937)	$ 51,257	$ (92)

Sensitivity of the Net Pension Liability/(Asset) to Changes in the Discount Rate

PERS, TRS, LEOFF, PSERS, and WSPRS: The following presents the net pension liability/(asset) of the state as an employer, calculated using the discount rate of 7.00 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 (6.00 percent) or 1 percentage point higher (8.00 percent) than the current rate (expressed in thousands):

	Net Pension Liability/(Asset)		
Plans	**1% Decrease**	**Current Discount Rate**	**1% Increase**
PERS Plan 1	$ 1,569,082	$ 1,174,475	$ 830,075
PERS Plan 2/3	2,227,148	(1,891,211)	(5,274,703)
TRS Plan 1	33,868	24,942	17,139
TRS Plan 2/3	46,695	(2,577)	(42,635)
LEOFF Plan 2	(934)	(20,285)	(36,122)
PSERS Plan 2	111,633	(46,868)	(171,961)
WSPRS	189,750	(52,937)	(249,387)

JRS and JRF: The following presents the net pension liability/(asset) of the state as an employer, calculated using the discount rate of 3.54 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 (2.54 percent) or 1 percentage point higher (4.54 percent) than the current rate (expressed in thousands):

	Net Pension Liability/(Asset)		
Plans	**1% Decrease**	**Current Discount Rate**	**1% Increase**
JRS	$ 55,781	$ 51,257	$ 47,282
JRF	(56)	(92)	(126)

Deferred Outflows of Resources and Deferred inflows of Resources Related to Pensions

PERS, TRS, LEOFF, PSERS, WSPRS, JRS, and JRF: For the year ended June 30, 2023, the state 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	—	194,646
Change in proportion	—	—
State contributions subsequent to the measurement date	292,716	—
Total	$ 292,716	$ 194,646

PERS Plan 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 468,598	$ 42,812
Changes of assumptions	1,054,089	275,998
Net difference between projected and actual earnings on pension plan investments	—	1,398,186
Change in proportion	20,749	—
State contributions subsequent to the measurement date	450,468	—
Total	$ 1,993,904	$ 1,716,996

TRS Plan 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ —	$ —
Changes of assumptions	—	—
Net difference between projected and actual earnings on pension plan investments	—	4,470
Change in proportion	—	—
State contributions subsequent to the measurement date	7,818	—
Total	$ 7,818	$ 4,470

TRS Plan 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 12,842	$ 259
Changes of assumptions	14,520	1,579
Net difference between projected and actual earnings on pension plan investments	—	13,632
Change in proportion	1,908	110
State contributions subsequent to the measurement date	9,649	—
Total	$ 38,919	$ 15,580

LEOFF Plan 2	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 4,820	$ 188
Changes of assumptions	5,139	1,766
Net difference between projected and actual earnings on pension plan investments	—	6,794
Change in proportion	147	109
State contributions subsequent to the measurement date	1,674	—
Total	$ 11,780	$ 8,857

PSERS Plan 2	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 24,348	$ 516
Changes of assumptions	34,408	13,747
Net difference between projected and actual earnings on pension plan investments	—	32,869
Change in proportion	1,765	228
State contributions subsequent to the measurement date	33,507	—
Total	$ 94,028	$ 47,360

WSPRS Plan 1/2	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 31,131	$ 1,507
Changes of assumptions	80,795	2,611
Net difference between projected and actual earnings on pension plan investments	—	84,054
Change in proportion	—	—
State contributions subsequent to the measurement date	20,863	—
Total	$ 132,789	$ 88,172

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	254	—
Change in proportion	—	—
State contributions subsequent to the measurement date	6,700	—
Total	$ 6,954	$ —

JRF	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	37	—
Change in proportion	—	—
State contributions subsequent to the measurement date	300	—
Total	$ 337	$ —

The amounts reported in the tables above 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, 2024.

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense in the fiscal years ended June 30 (expressed in thousands):

PERS Plan 1		
2024	$	(82,370)
2025	$	(74,813)
2026	$	(93,851)
2027	$	56,388
2028	$	—
Thereafter	$	—

PERS Plan 2/3		
2024	$	(423,719)
2025	$	(378,602)
2026	$	(462,707)
2027	$	643,039
2028	$	226,608
Thereafter	$	221,821

TRS Plan 1		
2024	$	(1,895)
2025	$	(1,723)
2026	$	(2,167)
2027	$	1,315
2028	$	—
Thereafter	$	—

TRS Plan 2/3		
2024	$	(2,359)
2025	$	(1,785)
2026	$	(2,991)
2027	$	7,877
2028	$	3,309
Thereafter	$	9,639

LEOFF Plan 2		
2024	$	(2,128)
2025	$	(1,844)
2026	$	(2,456)
2027	$	2,935
2028	$	841
Thereafter	$	3,901

PSERS Plan 2		
2024	$	(10,501)
2025	$	(9,133)
2026	$	(11,914)
2027	$	16,101
2028	$	4,355
Thereafter	$	24,253

WSPRS Plan 1/2		
2024	$	(12,172)
2025	$	(7,863)
2026	$	(17,095)
2027	$	47,403
2028	$	13,481
Thereafter	$	—

JRS		
2024	$	100
2025	$	77
2026	$	49
2027	$	28
2028	$	—
Thereafter	$	—

JRF		
2024	$	14
2025	$	11
2026	$	8
2027	$	4
2028	$	—
Thereafter	$	—

2. DRS Plans - Nonemployer Contributing Entity Disclosures

For fiscal year 2023, 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 15.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, 2022, 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 2022, 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, 2022, measurement date. In this plan, the state is an employer and 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 four percent of payroll. For fiscal year 2022, the nonemployer contributing entity's proportionate share of the net pension asset was considered substantial at 39.31 percent based on total plan contributions received in fiscal year 2022.

Collective Net Pension Liability/(Asset). The following presents the proportionate share of the collective net pension liability/(asset), the proportionate share percentage, and the change in proportionate share of the state as a nonemployer contributing entity as of June 30, 2023 (expressed in thousands).

	LEOFF Plan 1	LEOFF Plan 2
Proportionate share of the collective net pension liability/(asset)	$ (2,499,136)	$ (1,068,387)
State's proportion	87.12%	39.31%
Increase/(decrease)	—%	0.10%

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 2022 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 7.00 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 (6.00 percent) or 1 percentage point higher (8.00 percent) than the current rate (expressed in thousands):

LEOFF Plan 1 Nonemployer Contributing Entity Proportionate Share of Net Pension Liability/(Asset)	
1% decrease	$ (2,190,083)
Current discount rate	$ (2,499,136)
1% increase	$ (2,767,132)

LEOFF Plan 2 Nonemployer Contributing Entity Proportionate Share of Net Pension Liability/(Asset)	
1% decrease	$ (49,198)
Current discount rate	$ (1,068,387)
1% increase	$ (1,902,507)

Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions. For the year ended June 30, 2023, the state as a nonemployer contributing entity recognized $(114.6) million pension expense for LEOFF Plan 1 and $128.4 million pension expense for LEOFF Plan 2.

At June 30, 2023, the state as a 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	—	312,051
Change in proportion	—	—
State contributions subsequent to the measurement date	1	—
Total	$ 1	$ 312,051

LEOFF Plan 2	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 253,867	$ 9,913
Changes of assumptions	270,653	93,027
Net difference between projected and actual earnings on pension plan investments	—	357,738
Change in proportion and difference between state contributions and proportionate share of contributions	7,732	5,750
State contributions subsequent to the measurement date	88,177	—
Total	$ 620,429	$ 466,428

The amounts reported in the tables above 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, 2024.

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		
2024	$	(132,163)
2025	$	(119,665)
2026	$	(149,627)
2027	$	89,404
2028	$	—
Thereafter	$	—

LEOFF Plan 2		
2024	$	(112,072)
2025	$	(97,109)
2026	$	(129,330)
2027	$	154,591
2028	$	44,269
Thereafter	$	205,475

3. Tables for Plans Administered by the Department of Retirement Systems

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, 2022, 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	1,309	69	242	1,620
WSPRS 2	5	103	674	782
JRS	75	—	—	75
JRF	9	—	—	9
Total	1,398	172	916	2,486

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, 2021, the date of the latest actuarial valuation for all plans, with the results rolled forward to the June 30, 2022, measurement date (expressed in thousands):

Change in Net Pension Liability/(Asset)	WSPRS	JRS	JRF
TOTAL PENSION LIABILITY			
Service cost	$ 23,826	$ —	$ —
Interest	109,690	1,447	28
Changes of benefit terms	—	—	—
Differences between expected and actual experience	27,795	1,942	156
Changes of assumptions	98,031	(6,860)	(93)
Benefit payments, including refunds of member contributions	(80,893)	(7,053)	(247)
Net Change in Total Pension Liability	178,449	(10,524)	(156)
Total Pension Liability--Beginning	1,498,199	70,493	1,404
Total Pension Liability--Ending	$ 1,676,648	$ 59,969	$ 1,248
PLAN FIDUCIARY NET POSITION			
Contributions--employer	$ 19,284	$ 7,100	$ 300
Contributions--employee	11,872	—	—
Net investment income	3,811	49	6
Benefit payments, including refunds of member contributions	(80,893)	(7,053)	(247)
Administrative expense	(49)	(4)	—
Other	696	—	—
Net Change in Plan Fiduciary Net Position	(45,279)	92	59
Plan Fiduciary Net Position--Beginning	1,774,864	8,620	1,281
Plan Fiduciary Net Position--Ending	$ 1,729,585	$ 8,712	$ 1,340
Plan's Net Pension Liability/(Asset)--Beginning	$ (276,665)	$ 61,873	$ 123
Plan's Net Pension Liability/(Asset)--Ending	$ (52,937)	$ 51,257	$ (92)

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 fiscal year 2023 were as follows:

Required Contribution Rates	Employer			Employee		
	Plan 1	Plan 2	Plan 3[1]	Plan 1	Plan 2	Plan 3
PERS						
Employees Not Participating in JBM						
State agencies, local governmental units	6.36 %	6.36 %	6.36 %	6.00 %	6.36 %	varies[2]
Administrative fee	0.18 %	0.18 %	0.18 %			
PERS Plan 1 UAAL[3]	3.85 %	3.85 %	3.85 %			
Total	10.39 %	10.39 %	10.39 %			
State govt elected officials	9.54 %	6.36 %	6.36 %	7.50 %	6.36 %	varies[2]
Administrative fee	0.18 %	0.18 %	0.18 %			
PERS Plan 1 UAAL[3]	5.78 %	3.85 %	3.85 %			
Total	15.50 %	10.39 %	10.39 %			
Employees Participating in JBM						
State agencies	8.86 %	8.86 %	8.86 %	9.76 %	13.40 %	7.50%[4]
Administrative fee	0.18 %	0.18 %	0.18 %			
PERS Plan 1 UAAL[3]	3.85 %	3.85 %	3.85 %			
Total	12.89 %	12.89 %	12.89 %			
Local governmental units	6.36 %	6.36 %	6.36 %	12.26 %	15.90 %	7.50%[4]
Administrative fee	0.18 %	0.18 %	0.18 %			
PERS Plan 1 UAAL[3]	3.85 %	3.85 %	3.85 %			
Total	10.39 %	10.39 %	10.39 %			
TRS						
Employees Not Participating in JBM						
State agencies, local governmental units	8.05 %	8.05 %	8.05 %	6.00 %	8.05 %	varies[2]
Administrative fee	0.18 %	0.18 %	0.18 %			
TRS Plan 1 UAAL[5]	6.46 %	6.46 %	6.46 %			
Total	14.69 %	14.69 %	14.69 %			
State govt elected officials	8.05 %	8.05 %	8.05 %	7.50 %	8.05 %	varies[2]
Administrative fee	0.18 %	0.18 %	0.18 %			
TRS Plan 1 UAAL[5]	6.46 %	6.46 %	6.46 %			
Total	14.69 %	14.69 %	14.69 %			
Employees Participating in JBM						
State agencies	8.05 %	N/A	N/A	9.76 %	N/A	N/A
Administrative fee	0.18 %	N/A	N/A			
TRS Plan 1 UAAL[5]	6.46 %	N/A	N/A			
Total	14.69 %					
LEOFF						
Ports and universities	N/A	8.53 %	N/A	N/A	8.53 %	N/A
Administrative fee	0.18 %	0.18 %	N/A			
Total	0.18 %	8.71 %				
Local governmental units	N/A	5.12 %	N/A	N/A	8.53 %	N/A
Administrative fee	0.18 %	0.18 %	N/A			
Total	0.18 %	5.30 %				
State of Washington	N/A	3.41 %	N/A	N/A	N/A	N/A
WSPRS						
State agencies	17.66 %	17.66 %	N/A	8.61 %	8.61 %	N/A
Administrative fee	0.18 %	0.18 %	N/A			
Total	17.84 %	17.84 %				
PSERS						
State agencies, local governmental units	N/A	6.60 %	N/A	N/A	6.60 %	N/A
Administrative fee	N/A	0.18 %	N/A			
PSERS Plan 1 UAAL[3]	N/A	3.85 %	N/A			
Total		10.63 %				

1. Plan 3 defined benefit portion only
2. Variable from 5% to 15% based on rate selected by the member
3. Portion of the employer contribution rates of PERS and PSERS plans to fund the Unfunded Actuarial Accrued Liability (UAAL) of PERS plan 1
4. Minimum rate
5. Portion of the employer contribution rate of TRS plans to fund the UAAL of TRS plan 1

N/A indicates data not applicable.

C. PLAN ADMINISTERED BY THE STATE BOARD FOR VOLUNTEER FIREFIGHTERS AND RESERVE OFFICERS

Volunteer Firefighters' and Reserve Officers' Relief and Pension Fund

Plan Description. The Volunteer Firefighters' 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 Firefighters' 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 Firefighters 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, 2023, there were approximately 362 municipalities contributing to the plan.

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, 2020, VFFRPF membership consisted of the following:

Plan Membership	
Inactive plan members or beneficiaries currently receiving benefits	4,669
Inactive plan members entitled to but not yet receiving benefits	6,148
Active plan members*	8,244
Total membership	19,061

**Does not include 1,661 active plan members who have chosen not to join the pension plan.*

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.

Normal retirement is available at the age of 65 with at least ten years of membership service. The monthly plan benefit formula is $50 plus $10 times the number of years the member made pension contributions times a membership service percentage. The maximum monthly pension benefit is $300. Reduced pensions are available for members beginning at the age of 60 with at least 10 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 an amount 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, 2023.

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 2023, the fire insurance premium tax contribution was $4.1 million.

The municipality rate for emergency medical service districts (EMSD) and law enforcement agencies is set each year by the State Board for Volunteer Firefighters 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 calendar year 2023 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.

The VFFRPF invests in a global equity Collective Investment Trust Fund operated by a trust company that groups assets contributed into a commingled investment fund. In addition, the VFFRPF invests in the Daily Valued Bond Fund managed by the WSIB.

Further information about the VFFRPF investment balances is included in the plan specific sections of the WSIB financial statements and can be found at: Annual Reports .

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, 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. The money-weighted rates of return are provided by the WSIB and OST. For the year ended June 30, 2023, the annual money-weighted rate of return on VFFRPF investments, net of pension plan investment expense, was 12.1 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, 2023, were as follows (dollars expressed in thousands):

Pension Liability	
Total pension liability	$ 257,222
Plan fiduciary net position	237,291
Participating municipality net pension liability/ (asset)	$ 19,931
Plan fiduciary net position as a percentage of the total pension liability	92.25%

Actuarial Assumptions. The VFFRPF has a long-term expected rate of return of 6.00 percent. For further details, see the *2022 VFF Economic Experience Study.*

Inflation	2.25 %
Salary increases	N/A
Investment rate of return	6.00 %

The mortality assumptions used for this plan are consistent with assumptions used for the Public Employees' Retirement System.

The actuarial assumptions used in the June 30, 2021, valuation were based on the results of the 2021 Pension Experience Study, the 2021 Report on Financial Condition and Economic Experience Study, and the 2018 Relief Experience Study.

The OSA selected a 6.00 percent long-term expected rate of return on the WSIB pension plan investments using a building-block method. In selecting this assumption, OSA reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered Capital Market Assumptions (CMAs) and simulated expected investment returns provided by the WSIB.

In fiscal year 2022, WSIB established a new set of CMAs as well as a new target asset allocation for VFFRPF. Collectively, this represents the expected asset performance and their weighting.

Best estimates of arithmetic real rates of return for each asset class included in the pension plan's target asset allocation as of June 30, 2023, are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global/Public Equity	70%	8.1%
Fixed income	30%	3.5%
Total	100%	

The inflation component used to create the above table is 2.25 percent, and represents the WSIB's most recent long-term estimate of broad economic inflation.

For additional information and background on the OSA's development of the long-term rate of return assumptions, refer to the 2021 Report on Financial Condition and Economic Experience Study located on the OSA website. The selection of this assumption and economic experience studies are further detailed in the Department of Retirement Systems (DRS) Annual Comprehensive Financial Report's actuarial certification letter found on the DRS website.

Discount Rate. The discount rate used to measure the total pension liability was 6.00 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. Based on the assumptions in OSA's Actuarial Certification Letter, 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 6.00 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 6.00 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 (5.00 percent) or 1 percentage point higher (7.00 percent) than the current rate (expressed in thousands):

Municipalities' Net Pension Liability/(Asset)		
1% decrease	$	50,913
Current discount rate	$	19,931
1% increase	$	(5,459)

D. HIGHER EDUCATION RETIREMENT PLAN SUPPLEMENTAL DEFINED BENEFIT PLANS

Plan Description. Higher Education Retirement Plans are privately administered single-employer defined contribution plans with a supplemental defined benefit plan component which guarantees a minimum retirement benefit based upon a one-time calculation at each employee's retirement date. 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. RCW 41.50.075, effective fiscal year 2021, created separate Supplemental Retirement Plan (SRP) funds by institution that met the definition of a trust or equivalent arrangements. As a result, fiscal year 2021 was the first year these plans were reported under GASB Statement No. 67/68. Prior to this, the SRP's were reported under GASB Statement No. 73.

The state and regional universities, the state college, the state community and technical colleges, and the Student Achievement Council each participate in a separate plan. As authorized by chapter 28B.10 RCW, the plans cover faculty and other positions as designated by each participating employer.

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.

The Higher Education Defined Contribution Retirement Plans are described in Note 15.E.

Benefits Provided. The Higher Education Supplemental Retirement Plans (SRP) provide retirement, disability, and death benefits to eligible members.

As of July 1, 2011, all Higher Education SRPs were closed to new entrants.

Members are eligible to receive benefits under this plan at age 62 with 10 years of service. The supplemental benefit is a lifetime benefit equal to the amount a member's goal income exceeds their assumed income. The goal income is equal to 2 percent of the member's highest two-year average annual salary multiplied by the number of years of service. Benefit service is capped at 25 years. The member's assumed income is an annuity benefit the retired member would receive had they invested their contribution equally between a fixed income and a variable income annuity investment. Plan members have the option to retire early with reduced benefits.

Actuarial Assumptions. For the total pension liability (TPL), we relied on a valuation date of January 1, 2023, and projected the TPL to the measurement date of June 30, 2023.

The total salary growth, based on the August 2021 Higher Education SRP Experience Study, ranged from 3.50 to 4.00 percent.

Mortality rates were developed using the Society of Actuaries' Pub. H-2010 mortality rates which vary by member status (e.g. active, retiree, or survivor), as the base table. The Office of the State Actuary (OSA) applied age offsets for each system, as appropriate, to better tailor the mortality rates to the demographics of each plan. OSA applied the long-term MP-2017 generational improvement scale, also developed by the

Society of Actuaries, to project mortality rates for every year after the 2010 base table. Under "generational" mortality, a member is assumed to receive additional mortality improvements in each future year throughout their lifetime.

Most actuarial assumptions used in the January 1, 2023, valuation were based on the results of the August 2021 Higher Education SRP Experience Study. Additional assumptions related to salary growth were based on feedback from financial administrators of the Higher Education SRPs.

Material assumption changes. Changes in methods and assumptions that occurred between the measurement of the June 30, 2022, TPL and the June 30, 2023, TPL:

- The valuation date was changed from June 30 to January 1. This corresponds with the new data file being provided with participant information as of January 1, 2023.

- Annuity conversion assumptions were updated for the Teachers Insurance and Annuity Association (TIAA) investments based on input from TIAA and OSA's professional judgment. TIAA contributions and investment earnings annuity conversion changed from contributions made pre-2002/post-2001 converted at 6.00 percent/3.25 percent to contributions pre-2006/post-2005 converted at 7.00 percent/4.00 percent.

Additionally, OSA recently completed an experience study which modified multiple assumptions to estimate future plan experience.

Discount Rate. The discount rate used to measure the TPL was set equal to the Bond Buyer General Obligation 20-Bond Municipal Bond Index, or 7.00 percent for the June 30, 2023, measurement date.

Pension Expense. The Pension Expense is the summation of a number of components, including benefits earned during the fiscal year and interest on the TPL. These numbers are sensitive to assumption changes and plan experience and can be volatile from year to year.

For the year ended June 30, 2023, the Higher Education SRPs reported the following for pension expense (expressed in thousands):

Pension Expense		
Plans		
University of Washington (UW)	$	(39,810)
Washington State University (WSU)		(7,586)
Eastern Washington University (EWU)		(629)
Central Washington University (CWU)		105
The Evergreen State College (TESC)		(567)
Western Washington University (WWU)		(1,302)
State Board for Community and Technical Colleges (SBCTC)		(3,130)
Total	**$**	**(52,919)**

Plan Membership. Membership of the Higher Education SRPs consisted of the following at June 30, 2023, 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**
University of Washington (UW)	1,289	341	4,117	5,747
Washington State University (WSU)	479	166	1,073	1,718
Eastern Washington University (EWU)	70	33	217	320
Central Washington University (CWU)	70	14	63	147
The Evergreen State College (TESC)	33	15	113	161
Western Washington University (WWU)	84	50	402	536
State Board for Community and Technical Colleges (SBCTC)	407	393	4,071	4,871
Total	2,432	1,012	10,056	13,500

Change in Net Pension Liability/(Asset). The following table presents the change in net pension liability/(asset) of Higher Education SRPs at June 30, 2023 (expressed in thousands):

Change in Net Pension Liability/(Asset)	UW	WSU	EWU	CWU	TESC	WWU	SBCTC
TOTAL PENSION LIABILITY							
Service cost	$ 5,068	$ 857	$ 210	$ 24	$ 72	$ 327	$ 1,985
Interest	22,106	3,916	920	373	349	1,454	7,167
Changes of benefit terms	—	—	—	—	—	—	—
Differences between expected and actual experience	(31,360)	(669)	(2,820)	(181)	(1,152)	(3,236)	(5,760)
Changes of assumptions	(26,643)	(4,222)	(1,040)	(273)	(361)	(2,251)	(11,407)
Benefit payments	(10,989)	(3,228)	(366)	(493)	(155)	(594)	(3,008)
Net Change in Total Pension Liability	(41,818)	(3,345)	(3,096)	(550)	(1,245)	(4,300)	(11,024)
Total Pension Liability--Beginning	316,127	56,679	13,119	5,545	4,994	20,743	101,882
Total Pension Liability--Ending	$ 274,309	$ 53,334	$ 10,023	$ 4,995	$ 3,748	$ 16,443	$ 90,859
PLAN FIDUCIARY NET POSITION							
Contributions--Employer	$ 8,358	$ 1,040	$ 172	$ 178	$ 46	$ 234	$ 862
Contributions--Member	—	—	—	—	—	—	—
Net Investment Income	7,189	1,358	269	271	102	395	2,361
Benefit Payments, Including Refunds of Member Contributions	—	—	—	—	—	—	—
Administrative Expense	—	—	—	—	—	—	—
Other	—	—	—	—	—	—	—
Net Change in Plan Fiduciary Net Position	15,547	2,398	441	449	148	630	3,223
Plan Fiduciary Net Position--Beginning	96,989	18,643	3,720	3,751	1,421	5,488	33,145
Plan Fiduciary Net Position--Ending	$ 112,536	$ 21,041	$ 4,161	$ 4,200	$ 1,569	$ 6,117	$ 36,368
Plan's Net Pension Liability/(Asset)--Ending	$ 161,773	$ 32,292	$ 5,862	$ 795	$ 2,180	$ 10,326	$ 54,491

Note: Figures may not total due to rounding.

Sensitivity of the Net Pension Liability/(Asset) to Changes in the Discount Rate. The following table presents the net pension liability/(asset), calculated using the discount rate of 7.00 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 (6.00 percent) or 1 percentage point higher (8.00 percent) than the current rate (expressed in thousands):

Net Pension Liability/(Asset)			
Plans	**1% Decrease**	**Current Discount Rate**	**1% Increase**
University of Washington (UW)	$ 192,736	$ 161,773	$ 135,272
Washington State University (WSU)	37,566	32,292	27,743
Eastern Washington University (EWU)	6,966	5,862	4,917
Central Washington University (CWU)	1,178	795	459
The Evergreen State College (TESC)	2,568	2,180	1,845
Western Washington University (WWU)	12,124	10,326	8,783
State Board for Community and Technical Colleges (SBCTC)	64,572	54,491	45,842
Total	**$ 317,710**	**$ 267,719**	**$ 224,861**

Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At June 30, 2023, the Higher Education SRPs reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (expressed in thousands):

University of Washington (UW)	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 100,648	$ 259,025
Changes of assumptions	95,609	158,992
Difference between projected and actual	4,094	7,092
Total	$ 200,351	$ 425,109

Washington State University (WSU)	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 10,002	$ 27,896
Changes of assumptions	11,973	21,938
Difference between projected and actual	791	1,405
Total	$ 22,766	$ 51,239

Eastern Washington University (EWU)	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 2,867	$ 6,404
Changes of assumptions	2,155	4,872
Difference between projected and actual	158	283
Total	$ 5,180	$ 11,559

Central Washington University (CWU)	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ —	$ 52
Changes of assumptions	—	78
Difference between projected and actual	159	283
Total	$ 159	$ 413

The Evergreen State College (TESC)	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 790	$ 2,596
Changes of assumptions	753	1,535
Difference between projected and actual	61	110
Total	$ 1,604	$ 4,241

Western Washington University (WWU)	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 4,922	$ 11,496
Changes of assumptions	3,664	6,622
Difference between projected and actual	234	420
Total	$ 8,821	$ 18,537

State Board for Community and Technical Colleges (SBCTC)	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 21,378	$ 26,607
Changes of assumptions	18,280	41,924
Difference between projected and actual	1,419	2,591
Total	$ 41,077	$ 71,122

Note: Figures may not total due to rounding.

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):

University of Washington (UW)		
2024	$	(59,906)
2025	$	(46,326)
2026	$	(37,008)
2027	$	(71,315)
2028	$	(8,332)
Thereafter	$	(1,871)

Washington State University (WSU)		
2024	$	(8,317)
2025	$	(7,622)
2026	$	(8,409)
2027	$	(4,756)
2028	$	631
Thereafter	$	—

Eastern Washington University (EWU)		
2024	$	(1,127)
2025	$	(1,581)
2026	$	(2,078)
2027	$	(1,005)
2028	$	(588)
Thereafter	$	—

Central Washington University (CWU)		
2024	$	(218)
2025	$	(88)
2026	$	53
2027	$	(1)
2028	$	—
Thereafter	$	—

The Evergreen State College (TESC)		
2024	$	(780)
2025	$	(808)
2026	$	(818)
2027	$	(146)
2028	$	(85)
Thereafter	$	—

Western Washington University (WWU)		
2024	$	(1,918)
2025	$	(1,908)
2026	$	(2,993)
2027	$	(2,261)
2028	$	(461)
Thereafter	$	(175)

State Board for Community and Technical Colleges (SBCTC)		
2024	$	(8,284)
2025	$	(5,812)
2026	$	(5,199)
2027	$	(10,285)
2028	$	856
Thereafter	$	(1,321)

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 15.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 to 15 percent of salaries, based on member choice. Members who do not choose a contribution rate default to a 5 percent rate. There are currently no requirements for employer contributions to the defined contribution component of PERS Plan 3.

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

Members in PERS Plan 3 are immediately vested in the defined contribution portion of their plan and can elect to withdraw total employee contributions, adjusted by earnings and losses from investments of those contributions, upon separation from PERS-covered employment.

Teachers' Retirement System Plan 3

The Teachers' Retirement System (TRS) Plan 3 is a combination defined benefit/defined contribution plan administered by the state through the Department of Retirement Systems (DRS). Refer to Note 15.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 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, 2023, there were no active members, 72 inactive members, and 19 members receiving monthly benefits 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 Plan 1 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 2023, there were no contributions made to employee accounts.

The administrator of JRA has entered an agreement with the DRS for accounting and reporting services, and the Washington State Investment Board (WSIB) for investment services. Under this agreement, the 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 3.28 percent to 9.12 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 2023, employer and employee contributions were $256.5 million and $259.1 million, respectively, for a total of $515.6 million.

Note 16

Other Postemployment Benefits

General Information

In addition to pension benefits as described in Note 15, the state, through the Health Care Authority (HCA), administers a single-employer defined benefit other postemployment benefit (OPEB) plan.

Plan Description. 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, their employees, and retirees is not formalized in a contract or plan document. Rather, the benefits are provided in accordance with a substantive plan in effect at the time of each valuation. A substantive plan is one in which the plan terms are understood by the employers and plan members. This understanding is based on communications between the HCA, employers, and plan members, and the historical pattern of practice with regard to the sharing of benefit costs. The understanding by the employer and plan members is that there is no contractual obligation to continue the substantive plan as an employee benefit on an ongoing basis. Nevertheless, the actuarial assumptions used in valuations presented in this note assume that this substantive plan will be carried forward into the future.

The PEBB OPEB plan is funded on a pay-as-you-go basis and is reported in governmental funds using the modified accrual basis and the current financial resources measurement focus. For all proprietary and fiduciary funds, the OPEB plan is reported using the economic resources measurement focus and the accrual basis of accounting. The PEBB OPEB plan has no assets and does not issue a publicly available financial report.

Employees Covered by Benefit Terms. Employers participating in the PEBB plan for the state include general government agencies, higher education institutions, and component units. Additionally, there are 8 of the state's K-12 schools and educational service districts (ESDs), and 274 political subdivisions and tribal governments not included in the state's financial reporting that participate in the PEBB plan.

Membership in the PEBB plan for the state consisted of the following:

Summary of Plan Participants
As of June 30, 2022

Active employees*	128,393
Retirees receiving benefits**	37,135
Retirees not receiving benefits***	N/A
Total active employees and retirees	165,528

*Reflects active employees eligible for PEBB program participation as of June 30, 2022.

**Headcounts exclude spouses of retirees that are participating in a PEBB program as a dependent.

***HCA doesn't have data on this group and OSA doesn't have the methodology to reasonably estimate it. As a result, we are unable to provide an estimate for fiscal year 2023.

The PEBB retiree OPEB plan is available to employees who elect at the time they retire to continue coverage and pay the administratively established premiums 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: Public Employees' Retirement System, Public Safety Employees' Retirement System, Teachers' Retirement System, Service Employees' Retirement System, Washington State Patrol Retirement System, Higher Education Retirement Plans, Judicial Retirement System, and Law Enforcement Officers' and Firefighters' Retirement System Plan 2. However, not all employers who participate in these plans offer PEBB to retirees.

Benefits Provided. 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 2022, the average weighted implicit subsidy was valued at $392 per adult unit per month. In calendar year 2023, the average weighted implicit subsidy is projected to be $421 per adult unit 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 2023, the explicit subsidy was up to $183 per member per month, and it will remain $183 per member per month in calendar year 2024.

Contribution Information. Administrative costs as well as implicit and explicit subsidies are funded by required contributions (RCW 41.05.050) 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.

The estimated monthly cost for PEBB benefits for the reporting period for each active employee (average across all plans and tiers) is as follows (expressed in dollars):

Required Premium*		
Medical	$	1,251
Dental		81
Life		4
Long-term disability		2
Total	$	1,338
Employer contribution	$	1,156
Employee contribution		182
Total	$	1,338

*Per FY2022 PEBB Financial Projection Model version 7.0. Per capita cost based on subscribers, includes non-Medicare risk pool only. Figures based on calendar year 2023 which includes projected claims cost at the time of this reporting.

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 the Office of the State Actuary's (OSA) website: OSA Additional Services. Please note that the results from OSA's report will not precisely match this publication due to the exclusion of a component unit that reports on a cash basis, and inclusion of a component unit not included in OSA's valuation report.

Actuarial Assumptions. The total OPEB liability was determined using the following methodologies:

Actuarial valuation date	6/30/2022
Actuarial measurement date	6/30/2022
Actuarial cost method	Entry Age
Amortization method	The recognition period for the experience and assumption changes is 9 years. This is equal to the average expected remaining service lives of all active and inactive members.
Asset valuation method	N/A - No Assets

Projections of benefits for financial reporting purposes are based on the terms of the substantive plan (i.e., 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 (active employees and retirees) 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, consistent with the long-term perspective of the calculations.

The total OPEB liability was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation rate	2.35%
Projected salary changes	3.25% plus service-based salary increases
Health care trend rates	Initial trend rate ranges from 2-11%, reaching an ultimate rate of approximately 3.8% in 2080.
Post-retirement participation percentage	60%
Percentage with spouse coverage	45%

In projecting the growth of the explicit subsidy, after 2023 when the cap is $183, it is assumed to grow at the health care trend rates. The Legislature determines the value of the cap and no future increases are guaranteed; however, based on historical growth patterns, future increases to the cap are assumed.

Mortality rates were developed using the Society of Actuaries' Pub. H-2010 mortality rates, which vary by member status (e.g. active, retiree, or survivor), as the base table. The OSA applied age offsets for each system, as appropriate, to better tailor the mortality rates to the demographics of each plan. OSA applied the long-term MP-2017 generational improvement scale, also developed by the Society of Actuaries, to project mortality rates for every year after the 2010 base table. Under "generational" mortality, a member is assumed to receive additional mortality improvements in each future year, throughout their lifetime.

Most demographic actuarial assumptions, including mortality and when members are expected to terminate and retire, were based on the results of the 2023 Demographic Experience Study Report. The post-retirement participation percentage and percentage with spouse coverage, were reviewed in 2017. Economic assumptions, including inflation and salary increases, were based on the results of the 2021 Economic Experience Study.

Discount Rate. Since OPEB benefits are funded on a pay-as-you-go basis, the discount rate used to measure the total OPEB liability was set equal to the Bond Buyer General Obligation 20-Bond Municipal Bond Index, or 2.16 percent for the June 30, 2021, measurement date and 3.54 percent for the June 30, 2022, measurement date.

Additional detail on assumptions and methods can be found on OSA's website.

Total OPEB Liability. As of June 30, 2023, the state reported a total OPEB liability of $4.25 billion.

Changes in Total OPEB Liability

The following table presents the change in the total OPEB liability as of the June 30, 2023, reporting date (expressed in thousands):

Changes in Total OPEB Liability	State	Component Units	Total
Total OPEB Liability - Beginning	$ 6,467,795	$ 5,256	$ 6,473,051
Changes for the year:			
Service cost	313,201	346	313,547
Interest	145,321	151	145,472
Difference between expected and actual experience*	(143,915)	(85)	(144,000)
Changes in assumptions*	(2,429,899)	(1,468)	(2,431,367)
Changes in proportion	(57)	55	(2)
Benefit payments	(106,768)	(112)	(106,880)
Net Changes in Total OPEB Liability	(2,222,117)	(1,113)	(2,223,230)
Total OPEB liability - Ending	$ 4,245,678	$ 4,143	$ 4,249,821

*The recognition period for these changes is nine years. This is equal to the average expected remaining service lives of all active and inactive members.

The decrease in the total OPEB liability is due to changes in assumptions resulting primarily from a decrease in the Bond Buyer General Obligation 20-Bond Municipal Bond Index discount rate.

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate. The following presents the total OPEB liability of the state as an employer calculated using the discount rate of 3.54 percent, as well as what the total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.54 percent) or 1 percentage point higher (4.54 percent) than the current rate (expressed in thousands):

	State	Component Units	Total
1% decrease	$ 4,974,898	$ 4,894	$ 4,979,792
Current discount rate	$ 4,245,678	$ 4,143	$ 4,249,821
1% increase	$ 3,658,895	$ 3,545	$ 3,662,440

Sensitivity of Total OPEB Liability to Changes in the Health Care Cost Trend Rates. The following represents the total OPEB liability of the state as an employer, calculated using the health care trend rates of 2-11 percent reaching an ultimate range of approximately 3.80 percent, as well as what the total OPEB liability would be if it were calculated using health care trend rates that are 1 percentage point lower (1-10 percent) or 1 percentage point higher (3-12 percent) than the current rate (expressed in thousands):

	State	Component Units	Total
1% decrease	$ 3,594,748	$ 3,461	$ 3,598,209
Current health care cost trend rate	$ 4,245,678	$ 4,143	$ 4,249,821
1% increase	$ 5,078,434	$ 5,033	$ 5,083,467

OPEB Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to OPEB. For the year ending June 30, 2023, the state recognized OPEB expense of $561 thousand.

On June 30, 2023, the state reported deferred outflows of resources and deferred inflows of resources related to OPEB for the state, including component units, from the following sources (expressed in thousands):

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 88,921	$ 149,689
Changes of assumptions	348,303	3,080,822
Transactions subsequent to the measurement date	107,218	—
Changes in proportion	275,398	275,419
Total	$ 819,840	$ 3,505,930

Deferred outflows of resources and deferred inflows of resources related to OPEB for component units as of the June 30, 2023, reporting date were as follows (expressed in thousands):

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 414	$ 303
Changes of assumptions	322	2,850
Transactions subsequent to the measurement date	64	—
Changes in proportion	121	247
Total	$ 921	$ 3,400

Amounts reported as deferred outflows of resources related to OPEB resulting from transactions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability in the year ended June 30, 2024.

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB for the state will be recognized in OPEB expense in the fiscal years ended June 30 (expressed in thousands):

Subsequent Years		
2024	$	(458,411)
2025	$	(458,411)
2026	$	(458,411)
2027	$	(358,142)
2028	$	(225,826)
Thereafter	$	(834,107)

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB for component units will be recognized in OPEB expense in the fiscal years ended June 30 (expressed in thousands):

Subsequent Years		
2024	$	(348)
2025	$	(348)
2026	$	(348)
2027	$	(284)
2028	$	(203)
Thereafter	$	(1,012)

Note 17
Derivative Instruments

Hedging Derivative Instruments
In addition to investment derivative instruments 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 costs.

The following table presents the hedging derivative instruments as of June 30, 2023 (expressed in thousands):

	Changes in Fair Value		Fair Value at June 30, 2023		Notional Amount
	Classification	Amount	Classification	Amount	(in Gallons)
Governmental Activities					
Cash flow hedges:					
Commodity swaps	Deferred Inflow	$ 9,085	Accounts Payable	$ 180	7,560

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 fuel cost and increase the likelihood that actual net fuel cost will remain below the budgeted cost. 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 WSF active hedges during fiscal year 2023 are presented in the following table:

Type	Counterparty	Contract Price per Gallon	Variable Rate Received	Trade Date	Settlement Period	Monthly Notional Amount (in Gallons)
Commodity Swap	Cargill	1.92	NYMEX ULSD Heating Oil	8/19/2021	7/2022 - 6/2023	252,000
Commodity Swap	Cargill	2.67	NYMEX ULSD Heating Oil	2/23/2023	3/2023 - 6/2023	168,000
Commodity Swap	Cargill	2.66	NYMEX ULSD Heating Oil	3/8/2023	5/2023 - 6/2023	294,000
Commodity Swap	Cargill	2.48	NYMEX ULSD Heating Oil	4/20/2023	7/2023 - 3/2024	252,000
Commodity Swap	BofA - Merrill Lynch	2.03	NYMEX ULSD Heating Oil	11/30/2021	7/2022 - 6/2023	252,000
Commodity Swap	BofA - Merrill Lynch	2.78	NYMEX ULSD Heating Oil	12/6/2022	1/2023 - 6/2023	252,000
Commodity Swap	BofA - Merrill Lynch	2.57	NYMEX ULSD Heating Oil	3/14/2023	7/2023 - 12/2023	252,000
Commodity Swap	BofA - Merrill Lynch	2.31	NYMEX ULSD Heating Oil	5/2/2023	7/2023 - 6/2024	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 derivative instruments represent the unrealized gain or loss on the contracts and are reported as deferred inflows of resources 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 Nonmajor 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 instrument's fair value. When the fair value of any derivative instrument has a positive fair 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, 2023, 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+	AA

Note 18

Tax Abatements

During fiscal year 2023, the state of Washington provided material tax abatements through six programs, three of which are only available to businesses in the aerospace industry.

Data Center Server Equipment and Power Infrastructure Tax Exemption

Per Revised Code of Washington (RCW) 82.08.986, 82.08.9861, 82.12.986, and 82.12.9861, the purchase or use of server equipment and power infrastructure in data centers within the state of Washington, along with certain related labor and services charges, may be exempt from sales and use tax to encourage immediate investments in technology facilities. The Department of Revenue (DOR) will issue an exemption certificate, which the buyer must present to the seller at the time of the sale in order to make eligible tax-exempt purchases. All previously exempted sales and use tax are immediately due and payable for a qualifying business that does not meet the following requirements.

Within six years of the date that the exemption certificate is issued, the certificate holder must establish that net employment at the computer data center has increased by a minimum of 35 family wage positions or 3 family wage employment positions for each 20,000 square feet or less of space. Family wage employment positions are new permanent employment positions requiring 40 hours of weekly work, or their equivalent, at the eligible computer data center. For exemption certificates issued before June 9, 2022, family wage employment positions must receive a wage equivalent to or greater than 150 percent of the per capita personal income of the county in which the project is located. For exemption certificates issued on or after June 9, 2022, family wage employment positions must receive a wage equivalent to or greater than 125 percent of the per capita personal income of the county in which the project is located.

For exemption certificates issued on or after June 9, 2022, within three years after being placed in service, the qualifying business operating a newly constructed data center must certify to the department that it has attained certification under one or more of the approved sustainable design or green building standards.

High-Technology Business Tax Deferral Program

Chapter 82.63 RCW provides a deferral and ultimate waiver of sales and use tax to encourage the creation of high-wage, high-skilled jobs in the state of Washington. The deferral applies to sales and use tax arising from the construction or expansion of a qualified research and development facility or a pilot scale manufacturing facility used in the fields of advanced computing, advanced materials, biotechnology, electronic device technology, or environmental technology.

Businesses must apply for a deferral certificate prior to being issued a building permit for the project(s) or before taking possession of machinery and equipment. Eligible projects will receive a sales and use tax deferral certificate issued by DOR, which allows vendors and contractors to sell to the approved business without charging sales tax. An annual survey must be filed by May 31 of the year in which the project is certified and for the following seven years. If the investment project is used for any other purpose at any time during the calendar year in which the investment is certified as operationally complete, or during the next seven calendar years, a portion of the deferred taxes must be repaid immediately. The portion due is determined by a sliding scale ranging from 100 percent recapture in the year the project is operationally complete to 12.5 percent recapture in year eight.

Multi-Unit Urban Housing Tax Exemption

RCW 84.14.020 allows for a property tax exemption to improve residential opportunities, including affordable housing opportunities, in urban centers. In order to qualify for the exemption, the new or rehabilitated multiple-housing unit must be located in a targeted residential area designated by the city or county, provide for a minimum of 50 percent of the space for permanent residential occupancy, meet all construction and development regulations, and be completed within three years of the application approval date, with the option to extend the completion timeline an additional 24 months or five years for applications submitted prior to February 15, 2020. To qualify as a rehabilitated unit, the property must also fail to comply with one or more standards of the applicable state or local building or housing codes on or after July 23, 1995.

The property owner must apply for the exemption certificate with the city or county where the property is located before beginning construction. If the application is approved, the exemption certificate will be issued after the owner certifies all requirements have been met upon completion of the project. Each tax exemption certificate recipient must submit an annual report to the city or county. If a portion of the property no longer meets the exemption requirements, the tax exemption is canceled and a lien will be placed on the land for the additional real property tax on the value of the non-qualifying improvements plus a 20 percent penalty and interest.

Aerospace Incentives

The state of Washington provides tax abatement programs to the aerospace industry to encourage the industry's continued presence in the state.

Product Development Expenditures Credit. RCW 82.04.4461 allows a business and occupation (B&O) tax credit equal to 1.5 percent of expenditures on aerospace product development performed within Washington. A business claiming the credit must file an annual tax performance report with DOR.

Business Facilities Credit. Per RCW 82.04.4463, manufacturers and processors for hire of commercial airplanes or their component parts and aerospace tooling manufacturers are eligible for a B&O tax credit equal to the property and leasehold taxes paid on certain buildings, land, and the increased value from certain building renovations or expansions, as well as a portion of property taxes paid on certain machinery and equipment. The credit for machinery and equipment is equal to the amount of property taxes paid on the machinery and equipment multiplied by a fraction as prescribed in the RCW. Eligibility for the credit requires the building, land, and/or machinery and equipment be used exclusively in manufacturing commercial airplanes or their components or in manufacturing tooling specifically designed for use in manufacturing commercial airplanes or their components. A business claiming the credit must file an annual tax performance report with DOR.

In addition, non-manufacturers engaged in the business of aerospace product development and certificated Federal Aviation Regulation repair stations making retail sales are eligible for a B&O tax credit equal to property and leasehold taxes on certain buildings, land, and the increased value of renovated buildings, and qualifying computer equipment and peripherals under RCW 82.04.4463. Eligibility for the credit requires the building, land, and/or computer equipment and peripherals be used exclusively in aerospace product development or in providing aerospace services. A business claiming the credit must file an annual tax performance report with DOR.

Computer Hardware, Software, and Peripherals Exemption. The purchase and use of computer hardware, software, or peripherals, including installation charges, is exempt from sales and use tax per RCW 82.08.975 and 82.12.975 if the item is used primarily in developing, designing, and engineering aerospace products. The purchaser must present a Buyers' Retail Sales Tax Exemption Certificate to the seller at the time of purchase.

The following table shows the amount of taxes abated during fiscal year 2023 (expressed in thousands):

Tax Abatement Program	Amount of Taxes Abated
Data center server equipment and power infrastructure exemption	$ 75,790
High-technology business tax deferral program	30,727
Multi-unit urban housing tax exemption	35,888
Aerospace incentives:	
Aerospace product development expenditures credit	48,482
Aerospace business facilities credit	36,400
Computer hardware, software, and peripherals exemption	5,021
Total	$ 232,308

Note 19

Commitments and Contingencies

A. CAPITAL COMMITMENTS

Outstanding commitments related to state infrastructure and facility construction, improvement, and/or renovation totaled $7.17 billion at June 30, 2023.

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 period. Capital outlay encumbrances lapse at the end of the biennium unless reappropriated by the Legislature in the ensuing biennium. There were no encumbrances outstanding against continuing appropriations at the end of fiscal year 2023.

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 and 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.D, Claims and Judgments, Risk Management.

There is an on-going federal class action alleging insufficient competency services at state hospitals. The parties have agreed and negotiated a phased-in settlement, which received final approval from the court in 2018. In July 2023, the federal court found the state was in breach of the settlement agreement and in further contempt of the court's orders. The court entered a modified order in August 2023 upholding the original claim and added new contempt fines. A decision from the court is pending regarding a payment plan for approximately $100.3 million.

Several pharmacy associations sued the state to block the implementation of new rules regarding rate methodology changes for Medicaid fee-for-service payments which took effect in April 2017. When the Center for Medicare and Medicaid Services (CMS) denied the Medicaid State Plan (MSP) Amendment which contained the same rule changes, the state appealed and finally received CMS approval of the MSP. The pharmacy associations subsequently filed a lawsuit against CMS resulting in CMS reversing the prior approval of the MSP in June 2022. In September 2023, the state entered into a settlement with the pharmacy associations with an estimated cost of $60 million.

The state denied a taxpayer's use of tax exemption for goods and retail services, and the determination was upheld by the Board of Tax Appeals. In June 2023, the taxpayer paid the disputed amount of approximately $21.7 million and filed a Petition for Judicial Review, which is awaiting a scheduled hearing date.

The state is also the defendant in a number of cases regarding improper tax assessments, inadequate provision of education services and unfair compensation practices for part-time college faculty. Collective claims in these programmatic and service cases are currently indeterminable, but adverse rulings in some of these cases could result in significant future costs. 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.

The annual payments to each state under the MSA are subject to a number of adjustments, including the nonparticipating manufacturer (NPM) adjustment. The NPM adjustment is a downward adjustment that is applicable to any state found by an arbitration panel not to have diligently enforced the qualifying statute. The amount of the available adjustment is calculated every year by Price Waterhouse Coopers and is typically $1.25 billion. States found not diligent share the costs of that downward adjustment and the adjustment is applied against the next annual MSA payment. No state can lose more than its entire annual payment.

For every annual MSA payment cycle since 2006, the participating manufacturers have withheld the amount of the available NPM adjustment from their MSA payments claiming all of the states were not diligent, depositing the amount of the available adjustment into a Disputed Payments Account. For Washington, the amount withheld from each payment has been in the range of approximately $17.5 million to $24.9 million. The states are required to sue the participating manufacturers to recover the withheld amounts.

The withholding in 2006 challenged the states' diligence for calendar year 2003. That challenge marked the first time the NPM adjustment procedure was involved and led to diligent enforcement arbitration. The arbitration occurred in two stages: a national hearing on "common issues" and then states' specific case.

During the 2003 NPM adjustment dispute, 22 states settled their dispute. The participating manufacturers agreed to a 54 percent reduction in their annual MSA payments and to additional NPM enforcement obligations. On September 11, 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. As a result of that decision, in fiscal year 2014, Washington received approximately $14 million more than it would have otherwise received.

The 2004 NPM adjustment dispute began shortly after the conclusion of the 2003 dispute. In September 2019, one of the states' three elected arbitration panel members passed away before any decisions were finalized. The states subsequently selected a replacement who reviewed all filings and transcripts and participated in the panel's decisions.

In September 2021, the panel determined that Washington was not diligent. The panel's ruling resulted in a downward NPM adjustment of approximately $25 million in Washington's 2023 MSA payment. The adverse decision largely turned on the 2004 panel's different treatment of tribal cigarette sales. The 2003 panel ruling supported Washington's position that cigarette sales by tribes that have compacts with the state are not within its diligent enforcement obligations, but the 2004 panel reached the opposite conclusion. Washington appealed the 2004 panel decision to the King County Superior Court and was able to get the ruling overturned so that it will not have diligent enforcement obligations for compact cigarette sales for all cases going forward. However, even with the correction, the trial court declined to overturn the adverse finding of non-diligence for 2004. The tobacco companies appealed the trial court's ruling, and Washington crossed-appealed the refusal of the court to send the case back for reconsideration after correcting the error on tribal compact cigarette sales.

On October 16, 2023, Division I of the Court of Appeals issued a published decision, affirming the trial court's decision. The Court of Appeals rejected the State's cross-appeal seeking to vacate the 2004 panel ruling, but affirmed the declaratory judgment holding that tribal compact cigarette sales are not within its diligent enforcement obligations.

The arbitration panel has convened for the 2005, 2006, and 2007 NPM Adjustment disputes. The common case for those years was completed in July 2022. Washington state's specific hearing took place from April 24, 2023, through May 6, 2023, and is currently awaiting the panel's decision.

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, would 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 $16.5 billion at June 30, 2023. The guarantees extend through the life of the bonds, with a final maturity date of the longest series in 2045.

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 for all money drawn on their behalf, as well as interest and penalties.

G. INTERSTATE-5 BRIDGE (formerly 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 project. The project consisted of a bridge, transit, highway, bicycle, and pedestrian improvement intended to replace the existing two highway spans on Interstate-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. During fiscal year 2023, the Columbia River Crossing project was renamed to Interstate-5 Bridge Replacement (IBR) project to more accurately reflect the full scope of the project.

In 2014, the IBR 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 million 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 granted Washington and Oregon an extension to September 30, 2024.

In 2019, the Washington Legislature provided $35 million to establish a project office jointly staffed by Washington and Oregon. The funding also covered pre-design activities to replace the Interstate-5 bridge crossing. The Oregon Transportation Commission (OTC) allocated $9 million as the state's initial contribution to restarting the work. In August 2019, the OTC approved an additional $4 million to be obligated to the program from the fiscal year 2020 federal redistribution funds.

In April 2020, WSDOT and ODOT signed a funding and administration agreement committing to jointly approve expenditures and equally fund the program. A program administrator was hired in June 2020 to act on behalf of both states.

In August 2020, the OTC approved an additional $6 million to be obligated to the program from the fiscal year 2021 federal redistribution funds, followed by an additional $30 million in March 2021. ODOT and WSDOT have initiated program development efforts including re-engaging program partners and stakeholders and resuming bi-state legislative committee engagement.

During fiscal year 2022, the bi-state legislative committee continued to work with WSDOT, ODOT, and their respective transportation commissions on program development for the construction of the new Interstate-5 bridge. The current process allows public participation and provides project development reports and recommendations to the legislatures of Washington and Oregon. The Move Ahead Washington Transportation Package awarded $1 billion for Washington's share of the funds to complete the program. The fiscal year 2022 supplemental budget also provided an additional $10 million in planning funds for the remainder of the biennium. Other sources of funding would include a combination of bi-state funding from federal, state, tolling, and local funds.

The 2023 legislative session allocated $137.5 million for the 2023-25 biennium as the first portion of the Move Ahead Washington funding and required the program to submit quarterly reports on the status of all agreements related to the shared funding with Oregon. The legislature also authorized tolling on the Interstate-5 bridge.

Funding for the Mill Plain Interchange, which is within the IBR Project area and funded through the Connecting Washington Transportation Package, was rescheduled to begin in fiscal year 2031. The change also increased funding from $98 million to $117 million to account for inflation rates.

The Oregon Legislature committed to fund $1 billion for the IBR project, matching Washington's commitment from the previous year. The funding language was contained in a bill which addressed the overall bonding needs for all Oregon state agencies. The commitment of $1 billion is in the form of IBR bonds of $250 million per biennium over the next 4 biennia, to be paid back from the general fund.

With the 2022 and 2023 funding milestones, all non-federal matching funds are in place to begin applying for federal discretionary grants. The project's finance plan identified combined federal grant funding in the likely range of $1.8 billion to $2.7 billion from the Bridge Investment Program, Mega Program, and the Federal Transit Administration (FTA) Capital Improvement Grant. The application for the Bridge Investment Program and the Mega Program grants will begin in 2023. The FTA Capital Improvement Grant has a separate and distinct process with multiple phases over several years. The IBR program has already requested entry into the project development phase and will continue to address the requirements of each subsequent phase.

Note 20

Subsequent Events

A. BOND ISSUES

In July 2023, the state issued:

- $682.6 million in various purpose general obligation bonds to provide funds to pay and reimburse for various state capital projects.
- $376.6 million in motor vehicle tax and vehicle related fees general obligation bonds to provide funds to pay and reimburse for construction of state and local highway improvements and preservation projects.
- $55.1 million in taxable general obligation bonds to provide funds to pay and reimburse for various non-transportation capital projects.

In November 2023, the state issued:

- $289.7 million in general obligation refunding bonds for the purpose of refunding certain various general obligation bonds of the state.
- $181.8 million in motor vehicle fuel tax and vehicle related fees general obligation refunding bonds for the purpose of refunding certain motor vehicle fuel tax and vehicle related fees obligation bonds of the state.

In August 2023, Washington State University issued $20.3 million in general revenue refunding bonds to refund and defease a portion of the University's General Revenue and Refunding Bonds, 2013 (the "2013 Bonds"), and to pay the costs of issuing the bonds.

B. CERTIFICATES OF PARTICIPATION

In October 2023, the state issued $38.7 million in Certificates of Participation.

C. CORONAVIRUS AID, RELIEF, AND ECONOMIC SECURITY ACT UNEMPLOYMENT COMPENSATION WAIVER

In October 2023, the state submitted requests to the United States Department of Labor to issue blanket authority to waive $473.3 million of overpayments for CARES Act unemployment compensation programs.