# Notes to the Financial Statements

# 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 retirement plans 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.

**Retirement Plans.** 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. Those retirement systems are composed of 15 defined benefit plans, three of which include a defined contribution component. The director of DRS is appointed by the Governor.

There are additional retirement plans administered outside of the DRS. The Volunteer Firefighters' and Reserve Officers' Relief and Pension Funds are 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 state and regional universities, the state college, the state community and technical colleges, and the Student Achievement Council each administer a separate Higher Education Supplemental Retirement Plan.

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

Refer to Note 15 for additional information about the state's pension plans.

## Blended Component Units

Blended component units have governing bodies substantively the same as the state or the applicable university, provide services entirely to the primary government, or have total debt outstanding that is expected to be paid entirely, or almost entirely, with resources of the state. 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.

During fiscal year 2024, the Tobacco Settlement Authority paid off all bonds, transferred all remaining funds to the General Fund, and closed its operations.

**University of Washington Physicians** (UWP) is a nonprofit corporation 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 Primary Care** (UW Primary Care) is a nonprofit corporation 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 Primary Care was 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. The entities issue tax-exempt and taxable bonds to finance these activities.

**Portage Bay Insurance** (PBI) is a wholly-owned subsidiary formed 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 nonprofit 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 state's discretely presented component units are described below.

**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 Avenue N
Seattle, WA 98109-1024

**Valley Medical Center** (VMC) was created in July 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 45 clinics located throughout southeast 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 $29.4 million in 2024.

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, 2024, the UW's ownership interest in Embright totaled $2.5 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.

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

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

- Charges to customers for goods and services of the program. A customer is one who directly benefits from the goods or services or is otherwise directly affected by the program, such as a state citizen or taxpayer, or other governments or nongovernmental entities.
- Amounts received from outside entities that are restricted to one or more specific programs. These amounts can be operating or capital in nature.
- Earnings on investments that are restricted to a specific program.

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 796 accounts that are combined into 54 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. 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.

- **Wildlife and Natural Resources Fund** accounts for the protection, management, and remediation programs of the state's wildlife, habitats, and natural resources, including forests, water, and parks.

- **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; 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, debt service expenditures are 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 and the accrual basis of accounting. 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. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred.

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

### 1. Cash and Investments

Investments of surplus or pooled cash balances are reported on the accompanying Statements of Net Position, Balance Sheets, and Statements of Cash Flows as "Cash and 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, tangible assets and innovation) 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, 2024, these alternative investments are valued at $93.88 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, 2024, 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 $7.1 million in federally donated consumable inventories, which are offset by unearned revenue because they are not earned until they are distributed to clients.

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

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

In proprietary and 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 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 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 280 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 58 percent of the eligible subscribers in fiscal year 2024. 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 3.6 percent of a five-year rolling average of the endowments' market valuation.

The net appreciation available for authorization for expenditure by governing boards totaled $1.36 billion. This amount is reported as restricted for expendable endowment funds on the government-wide Statement of Net Position.

## 5. Scholarship Allowances

On the government-wide Statement of Activities and proprietary fund statements, charges for services is reported net of scholarship allowances, which represent the difference between the state charge for tuition and fees and the amount that is paid by the student or third parties on behalf of the student. Estimated discounts and allowances for the year ending June 30, 2024, are $516.3 million for governmental activities and $35.2 million for business-type activities.

# Note 2

## Accounting Changes and Error Corrections

### Reporting Change

Effective for fiscal year 2024, the state adopted the new standard, Statement No. 100, *Accounting Changes and Error Corrections*, issued by the Governmental Accounting Standards Board (GASB). This statement defines accounting changes as changes in accounting principles, changes in accounting estimates, and changes to or within the financial reporting entity and describes the transactions or other events that constitute those changes. It also addresses corrections of errors in previously issued financial statements. This statement prescribes the accounting and financial reporting requirements for each type of accounting change and error correction.

### Change within the Financial Reporting Entity

In fiscal year 2024, the Wildlife and Natural Resources Fund reached the threshold to be reported as a major fund. It was reclassified from a nonmajor governmental fund as shown in column A of the following table.

### Corrections of Errors in Previously Issued Financial Statements

The state of Washington implemented a new system to track and account for its leases and subscription-based information technology arrangements (SBITAs) in fiscal year 2024. All lease and SBITA contracts were re-evaluated and the lease and subscription assets, lease and subscription liabilities, lease receivables, and deferred inflows of resources for leases were recalculated using the new software. In addition, all lease assets and lease liabilities were recalculated using the implementation date of June 30, 2022. This change impacted the June 30, 2023, balances of multiple funds on the following line items: receivables (net); other assets, noncurrent; lease assets; subscription assets; accumulated depreciation and amortization; bonds and notes payable; and deferred inflows of resources. The effect of these recalculations are shown in column B of the following table.

During fiscal year 2024, the state determined the National Board Conditional Loan program was not being accounted for properly. Cash and cash equivalents, other receivables (net), and contracts and grants revenue were understated in the General Fund in the fiscal year ended June 30, 2023. The effect of correcting that error is shown in column C of the following table.

During fiscal year 2024, the state determined that cash and cash equivalents and fund balance were overstated in the Higher Education Special Revenue Fund, a major governmental fund, in the fiscal year ended June 30, 2023. The effect of correcting that error is shown in column D of the following table.

During fiscal year 2024, the state determined general government expenditures and unearned revenue were overstated in the Central Administrative and Regulatory Fund, a nonmajor governmental fund, as a result of billing errors in the fiscal year ended June 30, 2021. The effect of correcting that error is shown in column E of the following table.

The state recorded adjustments, primarily between funds, to the June 30, 2023, balances of capital assets to align with the University of Washington's balances after their transition to a new accounting system. For the fiscal year ended June 30, 2023, capital assets were understated for governmental activities, including the Higher Education Revolving Fund, an internal service fund, and overstated in the Higher Education Student Services Fund, a major enterprise fund. This adjustment impacted all major classes of capital assets. The effect of the adjustments are shown in column F of the following table.

In fiscal year 2023, there was an error in the allocation of balances for retiree insurance benefits from the state's Health Insurance Fund, a major enterprise fund, to the Retiree Health Insurance Fund, a custodial fund. Cash and cash equivalents, accounts payable, accrued liabilities, and the current portion of claims and judgments payable were understated in the Health Insurance Fund; and the participant contributions, cash and cash equivalents, accounts payable, and accrued liabilities were overstated in the Retiree Health Insurance Fund in the fiscal year ended June 30, 2023. The effect of correcting that error is shown in column G of the following table.

In prior fiscal years, the state recorded scholarship allowances as an expense rather than as a reduction of revenue on the statements that use the accrual basis of accounting. As a result, charges for services and expenses for education - higher education and higher education student services were overstated on the government-wide Statement of Activities, and charges for services and miscellaneous expenses were overstated on the proprietary fund statements. This error did not have an impact on net position.

During fiscal year 2024, a change within the financial reporting entity and error corrections resulted in adjustments to and restatements of beginning net position, fund balance, and fund net position for the primary government and the fiduciary funds, as follows (amounts in thousands):

| | June 30, 2023, as previously reported | Change within the Financial Reporting Entity (A) | Error Corrections (B) | (C) | (D) | (E) | (F) | (G) | July 1, 2023, as restated |
|---|---|---|---|---|---|---|---|---|---|
| **Government-Wide:** | | | | | | | | | |
| Governmental Activities | $ 50,415,009 | $ — | $ 38,687 | $ 3,705 | $ (5,374) | $ 1,317 | $ 129,595 | $ — | $ 50,582,939 |
| Business-Type Activities | (13,164,643) | — | 4,496 | — | — | — | (88,174) | — | (13,248,321) |
| **Total Primary Government** | $ 37,250,366 | $ — | $ 43,183 | $ 3,705 | $ (5,374) | $ 1,317 | $ 41,421 | $ — | $ 37,334,618 |
| **Governmental Funds:** | | | | | | | | | |
| General | $ 10,164,278 | $ — | $ (71) | $ 3,705 | $ — | $ — | $ — | $ — | $ 10,167,912 |
| Higher Education Special Revenue | 5,872,294 | — | (1,053) | — | (5,374) | — | — | — | 5,865,867 |
| Higher Ed. Endowment & Other Permanent Funds | 5,318,569 | — | — | — | — | — | — | — | 5,318,569 |
| Wildlife and Natural Resources | — | 3,146,500 | (319) | — | — | — | — | — | 3,146,181 |
| Nonmajor Governmental | 11,387,513 | (3,146,500) | (8) | — | — | 1,317 | — | — | 8,242,322 |
| **Total Governmental Funds** | $ 32,742,654 | $ — | $ (1,451) | $ 3,705 | $ (5,374) | $ 1,317 | $ — | $ — | $ 32,740,851 |
| **Proprietary Funds:** | | | | | | | | | |
| Workers' Compensation | $ (19,977,675) | $ — | $ 258 | $ — | $ — | $ — | $ — | $ — | $ (19,977,417) |
| Unemployment Compensation | 3,973,176 | — | — | — | — | — | — | — | 3,973,176 |
| Higher Education Student Services | 1,578,221 | — | 4,142 | — | — | — | (88,174) | — | 1,494,189 |
| Health Insurance | 289,524 | — | 97 | — | — | — | — | — | 289,621 |
| Nonmajor Enterprise | 972,111 | — | (1) | — | — | — | — | — | 972,110 |
| **Total Enterprise Funds** | (13,164,643) | — | 4,496 | — | — | — | (88,174) | — | (13,248,321) |
| Internal Service Funds | (787,314) | — | 7,983 | — | — | — | 12,431 | — | (766,900) |
| **Total Proprietary Funds** | $ (13,951,957) | $ — | $ 12,479 | $ — | $ — | $ — | $ (75,743) | $ — | $ (14,015,221) |
| **Fiduciary Funds:** | | | | | | | | | |
| Private-Purpose Trust | $ 5,457 | $ — | $ 29 | $ — | $ — | $ — | $ — | $ — | $ 5,486 |
| Local Government Investment Pool | 20,506,502 | — | — | — | — | — | — | — | 20,506,502 |
| Pension and Other Employee Benefit Plans | 170,540,315 | — | — | — | — | — | — | — | 170,540,315 |
| Custodial Funds | 1,299,489 | — | — | — | — | — | — | (11,090) | 1,288,399 |
| **Total Fiduciary Funds** | $ 192,351,763 | $ — | $ 29 | $ — | $ — | $ — | $ — | $ (11,090) | $ 192,340,702 |

The Public Stadium Authority, a nonmajor component unit, recorded additional fiscal year 2023 transactions related to receivable leases after the state of Washington's Annual Comprehensive Financial Report was published. In the fiscal year ended June 30, 2023, receivables (net of allowance), other noncurrent assets, deferred inflows of resources, charges for services, and earnings (loss) on investments were understated. The effect of these additional transactions resulted in an increase in the beginning net position of the component units as follows (amounts in thousands):

| | June 30, 2023, as previously reported | Error Correction | July 1, 2023, as restated |
|---|---|---|---|
| **Component Units:** | | | |
| Fred Hutchinson Cancer Center | $ 1,374,501 | $ — | $ 1,374,501 |
| Health Benefit Exchange | 26,440 | — | 26,440 |
| Valley Medical Center | 235,134 | — | 235,134 |
| Nonmajor Component Units | 996,178 | 452 | 996,630 |
| **Total Component Units** | $ 2,632,253 | $ 452 | $ 2,632,705 |

# 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, 2024, $1.55 billion of the state's deposits with financial institutions were insured or collateralized, with the remaining $4 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 administering agency for all plans, except for the Volunteer Firefighters' and Reserve Officers' Relief and Pension Principal Funds, which are 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 2024.

**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 certain 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, monthly.

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; Washington State Patrol Retirement System Plans 1 and

2; Public Safety Employees' Retirement System Plan 2; Volunteer Firefighters' and Reserve Officers' Relief and Pension Principal Funds; 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, and 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 an investment component of each RSF's vintage year 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 market indices weighted according to asset allocation targets.

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

When 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 with U.S. Gross. 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 with U.S. Gross, 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.

## 2. Valuation of Investments

The pension trust funds report 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, 2024:

**Pension Trust Funds**
**Investments Measured at Fair Value**
**June 30, 2024**
*(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 | $ 14,316,824 | $ — | $ 14,316,824 | $ — |
| U.S. government and agency securities | 7,232,475 | — | 7,232,475 | — |
| Mortgage and other asset-backed securities | 1,938,362 | — | 1,938,362 | — |
| Foreign government and agency securities | 1,809,143 | — | 1,809,143 | — |
| **Total Debt Securities** | 25,296,804 | — | 25,296,804 | — |
| **Equity Securities** | | | | |
| Common and preferred stock | 23,230,166 | 23,228,257 | — | 1,909 |
| Depository receipts | 469,708 | 469,708 | — | — |
| Real estate investment trusts and other miscellaneous | 178,845 | 178,729 | — | 116 |
| **Total Equity Securities** | 23,878,719 | 23,876,694 | — | 2,025 |
| **Alternative Investments** | | | | |
| Real estate | 987,892 | — | — | 987,892 |
| Tangible assets | 959,265 | 959,265 | — | — |
| **Total Alternative Investments** | 1,947,157 | 959,265 | — | 987,892 |
| **Total Investments by Fair Value Level** | 51,122,680 | $ 24,835,959 | $ 25,296,804 | $ 989,917 |
| **Investments Measured at Net Asset Value (NAV)** | | | | |
| Private equity | 48,560,464 | | | |
| Real estate | 31,316,664 | | | |
| Collective investment trust funds (equity securities) | 20,772,989 | | | |
| Tangible assets | 12,024,318 | | | |
| Innovation | 1,978,276 | | | |
| **Total Investments Measured at the NAV** | 114,652,711 | | | |
| **Total Investments Measured at Fair Value** | $ 165,775,391 | | | |
| **Other Assets (Liabilities) at Fair Value** | | | | |
| Collateral held under securities lending agreements | $ 408,171 | $ — | $ 408,171 | $ — |
| Margin variation receivable-futures contracts | 10,755 | 10,755 | — | — |
| Net foreign exchange contracts receivable-forward and spot | (69,125) | — | (69,125) | — |
| Obligations under securities lending agreements | (408,171) | — | (408,171) | — |
| **Total Other Assets (Liabilities) Measured at Fair Value** | $ (58,370) | $ 10,755 | $ (69,125) | $ — |

**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 and 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. Publicly traded debt securities have fair values derived from proprietary models that use market-based measurements representing 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" fair 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. One real estate limited partnership in this classification is reported at fair value using valuation techniques for which the significant inputs for the valuation are unobservable.

**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 asset investments, including private equity, real estate, tangible assets, and innovation.

*Collective Investment Trust Funds.* The pension trust funds invest in collective investment trust funds (fund) that allow multiple institutional investors to pool assets into a single fund, providing greater diversification and lower costs. 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 securities.

The funds are passively managed to approximate the total rates of return of the MSCI U.S. Investable Market Index and the MSCI Emerging Markets Investable Market Index. The MSCI U.S. Investable Market Index fund allows contributions and withdrawals on any business day while the MSCI Emerging Markets Investable Market Index fund limits these activities to monthly. 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 delay or suspend the right to make contributions and withdrawals from the fund if it is determined to be reasonably necessary to prevent a material adverse impact on the fund or other investors.

*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 the equity of each investment vehicle (or fund), as reported by the investment partner or manager. These investments are valued at approximately $93.88 billion as of June 30, 2024. 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 may be different than the June 30, 2024, reported net asset value.

The nature of these investments provides for distributions through the sale or liquidation of the underlying assets and long-term capital appreciation and from cash flows from operating activities. 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, 2024**
*(expressed in thousands)*

| | Investment Type | | | | | |
|---|---|---|---|---|---|---|
| **Liquidation Periods** | **Private Equity** | **Real Estate** | **Tangible Assets** | **Innovation** | **Total** | **Percentage of Total** |
| Less than 3 years | $ 24,652 | $ 2,169 | $ 3,177 | $ — | $ 29,998 | — % |
| 3 to 9 years | 4,378,064 | 1,629,918 | 805,472 | — | 6,813,454 | 7.3 % |
| 10 or more years | 44,157,748 | 29,684,577 | 11,215,669 | 1,978,276 | 87,036,270 | 92.7 % |
| **Total** | $ 48,560,464 | $ 31,316,664 | $ 12,024,318 | $ 1,978,276 | $ 93,879,722 | 100.0 % |

*Private Equity.* This includes 277 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 primary goal of the portfolio is to create value through operational improvements, strategic guidance, and financial restructuring in order to realize profits on the investments when sold.

*Real Estate.* This includes 17 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 investment managers provide quarterly fair value estimates of the pension trust funds' net equity interest in each fund. The investment manager adjusts individual assets, long-term debt, and incentive compensation liabilities to fair value at least annually and as frequently as quarterly if material market or operational changes have occurred since the last valuation date. Properties are externally appraised generally once every five years, depending upon the investment. Annual audits of most partnerships include a review of compliance with the partnership's valuation policies.

*Tangible Assets*. This includes 64 limited liability structures and funds with a primary goal to generate long-term and stable income streams and asset appreciation at least commensurate with inflation.

*Innovation.* This includes 13 limited liability structures and funds. The primary goal of the portfolio is to provide the pension trust funds with an ability to invest in investment ideas outside the traditional asset classes, with a secondary purpose of providing comfort and demonstrated success before committing large dollar amounts to an investment strategy.

**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 invested in the CTF, upon request, to make additional investment purchases up to predetermined amounts. As of June 30, 2024, the pension trust funds had total unfunded commitments of $32.79 billion in the following asset classes: $18.36 billion in private equity, $9.17 billion in real estate, $4.39 billion in tangible assets, and $878.5 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, 2024, was approximately $571.5 million. The pension trust funds report securities on loan in their respective categories in the Statement of Net Position. At June 30, 2024, cash collateral received totaling $408.2 million is reported as securities lending obligation, and the fair value of the reinvested cash collateral totaling $408.2 million is reported as security lending collateral in the Statement of Net Position. Securities received as collateral for which the pension trust funds do not have the ability to pledge or sell unless the borrower defaults are not reported as assets and liabilities in the Statement of Net Position. Total cash and securities received as collateral at June 30, 2024, was $600.2 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. 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, 2024 (in millions):

| | | |
|---|---|---|
| Cash equivalents and other | $ | 274.9 |
| U.S. treasuries | | 192.0 |
| Commercial paper | | 76.7 |
| Yankee CD | | 56.6 |
| **Total Collateral Held** | $ | 600.2 |

During fiscal year 2024, securities lending transactions could be terminated on demand by either the pension trust funds or the borrower. As of June 30, 2024, the cash collateral held had an average duration of 15 days and an average weighted final maturity of 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. 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 2024, 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 2024 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, 2024, 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, 2024. 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, 2024**
*(expressed in thousands)*

| Investment Type | Total Fair Value | Maturity: Less than 1 Year | 1-5 Years | 6-10 Years | More than 10 Years | Effective Duration (in years)* |
|---|---|---|---|---|---|---|
| **Internally managed fixed income** | | | | | | |
| Corporate bonds | $ 14,316,824 | $ 197,604 | $ 4,238,441 | $ 6,257,302 | $ 3,623,477 | 7.0 |
| U.S. government and agency securities | 7,192,534 | 2,262,296 | 2,680,173 | 779,906 | 1,470,159 | 4.7 |
| Foreign government and agency securities | 1,809,143 | 18,610 | 410,116 | 852,758 | 527,659 | 7.7 |
| Mortgage and other asset-backed securities | 1,363,710 | 10,566 | 930,309 | 385,509 | 37,326 | 4.5 |
| **Total internally managed fixed income** | 24,682,211 | 2,489,076 | 8,259,039 | 8,275,475 | 5,658,621 | 6.2 |
| | | | | | | |
| **Externally managed fixed income** | | | | | | |
| Mortgage-backed to be announced forwards | 574,652 | 574,652 | — | — | — | — |
| U.S. government and agency securities | 39,941 | 39,941 | — | — | — | — |
| **Total externally managed fixed income** | 614,593 | $ 614,593 | $ — | $ — | $ — | — |
| **Total Investments Categorized** | 25,296,804 | $ 3,103,669 | $ 8,259,039 | $ 8,275,475 | $ 5,658,621 | 6.1 |
| | | | | | | |
| **Investments Not Required to be Categorized:** | | | | | | |
| Alternative investments | 95,826,879 | | | | | |
| Equity securities | 44,651,708 | | | | | |
| Cash and cash equivalents | 3,012,425 | | | | | |
| **Total investments not categorized** | 143,491,012 | | | | | |
| **Total Investments** | $168,787,816 | | | | | |

* 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, 2024**
*(expressed in thousands)*

| Moody's Equivalent Credit Rating | Investment Type: Mortgage and Other Asset-Backed Securities | Corporate Bonds | Foreign Government and Agency Securities | Total Fair Value |
|---|---|---|---|---|
| Aaa | $ 632,389 | $ 129,484 | $ — | $ 761,873 |
| Aa1 | 1,305,794 | 119,764 | 138,684 | 1,564,242 |
| Aa2 | — | 49,230 | 82,369 | 131,599 |
| Aa3 | — | 755,386 | 50,592 | 805,978 |
| A1 | — | 958,344 | 175,729 | 1,134,073 |
| A2 | 179 | 1,548,503 | 68,675 | 1,617,357 |
| A3 | — | 2,657,258 | — | 2,657,258 |
| Baa1 | — | 2,176,109 | 72,972 | 2,249,081 |
| Baa2 | — | 2,030,707 | 421,874 | 2,452,581 |
| Baa3 | — | 1,603,652 | 144,297 | 1,747,949 |
| Ba1 or lower | — | 2,288,387 | 653,951 | 2,942,338 |
| **Total** | $ 1,938,362 | $ 14,316,824 | $ 1,809,143 | $ 18,064,329 |

## 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. The total fair value of below investment grade securities in the fixed income portfolio may not exceed 5 percent. 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, 2024, were rated by Moody's and/or an equivalent national rating organization. There were no below investment grade securities exceeding policy limitations as of June 30, 2024.

**Concentration of Credit Risk.** Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. The policy of the pension trust funds states no corporate fixed income issue cost shall exceed 3 percent of the funds' fair value at the time of purchase and 6 percent of fair value at any time. In addition, exposure to any corporate issuer may not exceed 3 percent of the fixed income portfolio's fair value at any time. There was no concentration of credit risk exceeding these policy guidelines as of June 30, 2024.

**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 and securities 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, 2024, of $808.5 million invested in an emerging market commingled equity investment trust fund.

**Pension Trust Funds**
**Foreign Currency Exposure by Country**
**June 30, 2024**
*(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 | $ 3,300 | $ — | $ 574,796 | $ 565,869 | $ 4,865 | $ 1,148,830 |
| Brazil-Real | 4,350 | — | 297,723 | — | 1,633 | 303,706 |
| Canada-Dollar | 4,056 | — | 1,008,466 | — | (725) | 1,011,797 |
| China-Yuan Renminbi | 3,876 | 12,240 | 556,089 | — | (255) | 571,950 |
| Denmark-Krone | 576 | — | 617,690 | — | 184 | 618,450 |
| E.M.U.-Euro | 8,002 | — | 3,773,276 | 4,775,346 | 10,247 | 8,566,871 |
| Hong Kong-Dollar | 6,691 | — | 712,119 | — | 75 | 718,885 |
| India-Rupee | 1,545 | — | 740,201 | — | 97 | 741,843 |
| Indonesia-Rupiah | 1,076 | — | 79,250 | — | (1,984) | 78,342 |
| Japan-Yen | 23,918 | — | 2,309,087 | — | (62,291) | 2,270,714 |
| Mexico-Peso | 1,290 | — | 84,592 | — | (19,499) | 66,383 |
| New Taiwan-Dollar | 433 | — | 618,582 | — | (706) | 618,309 |
| Norway-Krone | 3,834 | — | 112,808 | — | (660) | 115,982 |
| Singapore-Dollar | 2,596 | — | 121,641 | — | (128) | 124,109 |
| South Africa-Rand | 261 | — | 39,711 | 32,442 | 20 | 72,434 |
| South Korea-Won | 1,644 | — | 350,572 | — | (7,456) | 344,760 |
| Sweden-Krona | 3,115 | — | 366,820 | — | 521 | 370,456 |
| Switzerland-Franc | 3,502 | — | 812,999 | — | 2,805 | 819,306 |
| Turkey-Lira | 956 | — | 74,197 | — | (2,769) | 72,384 |
| United Kingdom-Pound | 18,334 | — | 1,753,706 | — | 9,693 | 1,781,733 |
| Other | 6,908 | 66,542 | 331,894 | — | (2,792) | 402,552 |
| **Total** | $ 100,263 | $ 78,782 | $ 15,336,219 | $ 5,373,657 | $ (69,125) | $ 20,819,796 |

## 8. Derivative Instruments

Pension trust funds are authorized to utilize various derivative financial instruments including financial futures, forward contracts, interest rate swaps, credit default swaps, equity swaps, and options. Derivative instrument transactions involve, to varying degrees, market and credit risk. At June 30, 2024, 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, 2024, the pension trust funds counterparty risk was approximately $262.6 million. The majority of the counterparties (78.9 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, 2024, the pension trust funds had outstanding forward currency contracts with a net unrealized loss of $69.1 million. The aggregate forward currency exchange contracts receivable and payable were $13.04 billion and $13.11 billion, respectively. The contracts have varying maturity dates ranging from September 18, 2024, to March 18, 2026.

At June 30, 2024, the pension trust funds' fixed income portfolio held derivative instrument securities consisting of collateralized mortgage obligations with a fair value of $45.1 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, 2024**
*(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 | $ (33,437) | $ 10,633 | $ 1,730,600 |
| Equity index futures | 61,645 | 121 | 638 |
| **Total** | $ 28,208 | $ 10,754 | $ 1,731,238 |
| **Forward Currency Contracts** | $ 57,332 | $ (69,114) | $ 13,293,903 |

## 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 is administered by the Department of Labor and Industries. The 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.
- Global 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.
- Total fair value of below investment grade credit bonds (as defined by Bloomberg U.S. 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 may continue to be held provided their total fair value shall not exceed 5 percent of the total fair value of the funds.
- 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 are the Morgan Stanley Capital International (MSCI) All Country World Investable Market Index with U.S. Gross. The global equity portfolio is 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. Although market conditions may cause differences from the targets, those differences should not be material over an extended period of time.

Long term sector allocation targets 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% |

*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 maximizing yield rather than total return.
- The portfolio will be diversified through a combination of factors including capital structure, geography, property type, and number of properties.
- 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, 2024:

**Workers' Compensation Fund**
**Investments Measured at Fair Value**
**June 30, 2024**
*(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 | $ 11,456,776 | $ — | $ 11,456,776 | $ — |
| U.S. government and agency securities | 2,737,287 | — | 2,737,287 | — |
| Foreign government and agency securities | 1,197,723 | — | 1,197,723 | — |
| Mortgage and other asset-backed securities | 568,236 | — | 568,236 | — |
| **Total Investments by Fair Value Level** | 15,960,022 | $ — | $ 15,960,022 | $ — |
| **Investments Measured at Net Asset Value (NAV)** | | | | |
| Collective investment equity trusts | 3,617,526 | | | |
| Real estate | 198,944 | | | |
| **Total investments measured at the NAV** | 3,816,470 | | | |
| **Total Investments Measured at Fair Value** | $ 19,776,492 | | | |

**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 have fair values derived from proprietary models using market-based measurements representing 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 equity trust funds and real estate.

*Collective Investment Equity 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 allows contributions and withdrawals on any business day. The fund manager may choose to delay or suspend the right to make contributions and withdrawals from the fund if it is determined necessary to prevent a material adverse impact on the fund or other investors. At their discretion, they may also require withdrawals to be made partially or wholly in kind.

*Real Estate.* 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 the equity of each investment fund. 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, and changes in values of foreign currency exchange rates.

The limited partnerships' annual financial statements are audited by independent auditors. These investments are valued at approximately $198.9 million as of June 30, 2024. 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, 2024, reported net asset value.

The Workers' Compensation Fund currently invests in four limited real estate partnerships. Targeted investment structures within the real estate portfolio include limited liability companies, limited partnerships, joint ventures, commingled funds, and co-investments. Real estate investment managers provide quarterly valuations based on the most recent capital account balance. Individual properties are valued by the investment manager 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 on the investment. Annual audits of most partnerships include a review of compliance with the partnership's valuation policies.

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.

## 3. Interest Rate Risk

Interest rate risk is the risk that changes in interest rates over time will adversely affect the fair value of an investment. While the Workers' Compensation Fund does not have a formal policy relating to interest rate risk, the risk is managed within the Workers' Compensation Fund portfolio using effective duration, which is the measure of a debt investment's exposure to fair value changes arising from changes in interest rates. Increases in prevailing interest rates generally translate into decreases in fair values of fixed income investments. As of June 30, 2024, 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, 2024. 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, 2024**
*(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 | $ 11,456,776 | $ 821,560 | $ 3,588,417 | $ 3,331,418 | $ 3,715,381 | 7.2 |
| U.S. government and agency securities | 2,737,287 | 547,823 | 815,319 | 125,595 | 1,248,550 | 8.2 |
| Foreign government and agencies | 1,197,723 | 4,956 | 687,955 | 314,163 | 190,649 | 5.9 |
| Mortgage and other asset-backed securities | 568,236 | 20,836 | 492,631 | 54,769 | — | 3.5 |
| **Total Investments Categorized** | 15,960,022 | $ 1,395,175 | $ 5,584,322 | $ 3,825,945 | $ 5,154,580 | 7.1 |
| | | | | | | |
| **Investments Not Required to be Categorized:** | | | | | | |
| Collective investment equity trusts | 3,617,526 | | | | | |
| Real estate | 198,944 | | | | | |
| Cash and cash equivalents | 100,428 | | | | | |
| **Total investments not categorized** | 3,916,898 | | | | | |
| **Total Investments** | $ 19,876,920 | | | | | |

** 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, 2024**
*(expressed in thousands)*

| Moody's Equivalent Credit Rating | Investment Type: Mortgage and Other Asset-Backed Securities | Corporate Bonds | Foreign Government and Agencies | Total Fair Value |
|---|---|---|---|---|
| Aaa | $ 208,579 | $ 320,240 | $ 67,956 | $ 596,775 |
| Aa1 | 359,657 | 196,711 | 192,655 | 749,023 |
| Aa2 | — | 133,734 | 223,132 | 356,866 |
| Aa3 | — | 852,134 | 91,957 | 944,091 |
| A1 | — | 1,409,921 | 313,633 | 1,723,554 |
| A2 | — | 2,078,941 | 74,305 | 2,153,246 |
| A3 | — | 2,363,195 | — | 2,363,195 |
| Baa1 | — | 2,084,092 | — | 2,084,092 |
| Baa2 | — | 1,429,005 | 148,365 | 1,577,370 |
| Baa3 | — | 362,956 | 23,622 | 386,578 |
| Ba1 or lower | — | 225,847 | 62,098 | 287,945 |
| **Total** | $ 568,236 | $ 11,456,776 | $ 1,197,723 | $ 13,222,735 |

## 4. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Workers' Compensation Fund investment policies limit the fixed income securities to investment grade or higher at the time of purchase. The total fair value of below investment grade credit bonds shall not exceed 5 percent of the fair value of the funds. 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, 2024, 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. In addition, no more than 15 percent of the long term target allocation for real estate will be invested in the equity position of a single property at the time of acquisition. There was no concentration of credit risk as of June 30, 2024.

**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 securities held as securities lending collateral) registered and held in the name of the WSIB for the benefit of the Workers' Compensation Fund.

## 5. Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The Workers' Compensation Fund does not have a formal policy to limit foreign currency risk. At June 30, 2024, the only securities held by the Workers' Compensation Fund with foreign currency exposure were $1.23 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<br>Foreign Currency Exposure by Country<br>June 30, 2024<br>*(expressed in thousands)* | |
|---|---|
| **Foreign Currency Denomination** | **Equity Securities** |
| Australia-Dollar | $ 64,565 |
| Brazil-Real | 16,302 |
| Canada-Dollar | 96,903 |
| China-Yuan Renminbi | 12,552 |
| Denmark-Krone | 31,493 |
| E.M.U.-Euro | 261,017 |
| Hong Kong-Dollar | 81,548 |
| Japan-Yen | 203,901 |
| New Taiwan-Dollar | 76,569 |
| Saudi Arabia-Riyal | 14,923 |
| Singapore-Dollar | 10,636 |
| South Africa-Rand | 11,288 |
| South Korea-Won | 48,171 |
| Sweden-Krona | 30,657 |
| Switzerland-Franc | 75,067 |
| United Kingdom-Pound | 124,796 |
| Other | 66,112 |
| **Total** | $ 1,226,500 |

### 6. Derivative Instruments

To manage its exposure to fluctuations in interest and currency exchange 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, 2024, the only derivative instrument securities held directly by the Workers' Compensation Fund were collateralized mortgage obligations of $187.4 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 2024, the LGIP lent U.S. treasury securities while other securities were received as collateral. At June 30, 2024, the fair value of securities on loan was \$1.91 billion and the fair value of securities received for collateral was \$1.95 billion.

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 2024, 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, 2024, the LGIP had a weighted average maturity of 17 days and a weighted average life of 104 days.

The following schedule presents the LGIP investments and related maturities as of June 30, 2024:

**Local Government Investment Pool (LGIP)**
**Schedule of Maturities**
**June 30, 2024**
*(expressed in thousands)*

| | | Maturity | |
|---|---|---|---|
| **Investment Type** | **Amortized Cost** | **Less than 1 Year** | **1-5 Years** |
| U.S. treasury securities | $ 9,046,153 | $ 8,473,123 | $ 573,030 |
| Repurchase agreements | 8,400,000 | 8,400,000 | — |
| U.S. agency securities | 4,569,186 | 1,431,117 | 3,138,069 |
| Interest bearing bank accounts | 4,413,690 | 4,413,690 | — |
| Supranational securities | 297,848 | 297,848 | — |
| Certificates of deposit | 132,000 | 132,000 | — |
| **Total Investments** | $ 26,858,877 | $ 23,147,778 | $ 3,711,099 |

## 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, 2024, U.S. treasury securities comprised 33.7 percent of the total portfolio. U.S. agency securities comprised 17.0 percent of the total portfolio, including Federal Farm Credit Bank (11.5 percent), Federal Home Loan Bank (5.3 percent), and Federal National Mortgage Association (0.2 percent). Supranational securities comprised 1.1 percent of the total portfolio, including Inter-American Development Bank (0.4 percent) and International Bank for Reconstruction and Development (0.7 percent).

Repurchase agreements comprised 31.3 percent of the total portfolio as of June 30, 2024. 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, 2024, repurchase agreements totaled $8.40 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 79 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, 2024, the Short-term and Intermediate-term Invested Funds Pools totaled $2.69 billion. The Invested Funds Long-term Pool owns units in the Consolidated Endowment Fund valued at $1.20 billion on June 30, 2024. In addition, the Long-term Pool owns a passive global equity index valued at $242.0 million as of June 30, 2024.

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 2024. University Advancement received 3.0 percent of the average balances in endowment operating and gift accounts in fiscal year 2024. 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, 2024, the net deficiency from the original gift value was $987 thousand.

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 $167.2 million in fiscal year 2024 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, 2024, was $449.5 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, 2024:

**University of Washington**
**Investments Measured at Fair Value**
**June 30, 2024**
(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 securities | $ 1,527,890 | $ 10,476 | $ 1,517,414 | $ — |
| U.S. government agency | 354,432 | 10,062 | 344,370 | — |
| Mortgage-backed | 235,872 | — | 235,872 | — |
| Asset-backed | 604,043 | — | 604,043 | — |
| Corporate and other | 423,568 | 17,595 | 405,973 | — |
| **Total Fixed Income Securities** | 3,145,805 | 38,133 | 3,107,672 | — |
| **Equity Securities** | | | | |
| Global equity investments | 1,354,473 | 635,869 | 718,604 | — |
| Real estate | 19,168 | 16,029 | — | 3,139 |
| Other | 6,340 | — | — | 6,340 |
| **Total Equity Securities** | 1,379,981 | 651,898 | 718,604 | 9,479 |
| **Externally Managed Trusts** | 144,647 | — | — | 144,647 |
| **Total Investments by Fair Value Level** | 4,670,433 | $ 690,031 | $ 3,826,276 | $ 154,126 |
| **Investments Measured at Net Asset Value (NAV)** | | | | |
| Global equity investments | 2,172,328 | | | |
| Absolute return strategy funds | 918,068 | | | |
| Private equity and venture capital funds | 974,162 | | | |
| Real asset funds | 227,209 | | | |
| Other | 50,286 | | | |
| **Total Investments Measured at the NAV** | 4,342,053 | | | |
| **Total Investments Measured at Fair Value** | 9,012,486 | | | |
| Cash equivalents at amortized cost | 223,191 | | | |
| **Total Investments** | $ 9,235,677 | | | |

**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 assets, and other investments classified in level 3 are valued using either discounted cash flow or market comparable techniques.

**Investments measured at net asset value.** 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, 2024**
*(expressed in thousands)*

| | Fair Value | Unfunded Commitments | Redemption Frequency (if Currently Eligible) | Redemption Notice Period |
|---|---|---|---|---|
| Global equity investments | $ 2,172,328 | $ 31,707 | Monthly to annually | 15-180 days |
| Absolute return strategy funds | 918,068 | — | Quarterly to annually | 30-90 days |
| Private equity and venture capital funds | 974,162 | 551,307 | n/a | — |
| Real asset funds | 227,209 | 55,706 | n/a | — |
| Other | 50,286 | 23,939 | Quarterly to annually | 30-95 days |
| **Total Investments Measured at the NAV** | $ 4,342,053 | | | |

*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, 2024, approximately 78 percent of the value of the investments in this category can be redeemed within 90 days, and approximately 95 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, 2024, approximately 94 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, 2024, approximately 32 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, 2024, the University had outstanding commitments to fund alternative investments in the amount of $662.7 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 2.13 years at June 30, 2024.

## 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 investment grade and to hold at least 25 percent of their portfolios in obligations of the U.S. government and its agencies. 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 measures presented below represent 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, 2024. The schedule excludes $50.3 million of fixed income securities held by blended component units. These amounts make up 1.6 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, 2024**
*(expressed in thousands)*

| Investment Type | U.S. Government | Investment Grade* | Non-Investment Grade | Not Rated | Total | Effective Duration (in years) |
|---|---|---|---|---|---|---|
| U.S. treasury securities | $ 1,504,846 | $ — | $ — | $ — | $ 1,504,846 | 2.21 |
| U.S. government agency | 343,976 | — | — | — | 343,976 | 4.49 |
| Mortgage-backed | — | 62,512 | 71,601 | 101,758 | 235,871 | 1.52 |
| Asset-backed | 4,482 | 490,732 | 19,243 | 89,586 | 604,043 | 1.16 |
| Corporate and other | — | 341,206 | — | 65,527 | 406,733 | 1.68 |
| **Total** | $ 1,853,304 | $ 894,450 | $ 90,844 | $ 256,871 | $ 3,095,469 | 2.13 |

* 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, 2024, of $1.79 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, 2024**
*(expressed in thousands)*

| Foreign Currency | Amount |
|---|---|
| Australia-Dollar | $ 44,966 |
| Brazil-Real | 53,147 |
| Britain-Pound | 263,997 |
| Canada-Dollar | 61,815 |
| China-Renminbi | 189,279 |
| Denmark-Krone | 16,353 |
| E.M.U.-Euro | 303,809 |
| Hong Kong-Dollar | 43,082 |
| India-Rupee | 160,728 |
| Indonesia-Rupiah | 11,443 |
| Japan-Yen | 162,583 |
| Mexico-Peso | 12,138 |
| Norway-Krone | 23,107 |
| Singapore-Dollar | 22,016 |
| South Africa-Rand | 19,404 |
| South Korea-Won | 55,431 |
| Sweden-Krona | 48,819 |
| Switzerland-Franc | 39,133 |
| Taiwan-Dollar | 35,245 |
| Other | 224,575 |
| **Total** | $ 1,791,070 |

## 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, 2024, the University had outstanding futures contracts with notional amounts totaling $133.8 million and accumulated unrealized gains on these contracts totaled $454 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, 2024. The University had no hedging derivative instruments or derivative instruments for investment purposes as of June 30, 2024.

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 2024, 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 at the time of investment are rated within one of the three highest credit rating categories 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.
- Purchase of securities which are obligations of governments, government sponsored enterprises or entities either controlled by or domiciled in nations under an authoritarian regime are not allowed.

Additionally, investments in non-government securities, excluding collateral of repurchase agreements, must fall within prescribed limits.

## 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, 2024:

**Office of the State Treasurer**
**Cash Management Account**
**Investments Measured at Fair Value**
**June 30, 2024**
*(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 | $ 6,931,874 | $ — | $ 6,931,874 | $ — |
| U.S. agency securities | 4,680,811 | — | 4,680,811 | — |
| Supranational securities | 1,987,466 | — | 1,987,466 | — |
| Corporate notes | 777,991 | — | 777,991 | — |
| **Total Investments Measured at Fair Value** | $ 14,378,142 | $ — | $ 14,378,142 | $ — |

**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, corporate notes, 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 securities held as collateral and the securities underlying the cash collateral are held by the custodian. During fiscal year 2024, 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, 2024, the fair value of securities on loan totaled $1.17 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 2024, 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, 2024:

**Office of the State Treasurer**
**Cash Management Account**
**Schedule of Maturities**
**June 30, 2024**
*(expressed in thousands)*

| | | Maturity | | |
|---|---|---|---|---|
| **Investment Type** | **Total Fair Value** | **Less than 1 Year** | **1-5 Years** | **6-10 Years** |
| U.S. government securities | $ 7,228,758 | $ 1,463,323 | $ 5,765,435 | $ — |
| U.S. agency securities | 4,730,811 | 1,937,411 | 2,793,400 | — |
| Investments with LGIP | 3,852,950 | 3,852,950 | — | — |
| Supranational securities | 2,083,466 | 614,777 | 1,414,687 | 54,002 |
| Corporate notes | 777,991 | 123,768 | 654,223 | — |
| Interest bearing bank accounts | 446,606 | 446,606 | — | — |
| Certificates of deposit | 65,581 | 65,581 | — | — |
| **Total Investments** | $ 19,186,163 | $ 8,504,416 | $ 10,627,745 | $ 54,002 |

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, 2024**
*(expressed in thousands)*

| | Investment Type | | |
|---|---|---|---|
| **S&P Credit Rating** | **Corporate Notes** | **Supranationals** | **Total Fair Value** |
| AAA | $ 46,047 | $ 1,860,749 | $ 1,906,796 |
| AA+ | 112,470 | 222,717 | 335,187 |
| AA | 168,647 | — | 168,647 |
| AA- | 59,307 | — | 59,307 |
| A+ | 241,307 | — | 241,307 |
| A | 150,213 | — | 150,213 |
| **Total** | $ 777,991 | $ 2,083,466 | $ 2,861,457 |

## 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 2024. There were no repurchase agreements as of June 30, 2024.

# Note 4

## Receivables and Unearned/Unavailable Revenues

### A. GOVERNMENTAL FUNDS

### Taxes Receivable

Taxes receivable at June 30, 2024, consisted of the following (expressed in thousands):

| Taxes Receivable | General | Higher Education Special Revenue | Higher Education Endowment and Other Permanent Funds |
|---|---|---|---|
| Property | $ 2,296,160 | $ — | $ — |
| Sales | 1,761,774 | — | — |
| Business and occupation | 1,172,340 | 61,398 | — |
| Estate | — | 45,625 | — |
| Fuel | — | — | — |
| Beer and wine | — | — | — |
| Cannabis | — | — | — |
| Real estate excise | 62,172 | 9,460 | — |
| Insurance premium | 889 | — | — |
| Public utilities | 49,629 | 2 | — |
| Hazardous substance | — | — | — |
| Other | 884,116 | 3,624 | — |
| Subtotal | 6,227,080 | 120,109 | — |
| Less: Allowance for uncollectible receivables | 570,917 | 405 | — |
| **Total Taxes Receivable** | $ 5,656,163 | $ 119,704 | $ — |

### Receivables

Receivables at June 30, 2024, consisted of the following (expressed in thousands):

| Receivables | General | Higher Education Special Revenue | Higher Education Endowment and Other Permanent Funds |
|---|---|---|---|
| Public assistance [(1)] | $ 412,474 | $ — | $ — |
| Accounts receivable | 1,356,342 | 843,487 | 58,479 |
| Interest | 75,032 | 29,326 | 3,971 |
| Investment trades pending | 61,978 | (15,668) | (17,685) |
| Loans [(2)] | 2,519 | 68,075 | — |
| Long-term contracts [(3)] | 2,366 | — | 13,750 |
| Leases receivable | 2,036 | 345,434 | — |
| Miscellaneous | 1,979 | 1,647 | — |
| Subtotal | 1,914,726 | 1,272,301 | 58,515 |
| Less: Allowance for uncollectible receivables | 488,178 | 24,467 | 11 |
| **Total Receivables** | $ 1,426,548 | $ 1,247,834 | $ 58,504 |

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 $46.4 million in the Higher Education Special Revenue Fund for student loans and $859.7 million in Nonmajor Governmental Funds for low income housing, public works, and economic development/revitalization loans.

(3) Long-term contracts are for timber sales contracts.

| Wildlife and Natural Resources | Nonmajor Governmental Funds | Total |
|---|---|---|
| $ — | $ — | $ 2,296,160 |
| — | 10,137 | 1,771,911 |
| 475 | 80 | 1,234,293 |
| — | — | 45,625 |
| — | 142,390 | 142,390 |
| — | 5,058 | 5,058 |
| — | 41,087 | 41,087 |
| — | 12,938 | 84,570 |
| — | — | 889 |
| — | 2,340 | 51,971 |
| 31,893 | — | 31,893 |
| 27 | 59,174 | 946,941 |
| 32,395 | 273,204 | 6,652,788 |
| 101 | 6,661 | 578,084 |
| $ 32,294 | $ 266,543 | $ 6,074,704 |

| Wildlife and Natural Resources | Nonmajor Governmental Funds | Total |
|---|---|---|
| $ — | $ — | $ 412,474 |
| 247,313 | 834,255 | 3,339,876 |
| 3,536 | 31,595 | 143,460 |
| 2,788 | 25,551 | 56,964 |
| 4,816 | 894,966 | 970,376 |
| 37,860 | 39,766 | 93,742 |
| 9,866 | 10,549 | 367,885 |
| 121 | 891 | 4,638 |
| 306,300 | 1,837,573 | 5,389,415 |
| 12,675 | 209,150 | 734,481 |
| $ 293,625 | $ 1,628,423 | $ 4,654,934 |

## Unearned Revenue

Unearned revenue at June 30, 2024, consisted of the following (expressed in thousands):

| Unearned Revenue | General | Higher Education Special Revenue | Higher Education Endowment and Other Permanent Funds |
|---|---|---|---|
| Other taxes | $ 2,134 | $ — | $ — |
| Charges for services | 138,601 | 275,502 | — |
| Donable goods | — | — | — |
| Grants and donations [1] | 579,420 | 10,080 | — |
| Tolls | — | — | — |
| Transportation | — | — | — |
| Miscellaneous | 436 | 9,299 | — |
| **Total Unearned Revenue** | $ 720,591 | $ 294,881 | $ — |

Notes:

(1) Unearned revenue from grants and donations includes $474.2 million 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, 2024, consisted of the following (expressed in thousands):

| Unavailable Revenue | General | Higher Education Special Revenue | Higher Education Endowment and Other Permanent Funds |
|---|---|---|---|
| Property taxes | $ 2,250,618 | $ — | $ — |
| Other taxes | 1,659,754 | 54,627 | — |
| Timber sales | 2,366 | — | 13,750 |
| Transportation | — | — | — |
| Charges for services | 3,000 | — | — |
| Miscellaneous | — | — | — |
| **Total Unavailable Revenue** | $ 3,915,738 | $ 54,627 | $ 13,750 |

| Wildlife and Natural Resources | | Nonmajor Governmental Funds | | Total | |
|---|---|---|---|---|---|
| $ | — | $ | 353 | $ | 2,487 |
| | 21,858 | | 44,103 | | 480,064 |
| | — | | 5,891 | | 5,891 |
| | — | | 59,105 | | 648,605 |
| | — | | 26,412 | | 26,412 |
| | — | | 14,206 | | 14,206 |
| | — | | 16,948 | | 26,683 |
| $ | 21,858 | $ | 167,018 | $ | 1,204,348 |

| Wildlife and Natural Resources | | Nonmajor Governmental Funds | | Total | |
|---|---|---|---|---|---|
| $ | — | $ | — | $ | 2,250,618 |
| | 3,029 | | 25,891 | | 1,743,301 |
| | 37,860 | | 39,766 | | 93,742 |
| | — | | 1,657 | | 1,657 |
| | 9,174 | | 123 | | 12,297 |
| | — | | 13,019 | | 13,019 |
| $ | 50,063 | $ | 80,456 | $ | 4,114,634 |

## B. PROPRIETARY FUNDS

### Receivables

Receivables at June 30, 2024, consisted of the following (expressed in thousands):

| | Business-Type Activities Enterprise Funds | | |
|---|---|---|---|
| **Receivables** | **Workers' Compensation** | **Unemployment Compensation** | **Higher Education Student Services** |
| Accounts receivable | $ 1,233,871 | $ 1,884,182 | $ 760,693 |
| Interest | 156,624 | — | 1,413 |
| Investment trades pending | 722 | — | 551 |
| Loans | — | — | 152 |
| Leases receivable | — | — | 5,419 |
| Miscellaneous | 90 | — | 749 |
| Subtotal | 1,391,307 | 1,884,182 | 768,977 |
| Less: Allowance for uncollectible receivables | 286,425 | 664,302 | 149,581 |
| **Total Receivables** | $ 1,104,882 | $ 1,219,880 | $ 619,396 |

### Unearned Revenue

Unearned revenue at June 30, 2024, consisted of the following (expressed in thousands):

| | Business-Type Activities Enterprise Funds | | |
|---|---|---|---|
| **Unearned Revenue** | **Workers' Compensation** | **Unemployment Compensation** | **Higher Education Student Services** |
| Charges for services | $ — | $ — | $ 93,968 |
| Premiums and assessments | 2,794 | — | — |
| Miscellaneous | 3,211 | 10,623 | 181 |
| **Total Unearned Revenue** | $ 6,005 | $ 10,623 | $ 94,149 |

### Taxes Receivables

Taxes receivables at June 30, 2024, consisted of $3.8 million for petroleum products, net of allowance.

## C. FIDUCIARY FUNDS

### Other Receivables

Receivables at June 30, 2024, consisted of $90.0 million for interest and other miscellaneous amounts.

### Unearned Revenue

Unearned revenue at June 30, 2024, consisted of $744 thousand for service credit restorations reported in Pension and Other Employee Benefit Plans.

| | | | Governmental Activities |
|---|---|---|---|
| Health Insurance | Nonmajor Enterprise Funds | Total | Internal Service Funds |
| $ 67,062 | $ 923,782 | $ 4,869,590 | $ 103,203 |
| 2,861 | 15,305 | 176,203 | 69 |
| 2,364 | 1,402 | 5,039 | — |
| — | — | 152 | 229 |
| — | — | 5,419 | — |
| — | 2 | 841 | 128 |
| 72,287 | 940,491 | 5,057,244 | 103,629 |
| (183) | 2,604 | 1,102,729 | 3,554 |
| $ 72,470 | $ 937,887 | $ 3,954,515 | $ 100,075 |

| | | | Governmental Activities |
|---|---|---|---|
| Health Insurance | Nonmajor Enterprise Funds | Total | Internal Service Funds |
| $ 2,030 | $ 816 | $ 96,814 | $ 6,959 |
| — | 92,863 | 95,657 | — |
| — | 2 | 14,017 | 1,097 |
| $ 2,030 | $ 93,681 | $ 206,488 | $ 8,056 |

# Note 5

## Interfund Balances and Transfers

### A. INTERFUND BALANCES

Interfund balances as reported in the financial statements at June 30, 2024, consisted of the following (expressed in thousands):

| | Due From | | | | | |
|---|---|---|---|---|---|---|
| **Due To** | **General** | **Higher Education Special Revenue** | **Higher Education Endowment and Other Permanent Funds** | **Wildlife and Natural Resources** | **Nonmajor Governmental Funds** | **Workers' Compensation** |
| General | $ — | $ 460,328 | $ — | $ 27,671 | $ 843,705 | $ 195 |
| Higher Education Special Revenue | 105,982 | — | 737,650 | 4,091 | 8,285 | 1,358 |
| Higher Education Endowment and Other Permanent Funds | — | — | — | 170 | — | — |
| Wildlife and Natural Resources | 50,452 | 54 | — | — | 7,622 | 5 |
| Nonmajor Governmental Funds | 72,625 | 35,381 | 2,553 | 9,512 | 309,610 | 23 |
| Workers' Compensation | 611 | 505 | — | — | 1 | — |
| Unemployment Compensation | 1,823 | 2,197 | — | 155 | 759 | 91 |
| Higher Education Student Services | 179 | 26,738 | — | 1 | 11 | 26 |
| Health Insurance | 1 | — | — | — | 7 | — |
| Nonmajor Enterprise Funds | 26,902 | 8 | — | 284 | 3,001 | 4 |
| Internal Service Funds | 76,233 | 91,630 | — | 6,225 | 42,163 | 6,971 |
| **Totals** | $ 334,808 | $ 616,841 | $ 740,203 | $ 48,109 | $ 1,215,164 | $ 8,673 |

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) $128.6 million on a revolving loan from the Higher Education Special Revenue Fund to the Higher Education Student Services Fund and (2) $6.1 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 eight years.

In addition to the interfund balances noted in the schedule above, there are interfund balances of $45.5 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 |
| $ 13 | $ 3 | $ 7 | $ 15,881 | $ 217,659 | $ — | $ 1,565,462 |
| — | 158,332 | 73 | 282 | 13,164 | — | 1,029,217 |
| — | — | — | — | — | — | 170 |
| — | — | — | — | 860 | — | 58,993 |
| 258 | 8 | 20 | 796 | 8,028 | 94 | 438,908 |
| — | — | — | — | — | — | 1,117 |
| — | — | — | 15 | 106 | — | 5,146 |
| — | — | — | — | — | — | 26,955 |
| — | — | — | — | — | — | 8 |
| 2 | 15 | — | 104,160 | 167 | 22 | 134,565 |
| — | 111 | 305 | 1,426 | 7,887 | — | 232,951 |
| $ 273 | $ 158,469 | $ 405 | $ 122,560 | $ 247,871 | $ 116 | $ 3,493,492 |

## B. INTERFUND TRANSFERS

Interfund transfers as reported in the financial statements for the year ended June 30, 2024, consisted of the following (expressed in thousands):

| | Transferred To | | | | |
|---|---|---|---|---|---|
| Transferred From | General | Higher Education Special Revenue | Higher Education Endowment and Other Permanent Funds | Wildlife and Natural Resources | Nonmajor Governmental Funds |
| General | $ — | $ 41,106 | $ 300 | $ 18,652 | $ 1,805,115 |
| Higher Education Special Revenue | 223,870 | — | 104 | — | 44,766 |
| Higher Education Endowment and Other Permanent Funds | — | 1,064 | — | — | 32,036 |
| Wildlife and Natural Resources | 554 | — | 1,514 | — | 225,943 |
| Nonmajor Governmental Funds | 429,136 | 32,848 | — | 6,432 | 1,369,783 |
| Workers' Compensation | — | — | — | — | — |
| Unemployment Compensation | — | — | — | — | — |
| Higher Education Student Services | — | 12,575 | — | — | 7,693 |
| Health Insurance | — | — | — | — | 1,382 |
| Nonmajor Enterprise Funds | 254,753 | — | — | — | 798 |
| Internal Service Funds | — | 278 | — | — | 1,713 |
| **Totals** | $ 908,313 | $ 87,871 | $ 1,918 | $ 25,084 | $ 3,489,229 |

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, 2024, $313.7 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 $76.1 million within the state's Pension Trust Funds.

| Transferred To | | | | | | |
|---|---|---|---|---|---|---|
| Workers' Compensation | Unemployment Compensation | Higher Education Student Services | Health Insurance | Nonmajor Enterprise Funds | Internal Service Funds | Totals |
| $ — | $ — | $ — | $ — | $ 10,000 | $ 25,720 | $ 1,900,893 |
| — | — | 30,808 | — | — | 7,712 | 307,260 |
| — | — | — | — | — | — | 33,100 |
| — | — | — | — | — | 3,000 | 231,011 |
| — | — | 53 | — | — | 171 | 1,838,423 |
| — | — | — | — | — | — | — |
| — | — | — | — | — | — | — |
| — | — | — | — | — | 692 | 20,960 |
| — | — | — | — | — | — | 1,382 |
| — | — | — | — | — | — | 255,551 |
| — | — | 886 | — | — | — | 2,877 |
| $ — | $ — | $ 31,747 | $ — | $ 10,000 | $ 37,295 | $ 4,591,457 |

# Note 6
## Capital Assets

Capital assets at June 30, 2024, 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, 2024 (expressed in thousands):

| Capital Assets | Balances July 1, 2023* | Additions | Deletions/ Adjustments | Balances June 30, 2024 |
|---|---|---|---|---|
| **Capital Assets, Not Being Depreciated:** | | | | |
| Land | $ 3,084,831 | $ 144,556 | $ (30,425) | $ 3,198,962 |
| Transportation infrastructure | 27,821,864 | 1,171,670 | — | 28,993,534 |
| Intangible assets - indefinite lives | 35,701 | 2 | — | 35,703 |
| Art collections, library reserves, and museum and historical collections | 161,646 | 3,188 | (31) | 164,803 |
| Construction in progress | 2,154,595 | 834,042 | (741,103) | 2,247,534 |
| **Total Capital Assets, Not Being Depreciated** | 33,258,637 | | | 34,640,536 |
| **Capital Assets, Being Depreciated:** | | | | |
| Buildings | 17,801,252 | 632,188 | (61,549) | 18,371,891 |
| Accumulated depreciation | (8,434,678) | (511,580) | 47,754 | (8,898,504) |
| Net buildings | 9,366,574 | | | 9,473,387 |
| Other improvements | 1,767,820 | 45,467 | (7,979) | 1,805,308 |
| Accumulated depreciation | (1,080,476) | (38,201) | 5,175 | (1,113,502) |
| Net other improvements | 687,344 | | | 691,806 |
| Furnishings, equipment, and intangible assets | 6,492,135 | 517,131 | (169,500) | 6,839,766 |
| Accumulated depreciation | (4,379,606) | (304,418) | 147,676 | (4,536,348) |
| Net furnishings, equipment, and intangible assets | 2,112,529 | | | 2,303,418 |
| Infrastructure | 1,488,792 | 70,047 | (15,598) | 1,543,241 |
| Accumulated depreciation | (860,092) | (43,817) | 11,803 | (892,106) |
| Net infrastructure | 628,700 | | | 651,135 |
| **Total Capital Assets, Being Depreciated, Net** | 12,795,147 | | | 13,119,746 |
| **Lease and Subscription Assets, Net (see Note 10)** | 1,559,760 | (83,450) | (3,158) | 1,473,152 |
| **Governmental Activities Capital Assets, Net** | $ 47,613,544 | | | $ 49,233,434 |

*Corrections of errors in previously issued financial statements resulted in a decrease in capital assets of $30.7 million and a decrease in accumulated amortization/depreciation of $127.3 million. See Note 2 Accounting Changes and Error Corrections for details.

## B. BUSINESS-TYPE CAPITAL ASSETS

The following is a summary of business-type capital asset activity for the year ended June 30, 2024 (expressed in thousands):

| Capital Assets | Balances July 1, 2023* | Additions | Deletions/ Adjustments | Balances June 30, 2024 |
|---|---|---|---|---|
| **Capital Assets, Not Being Depreciated:** | | | | |
| Land | $ 75,070 | $ 1,563 | $ (2) | $ 76,631 |
| Art collections | 167 | — | — | 167 |
| Construction in progress | 229,326 | 24,697 | (32,222) | 221,801 |
| **Total Capital Assets, Not Being Depreciated** | 304,563 | | | 298,599 |
| **Capital Assets, Being Depreciated:** | | | | |
| Buildings | 4,423,736 | 281,570 | (10) | 4,705,296 |
| Accumulated depreciation | (1,968,944) | (90,301) | (192) | (2,059,437) |
| Net buildings | 2,454,792 | | | 2,645,859 |
| Other improvements | 167,036 | 2,201 | (1,789) | 167,448 |
| Accumulated depreciation | (90,044) | (5,489) | 88 | (95,445) |
| Net other improvements | 76,992 | | | 72,003 |
| Furnishings, equipment, and intangible assets | 1,358,665 | 60,319 | (11,520) | 1,407,464 |
| Accumulated depreciation | (1,004,689) | (63,868) | 11,172 | (1,057,385) |
| Net furnishings, equipment, and intangible assets | 353,976 | | | 350,079 |
| Infrastructure | 45,337 | 332 | — | 45,669 |
| Accumulated depreciation | (27,230) | (1,936) | — | (29,166) |
| Net infrastructure | 18,107 | | | 16,503 |
| **Total Capital Assets, Being Depreciated, Net** | 2,903,867 | | | 3,084,444 |
| **Lease and Subscription Assets, Net (see Note 10)** | 311,622 | (7,532) | (15,024) | 289,066 |
| **Business-Type Activities Capital Assets, Net** | $ 3,520,052 | | | $ 3,672,109 |

*Corrections of errors in previously issued financial statements resulted in a decrease in capital assets of $131.8 million and a decrease in accumulated amortization/depreciation of $43.2 million. See Note 2 Accounting Changes and Error Corrections for details.

## C. DEPRECIATION AND AMORTIZATION

Depreciation/amortization expense for the year ended June 30, 2024, was charged by the primary government as follows (expressed in thousands):

| | Lease Assets | Subscription Assets | Remaining Capital Assets, being depreciated |
|---|---|---|---|
| **Governmental Activities:** | | | |
| General government | $ 44,572 | $ 46,066 | $ 97,179 |
| Education - elementary and secondary (K-12) | 164 | 315 | 3,899 |
| Education - higher education | 49,235 | 37,047 | 479,251 |
| Human services | 80,372 | 17,951 | 90,219 |
| Adult corrections | 8,454 | 4,922 | 46,986 |
| Natural resources and recreation | 5,464 | 2,433 | 61,664 |
| Transportation | 12,054 | 4,498 | 118,818 |
| **Total Depreciation/Amortization Expense - Governmental Activities *** | $ 200,315 | $ 113,232 | $ 898,016 |
| | | | |
| **Business-Type Activities:** | | | |
| Workers' compensation | $ 7,456 | $ 1,790 | $ 1,180 |
| Unemployment compensation | — | — | — |
| Higher education student services | 42,917 | 14,143 | 151,779 |
| Health Insurance | 795 | — | 40 |
| Other | 1,260 | 1,574 | 8,596 |
| **Total Depreciation/Amortization Expense - Business-Type Activities** | $ 52,428 | $ 17,507 | $ 161,595 |

*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 $16.4 million for lease assets, $37.6 million for subscription assets, and $108.2 million for other capital assets, being depreciated/amortized.

## D. CONSTRUCTION IN PROGRESS

Major construction commitments of the state at June 30, 2024, are as follows (expressed in thousands):

Continued

| Agency / Project Commitments | Construction in Progress June 30, 2024 | Remaining Project Commitments |
|---|---|---|
| **Office of Financial Management:** | | |
| One Washington | $ 117,353 | $ 102,000 |
| **Department of Retirement Systems:** | | |
| CORE: Pension Administration Modernization | 11,360 | 54,640 |
| **Department of Enterprise Services:** | | |
| Legislative campus modernization and other projects | 125,478 | 136,904 |
| **Liquor and Cannabis Board:** | | |
| Systems modernization project | 24,396 | — |
| **Washington State Patrol:** | | |
| Crime labs and other projects | 818 | 18,769 |
| **Department of Labor and Industries:** | | |
| Division of Occupational Safety and Health Lab and Training Facility | 50,465 | 1,925 |
| **Military Department:** | | |
| Thurston County and Anacortes Readiness Centers, and other projects | 28,390 | 4,586 |
| **Department of Social and Health Services:** | | |
| Residential, rehabilitation, and other facilities | 63,053 | 57,858 |
| State hospitals / treatment centers | 260,363 | 727,578 |
| **Department of Children, Youth, and Families:** | | |
| Green Hill School, Echo Glen, and other projects | 43,586 | 19,618 |
| **Department of Corrections:** | | |
| Correctional center units security and safety improvements | 20,106 | 6,704 |
| Other projects | 2,953 | 20,260 |
| **Center for Deaf and Hard of Hearing Youth:** | | |
| Academic and physical education facility | 46,187 | 7,943 |
| **Department of Transportation:** | | |
| Olympic and Dayton Ave Regional Headquarter building projects | 74,077 | 1 |
| State ferry vessels and terminals | 534,689 | 9,254 |
| Transportation infrastructure | — | 1,170,021 |
| Other projects | 3,373 | 6,470 |
| **State Parks and Recreation Commission:** | | |
| Schafer State Park and Mount Spokane facility relocations, and other projects | 11,128 | 12,357 |
| **Department of Fish and Wildlife:** | | |
| Deschutes Watershed and Wooten Wildlife Area projects | 16,433 | 33,651 |
| Naselle, Wallace River, and Washougal hatcheries, and other hatchery projects | 31,458 | 47,091 |
| Other projects | 27,218 | 48,306 |

Concluded

| Agency / Project Commitments | Construction in Progress June 30, 2024 | Remaining Project Commitments |
|---|---|---|
| **Department of Natural Resources:** | | |
| Abernathy site and other projects | $ 7,606 | $ 21,341 |
| **Employment Security Department:** | | |
| Internal Accounting Financial System, WorkSource Integrated Technology, Long-Term Services and Support System, and other projects | 13,651 | 36,859 |
| **University of Washington:** | | |
| Husky Stadium team meal kitchen | 32,016 | 1,951 |
| Magnuson Health Sciences Center renovation | 206,564 | 142,710 |
| UW Medical Center expansion, upgrades, and renovation projects | 75,110 | 55,163 |
| Other projects | 19,242 | 18,998 |
| **Washington State University:** | | |
| Rogers and Orton renovations and other housing and dining projects | 1,075 | 759 |
| Taylor Sports Complex, Champions Center, and other athletics projects | 17,470 | 14,571 |
| Voiland College of Engineering and Architecture New Student Success Building, Eastlick-Abelson Renovation, and other facility projects | 28,444 | 140,715 |
| Other projects | 11,709 | 24,142 |
| **Eastern Washington University:** | | |
| Science Building renovation, Rozell boiler, and other projects | 78,189 | 76,681 |
| **Central Washington University:** | | |
| Health Education building and other projects | 106,838 | — |
| **The Evergreen State College:** | | |
| Seminar Building renovation and other projects | 12,480 | 29,915 |
| **Western Washington University:** | | |
| Electrical Engineering and Computer Science Building and other projects | 66,285 | 87,839 |
| **Community and Technical Colleges:** | | |
| Bates Technical College Fire Services Building | 1,713 | 38,754 |
| Bellevue Center for Transdisciplinary Learning and other projects | 3,949 | 36,989 |
| Clark College Boschma Farms | 44,147 | — |
| Pierce College buildings and other projects | 57,887 | 20,594 |
| Seattle Library renovation and other projects | 48,196 | 1,625 |
| Spokane various capital projects | 37,040 | 9,827 |
| Tacoma Center for Innovative Learning and Engagement and other projects | 22,175 | 24,622 |
| Other community college projects | 56,055 | 38,411 |
| **Other Agency Projects:** | 28,610 | 7,561 |
| **Total Construction in Progress** | $ 2,469,335 | $ 3,315,963 |

# Note 7
## Long-Term Liabilities

### A. BONDS AND NOTES PAYABLE

Bonds payable at June 30, 2024, 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 2024 is $2.15 billion.

This computation excludes specific bond issues and types that are not secured by general state revenues. Of the $21.66 billion general obligation bond debt principal outstanding at June 30, 2024, $14.16 billion is subject to the limitation.

Based on the debt limitation calculation, the debt service requirements as of June 30, 2024, 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 $14.35 billion in general obligation bonds authorized but unissued as of June 30, 2024, for the purpose of capital construction, transportation, and various other projects throughout the state.

**Interest Rates**
Interest rates on fixed rate general obligation bonds range from 0.47 to 5.70 percent. Interest rates on revenue bonds range from 0.19 to 10.00 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, 2024, are as follows (expressed in thousands):

| | Governmental Activities | | Business-Type Activities | | Totals | |
|---|---|---|---|---|---|---|
| **General Obligation Bonds** | **Principal** | **Interest** | **Principal** | **Interest** | **Principal** | **Interest** |
| **By Fiscal Year:** | | | | | | |
| 2025 | $ 1,175,750 | $ 1,076,737 | $ — | $ — | $ 1,175,750 | $ 1,076,737 |
| 2026 | 1,180,076 | 1,031,294 | — | — | 1,180,076 | 1,031,294 |
| 2027 | 1,183,254 | 977,583 | — | — | 1,183,254 | 977,583 |
| 2028 | 1,179,231 | 925,679 | — | — | 1,179,231 | 925,679 |
| 2029 | 1,198,147 | 872,107 | — | — | 1,198,147 | 872,107 |
| 2030-2034 | 5,726,966 | 3,274,766 | — | — | 5,726,966 | 3,274,766 |
| 2035-2039 | 4,772,870 | 1,941,786 | — | — | 4,772,870 | 1,941,786 |
| 2040-2044 | 3,653,815 | 854,769 | — | — | 3,653,815 | 854,769 |
| 2045-2049 | 1,586,634 | 173,475 | — | — | 1,586,634 | 173,475 |
| **Total Debt Service Requirements** | $ 21,656,743 | $ 11,128,196 | $ — | $ — | $ 21,656,743 | $ 11,128,196 |

## 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, 2024, include $959.9 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, 2024, are as follows (expressed in thousands):

| | Governmental Activities | | Business-Type Activities | | Totals | |
|---|---|---|---|---|---|---|
| **Revenue Bonds** | **Principal** | **Interest** | **Principal** | **Interest** | **Principal** | **Interest** |
| **By Fiscal Year:** | | | | | | |
| 2025 | $ 112,965 | $ 62,065 | $ 163,090 | $ 93,274 | $ 276,055 | $ 155,339 |
| 2026 | 55,296 | 58,605 | 94,915 | 89,352 | 150,211 | 147,957 |
| 2027 | 58,425 | 56,161 | 96,700 | 85,189 | 155,125 | 141,350 |
| 2028 | 66,105 | 53,523 | 110,916 | 80,844 | 177,021 | 134,367 |
| 2029 | 64,652 | 50,733 | 104,711 | 75,931 | 169,363 | 126,664 |
| 2030-2034 | 330,004 | 211,521 | 528,293 | 312,754 | 858,297 | 524,275 |
| 2035-2039 | 362,088 | 131,607 | 517,646 | 192,739 | 879,734 | 324,346 |
| 2040-2044 | 249,954 | 63,104 | 357,425 | 83,443 | 607,379 | 146,547 |
| 2045-2049 | 155,583 | 29,132 | 176,296 | 23,005 | 331,879 | 52,137 |
| 2050-2054 | 45,608 | 4,218 | 5,483 | 315 | 51,091 | 4,533 |
| **Total Debt Service Requirements** | $ 1,500,680 | $ 720,669 | $ 2,155,475 | $ 1,036,846 | $ 3,656,155 | $ 1,757,515 |

Governmental activities include revenue bonds 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. During fiscal year 2024, TSA paid off all bonds and transferred all remaining funds to the General Fund. For the current year, pledged revenue was $13.3 million and debt service was $35.1 million.

Governmental activities include grant anticipation revenue bonds outstanding at June 30, 2024, of $57.3 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 $58.7 million, payable through 2024. For the current year, both pledged revenue and debt service were $98.5 million.

Governmental activities include the Transportation Infrastructure Finance and Innovation Act Bond (TIFIA Bond) outstanding at June 30, 2024, of $275.2 million. The bonds were issued to finance a portion of the State Route 520 Corridor Program.

The TIFIA Bond is payable solely from toll revenues and does not constitute either a legal or moral obligation of the state, nor does the state pledge its full faith, credit, or taxing power for payment of this bond. Total principal and interest remaining on the bond is $451.2 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, 2024, of $21.3 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 $23.7 million, payable through 2029. For the current year, both pledged revenue and debt service were $4.5 million.

Governmental activities include revenue bonds outstanding at June 30, 2024, of $186.9 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 $269.7 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, 2024, 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 | $ 35,153 | $ 12,440 | $ — |
| Current year debt service | 20,250 | 7,231 | 202 |
| Total future revenues pledged * | 345,919 | 107,822 | 2,023 |
| Description of debt | Housing and dining bonds issued in 2010-2022 | 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 |
| Ending year of commitment | 2026-2049 | 2034-2047 | 2034 |
| Percentage of debt service to pledged revenues (current year) | 57.60 % | 58.13 % | — % |

* Total future principal and interest payments.

### Other Notes Payable

Total debt service requirements for other notes payable to maturity as of June 30, 2024, are as follows (expressed in thousands):

| | Governmental Activities | | Business-Type Activities | | Totals | |
|---|---|---|---|---|---|---|
| **Notes Payable** | **Principal** | **Interest** | **Principal** | **Interest** | **Principal** | **Interest** |
| **By Fiscal Year:** | | | | | | |
| 2025 | $ 994 | $ — | $ — | $ — | $ 994 | $ — |
| 2026 | 50 | — | — | — | 50 | — |
| **Total** | $ 1,044 | $ — | $ — | $ — | $ 1,044 | $ — |

## B. CERTIFICATES OF PARTICIPATION

Certificates of participation at June 30, 2024, 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, 2024, are as follows (expressed in thousands):

| Certificates of Participation | Governmental Activities Principal | Governmental Activities Interest | Business-Type Activities Principal | Business-Type Activities Interest | Totals Principal | Totals Interest |
|---|---|---|---|---|---|---|
| **By Fiscal Year:** | | | | | | |
| 2025 | $ 132,861 | $ 46,221 | $ 6,760 | $ 2,352 | $ 139,621 | $ 48,573 |
| 2026 | 63,830 | 21,115 | 19,396 | 6,416 | 83,226 | 27,531 |
| 2027 | 59,079 | 17,960 | 17,953 | 5,458 | 77,032 | 23,418 |
| 2028 | 50,900 | 15,309 | 15,467 | 4,652 | 66,367 | 19,961 |
| 2029 | 39,617 | 13,111 | 12,039 | 3,984 | 51,656 | 17,095 |
| 2030-2034 | 126,060 | 43,082 | 38,307 | 13,091 | 164,367 | 56,173 |
| 2035-2039 | 86,132 | 18,493 | 26,173 | 5,619 | 112,305 | 24,112 |
| 2040-2044 | 29,915 | 4,269 | 9,090 | 1,297 | 39,005 | 5,566 |
| 2045-2049 | 1,507 | 75 | 459 | 23 | 1,966 | 98 |
| **Total Debt Service Requirements** | $ 589,901 | $ 179,635 | $ 145,644 | $ 42,892 | $ 735,545 | $ 222,527 |

## 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 September 6, 2023, Washington State Unversity issued $19.5 million in general revenue refunding bonds with an average interest rate of 5.00 percent to refund $20.0 million of general revenue bonds to fund various capital projects with an average interest rate of 5.00 percent. The refunding resulted in $1.2 million gross debt service savings over the next 10 years and an economic gain of $1.6 million.

On November 21, 2023, the state issued $289.7 million in various purpose general obligation refunding bonds with an average interest rate of 5.00 percent to refund $311.5 million of various purpose general obligation bonds with an average interest rate of 5.00 percent. The refunding resulted in $38.7 million gross debt service savings over the next 15 years and an economic gain of $29.4 million.

Also on November 21, 2023, the state issued $181.8 million in motor vehicle fuel tax general obligation refunding bonds with an average interest rate of 5.00 percent to refund $196.0 million of motor vehicle fuel tax general obligation bonds with an average interest rate of 5.00 percent. The refunding resulted in $20.6 million gross debt service savings over the next 15 years and an economic gain of $18.0 million.

On April 1, 2024, the state issued $1.09 billion in motor vehicle fuel tax general obligation refunding bonds with an average interest rate of 5.00 percent to refund $1.22 billion of motor vehicle fuel tax general obligation bonds with an average interest rate of 5.24 percent. The refunding resulted in $22.7 million gross debt service savings over the next 17 years and an economic gain of $18.8 million.

On June 18, 2024, Washington State University issued $12.6 million in general revenue refunding bonds with an average interest rate of 5.00 percent to refund $13.4 million of general revenue bonds to fund the construction of a clean technology laboratory building with an average interest rate of 5.00 percent. The refunding resulted in $770 thousand gross debt service savings over the next 15 years and an economic gain of $1.0 million.

**Business-Type Activities**
On September 6, 2023, Washington State University issued $731 thousand in general revenue refunding bonds with an average interest rate of 5.00 percent to refund $1.9 million of general revenue bonds to fund various housing and dining projects with an average interest rate of 5.00 percent. The refunding resulted in $1.1 million

gross debt service savings over the next two years and an economic gain of $639 thousand.

On February 15, 2024, the University of Washington issued $168.1 million in general revenue refunding bonds with an average interest rate of 5.00 percent to refund $221.9 million of general revenue bonds to fund various capital projects with an average interest rate of 2.64 percent. The refunding resulted in $29.0 million gross debt service savings over the next 18 years and an economic gain of $19.4 million.

### Prior Year Defeasances

In prior years, the state defeased certain general obligation bonds, revenue bonds, and certificates of participation by placing the proceeds of new bonds and certificates 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.

### Revenue Bond Debt

On June 30, 2024, $31.2 million of revenue bond 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, 2024, $59.78 billion of unpaid claims and claim adjustment expenses are presented at their net present and settlement value of $43.65 billion. These claims are discounted at assumed interest rates of 1.5 percent for non-pension and cost of living adjustments, 5.5 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 $43.65 billion as of June 30, 2024, include $27.18 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 $16.48 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 2023 and 2024 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 |
|---|---|---|---|---|
| 2023 | $ 38,702,756 | 3,768,468 | (2,799,764) | $ 39,671,460 |
| 2024 | $ 39,671,460 | 6,904,840 | (2,923,050) | $ 43,653,250 |

### 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, 2024, 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 $2.49 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 2023 and 2024 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 |
|---|---|---|---|---|---|
| 2023 | $ 1,556,098 | 178,467 | (183,706) | (32,697) | $ 1,518,162 |
| 2024 | $ 1,518,162 | 2,256,317 | (1,252,032) | (31,904) | $ 2,490,543 |

### 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, 2024, health insurance claims liabilities totaling $208.4 million are fully funded with cash and investments, net of obligations under securities lending agreements.

Changes in the balances of health insurance claims liabilities during fiscal years 2023 and 2024 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 |
|---|---|---|---|---|
| 2023 | $ 241,234 | 2,590,412 | (2,652,661) | $ 178,985 |
| 2024 | $ 178,985 | 3,073,551 | (3,044,094) | $ 208,442 |

## E. POLLUTION REMEDIATION

The liability report for pollution remediation obligations 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 45 projects in progress for which the state has recorded a liability of $164.6 million.

The state has also voluntarily agreed to conduct certain remediation activities to the extent of funding paid to the state by third parties for such purposes. At June 30, 2024, the state has recorded a liability of $140.0 million for remaining project commitments.

Overall, the state has recorded a pollution remediation liability of $304.6 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 liability reported for asset retirement obligations 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 0-15 years.

The state has recorded an asset retirement obligation of $31.8 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, 2024, 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 2024 is as follows (expressed in thousands):

| Governmental Activities: | Beginning Balance July 1, 2023* | Additions | Reductions | Ending Balance June 30, 2024 | Amounts Due Within One Year |
|---|---|---|---|---|---|
| **Long-Term Debt:** | | | | | |
| GO Bonds Payable: | | | | | |
| General obligation (GO) bonds | $ 20,773,790 | $ 3,608,205 | $ 2,862,250 | $ 21,519,745 | $ 1,149,910 |
| GO - zero coupon bonds (principal) | 164,228 | — | 27,230 | 136,998 | 25,840 |
| Subtotal - GO bonds payable | 20,938,018 | 3,608,205 | 2,889,480 | 21,656,743 | 1,175,750 |
| Accreted interest - GO - zero coupon bonds | 292,260 | — | 26,520 | 265,740 | 52,295 |
| Revenue bonds payable | 1,577,628 | 32,149 | 109,097 | 1,500,680 | 112,965 |
| Plus: Unamortized premiums on bonds sold | 3,151,570 | 479,451 | 266,425 | 3,364,596 | — |
| Less: Deferred issuance discounts | (58) | — | — | (58) | — |
| **Total Bonds Payable** | 25,959,418 | 4,119,805 | 3,291,522 | 26,787,701 | 1,341,010 |
| **Other Liabilities:** | | | | | |
| Certificates of participation | 579,205 | 96,232 | 85,536 | 589,901 | 132,861 |
| Plus: Unamortized premiums on COPs sold | 17,825 | 5,858 | 4,314 | 19,369 | — |
| Claims and judgments payable | 2,060,494 | 1,223,009 | 344,633 | 2,938,870 | 539,018 |
| Installment contracts | 768 | — | 137 | 631 | 137 |
| Right-to-use lease liabilities | 1,390,027 | 93,562 | 174,641 | 1,308,948 | 162,983 |
| Subscription liabilities | 203,742 | 127,100 | 131,078 | 199,764 | 87,670 |
| Notes payable | 1,205 | 390 | 551 | 1,044 | 994 |
| Compensated absences | 906,703 | 650,061 | 552,810 | 1,003,954 | 193,041 |
| Net pension liability | 1,322,852 | 884,509 | 1,145,369 | 1,061,992 | — |
| Total OPEB liability | 3,612,506 | 3,087,189 | 2,966,202 | 3,733,493 | 94,080 |
| Pollution remediation obligations | 298,946 | 20,198 | 14,559 | 304,585 | — |
| Unclaimed property refunds | 149,318 | 41,235 | 2,997 | 187,556 | 1,424 |
| Asset retirement obligations | 31,171 | 629 | — | 31,800 | — |
| Other | 449,776 | 140,115 | 152,904 | 436,987 | 62,401 |
| **Total Other Liabilities** | 11,024,538 | 6,370,087 | 5,575,731 | 11,818,894 | 1,274,609 |
| **Total Long-Term Debt** | $ 36,983,956 | $ 10,489,892 | $ 8,867,253 | $ 38,606,595 | $ 2,615,619 |

*Corrections of errors in previously issued financial statements resulted in a decrease in right-to-use lease liabilities of $3.6 million and a decrease in subscription liabilities of $69.6 million. Refer to Note 2 Accounting Changes and Error Corrections for more details.

For governmental activities, certificates of participation are being repaid approximately 58.11 percent from the Higher Education Special Revenue Fund, 19.90 percent from the Higher Education Capital Projects Fund (a nonmajor governmental fund), and the balance from various other governmental funds. The claims and judgments payable will be liquidated approximately 84.74 percent by the Risk Management Fund, 8.98 percent by the Higher Education Revolving Fund (both are internal service funds), and the balance by various other governmental funds. The right-to-use lease liabilities will be liquidated approximately 71.43 percent by the General Fund, 6.07 percent by the Higher Education Special Revenue Fund, and the balance by various other governmental funds. The subscription liabilities will be liquidated approximately 47.04 percent by the General Fund, 31.12 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 47.18 percent by the General Fund, 31.49 percent by the Higher Education Special Revenue Fund, and the balance by various other governmental funds. The net pension liability will be liquidated approximately 50.14 percent by the General Fund, 32.87 percent by the Higher Education Special Revenue Fund, and the balance by various other governmental funds. The total OPEB liability will be liquidated approximately 46.70 percent by the General Fund, 33.19 percent by the Higher Education Special Revenue Fund, and the balance by various other governmental funds. The pollution remediation liability will be liquidated approximately 72.81 percent by the Wildlife and Natural Resources Special Revenue 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 2024 is as follows (expressed in thousands):

| Business-Type Activities | Beginning Balance July 1, 2023* | Additions | Reductions | Ending Balance June 30, 2024 | Amounts Due Within One Year |
|---|---|---|---|---|---|
| **Long-Term Debt:** | | | | | |
| Revenue bonds payable | $ 2,225,985 | $ 387,176 | $ 457,686 | $ 2,155,475 | $ 163,090 |
| Plus: Unamortized premiums on bonds sold | 155,390 | 51,684 | 29,571 | 177,503 | — |
| **Total Bonds Payable** | 2,381,375 | 438,860 | 487,257 | 2,332,978 | 163,090 |
| **Other Liabilities:** | | | | | |
| Certificates of participation | 151,403 | 74 | 5,833 | 145,644 | 6,760 |
| Plus: Unamortized premiums on COPs sold | 23,558 | — | 959 | 22,599 | — |
| Claims and judgments payable | 40,254,964 | 6,187,686 | 2,026,811 | 44,415,839 | 3,177,237 |
| Installment contracts | 1,458 | — | 723 | 735 | 735 |
| Lottery prize annuities payable | 100,606 | 7,817 | 14,711 | 93,712 | 11,370 |
| Tuition benefits payable | 1,142,000 | 72,098 | 73,098 | 1,141,000 | 110,000 |
| Right-to-use lease liabilities | 284,845 | 54,609 | 94,016 | 245,438 | 43,864 |
| Subscription liabilities | 36,318 | 31,529 | 12,400 | 55,447 | 14,838 |
| Compensated absences | 133,462 | 83,956 | 81,504 | 135,914 | 113,203 |
| Net pension liability | 195,540 | 110,608 | 141,861 | 164,287 | — |
| Total OPEB liability | 632,899 | 535,743 | 530,878 | 637,764 | 16,071 |
| Other | 158,617 | 6,286 | 19,997 | 144,906 | 1,562 |
| **Total Other Liabilities** | 43,115,670 | 7,090,406 | 3,002,791 | 47,203,285 | 3,495,640 |
| **Total Long-Term Debt** | $ 45,497,045 | $ 7,529,266 | $ 3,490,048 | $ 49,536,263 | $ 3,658,730 |

*Corrections of errors in previously issued financial statements resulted in a decrease in right-to-use lease liabilities of $5.7 million, an increase in subscription liabilities of $49 thousand, and an increase in claims and judgments payable of $11.1 million. Refer to Note 2 Accounting Changes and Error Corrections for more details.

# 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 or 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, 2024, balances for the "No Commitment" debt of the state's financing authorities (expressed in thousands):

| Financing Authorities | Principal Balance |
|---|---|
| Washington State Housing Finance Commission | $ 7,837,420 |
| Washington Health Care Facilities Authority | 5,134,061 |
| Washington Higher Education Facilities Authority | 720,713 |
| Washington Economic Development Finance Authority | 838,584 |
| **Total No Commitment Debt** | $ 14,530,778 |

# 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, 2024, outstanding COP notes totaled $136.5 million for 133 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, noncancellable 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, 2024, 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, 2024 (expressed in thousands):

| Governmental Activities | Balances July 1, 2023* | Additions | Deletions/ Adjustments | Balances June 30, 2024 |
|---|---|---|---|---|
| Land lease assets | $ 416,760 | $ — | $ (200) | $ 416,560 |
| Accumulated amortization | (30,633) | (10,587) | 201 | (41,019) |
| Net land lease assets | 386,127 | | | 375,541 |
| Building lease assets | 1,264,415 | 108,150 | (57,161) | 1,315,404 |
| Accumulated amortization | (347,990) | (181,265) | 55,789 | (473,466) |
| Net building lease assets | 916,425 | | | 841,938 |
| Equipment and other lease assets | 34,951 | 403 | (3,100) | 32,254 |
| Accumulated amortization | (16,843) | (8,463) | 3,100 | (22,206) |
| Net equipment and other lease assets | 18,108 | | | 10,048 |
| Subscription assets | 342,206 | 121,544 | (52,176) | 411,574 |
| Accumulated amortization | (103,106) | (113,232) | 50,389 | (165,949) |
| Net subscription assets | 239,100 | | | 245,625 |
| **Governmental Activities Lease and Subscription Assets, Net** | $ 1,559,760 | | | $ 1,473,152 |

*Corrections of errors in previously issued financial statements resulted in a decrease in capital assets of $302.3 million and a decrease in accumulated amortization of $269.2 million. Refer to Note 2 Accounting Changes and Error Corrections for more details.

The following is a summary of business-type right-to-use lease and subscription asset activity for the year ended June 30, 2024 (expressed in thousands):

| Business-Type Activities | Balances July 1, 2023* | Additions | Deletions/ Adjustments | Balances June 30, 2024 |
|---|---|---|---|---|
| Building lease assets | $ 281,700 | $ 17,480 | $ (28,840) | $ 270,340 |
| Accumulated amortization | (73,496) | (31,620) | 16,548 | (88,568) |
| Net building lease assets | 208,204 | | | 181,772 |
| Equipment and other lease assets | 114,870 | 6,374 | (17,913) | 103,331 |
| Accumulated amortization | (49,584) | (20,808) | 16,531 | (53,861) |
| Net equipment and other lease assets | 65,286 | | | 49,470 |
| Subscription assets | 61,253 | 38,548 | (7,453) | 92,348 |
| Accumulated amortization | (23,121) | (17,507) | 6,104 | (34,524) |
| Net subscription assets | 38,132 | | | 57,824 |
| **Business-Type Activities Lease and Subscription Assets, Net** | $ 311,622 | | | $ 289,066 |

*Corrections of errors in previously issued financial statements resulted in a decrease in capital assets of $24.8 million and a decrease in accumulated amortization of $26.2 million. Refer to Note 2 Accounting Changes and Error Corrections for more details.

## Lease and Subscription Liabilities

The following schedule presents future annual lease payments for governmental and business-type activities as of June 30, 2024 (expressed in thousands):

| | Governmental Activities | | Business-Type Activities | | Totals | |
|---|---|---|---|---|---|---|
| **Right-to-Use Lease Agreements** | **Principal** | **Interest** | **Principal** | **Interest** | **Principal** | **Interest** |
| **By Fiscal Year:** | | | | | | |
| 2025 | $ 162,983 | $ 31,014 | $ 43,864 | $ 6,253 | $ 206,847 | $ 37,267 |
| 2026 | 129,513 | 29,253 | 30,469 | 5,480 | 159,982 | 34,733 |
| 2027 | 104,374 | 26,942 | 28,654 | 4,782 | 133,028 | 31,724 |
| 2028 | 80,158 | 25,187 | 26,930 | 4,114 | 107,088 | 29,301 |
| 2029 | 59,230 | 23,837 | 16,159 | 3,553 | 75,389 | 27,390 |
| 2030-2034 | 168,962 | 115,594 | 50,701 | 12,485 | 219,663 | 128,079 |
| 2035-2039 | 100,503 | 112,962 | 33,328 | 5,720 | 133,831 | 118,682 |
| 2040-2044 | 68,275 | 107,310 | 9,781 | 2,059 | 78,056 | 109,369 |
| 2045-2049 | 60,158 | 78,967 | 1,489 | 1,218 | 61,647 | 80,185 |
| 2050-2054 | 93,494 | 62,318 | 1,963 | 789 | 95,457 | 63,107 |
| 2055-2059 | 139,456 | 40,722 | 2,100 | 232 | 141,556 | 40,954 |
| Thereafter | 141,842 | 11,258 | — | — | 141,842 | 11,258 |
| **Total** | $ 1,308,948 | $ 665,364 | $ 245,438 | $ 46,685 | $ 1,554,386 | $ 712,049 |

The following schedule presents future annual SBITA payments for governmental and business-type activities as of June 30, 2024 (expressed in thousands):

| | Governmental Activities | | Business-Type Activities | | Totals | |
|---|---|---|---|---|---|---|
| **Subscription-Based IT Arrangements (SBITAs)** | **Principal** | **Interest** | **Principal** | **Interest** | **Principal** | **Interest** |
| **By Fiscal Year:** | | | | | | |
| 2025 | $ 87,670 | $ 4,637 | $ 14,838 | $ 2,050 | $ 102,508 | $ 6,687 |
| 2026 | 41,560 | 3,201 | 11,640 | 1,655 | 53,200 | 4,856 |
| 2027 | 23,595 | 2,302 | 6,840 | 1,203 | 30,435 | 3,505 |
| 2028 | 13,866 | 1,728 | 9,905 | 579 | 23,771 | 2,307 |
| 2029 | 11,954 | 1,250 | 6,033 | 516 | 17,987 | 1,766 |
| 2030-2034 | 21,119 | 1,758 | 6,191 | 319 | 27,310 | 2,077 |
| **Total** | $ 199,764 | $ 14,876 | $ 55,447 | $ 6,322 | $ 255,211 | $ 21,198 |

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, 2024, the state of Washington, recognized $74.2 million for variable and other lease payments not included in the measurement of the lease liability and $7.4 million for variable and other SBITA payments not included in the measurement of the subscription liability.

As of June 30, 2024, the state of Washington has nine leases that have not yet commenced with lease payments due on an undiscounted basis of $148.1 million. These leases will commence in fiscal year 2025, with lease terms ranging between 5 and 40 years.

As of June 30, 2024, the state of Washington has two SBITAs that have not yet commenced with payments due on an undiscounted basis of $1.1 million. These SBITAs will commence in fiscal year 2025, with subscription terms ranging between three and five 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, 2024, the amount recognized as lease revenue and lease interest was $64.8 million.

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, 2024, the state of Washington, recognized revenue of $34.5 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, 2024, the land is valued at its historical cost of $1.5 million, the carrying value of the building improvements is $46.2 million, and the related deferred inflow of resources is $47.8 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, 2024, the receivable is $346 thousand and the deferred inflow of resources is $342 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, 2024, the value of the receivable is $2.8 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, 2024, 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, 2024, the value of the receivable is $1.9 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, 2024, 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.

On September 30, 2021, the University of Washington entered into an agreement with Capstone-HS Bothell, LLC to construct and operate a development containing student housing and related amenities at the University of Washington-Bothell campus, known as Husky Village. The agreement includes a grounds lease for 50 years, with an option to extend for an additional 20 years. Construction was completed in July 2023, and the state has recognized capital assets for the building improvements and a deferred inflow of resources equal to the initial value of the the capital assets. As of June 30, 2024, the carrying value of the building improvements is $17.6 million, and the related deferred inflow of resources is $17.6 million.

# 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, 2024, 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 | $ 2,090 | $ 24,555 | $ 26,645 | $ 10,690 |
| Pensions | 2,916,071 | 381,159 | 3,297,230 | 7,419 |
| Other postemployment benefits | 531,111 | 198,160 | 729,271 | 1,357 |
| Asset retirement obligations | 10,384 | — | 10,384 | — |
| **Total Deferred Outflows of Resources** | $ 3,459,656 | $ 603,874 | $ 4,063,530 | $ 19,466 |
| **Deferred Inflows of Resources:** | | | | |
| Refundings of debt | $ 53 | $ 31,852 | $ 31,905 | $ — |
| Pensions | 1,947,461 | 230,525 | 2,177,986 | 4,267 |
| Other postemployment benefits | 2,578,755 | 438,719 | 3,017,474 | 3,594 |
| Irrevocable split interest agreements | 20,289 | — | 20,289 | — |
| Right-to-use lease agreements | 337,583 | 245,638 | 583,221 | 23,112 |
| Public-private and public-public partnerships | 70,034 | — | 70,034 | — |
| Hedging derivatives | 111 | — | 111 | 5,611 |
| Other purposes | — | — | — | 23,349 |
| **Total Deferred Inflows of Resources** | $ 4,954,286 | $ 946,734 | $ 5,901,020 | $ 59,933 |

Of the $2.92 billion of deferred outflows of resources related to pensions reported in governmental activities, $106.6 million is reported in the internal service funds.

Of the remaining $543.6 million of deferred outflows of resources reported in governmental activities, $32.0 million is reported in the internal service funds. This amount is comprised of $29.9 million related to other postemployment benefits and $2.1 million related to debt refunding.

Of the $1.95 billion of deferred inflows of resources related to pensions reported in governmental activities, $69.3 million is reported in the internal service funds.

Of the remaining $3.01 billion of deferred inflows of resources reported in governmental activities, $106.3 million is reported in the internal service funds. This amount is comprised of $106.2 million related to other postemployment benefits and $53 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 $4.11 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, 2024, is as follows (expressed in thousands):

| Fund Balances | General | Higher Education Special Revenue | Higher Education Endowment and Other Permanent Funds | Wildlife and Natural Resources | Nonmajor Governmental Funds | Total |
|---|---|---|---|---|---|---|
| **Nonspendable:** | | | | | | |
| Permanent funds | $ — | $ — | $ 3,302,986 | $ — | $ 236,603 | $ 3,539,589 |
| Consumable inventories and prepaids | 19,061 | 54,749 | — | 2,471 | 70,375 | 146,656 |
| Other receivables – long-term | 41,868 | — | — | — | — | 41,868 |
| **Total Nonspendable Fund Balance** | $ 60,929 | $ 54,749 | $ 3,302,986 | $ 2,471 | $ 306,978 | $ 3,728,113 |
| **Restricted for: *** | | | | | | |
| Higher education | $ — | $ 71,224 | $ 2,673,409 | $ — | $ — | $ 2,744,633 |
| Education | — | — | 36,701 | — | 79,635 | 116,336 |
| Transportation | — | — | — | — | 1,794,910 | 1,794,910 |
| Other purposes | 30 | — | — | — | 3,847 | 3,877 |
| Human services | 293 | — | — | — | 808,319 | 808,612 |
| Wildlife and natural resources | 4,584 | — | 1 | 1,431,874 | — | 1,436,459 |
| Local grants and loans | 23,606 | — | — | — | 22 | 23,628 |
| School construction | 791 | — | — | — | 388,585 | 389,376 |
| Budget stabilization | 970,615 | — | — | — | — | 970,615 |
| Pollution remediation | — | — | — | 47,929 | — | 47,929 |
| Operations and maintenance | — | — | — | — | 11,856 | 11,856 |
| Repair and replacement | — | — | — | — | 57,226 | 57,226 |
| Revenue stabilization | — | — | — | — | 49,563 | 49,563 |
| Deferred sales tax | — | — | — | — | 9,000 | 9,000 |
| Self-Insurance | — | — | — | — | 10,000 | 10,000 |
| Third tier debt service | — | — | — | — | 3,182 | 3,182 |
| Fourth tier debt service | — | — | — | — | 2,002 | 2,002 |
| **Total Restricted Fund Balance** | $ 999,919 | $ 71,224 | $ 2,710,111 | $ 1,479,803 | $ 3,218,147 | $ 8,479,204 |
| **Committed for:** | | | | | | |
| Higher education | $ 296,472 | $ 5,544,110 | $ — | $ — | $ 46,170 | $ 5,886,752 |
| Education | 1,107 | — | — | — | 9,524 | 10,631 |
| Transportation | — | — | — | — | 1,035,029 | 1,035,029 |
| Other purposes | 178,974 | — | — | 334 | 683,570 | 862,878 |
| Human services | 1,129,296 | — | — | — | 1,774,255 | 2,903,551 |
| Wildlife and natural resources | 65,477 | — | — | 2,589,957 | 34,711 | 2,690,145 |
| Local grants and loans | 231,010 | — | — | — | 914,807 | 1,145,817 |
| State facilities | — | — | — | — | 30,110 | 30,110 |
| Debt service | — | — | — | — | 405,721 | 405,721 |
| **Total Committed Fund Balance** | $ 1,902,336 | $ 5,544,110 | $ — | $ 2,590,291 | $ 4,933,897 | $14,970,634 |
| **Assigned for:** | | | | | | |
| Working capital | $ 2,032,952 | $ 109,939 | $ — | $ — | $ — | $ 2,142,891 |
| **Total Assigned Fund Balance** | $ 2,032,952 | $ 109,939 | $ — | $ — | $ — | $ 2,142,891 |

*Net position restricted as a result of enabling legislation totaled $10.4 million.

## B. BUDGET STABILIZATION ACCOUNT

In accordance with Article 7, Section 12 of the Washington state Constitution, the state maintains the Budget Stabilization Account ("Rainy Day Fund"). The Budget Stabilization Account is reported in the General Fund.

By June 30 of each fiscal year, an amount equal to 1 percent of the general state revenues for that fiscal year is transferred to the Budget Stabilization Account.

The Budget Stabilization Account balance can only be used as follows: (a) if the Governor declares a state of emergency resulting from a catastrophic event that necessitates government action to protect life or public safety, then for that fiscal year money may be withdrawn and appropriated from the Budget Stabilization Account, via separate legislation setting forth the nature of the emergency and containing an appropriation limited to the above-authorized purposes as contained in the declaration, by a favorable vote of a majority of the members elected to each house of the Legislature; (b) if the employment growth forecast for any fiscal year is estimated to be less than 1 percent, then for that fiscal year money may be withdrawn and appropriated from the Budget Stabilization Account by the favorable vote of a majority of the members elected to each house of the Legislature; (c) any amount may be withdrawn and appropriated from the Budget Stabilization Account at any time by the favorable vote of at least three-fifths of the members of each house of the Legislature.

When the balance in the Budget Stabilization Account, including investment earnings, equals more than 10 percent of the estimated general state revenues in that fiscal year, the Legislature by the favorable vote of a majority of the members elected to each house of the Legislature may withdraw and appropriate the balance to the extent that the balance exceeds 10 percent of the estimated general state revenues. These appropriations may be made solely for deposit to the Education Construction Fund.

At June 30, 2024, the Budget Stabilization Account had restricted fund balance of $970.6 million.

# Note 14
## Deficit Net Position

### Risk Management Fund

The Risk Management Fund, an internal service fund, had a deficit net position of $2.70 billion at June 30, 2024. 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, 2024 (expressed in thousands):

| Risk Management Fund | | Net Position |
|---|---|---|
| **Net Position - Beginning, as restated** | $ | (1,564,797) |
| Change in Net Position | | (1,130,901) |
| **Net Position - Ending** | $ | (2,695,698) |

**Lottery Fund**

The Lottery Fund, an enterprise fund, had a deficit net position of $27.6 million at June 30, 2024. 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, 2024 (expressed in thousands):

| Lottery Fund | | Net Position |
|---|---|---|
| **Net Position - Beginning, as restated** | $ | (26,742) |
| Change in Net Position | | (863) |
| **Net Position - Ending** | $ | (27,605) |

# 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.

The state has elected to use the prior fiscal year end as the measurement date for reporting net pension liabilities for all pension plans except for the Higher Education Supplemental Plans.

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.

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 plans, fiduciary net positions 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 2024 (expressed in thousands):

| Aggregate Pension Amounts - All Plans | | |
|---|---|---|
| Pension liabilities | $ | 1,226,279 |
| Pension assets | $ | (5,776,519) |
| Deferred outflows of resources on pensions | $ | 3,297,230 |
| Deferred inflows of resources on pensions | $ | 2,177,986 |
| Pension expense/expenditures | $ | (567,909) |

**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 0.20 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. 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' Relief and Pension Fund and the Reserve Officers' Relief and Pension Fund. Both plans are defined benefit plans. Administration for each plan 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 each higher education institution until the plans are fully funded, at which time the plans will be administered by the DRS.

## 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, 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 this plan.

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.

Active WSPRS members do not have to meet a vesting requirement. 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 WSPRS members are vested after the completion of five years of eligible service. 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 2024 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 2024, the state contributed $96.4 million to LEOFF Plan 2.

Required contribution rates for fiscal year 2024 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 2024, the state contributed $300 thousand for JRF and $6.3 million for JRS.

### Actuarial Assumptions

**PERS, TRS, LEOFF, PSERS, and WSPRS:** The total pension liability (TPL) for each of the plans was determined using the most recent actuarial valuation completed in 2023 with a valuation date of June 30, 2022, rolled forward to the measurement date of June 30, 2023, 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, 2022, 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 2022 Actuarial Valuation Report.

The OSA selected a 7.00 percent long-term expected rate of return on pension plan investments. In selecting this assumption, OSA reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered Capital Market Assumptions (CMAs) and simulated expected investment returns provided by WSIB.

The WSIB uses the CMAs and their traget allocation to simulate future investment returns over various time horizons. WSIB's CMAs contain 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.

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, 2022, 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 long-term estimate of broad economic inflation consistent with their 2021 CMAs.

**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.

Assumptions for JRS and JRF mirror those of PERS (primarily mortality), except for the COLA. Members of JRF do not receive a COLA and the JRS COLA is based on a national, instead of local, CPI measure. With consideration to duration of liabilities, a 2.75 percent annual inflation is assumed for JRS.

## 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 described 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 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 unfunded actuarial accrued liability. TRS Plan 2/3 rates include a component for TRS Plan 1 unfunded actuarial accrued 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 3.65 percent for the June 30, 2023, 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, 2024 (expressed in thousands):

| Pension Expense | |
|---|---|
| **Plans** | |
| PERS Plan 1 | $ 7,400 |
| PERS Plan 2/3 | (238,761) |
| TRS Plan 1 | (649) |
| TRS Plan 2/3 | 4,725 |
| LEOFF Plan 2 | (1,160) |
| PSERS Plan 2 | 18,387 |
| WSPRS | (2,053) |
| JRS | 867 |
| JRF | 116 |

## 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, 2024 (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) | $ 973,940 | $ (2,095,022) | $ 18,297 | $ (1,748) | $ (17,374) | $ (69,916) |
| State's proportion | 42.67% | 51.11% | 1.44% | 1.42% | 0.72% | 65.93% |
| Increase/(decrease) | 0.49% | 0.12% | 0.13% | 0.11% | -0.03% | 0.38% |

## Net Pension Liability/(Asset)

**WSPRS, JRS, and JRF:** The following presents the state's net pension liability/(asset) as of June 30, 2024 (expressed in thousands):

| | WSPRS | JRS | JRF |
|---|---|---|---|
| Proportionate share of the collective net pension liability/(asset) | $ (71,660) | $ 45,395 | $ (277) |

## 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 | $ 1,360,667 | $ 973,940 | $ 636,417 |
| PERS Plan 2/3 | 2,278,588 | (2,095,022) | (5,688,220) |
| TRS Plan 1 | 27,850 | 18,297 | 9,945 |
| TRS Plan 2/3 | 56,455 | (1,748) | (49,067) |
| LEOFF Plan 2 | 2,877 | (17,374) | (33,947) |
| PSERS Plan 2 | 108,410 | (69,916) | (210,654) |
| WSPRS | 177,773 | (71,660) | (273,570) |

**JRS and JRF:** The following presents the net pension liability/(asset) of the state as an employer, calculated using the discount rate of 3.65 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 (2.65 percent) or 1 percentage point higher (4.65 percent) than the current rate (expressed in thousands):

| | Net Pension Liability/(Asset) | | |
|---|---|---|---|
| Plans | 1% Decrease | Current Discount Rate | 1% Increase |
| JRS | $ 49,375 | $ 45,395 | $ 41,885 |
| JRF | (243) | (277) | (309) |

## 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, 2024, 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 | — | 109,865 |
| Change in proportion | — | — |
| State contributions subsequent to the measurement date | 260,256 | — |
| **Total** | $ 260,256 | $ 109,865 |

| PERS Plan 2/3 | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Difference between expected and actual experience | $ 426,754 | $ 23,408 |
| Changes of assumptions | 879,563 | 191,710 |
| Net difference between projected and actual earnings on pension plan investments | — | 789,530 |
| Change in proportion | 13,653 | 3,464 |
| State contributions subsequent to the measurement date | 518,349 | — |
| **Total** | $ 1,838,319 | $ 1,008,112 |

| TRS Plan 1 | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Difference between expected and actual experience | $ — | $ — |
| Changes of assumptions | — | — |
| Net difference between projected and actual earnings on pension plan investments | — | 2,649 |
| Change in proportion | — | — |
| State contributions subsequent to the measurement date | 3,114 | — |
| **Total** | $ 3,114 | $ 2,649 |

| TRS Plan 2/3 | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Difference between expected and actual experience | $ 15,226 | $ 246 |
| Changes of assumptions | 13,890 | 1,377 |
| Net difference between projected and actual earnings on pension plan investments | — | 8,386 |
| Change in proportion | 1,565 | 1,229 |
| State contributions subsequent to the measurement date | 10,251 | — |
| **Total** | $ 40,932 | $ 11,238 |

| LEOFF Plan 2 | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Difference between expected and actual experience | $ 7,097 | $ 143 |
| Changes of assumptions | 4,438 | 1,427 |
| Net difference between projected and actual earnings on pension plan investments | — | 3,676 |
| Change in proportion | 295 | 93 |
| State contributions subsequent to the measurement date | 1,815 | — |
| **Total** | $ 13,645 | $ 5,339 |

| PSERS Plan 2 | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Difference between expected and actual experience | $ 21,877 | $ 17,991 |
| Changes of assumptions | 31,280 | 12,166 |
| Net difference between projected and actual earnings on pension plan investments | — | 18,814 |
| Change in proportion | 1,561 | 513 |
| State contributions subsequent to the measurement date | 43,586 | — |
| **Total** | $ 98,304 | $ 49,484 |

| WSPRS Plan 1/2 | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Difference between expected and actual experience | $ 21,796 | $ 9,914 |
| Changes of assumptions | 63,186 | — |
| Net difference between projected and actual earnings on pension plan investments | — | 47,122 |
| Change in proportion | — | — |
| State contributions subsequent to the measurement date | 22,701 | — |
| **Total** | $ 107,683 | $ 57,036 |

| 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 | 225 | — |
| Change in proportion | — | — |
| State contributions subsequent to the measurement date | 6,300 | — |
| **Total** | $ 6,525 | $ — |

| 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, 2025.

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 | | |
|---|---|---|
| 2025 | $ | (74,747) |
| 2026 | $ | (94,004) |
| 2027 | $ | 57,961 |
| 2028 | $ | 925 |
| 2029 | $ | — |
| Thereafter | $ | — |

| PERS Plan 2/3 | | |
|---|---|---|
| 2025 | $ | (368,907) |
| 2026 | $ | (453,209) |
| 2027 | $ | 655,178 |
| 2028 | $ | 237,755 |
| 2029 | $ | 232,187 |
| Thereafter | $ | 8,854 |

| TRS Plan 1 | | |
|---|---|---|
| 2025 | $ | (1,851) |
| 2026 | $ | (2,340) |
| 2027 | $ | 1,495 |
| 2028 | $ | 47 |
| 2029 | $ | — |
| Thereafter | $ | — |

| TRS Plan 2/3 | | |
|---|---|---|
| 2025 | $ | (1,738) |
| 2026 | $ | (3,049) |
| 2027 | $ | 8,766 |
| 2028 | $ | 3,811 |
| 2029 | $ | 3,607 |
| Thereafter | $ | 8,046 |

| LEOFF Plan 2 | | |
|---|---|---|
| 2025 | $ | (1,417) |
| 2026 | $ | (2,011) |
| 2027 | $ | 3,220 |
| 2028 | $ | 1,188 |
| 2029 | $ | 1,283 |
| Thereafter | $ | 4,228 |

| PSERS Plan 2 | | |
|---|---|---|
| 2025 | $ | (11,222) |
| 2026 | $ | (14,020) |
| 2027 | $ | 14,159 |
| 2028 | $ | 2,345 |
| 2029 | $ | 2,519 |
| Thereafter | $ | 11,453 |

| WSPRS Plan 1/2 | | |
|---|---|---|
| 2025 | $ | (9,974) |
| 2026 | $ | (19,206) |
| 2027 | $ | 45,291 |
| 2028 | $ | 11,835 |
| 2029 | $ | — |
| Thereafter | $ | — |

| JRS | | |
|---|---|---|
| 2025 | $ | 95 |
| 2026 | $ | 67 |
| 2027 | $ | 45 |
| 2028 | $ | 18 |
| 2029 | $ | — |
| Thereafter | $ | — |

| JRF | | |
|---|---|---|
| 2025 | $ | 15 |
| 2026 | $ | 11 |
| 2027 | $ | 8 |
| 2028 | $ | 3 |
| 2029 | $ | — |
| Thereafter | $ | — |

## 2. DRS Plans - Nonemployer Contributing Entity Disclosures

For fiscal year 2024, 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, 2023, 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 2023, 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, 2023, 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 4 percent of payroll. For fiscal year 2023, the nonemployer contributing entity's proportionate share of the net pension asset was considered substantial at 38.97 percent based on total plan contributions received in fiscal year 2023.

**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, 2024 (expressed in thousands).

| | LEOFF Plan 1 | LEOFF Plan 2 |
|---|---|---|
| Proportionate share of the collective net pension liability/(asset) | $ (2,585,743) | $ (934,779) |
| State's proportion | 87.12% | 38.97% |
| Increase/(decrease) | —% | -0.34% |

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 2023 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<br>Nonemployer Contributing Entity Proportionate Share of Net Pension Liability/(Asset) | |
|---|---|
| 1% decrease | $ (2,292,792) |
| Current discount rate | $ (2,585,743) |
| 1% increase | $ (2,839,776) |

| LEOFF Plan 2<br>Nonemployer Contributing Entity Proportionate Share of Net Pension Liability/(Asset) | |
|---|---|
| 1% decrease | $ 154,774 |
| Current discount rate | $ (934,779) |
| 1% increase | $ (1,826,486) |

**Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions.** For the year ended June 30, 2024, the state as a nonemployer contributing entity recognized $(227.2) million pension expense for LEOFF Plan 1 and $(61.1) million pension expense for LEOFF Plan 2.

At June 30, 2024, 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 | — | 171,459 |
| Change in proportion | — | — |
| State contributions subsequent to the measurement date | — | — |
| **Total** | $ — | $ 171,459 |

| LEOFF Plan 2 | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Difference between expected and actual experience | $ 381,831 | $ 7,691 |
| Changes of assumptions | 238,786 | 76,785 |
| Net difference between projected and actual earnings on pension plan investments | — | 197,797 |
| Change in proportion and difference between state contributions and proportionate share of contributions | 15,865 | 4,979 |
| State contributions subsequent to the measurement date | 97,656 | — |
| **Total** | $ 734,138 | $ 287,252 |

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, 2025.

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 | | |
|---|---|---|
| 2025 | $ | (117,558) |
| 2026 | $ | (147,520) |
| 2027 | $ | 91,512 |
| 2028 | $ | 2,107 |
| 2029 | $ | — |
| Thereafter | $ | — |

| LEOFF Plan 2 | | |
|---|---|---|
| 2025 | $ | (76,260) |
| 2026 | $ | (108,201) |
| 2027 | $ | 173,262 |
| 2028 | $ | 63,894 |
| 2029 | $ | 69,040 |
| Thereafter | $ | 227,495 |

## 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, 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** |
| WSPRS 1 | 1,321 | 68 | 209 | 1,598 |
| WSPRS 2 | 9 | 105 | 508 | 622 |
| JRS | 71 | — | — | 71 |
| JRF | 7 | — | — | 7 |
| **Total** | 1,408 | 173 | 717 | 2,298 |

## 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, 2023, the date of the latest actuarial valuation for all plans (expressed in thousands):

| Change in Net Pension Liability/(Asset) | WSPRS | JRS | JRF |
|---|---|---|---|
| **TOTAL PENSION LIABILITY** | | | |
| Service cost | $ 23,889 | $ — | $ — |
| Interest | 116,102 | 2,007 | 40 |
| Changes of benefit terms | 3,100 | — | — |
| Differences between expected and actual experience | (11,163) | (505) | 113 |
| Changes of assumptions | — | (444) | (6) |
| Benefit payments, including refunds of member contributions | (85,322) | (6,622) | (229) |
| **Net Change in Total Pension Liability** | 46,606 | (5,564) | (82) |
| **Total Pension Liability--Beginning** | 1,676,648 | 59,969 | 1,248 |
| **Total Pension Liability--Ending** | $ 1,723,254 | $ 54,405 | $ 1,166 |
| **PLAN FIDUCIARY NET POSITION** | | | |
| Contributions--employer | $ 20,862 | $ 6,700 | $ 300 |
| Contributions--employee | 11,160 | — | — |
| Net investment income | 118,180 | 220 | 32 |
| Benefit payments, including refunds of member contributions | (85,322) | (6,622) | (229) |
| Administrative expense | (30) | — | — |
| Other | 479 | — | — |
| **Net Change in Plan Fiduciary Net Position** | 65,329 | 298 | 103 |
| **Plan Fiduciary Net Position--Beginning** | 1,729,585 | 8,712 | 1,340 |
| **Plan Fiduciary Net Position--Ending** | $ 1,794,914 | $ 9,010 | $ 1,443 |
| **Plan's Net Pension Liability/(Asset)--Beginning** | $ (52,937) | $ 51,257 | $ (92) |
| **Plan's Net Pension Liability/(Asset)--Ending** | $ (71,660) | $ 45,395 | $ (277) |

## 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 2024 were as follows:

| Required Contribution Rates | Employer | | | Employee | | |
|---|---|---|---|---|---|---|
| | Plan 1 | Plan 2 | Plan 3[1] | Plan 1 | Plan 2 | Plan 3 |
| **PERS** | | | | | | |
| **Members Not Participating in JBM** | | | | | | |
| State Agencies, Local Government Units | 6.36 % | 6.36 % | 6.36 % | 6.00 % | 6.36 % | varies[2] |
| Administrative Fee | 0.20 % | 0.20 % | 0.20 % | | | |
| PERS Plan 1 UAAL[3] | 2.97 % | 2.97 % | 2.97 % | | | |
| Total | 9.53 % | 9.53 % | 9.53 % | | | |
| State Government Elected Officials | 9.54 % | 6.36 % | 6.36 % | 7.50 % | 6.36 % | varies[2] |
| Administrative Fee | 0.20 % | 0.20 % | 0.20 % | | | |
| PERS Plan 1 UAAL[3] | 4.46 % | 2.97 % | 2.97 % | | | |
| Total | 14.20 % | 9.53 % | 9.53 % | | | |
| **Members Participating in JBM** | | | | | | |
| State Agencies | 8.86 % | 8.86 % | 8.86 % | 9.76 % | 13.40 % | 7.50%[4] |
| Administrative Fee | 0.20 % | 0.20 % | 0.20 % | | | |
| PERS Plan 1 UAAL[3] | 2.97 % | 2.97 % | 2.97 % | | | |
| Total | 12.03 % | 12.03 % | 12.03 % | | | |
| Local governmental units | 6.36 % | 6.36 % | 6.36 % | 12.26 % | 15.90 % | 7.50%[4] |
| Administrative Fee | 0.20 % | 0.20 % | 0.20 % | | | |
| PERS Plan 1 UAAL[3] | 2.97 % | 2.97 % | 2.97 % | | | |
| Total | 9.53 % | 9.53 % | 9.53 % | | | |
| **TRS** | | | | | | |
| **Members Not Participating in JBM** | | | | | | |
| State Agencies, Local Government Units | 8.06 % | 8.06 % | 8.06 % | 6.00 % | 8.06 % | varies[2] |
| Administrative Fee | 0.20 % | 0.20 % | 0.20 % | | | |
| TRS Plan 1 UAAL[5] | 1.44 % | 1.44 % | 1.44 % | | | |
| Total | 9.70 % | 9.70 % | 9.70 % | | | |
| State Government Elected Officials | 8.06 % | 8.06 % | 8.06 % | 7.50 % | 8.06 % | varies[2] |
| Administrative Fee | 0.20 % | 0.20 % | 0.20 % | | | |
| TRS Plan 1 UAAL[5] | 1.44 % | 1.44 % | 1.44 % | | | |
| Total | 9.70 % | 9.70 % | 9.70 % | | | |
| **Members Participating in JBM** | | | | | | |
| State Agencies, Local Government Units | 8.06 % | N/A | N/A | 9.76 % | N/A | N/A |
| Administrative Fee | 0.20 % | N/A | N/A | | | |
| TRS Plan 1 UAAL[5] | 1.44 % | N/A | N/A | | | |
| Total | 9.70 % | | | | | |
| **LEOFF** | | | | | | |
| Ports and universities | N/A | 8.53 % | N/A | N/A | 8.53 % | N/A |
| Administrative fee | 0.20 % | 0.20 % | N/A | | | |
| Total | 0.20 % | 8.73 % | | | | |
| Local governmental units | N/A | 5.12 % | N/A | N/A | 8.53 % | N/A |
| Administrative Fee | 0.20 % | 0.20 % | N/A | | | |
| Total | 0.20 % | 5.32 % | | | | |
| State of Washington | N/A | 3.41 % | N/A | N/A | N/A | N/A |
| **WSPRS** | | | | | | |
| State agency | 17.79 % | 17.79 % | N/A | 8.74 % | 8.74 % | N/A |
| Administrative Fee | 0.20 % | 0.20 % | N/A | | | |
| Total | 17.99 % | 17.99 % | | | | |
| **PSERS** | | | | | | |
| State agencies, local governmental units | N/A | 6.73 % | N/A | N/A | 6.73 % | N/A |
| Administrative fee | N/A | 0.20 % | N/A | | | |
| PSERS Plan 1 UAAL[3] | N/A | 2.97 % | N/A | | | |
| Total | | 9.90 % | | | | |

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

### Volunteer Firefighters' Relief and Pension Fund 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.

Effective July 23 2023, House Bill 1336 split the Volunteer Firefighters' and Reserve Officers' Relief and Pension Fund into two plans; the Volunteer Firefighters' Relief and Pension Fund (VFFRPF) and the Reserve Officers' Relief and Pension Fund (RORPF).

As established in chapter 41.24 RCW, VFFRPF and RORPF are cost-sharing, multiple-employer defined benefit plans that are 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 funds are funded through legislative appropriation.

**Plan Members.** Membership in the VFFRPF requires volunteer firefighter service with a fire department of an electing municipality of Washington state or emergency work as an emergency medical technician with an emergency medical service district.

Membership in the RORPF requires work as a commissioned reserve law enforcement officer.

At June 30, 2022, plan membership consisted of the following:

| Plan Membership | VFFRPF | RORPF |
|---|---|---|
| Inactive plan members or beneficiaries currently receiving benefits | 4,779 | 55 |
| Inactive plan members entitled to but not yet receiving benefits | 6,000 | 95 |
| Active plan members* | 7,929 | 63 |
| Total membership | 18,708 | 213 |

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

**Benefits Provided.** VFFRPF and RORPF provide 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. As of June 30, 2024, there were approximately 362 municipalities contributing to the plans.

Normal retirement is available at the age of 65 with at least twenty-five years of membership service. The monthly plan benefit formula is $100 plus $10 for each month for each year the member made pension contributions. The maximum monthly pension benefit is $350. Reduced pensions are available for members beginning at the age of 65 with less than twenty-five years of service and for members at the age of 60 with at least twenty-five years of service.

Members are vested after 10 years of service. 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.

At any time prior to retirement or at the time of retirement, a member of either plan 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 or RORPF benefit provisions for the fiscal year ended June 30, 2024.

**Contributions.** Retirement benefits for both plans 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 2024, the fire insurance premium tax contribution was $14.8 million.

The contributions and earnings will be split between the two funds proportionate to the membership of each group.

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 2024 were the following:

| | Firefighters | EMSD | Reserve Officers |
|---|---|---|---|
| Member fee | $ 30 | $ 30 | $ 30 |
| Municipality fee | 30 | 110 | 110 |
| Total fee | $ 60 | $ 140 | $ 140 |

**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 Volunteer Firefighters' and Reserve Officers' (VFFRO) Funds include two separate pension plans: the Volunteer Firefighters' Relief and Pension Principal Fund and the Reserve Officers' Relief and Pension Principal Fund. The investment objectives and policies detailed in this section apply equally to both funds.

The VFFRO invests in Collective Investment Trust Funds (CITs) where investors pool resources into a mutual fund type structure. Individual securities are held within the CIT and investors own shares of each fund. In addition, the VFFRO funds invest in the Daily Valued Bond Fund managed by the WSIB.

Further information about the VFFRO funds 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 VFFRO funds. 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, 2024, the annual money-weighted rate of return on the VFFRO funds investments, net of pension plan investment expense, was 14.9 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 municipalities at June 30, 2024, were as follows (dollars expressed in thousands):

| Pension Liability | VFFRPF | RORPF |
|---|---|---|
| Total pension liability | $ 257,539 | $ 2,671 |
| Plan fiduciary net position | 268,869 | 3,892 |
| Participating municipality net pension liability/(asset) | $ (11,330) | $ (1,221) |
| Plan fiduciary net position as a percentage of the total pension liability | 104.40% | 145.71% |

**Actuarial Assumptions.** The VFFRO funds have 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, 2022, 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 the

VFFRO funds. 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 plans' target asset allocation as of June 30, 2024, 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 2022 Economic Experience Study located on the OSA 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) | | |
|---|---|---|
| | VFFRPF | RORPF |
| 1% decrease | $ 19,694 | $ (898) |
| Current discount rate | $ (11,330) | $ (1,221) |
| 1% increase | $ (36,748) | $ (1,484) |

## 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.

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 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, 2024.

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, 2024, 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, 2024, the Higher Education SRPs reported the following for pension expense (expressed in thousands):

| Pension Expense | | |
|---|---|---|
| **Plans** | | |
| University of Washington (UW) | $ | (52,337) |
| Washington State University (WSU) | | (6,971) |
| Eastern Washington University (EWU) | | (854) |
| Central Washington University (CWU) | | (403) |
| The Evergreen State College (TESC) | | (699) |
| Western Washington University (WWU) | | (1,472) |
| State Board for Community and Technical Colleges (SBCTC) | | (5,729) |
| **Total** | **$** | **(68,465)** |

**Plan Membership.** Membership of the Higher Education SRPs consisted of the following at June 30, 2023, the date of the actuarial valuation for all plans rolled forward to the June 30, 2024, measurement date:

| 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, 2024 (expressed in thousands):

| Change in Net Pension Liability/(Asset) | UW | WSU | EWU | CWU | TESC | WWU | SBCTC |
|---|---|---|---|---|---|---|---|
| **TOTAL PENSION LIABILITY** | | | | | | | |
| Service cost | $ 4,198 | $ 577 | $ 152 | $ 12 | $ 58 | $ 239 | $ 1,857 |
| Interest | 19,094 | 3,662 | 698 | 333 | 261 | 1,147 | 6,364 |
| Changes of benefit terms | — | — | — | — | — | — | — |
| Differences between expected and actual experience | (41,669) | (6,154) | (1,454) | (265) | (609) | (2,798) | (18,090) |
| Changes of assumptions | — | — | — | — | — | — | — |
| Benefit payments | (11,666) | (3,253) | (409) | (501) | (154) | (589) | (3,653) |
| **Net Change in Total Pension Liability** | (30,043) | (5,168) | (1,014) | (420) | (444) | (2,000) | (13,521) |
| **Total Pension Liability--Beginning** | 274,309 | 53,334 | 10,023 | 4,995 | 3,748 | 16,443 | 90,859 |
| **Total Pension Liability--Ending** | $ 244,266 | $ 48,166 | $ 9,009 | $ 4,575 | $ 3,305 | $ 14,443 | $ 77,337 |
| **PLAN FIDUCIARY NET POSITION** | | | | | | | |
| Contributions--employer | $ 8,423 | $ 1,097 | $ 176 | $ 179 | $ 48 | $ 243 | $ 903 |
| Contributions--member | — | — | — | — | — | — | — |
| Net Investment income | 9,393 | 1,737 | 341 | 344 | 128 | 500 | 2,945 |
| Benefit payments, including refunds of member contributions | — | — | — | — | — | — | — |
| Administrative expense | — | — | — | — | — | — | — |
| Other | — | — | — | — | — | — | — |
| **Net Change in Plan Fiduciary Net Position** | 17,816 | 2,834 | 518 | 523 | 176 | 743 | 3,848 |
| **Plan Fiduciary Net Position--Beginning** | 112,536 | 21,041 | 4,161 | 4,200 | 1,569 | 6,117 | 36,368 |
| **Plan Fiduciary Net Position--Ending** | $ 130,352 | $ 23,875 | $ 4,679 | $ 4,724 | $ 1,745 | $ 6,860 | $ 40,216 |
| **Plan's Net Pension Liability/(Asset)--Ending** | $ 113,914 | $ 24,290 | $ 4,330 | $ (149) | $ 1,560 | $ 7,582 | $ 37,121 |

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) | $ 139,690 | $ 113,914 | $ 91,762 |
| Washington State University (WSU) | 28,722 | 24,290 | 20,451 |
| Eastern Washington University (EWU) | 5,251 | 4,330 | 3,540 |
| Central Washington University (CWU) | 186 | (149) | (444) |
| The Evergreen State College (TESC) | 1,876 | 1,560 | 1,286 |
| Western Washington University (WWU) | 9,024 | 7,582 | 6,340 |
| State Board for Community and Technical Colleges (SBCTC) | 45,214 | 37,121 | 30,154 |
| **Total** | **$ 229,963** | **$ 188,648** | **$ 153,089** |

**Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions.** At June 30, 2024, 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 | $ 73,415 | $ 222,177 |
| Changes of assumptions | 67,896 | 117,506 |
| Difference between projected and actual | — | 1,820 |
| Total | $ 141,312 | $ 341,503 |

| Washington State University (WSU) | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Difference between expected and actual experience | $ 7,346 | $ 24,165 |
| Changes of assumptions | 7,588 | 15,564 |
| Difference between projected and actual | — | 360 |
| Total | $ 14,935 | $ 40,089 |

| Eastern Washington University (EWU) | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Difference between expected and actual experience | $ 1,658 | $ 5,917 |
| Changes of assumptions | 1,316 | 3,458 |
| Difference between projected and actual | — | 72 |
| Total | $ 2,974 | $ 9,446 |

| Central Washington University (CWU) | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Difference between expected and actual experience | $ — | $ 44 |
| Changes of assumptions | — | — |
| Difference between projected and actual | — | 71 |
| Total | $ — | $ 115 |

| The Evergreen State College (TESC) | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Difference between expected and actual experience | $ 528 | $ 2,217 |
| Changes of assumptions | 366 | 1,005 |
| Difference between projected and actual | — | 28 |
| Total | $ 894 | $ 3,250 |

| Western Washington University (WWU) | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Difference between expected and actual experience | $ 3,446 | $ 10,740 |
| Changes of assumptions | 2,162 | 4,918 |
| Difference between projected and actual | — | 105 |
| Total | $ 5,607 | $ 15,764 |

| State Board for Community and Technical Colleges (SBCTC) | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Difference between expected and actual experience | $ 15,974 | $ 33,212 |
| Changes of assumptions | 12,281 | 31,527 |
| Difference between projected and actual | — | 646 |
| Total | $ 28,255 | $ 65,385 |

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) | | |
|---|---|---|
| 2025 | $ | (53,881) |
| 2026 | $ | (44,564) |
| 2027 | $ | (78,871) |
| 2028 | $ | (15,888) |
| 2029 | $ | (6,987) |
| Thereafter | $ | — |

| Washington State University (WSU) | | |
|---|---|---|
| 2025 | $ | (9,005) |
| 2026 | $ | (9,792) |
| 2027 | $ | (6,139) |
| 2028 | $ | (218) |
| 2029 | $ | — |
| Thereafter | $ | — |

| Eastern Washington University (EWU) | | |
|---|---|---|
| 2025 | $ | (1,859) |
| 2026 | $ | (2,356) |
| 2027 | $ | (1,283) |
| 2028 | $ | (867) |
| 2029 | $ | (107) |
| Thereafter | $ | — |

| Central Washington University (CWU) | | |
|---|---|---|
| 2025 | $ | (141) |
| 2026 | $ | 44 |
| 2027 | $ | (9) |
| 2028 | $ | (9) |
| 2029 | $ | — |
| Thereafter | $ | — |

| The Evergreen State College (TESC) | | |
|---|---|---|
| 2025 | $ | (936) |
| 2026 | $ | (945) |
| 2027 | $ | (273) |
| 2028 | $ | (202) |
| 2029 | $ | — |
| Thereafter | $ | — |

| Western Washington University (WWU) | | |
|---|---|---|
| 2025 | $ | (2,411) |
| 2026 | $ | (3,497) |
| 2027 | $ | (2,764) |
| 2028 | $ | (964) |
| 2029 | $ | (521) |
| Thereafter | $ | — |

| State Board for Community and Technical Colleges (SBCTC) | | |
|---|---|---|
| 2025 | $ | (8,900) |
| 2026 | $ | (8,288) |
| 2027 | $ | (13,374) |
| 2028 | $ | (2,233) |
| 2029 | $ | (4,335) |
| Thereafter | $ | — |

## 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, 2024, there were no active members, 65 inactive members, and 14 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 2024, there were no contributions made to employee accounts.

The administrator of JRA has entered into 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 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 3.31 percent to 8.97 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 2024, employer and employee contributions were $280.6 million and $278.7 million, respectively, for a total of $559.3 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 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, 2023**

| | |
|---|---|
| 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, 2023.

**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 2024.

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 2023, the average weighted implicit subsidy was valued at $420 per adult unit per month. In calendar year 2024, the average weighted implicit subsidy is projected to be $445 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 2024, the explicit subsidy was up to $183 per member per month, and it will remain $183 per member per month in calendar year 2025.

**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 | $ | 1,305 |
| Dental | | 81 |
| Life | | 4 |
| Long-term disability | | 2 |
| Total | $ | 1,392 |
| Employer contribution | $ | 1,204 |
| Employee contribution | | 188 |
| Total | $ | 1,392 |

*Per FY2025 PEBB Financial Projection Model version 3.1. Per capita cost based on subscribers, includes non-Medicare risk pool only. Figures based on calendar year 2024 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** | 6/30/2023 |
| **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% |

Based on trend assumptions, no change in the explicit subsidy cap of $183 per month is expected through the end of calendar year 2025. 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 expected to grow with the assumed health care trend.

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 PEBB OPEB Demographic Experience Study. 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 Report on Financial Condition and 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 3.54 percent for the June 30, 2022, measurement date and 3.65 percent for the June 30, 2023, measurement date.

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

**Total OPEB Liability.** As of June 30, 2024, the state reported a total OPEB liability of $4.38 billion.

## Changes in Total OPEB Liability

The following table presents the change in the total OPEB liability as of the June 30, 2024, reporting date (expressed in thousands):

| Changes in Total OPEB Liability | State | Component Units | Total |
|---|---|---|---|
| **Total OPEB Liability - Beginning** | $ 4,245,678 | $ 4,143 | $ 4,249,821 |
| **Changes for the year:** | | | |
| Service cost | 153,148 | 236 | 153,384 |
| Interest | 153,838 | 163 | 154,001 |
| Difference between expected and actual experience* | — | 556 | 556 |
| Changes in assumptions* | (73,977) | (670) | (74,647) |
| Changes in proportion | 3 | — | 3 |
| Benefit payments | (107,154) | (117) | (107,271) |
| **Net Changes in Total OPEB Liability** | 125,858 | 168 | 126,026 |
| **Total OPEB liability - Ending** | $ 4,371,536 | $ 4,311 | $ 4,375,847 |

*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.

Service costs decreased and interest costs increased. In addition, the discount rate increased from 3.54 percent to 3.65 percent which resulted in a decrease in the changes in assumptions. These factors combined resulted in a net increase in total OPEB liability.

**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 3.65 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 (2.65 percent) or 1 percentage point higher (4.65 percent) than the current rate (expressed in thousands):

| | State | Component Units | Total |
|---|---|---|---|
| 1% decrease | $ 5,114,995 | $ 5,059 | $ 5,120,054 |
| Current discount rate | $ 4,371,536 | $ 4,311 | $ 4,375,847 |
| 1% increase | $ 3,773,508 | $ 3,711 | $ 3,777,219 |

**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 | $ 3,673,421 | $ 3,613 | $ 3,677,034 |
| Current health care cost trend rate | $ 4,371,536 | $ 4,311 | $ 4,375,847 |
| 1% increase | $ 5,270,080 | $ 5,216 | $ 5,275,296 |

**OPEB Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to OPEB.** For the year ending June 30, 2024, the state recognized OPEB expense of $(159.3) million.

On June 30, 2024, 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 | $ 66,527 | $ 130,095 |
| Changes of assumptions | 285,099 | 2,622,277 |
| Transactions subsequent to the measurement date | 110,223 | — |
| Changes in proportion | 269,022 | 269,033 |
| **Total** | $ 730,871 | $ 3,021,405 |

Deferred outflows of resources and deferred inflows of resources related to OPEB for component units as of the June 30, 2024, reporting date were as follows (expressed in thousands):

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Difference between expected and actual experience | $ 147 | $ 277 |
| Changes of assumptions | 1,035 | 3,102 |
| Transactions subsequent to the measurement date | 65 | — |
| Changes in proportion | 111 | 215 |
| **Total** | $ 1,358 | $ 3,594 |

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, 2025.

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 | |
|---|---|
| 2025 | $ (466,641) |
| 2026 | $ (466,641) |
| 2027 | $ (366,368) |
| 2028 | $ (234,055) |
| 2029 | $ (276,248) |
| Thereafter | $ (590,804) |

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 | |
|---|---|
| 2025 | $ (356) |
| 2026 | $ (356) |
| 2027 | $ (293) |
| 2028 | $ (212) |
| 2029 | $ (250) |
| Thereafter | $ (834) |

# 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, 2024 (expressed in thousands):

| | Changes in Fair Value | | Fair Value at June 30, 2024 | | Notional Amount |
|---|---|---|---|---|---|
| | Classification | Amount | Classification | Amount | (in Gallons) |
| **Governmental Activities** | | | | | |
| Cash flow hedges: | | | | | |
| Commodity swaps | Deferred Outflow | $ (291) | Accounts Receivable | $ 111 | 6,804 |

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 2024 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 | 3.08 | NYMEX ULSD Heating Oil | 10/03/2023 | 11/2023 | 210,000 |
| Commodity Swap | Cargill | 2.48 | NYMEX ULSD Heating Oil | 4/20/2023 | 7/2023 - 6/2024 | 252,000 |
| Commodity Swap | Cargill | 2.85 | NYMEX ULSD Heating Oil | 10/24/2023 | 1/2024 | 252,000 |
| Commodity Swap | Cargill | 2.85 | NYMEX ULSD Heating Oil | 10/24/2023 | 2/2024 | 210,000 |
| Commodity Swap | Cargill | 2.64 | NYMEX ULSD Heating Oil | 11/07/2023 | 3/2024 - 5/2024 | 210,000 |
| Commodity Swap | Cargill | 2.62 | NYMEX ULSD Heating Oil | 11/15/2023 | 3/2024 - 4/2024 | 252,000 |
| Commodity Swap | Cargill | 2.62 | NYMEX ULSD Heating Oil | 11/15/2023 | 5/2024 | 294,000 |
| Commodity Swap | Cargill | 2.51 | NYMEX ULSD Heating Oil | 12/05/2023 | 6/2024 | 504,000 |
| Commodity Swap | Cargill | 2.60 | NYMEX ULSD Heating Oil | 4/17/2024 | 7/2024 - 9/2024 | 756,000 |
| Commodity Swap | Cargill | 2.49 | NYMEX ULSD Heating Oil | 5/01/2024 | 10/2024 - 12/2024 | 756,000 |
| Commodity Swap | Cargill | 2.49 | NYMEX ULSD Heating Oil | 6/14/2024 | 1/2025 - 3/2025 | 756,000 |
| Commodity Swap | Merrill Lynch | 2.57 | NYMEX ULSD Heating Oil | 3/14/2023 | 7/2023 - 12/2023 | 252,000 |
| Commodity Swap | Merrill Lynch | 2.31 | NYMEX ULSD Heating Oil | 5/02/2023 | 7/2023 - 6/2024 | 252,000 |
| Commodity Swap | Merrill Lynch | 3.21 | NYMEX ULSD Heating Oil | 9/25/2023 | 10/2023 | 252,000 |
| Commodity Swap | Merrill Lynch | 2.83 | NYMEX ULSD Heating Oil | 10/04/2023 | 12/2023 - 2/2024 | 210,000 |

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 the price of diesel fuel futures and the price of diesel fuel purchased by WSF from its supplier has been quite stable over the past five years with an R-square statistic of 90 percent. R-square is the square of correlation which is 95 percent. This means that 90 percent of the variance in the price that WSF pays for its diesel fuel is explained by movements of diesel fuel futures market price over the past five years. This makes WSF's practice of hedging using diesel fuel futures prices reliable and effective. 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, 2024, 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 2024, 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.

### Multifamily 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. It authorizes 8-year exemptions to encourage the development of multifamily housing, and 12- and 20-year exemptions to encourage the development of affordable housing. All cities, many towns, and Clark, King, Kitsap, Pierce, and Snohomish counties are eligible to offer a multifamily housing property tax exemption program.

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 2024 (expressed in thousands):

| **Tax Abatement Program** | **Amount of Taxes Abated** |
|---|---|
| Data center server equipment and power infrastructure exemption | $ 92,263 |
| High-technology business tax deferral program | 28,317 |
| Multifamily housing tax exemption | 41,171 |
| Aerospace incentives: | |
| Product development expenditures credit | 59,334 |
| Business facilities credit | 38,779 |
| Computer hardware, software, and peripherals exemption | 5,004 |
| **Total** | $ 264,868 |

# Note 19

## Commitments and Contingencies

### A. CAPITAL COMMITMENTS

Outstanding commitments related to state infrastructure and facility construction, improvement, and/or renovation totaled $3.32 billion at June 30, 2024.

### 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. Encumbrances outstanding against continuing appropriations at the end of fiscal year 2024 are expressed in thousands.

| | | |
|---|---|---|
| General Fund | $ | 247,102 |
| Wildlife and Natural Resources Fund | $ | 777,156 |
| Nonmajor Governmental Funds | $ | 955,286 |

### 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 ongoing 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 and ordered payment of $100.3 million. The state appealed portions of the breach ruling and filed another appeal related to good cause exceptions. The parties have since resolved concerns around good cause exceptions but have not yet resolved concerns with the finding of contempt and subsequently ordered injunctive relief. The parties also recently concluded Phase 4 negotiations under the settlement agreement.

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. Trials for two of these cases are set for early 2025.

The state issued a final order to a fuel distribution company that they must pay taxes of about $80 million on fuel removed from bulk transfer terminals. The company filed a petition for review and the court stayed the state's final order pending appeal. Both parties sought appellate review of those decisions. Since the final order is currently stayed, the company is not paying fuel taxes.

The state contracts with Medicaid managed care organizations (MCOs) which include risk corridor provisions stemming from federal requirements. Actuaries determined that the MCOs owe the state about $241 million for the risk corridor program for calendar year 2021. The MCOs do not dispute that they owe about $215 million of that amount; however, they dispute that they owe about $26 million of that amount. Note that in terms of threatened litigation, a similar issue regarding the risk corridor could arise for calendar year 2022 which would create an additional dispute in the amount of approximately $27.8 million. As the deadline to dispute the 2022 amount has not passed, this matter is not active and is only in the threatened status 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 PricewaterhouseCoopers 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 2021, the panel determined that Washington was not diligent. The adverse decision largely turned on the 2004 Panel's different treatment of cigarette sales by tribes that have compacts with the state, though the 2004 Panel made other adverse factual findings against the state's NPM enforcement efforts. The state has never treated tribal compact cigarette sales as being within our diligent enforcement obligations. The 2003 Panel ruled the state did not have diligent enforcement obligations regarding those cigarettes, but the 2004 Panel reached the opposite conclusion. In a motion for vacatur, the state was able to get the ruling on tribal sales overturned so that for all cases going forward the state will not have diligent enforcement obligations for compact cigarette sales. However, even with that correction, the court declined to overturn the adverse finding of non-diligence. The tobacco companies appealed the ruling on tribal compact cigarettes and the state has cross-appealed the refusal of the court to send the case back for reconsideration after correcting the error on tribal compact cigarette sales. The 2004 Panel also ruled that when calculating the adjustment, states that have settled the NPM adjustment will be considered non-diligent. The Panel's ruling lessens the impact of its decision that Washington was not diligent for 2004.

As a results of the Panel's ruling, Washington had a downward NPM adjustment in its 2023 MSA payment of approximately $25 million. In separate decisions, the Washington State Court of Appeals in 2023 and 2024 has: (1) ruled for the state regarding tribal compact cigarette sales; (2) upheld the 2004 Panel's decision that Washington was non-diligent for the other reasons articulated by the 2004 Panel; and (3) upheld the allocation order that treats the settled states as non-diligent. Participating manufacturers may still seek review of the allocation order decision.

In December 2023, the 2005, 2006, and 2007 Arbitration Panel ruled that Washington did not diligently enforce its qualifying statute against non-participating manufacturers. The 2005-2007 Panel found that Washington did not adequately coordinate enforcement efforts among the three state agencies (Office of the Attorney General, Department of Revenue, and Liquor and Cannabis Board) and that the state did not devote adequate staff and resources to enforce the qualifying statute against non-participating manufacturers. The state appealed that decision to the King County Superior Court who declined to vacate the 2005-2007 Panel decision. The state has now appealed that ruling to the Washington Court of Appeals. If the 2005-2007 Panel decision stands, the anticipated loss of MSA funds to the state is between $52 million and $61.5 million.

## D. FEDERAL ASSISTANCE

The state has received federal financial assistance for specific purposes that are generally subject to review or audit by the grantor agencies.

Entitlement to this assistance is generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations, including the expenditure of assistance for allowable purposes. Any disallowance resulting from a review or audit may become a liability of the state.

The state estimates and recognizes claims and judgments liabilities for disallowances when determined by the grantor agency or for probable disallowances based on experience pertaining to these grants; however, these recognized liabilities and any unrecognized disallowances are considered immaterial to the state's overall financial condition.

## E. ARBITRAGE REBATE

Rebatable arbitrage is defined by the Internal Revenue Service Code Section 148 as earnings on investments purchased from the gross proceeds of a bond issue that are in excess of the amount that would have been earned if the investments were invested at a yield equal to the yield on the bond issue.

The rebatable arbitrage must be paid to the federal government. The state estimates that rebatable arbitrage liability, if any, 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 $15.37 billion at June 30, 2024. The guarantees extend through the life of the bonds, with a final maturity date of the longest series in 2047.

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. I-5 INTERSTATE BRIDGE REPLACEMENT PROJECT

The Interstate Bridge Replacement (IBR) project is a joint effort between the Washington State Department of Transportation and the Oregon Department of Transportation to replace the aging Interstate 5 (I-5) bridge across the Columbia River and related interchange improvements within the five-mile corridor. This project will be funded from Washington and Oregon state funding, federal funding, and funds from tolling the bridge. This project is in the design phase and construction activity is expected to begin in late 2025.

The Move Ahead Washington Transportation Package awarded $1 billion for Washington's share of the funds for construction. The 2023 legislative session allocated $137.5 million for the 2023-25 biennium as the first portion of the Move Ahead Washington funding. As of the fiscal year ended June 30, 2024, the state of Washington has spent $30.8 million to staff the IBR project office and fund planning and preliminary engineering work. The remaining $106.7 million was allocated for fiscal year 2025. Additionally, the state of Washington has dedicated $117.7 million for the Mill Plain Interchange, which is within the IBR project area.

# Note 20
## Subsequent Events

### A. BOND ISSUES

In October 2024, the state issued:

- $891.4 million in general obligation refunding bonds for the purpose of refunding certain various general obligation bonds of the state.

- $659.2 million in motor vehicle fuel tax and vehicle related fees general obligation refunding bonds for the purpose of refunding certain motor vehicle fuel tax general obligation bonds of the state.

In October 2024, Fircrest Properties, a blended component unit of the state, issued $188.9 million in revenue bonds for the purpose of permitting, designing, constructing, equipping, and furnishing a nursing facility and related laundry and parking facilities.

In October 2024, Washington State University entered into a bond purchase agreement and expects to issue $106.2 million in general revenue refunding bonds in January 2025 to refund and defease all of the University's General Revenue and Refunding Bonds, 2015, and to pay the costs of issuing the bonds.

### B. CERTIFICATES OF PARTICIPATION

In October 2024, the state issued $22.9 million in Certificates of Participation.