

MD&A
Management's Discussion and Analysis

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MD&A

Management's Discussion & Analysis

As managers of the state of Washington, we offer this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2018. We present this information in conjunction with the information included in our letter of transmittal, which can be found preceding this narrative, and with the state's financial statements, which follow. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

Financial Highlights

- Total assets and deferred outflows of the state of Washington exceeded its liabilities and deferred inflows by \$24.77 billion (reported as net position). Of this amount, \$(13.98) billion was reported as "unrestricted net position." A negative balance indicates that no funds were available for discretionary purposes.
- The state of Washington's governmental funds reported a combined ending fund balance of \$19.58 billion, an increase of 15.9 percent compared with the prior year.
- The state's capital assets increased by \$758.5 million, total bond debt increased by \$301.0 million, and the state's net investment in capital assets is \$22.60 billion.

Overview of the Financial Statements

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

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

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

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

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

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

FUND FINANCIAL STATEMENTS

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

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

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

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

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

Proprietary fund financial statements provide the same type of information as the government-wide financial

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

The internal service funds are combined for presentation purposes. Individual fund data for the state's nonmajor proprietary funds are provided in the form of combining statements elsewhere in this report.

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

Component Units. Component units that are legally separate from the state and primarily serve or benefit those outside the state are discretely presented. They are either financially accountable to the state or have relationships with the state such that exclusion would cause the state's financial statements to be misleading or incomplete. The state discretely reports three major component units: the Valley Medical Center, the Washington State Public Stadium Authority, and the Health Benefit Exchange, as well as four nonmajor component units.

NOTES TO THE FINANCIAL STATEMENTS

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

OTHER INFORMATION

This report also presents required supplementary information on budgetary comparisons, pension plans and other postemployment benefits information, and infrastructure assets reported using the modified approach.

The combining statements referred to earlier are presented immediately following the required supplementary information.

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

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
ASSETS						
Current and other assets	\$ 30,477	\$ 26,295	\$ 27,237	\$ 26,535	\$ 57,714	\$ 52,830
Capital assets	41,044	40,512	3,336	3,108	44,380	43,620
Total assets	<u>71,521</u>	<u>66,807</u>	<u>30,573</u>	<u>29,643</u>	<u>102,094</u>	<u>96,450</u>
DEFERRED OUTFLOWS OF RESOURCES	1,108	1,320	171	197	1,279	1,517
LIABILITIES						
Current and other liabilities	5,910	5,976	1,167	1,090	7,077	7,066
Long-term liabilities outstanding	35,986	34,527	33,532	32,143	69,518	66,670
Total liabilities	<u>41,896</u>	<u>40,503</u>	<u>34,699</u>	<u>33,233</u>	<u>76,595</u>	<u>73,736</u>
DEFERRED INFLOWS OF RESOURCES	1,819	235	189	9	2,008	244
NET POSITION						
Net investment in capital assets	21,749	21,048	847	751	22,596	21,799
Restricted	11,328	9,718	4,825	4,581	16,153	14,299
Unrestricted	(4,163)	(3,377)	(9,816)	(8,734)	(13,979)	(12,111)
Total net position	<u>\$ 28,914</u>	<u>\$ 27,389</u>	<u>\$ (4,144)</u>	<u>\$ (3,402)</u>	<u>\$ 24,770</u>	<u>\$ 23,987</u>

Note: The 2017 amounts presented here have not been restated for prior period adjustments. Complete information necessary to fully restate the 2017 amounts was not available. Refer to Note 2 Accounting, Reporting, and Entity Changes.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. For the state of Washington, total assets and deferred outflows of resources exceed liabilities and deferred inflows of resources by \$24.77 billion at June 30, 2018, as compared to \$23.99 billion as reported at June 30, 2017.

The largest portion of the state's net position (91.2 percent for fiscal year 2018 as compared to 90.9 percent for fiscal year 2017) reflects its net investment in capital assets (e.g., land, buildings, equipment, and intangible assets) less any related debt used to acquire those assets that is still outstanding. The state of Washington uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

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

A portion of the state of Washington's net position (65.2 percent for fiscal year 2018 as compared to 59.6 percent for fiscal year 2017) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$(13.98) billion represents unrestricted net position. The state's overall negative balance in unrestricted net position is largely due to deficits in business-type activities.

In governmental activities, net position increased from \$27.39 billion in fiscal year 2017 to \$28.91 billion in fiscal year 2018. The increase reflects increases in grants and tax revenues that outpaced the increases in expenses.

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

The main benefit plans of the workers' compensation program are funded on rates that will keep the plans solvent in accordance with recognized actuarial principles.

The supplemental pension cost-of-living adjustments (COLAs) granted for time-loss and disability payments, however, are funded on a pay-as-you-go basis. By statute, the state is only allowed to collect enough revenue to fund the current COLA payments.

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

STATE OF WASHINGTON						
Changes in Net Position						
<i>(in millions of dollars)</i>						
	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
REVENUES						
Program revenues:						
Charges for services	\$ 7,170	\$ 6,643	\$ 7,920	\$ 7,524	\$ 15,090	\$ 14,167
Operating grants and contributions	16,120	15,832	66	65	16,186	15,897
Capital grants and contributions	973	1,012	—	5	973	1,017
General revenues:						
Taxes	24,863	21,883	23	21	24,886	21,904
Interest and investment earnings (loss)	561	614	502	880	1,063	1,494
Total revenues	<u>49,688</u>	<u>45,984</u>	<u>8,510</u>	<u>8,495</u>	<u>58,198</u>	<u>54,479</u>
EXPENSES						
General government	(1,687)	(1,945)	—	—	(1,687)	(1,945)
Education - K-12	(12,012)	(11,042)	—	—	(12,012)	(11,042)
Education - Higher education	(7,662)	(7,633)	—	—	(7,662)	(7,633)
Human services	(18,863)	(18,216)	—	—	(18,863)	(18,216)
Adult corrections	(1,067)	(1,062)	—	—	(1,067)	(1,062)
Natural resources and recreation	(1,184)	(1,266)	—	—	(1,184)	(1,266)
Transportation	(2,485)	(2,118)	—	—	(2,485)	(2,118)
Interest on long-term debt	(1,002)	(1,027)	—	—	(1,002)	(1,027)
Workers' compensation	—	—	(3,690)	(3,269)	(3,690)	(3,269)
Unemployment compensation	—	—	(935)	(1,027)	(935)	(1,027)
Higher education student services	—	—	(3,119)	(3,022)	(3,119)	(3,022)
Other business-type activities	—	—	(918)	(1,016)	(918)	(1,016)
Total expenses	<u>(45,962)</u>	<u>(44,309)</u>	<u>(8,662)</u>	<u>(8,334)</u>	<u>(54,624)</u>	<u>(52,643)</u>
Excess (deficiency) of revenues over expenses before contributions						
to endowments and transfers	3,726	1,675	(152)	161	3,574	1,836
Contributions to endowments	109	100	—	—	109	100
Transfers	152	119	(152)	(119)	—	—
Increase (decrease) in net position	3,986	1,894	(304)	42	3,683	1,936
Net position - July 1, as restated	<u>24,928</u>	<u>25,495</u>	<u>(3,840)</u>	<u>(3,444)</u>	<u>21,087</u>	<u>22,051</u>
Net position - June 30	<u>\$ 28,914</u>	<u>\$ 27,389</u>	<u>\$ (4,144)</u>	<u>\$ (3,402)</u>	<u>\$ 24,770</u>	<u>\$ 23,987</u>

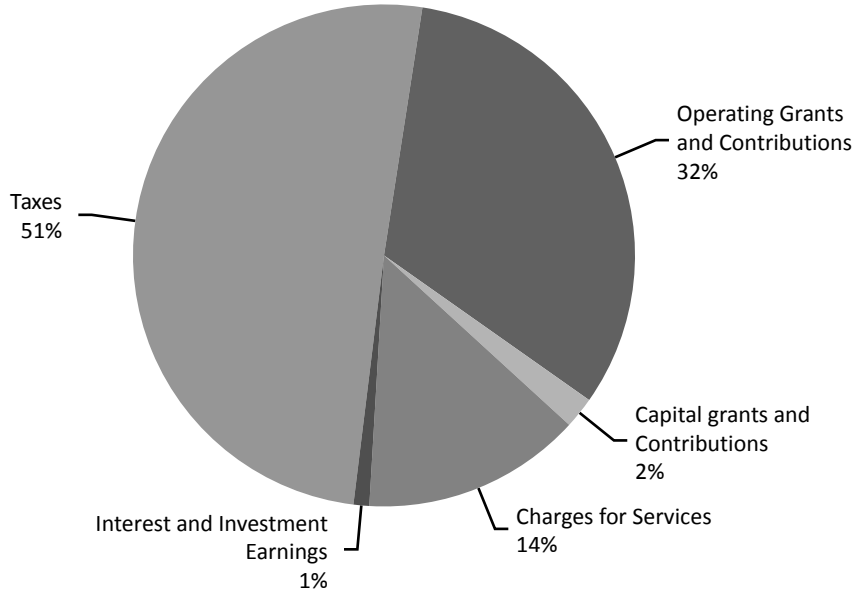
Governmental Activities. Governmental activities resulted in an increase in the state of Washington's net position of \$3.99 billion. A number of factors were in play including increases in tax revenues and spending on K-12 education and human services.

- Tax revenues increased by \$2.98 billion in fiscal year 2018 as compared to fiscal year 2017 reflecting positive growth in the economy. Sales and use tax, which are the main tax revenue for governmental activities, reported an increase of \$791.4 million. Business and Occupation tax increased by \$321.1 million. Property tax revenue increased by \$1.25 billion as a result of the state Legislature increasing the state's property tax rate. Real estate excise tax revenue increased by \$138.5 million. Real estate excise taxes are levied on the sale of real estate.
- Operating grants and contributions grew by \$287.5 million in fiscal year 2018 compared with 2017 and were matched with an increase in human services operating grant expenses.
- Expenses grew by \$970.7 million for K-12 education in 2018 as compared to fiscal year 2017. The state Supreme Court ruled this year, that the state met its constitutional duty to fund basic education.

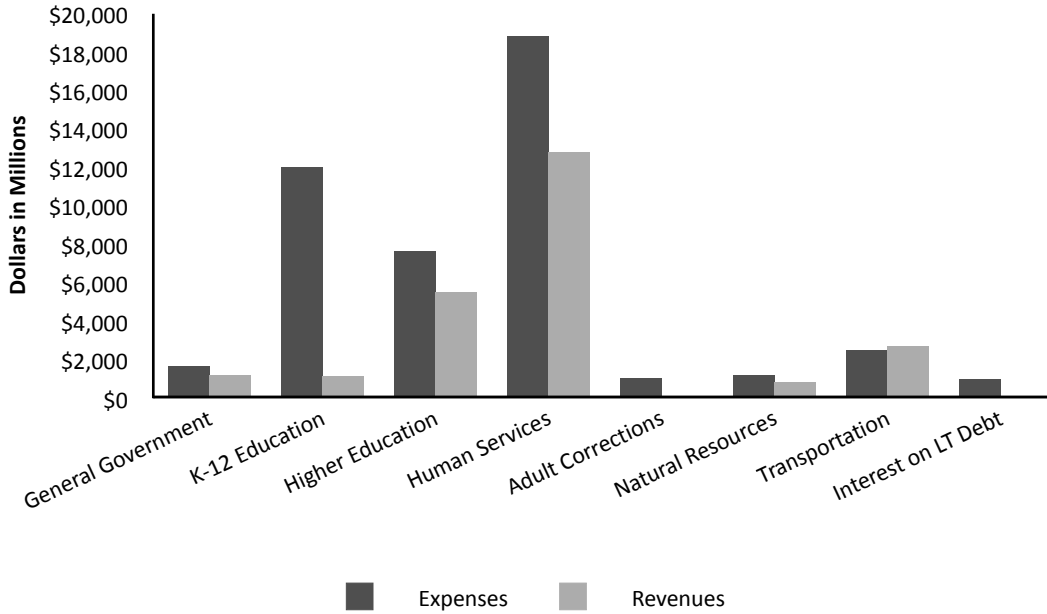
Business-Type Activities. Business-type activities decreased the state of Washington's net position by \$303.6 million. Key factors contributing to the operating results of business-type activities are:

- The workers' compensation activity decrease in net position in fiscal year 2018 was \$654.0 million compared to an increase of \$70.5 million in fiscal year 2017. Claim costs increased by \$421.7 million in fiscal year 2018 compared with fiscal year 2017, reflecting an increase in the number of time-loss claims. Investment income decreased by \$302.0 million as compared to fiscal year 2017. The workers' compensation portfolio is 86.1 percent debt securities.
- The unemployment compensation activity reported operating income in fiscal year 2018 of \$144.9 million compared to \$3.8 million in fiscal year 2017. Unemployment insurance benefits decreased by \$92.2 million in fiscal year 2018 over fiscal year 2017. The unemployment rate for the state for June 2018 was 4.5 percent, unchanged from June 2017.
- The Higher Education Student Services activities reported relatively proportional increases in both operating revenues and expenses when compared to the prior year.

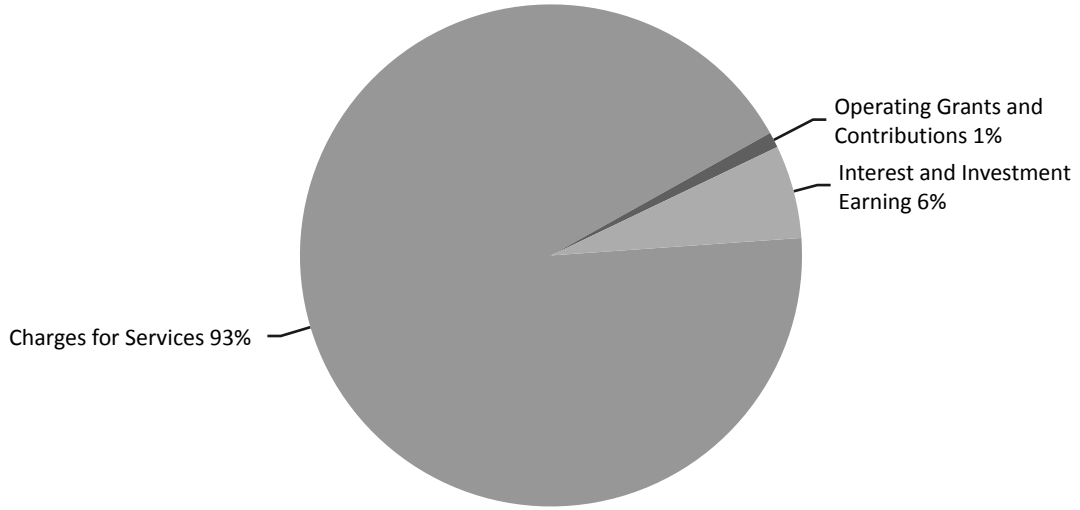
Revenues by Source: Governmental Activities



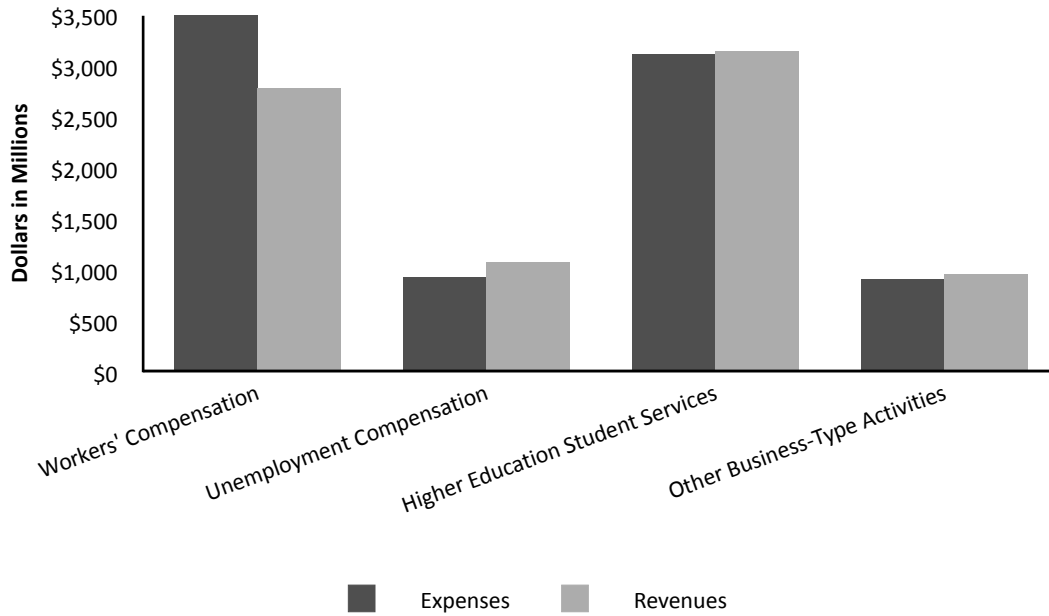
Program Revenues and Expenses: Governmental Activities



Revenues by Source: Business-Type Activities



Program Revenues and Expenses: Business-Type Activities



Financial Analysis of the State's Funds

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

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

Fund Balances. At June 30, 2018, the state's governmental funds reported combined ending fund balances of \$19.58 billion. Of this amount, \$2.81 billion or 14.4 percent is nonspendable, either due to its form or legal constraints; and \$6.77 billion or 34.6 percent is restricted for specific

programs by external constraints, constitutional provisions, or contractual obligations. An additional \$6.45 billion or 33.0 percent of total fund balance has been committed to specific purposes. Committed amounts cannot be used for any other purpose unless approved by the Legislature. An additional \$1.53 billion or 7.8 percent of total fund balance has been assigned to specific purposes by management.

The General Fund is the chief operating fund of the state of Washington. The fund balance improved by \$1.23 billion in fiscal year 2018, as compared to a \$970.8 million gain in fiscal year 2017. Increased revenues from taxes and spending increases in K-12 education and social and health services were the key contributing factors. Assigned fund balance of \$1.51 billion is reported for fiscal year 2018 and relates to certain accrued and non-cash revenues which are not considered by management to be available for budgetary purposes.

STATE OF WASHINGTON			
General Fund			
<i>(in millions of dollars)</i>			
	Fiscal Year		Difference Increase (Decrease)
	2018	2017	
REVENUES			
Taxes	\$ 21,244	\$ 19,341	\$ 1,903
Federal grants	13,013	12,680	333
Investment revenue (loss)	1	(5)	6
Other	920	1,130	(210)
Total	35,178	33,146	2,032
EXPENDITURES			
Human services	18,686	17,959	727
Education	13,067	12,176	891
Other	1,585	1,584	1
Total	33,338	31,719	1,619
Net transfers in (out)	(674)	(587)	(87)
Other financing sources	63	131	(68)
Net increase (decrease) in fund balance	\$ 1,229	\$ 971	\$ 258

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

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

- The change in fund balance of the Higher Education Special Revenue Fund in fiscal year 2018 was an increase of \$162.3 million compared to a decrease of \$167.7 million in fiscal year 2017.
- The fund balance for the Higher Education Endowment Fund increased by \$336.5 million in fiscal year 2018. The increase is a result of positive growth in investment earnings.

Proprietary Funds. The state of Washington's proprietary funds financial statements provide the same type of information found in the government-wide financial statements, but in more detail. Significant changes reported in fiscal year 2018 are as follows:

- The Workers' Compensation Fund reported a decrease in net position of \$654.0 million in fiscal year 2018. Operating revenues decreased by \$4.8 million and operating expenses increased by \$420.1 million as compared to fiscal year 2017. Investment income decreased \$302.0 million over fiscal year 2017.
- Washington's Unemployment Compensation Fund reported an increase in net position of \$242.8 million. As reported previously, premium revenue increased reflecting a growing workforce and higher taxable wage base. Unemployment benefit claims expense decreased by \$92.2 million in fiscal year 2018 as compared to 2017. The decrease in benefit claims and marginal increase in federal aid are consistent with an overall stable unemployment rate.
- The Higher Education Student Services Fund and the nonmajor enterprise funds reported consistent activity when compared to the prior year.

Adjustments to Beginning Proprietary Fund Net Position. As described in Note 2 to the financial statements, beginning fund net position of the Higher Education Student Services Fund and Workers' Compensation Fund were adjusted as a result of implementing GASB Statement Nos. 75 and 81.

General Fund Budgetary Highlights

Differences between the original budget of the General Fund and the final amended budget reflect increases in mandatory costs driven by rising caseloads and school enrollment as well as other high priority needs. Changes to estimates are summarized as follows:

- Estimated biennial resources increased by \$3.12 billion over the course of the first fiscal year of the biennium. The major increase in estimated resources is additional property tax, sales tax, and excise tax collected.
- Appropriated expenditure authority increased by \$3.95 billion over the first fiscal year of the biennium to address increases in the state's mental health and children services programs. The largest increase in appropriation authority was in K-12 education. This is

the result of the state meeting its obligation under the state Supreme Court's 2012 McCleary ruling to meet its constitutional duty to fund basic education.

The state did not overspend its legal spending authority for the 2017-19 biennium. Actual General Fund revenues and expenditures were 49.9 and 46.0 percent of final budgeted resources and appropriations, respectively, for the first fiscal year of the 2017-19 biennium.

Capital Assets, Infrastructure, and Bond Debt Administration

Capital Assets. The state of Washington's investment in capital assets for its governmental and business-type activities as of June 30, 2018, totaled \$44.38 billion (net of accumulated depreciation). This investment in capital assets includes land, infrastructure, museum and historical collections, buildings and other improvements, furnishings, equipment, and intangible assets, as well as construction in progress.

Washington's fiscal year 2018 investment in capital assets, net of current year depreciation, increased \$758.5 million over fiscal year 2017, including increases to the state's transportation infrastructure of \$286.1 million. The state's construction in progress includes both new construction and major improvements to state capital facilities and infrastructure. Remaining commitments on these construction projects total \$2.91 billion.

Additional information on the state of Washington's capital assets can be found in Note 6.

Infrastructure. The state uses the modified approach for reporting selected infrastructure assets. The modified approach requires that the state meet certain requirements regarding the inventory and maintenance of eligible capital assets, including condition assessments. Under the modified approach, assets are not depreciated and certain maintenance and preservation costs associated with those assets are expensed. Assets accounted for under this approach include approximately 20,810 pavement lane miles, 3,322 bridges, and 47 highway safety rest areas. Infrastructure asset categories are assessed on a two-year cycle, either on a calendar year or fiscal year basis.

In the past five fiscal years, the state has invested fewer resources for the preservation and maintenance of pavement, bridges, and rest areas than was planned.

STATE OF WASHINGTON
Capital Assets - Net of Depreciation
(in millions of dollars)

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Land	\$ 2,767	\$ 2,666	\$ 71	\$ 70	\$ 2,838	\$ 2,736
Transportation infrastructure and other assets not depreciated	25,147	24,838	5	5	25,152	24,843
Buildings	8,649	8,434	2,533	2,521	11,182	10,955
Furnishings, equipment, and intangible assets	2,088	2,009	196	220	2,284	2,229
Other improvements and infrastructure	1,361	1,390	74	77	1,435	1,467
Construction in progress	1,032	1,176	457	215	1,489	1,391
Total	\$ 41,044	\$ 40,513	\$ 3,336	\$ 3,108	\$ 44,380	\$ 43,621

The state's goal is to maintain 85 percent of pavements and 90 percent of bridges at a condition level of fair or better. The condition of these assets, along with the rating scales, and additional detail comparing planned to actual preservation and maintenance spending are available in the required supplementary information. In 2018, the Washington State Department of Transportation updated its Capital Assets - Infrastructure Policy to report the average of the three most recent assessment periods, as opposed to just the most recent period.

The most recent pavements condition assessment indicates that 93.2 percent of pavements were in fair or better condition. The condition of pavements has remained steady in the last three assessment periods, averaging 93.1 percent in fair or better condition. For fiscal year 2018, actual maintenance and preservation expenditures were 3.0 percent higher than planned; however, over the past five fiscal years, the actual expenditures were 4.0 percent lower than planned.

The most recent bridge condition assessment indicates that 91.8 percent of bridges were in good or fair condition. The condition of bridges has remained steady over the last three assessment periods, averaging 91.8 percent in good or fair condition. For fiscal year 2018, the actual maintenance and preservation expenditures were 18.3 percent lower than planned, and over the past five fiscal years, the actual expenditures were 10.5 percent lower than planned.

Bond Debt. At the end of fiscal year 2018, the state of Washington had general obligation bond debt outstanding including accreted interest and issuance premiums of \$19.61 billion, a decrease of 0.2 percent from fiscal year 2017. This debt is secured by a pledge of the full faith and credit of

the state. Additionally, the state had authorized \$12.42 billion general obligation debt that remains unissued.

General obligation debt is subject to the limitation prescribed by the state Constitution. The aggregate debt contracted by the state as of June 30, 2018, does not exceed that amount for which payments of principal and interest in any fiscal year would require the state to expend more than 8.3 percent of the arithmetic mean of its general state revenues for the six immediately preceding fiscal years. The arithmetic mean of its general state revenues for fiscal years 2012-2017 is \$17.18 billion. The debt service limitation, 8.3 percent of this mean, is \$1.42 billion. The state's maximum annual debt service as of June 30, 2018, subject to the constitutional debt limitation is \$1.17 billion, or \$250.0 million less than the debt service limitation.

For further information on the debt limit, refer to Schedule 11 in the statistical section of this report or the Certification of the Debt Limitation of the state of Washington, available from the Office of the State Treasurer at <https://www.tre.wa.gov/wp-content/uploads/Debt-Limit-Certification-Complete.pdf>.

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

As of June 30, 2018, the state of Washington's general obligation debt was rated Aa1 by Moody's Investor Service, AA+ by Standard & Poor's Rating Group (S & P), and AA + by Fitch Ratings.

STATE OF WASHINGTON

Bond Debt*(in millions of dollars)*

	Governmental Activities		Business-Type Activities		Total	
	2018	2017*	2018	2017*	2018	2017
General obligation (GO) bonds	\$ 19,181	\$ 19,192	\$ —	\$ —	\$ 19,181	\$ 19,192
Accreted interest on zero interest rate GO bonds	433	458	—	—	433	458
Revenue bonds	2,297	2,319	2,141	2,125	4,438	4,444
Unamortized premium on bonds sold	1,731	1,391	185	182	1,916	1,573
Total	<u>\$ 23,642</u>	<u>\$ 23,360</u>	<u>\$ 2,326</u>	<u>\$ 2,307</u>	<u>\$ 25,968</u>	<u>\$ 25,667</u>

*Prior year balances restated for comparability

The state had revenue debt outstanding at June 30, 2018, of \$4.44 billion, a decrease of \$5.9 million over fiscal year 2017. The decrease is primarily related to revenue bonds issued by state colleges and universities. This debt is not supported or intended to be supported by the full faith and credit of the state. Revenue bond debt is generally secured by specific sources of revenue. The exception is the University of Washington and Washington State University which issue general revenue bonds that are payable from general revenues of each university.

General obligation and revenue bonds totaling \$1.36 billion were refunded during the year. Washington's refunding activity produced \$233.4 million in gross debt service savings.

Additional information on the state's bond debt obligations is presented in Note 7.

Conditions with Expected Future Impact

Economic Outlook. Washington is well positioned for economic and population expansion. The state has a diverse industrial and environmental base that supports trade with Pacific Rim countries as well as knowledge-based industries including information technology, health, business, and financial services. Washington's expanding economy, accelerated gains in hiring, and strong housing markets have had a positive effect on revenue growth. Further economic growth and a continued expansion in the housing and commercial building markets should keep revenues growing at a sound pace.

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

On June 30, 2018, \$216.4 million was transferred to the BSA from the General Fund in accordance with the provisions of the Constitution. During fiscal year 2018, by three-fifths vote of each house, the Legislature appropriated \$22.5 million from the BSA for additional state expenditures, emergency fire service mobilization, fire suppression, and fire damage recovery costs. In addition, the Legislature transferred \$462.6 million of extraordinary revenue growth to the pension stabilization account to be used only for the cost of state employer contributions to state pension systems. The BSA had a fund balance of \$1.37 billion as of June 30, 2018.

Requests for Information

This financial report is designed to provide a general overview of the state of Washington's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of Financial Management, Accounting Division, P.O. Box 43127, Olympia, WA 98504-3127.

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Basic Financial Statements
Government-wide Financial Statements

Statement of Net Position

June 30, 2018

(expressed in thousands)

Continued

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES				
ASSETS				
Cash and cash equivalents	\$ 9,440,400	\$ 8,042,530	\$ 17,482,930	\$ 239,846
Taxes receivable (net of allowance for uncollectibles)	4,810,007	40	4,810,047	—
Other receivables (net of allowance for uncollectibles)	2,393,707	1,887,186	4,280,893	102,788
Internal balances	336,264	(336,264)	—	—
Due from other governments	4,444,596	150,815	4,595,411	—
Inventories and prepaids	121,173	60,988	182,161	25,306
Restricted cash and investments	287,006	77,476	364,482	—
Restricted receivables, current	69,331	36,592	105,923	—
Investments, noncurrent	6,694,898	17,021,803	23,716,701	66,663
Restricted investments, noncurrent	—	—	—	13,318
Restricted receivables, noncurrent	—	735	735	—
Restricted net pension asset	1,879,159	454	1,879,613	—
Other assets	—	295,009	295,009	288,208
Capital assets:				
Non-depreciable assets	28,946,390	532,071	29,478,461	94,433
Depreciable assets (net of accumulated depreciation)	12,097,601	2,803,438	14,901,039	552,421
Total capital assets	41,043,991	3,335,509	44,379,500	646,854
Total Assets	71,520,532	30,572,873	102,093,405	1,382,983
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows on refundings	4,135	38,863	42,998	12,491
Deferred outflows on pensions	982,452	119,077	1,101,529	2,697
Deferred outflows on OPEB	121,518	12,690	134,208	57
Total Deferred Outflows of Resources	1,108,105	170,630	1,278,735	15,245
Total Assets and Deferred Outflows of Resources	\$ 72,628,637	\$ 30,743,503	\$ 103,372,140	\$ 1,398,228

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

Statement of Net Position

June 30, 2018

(expressed in thousands)

	Primary Government			Concluded
	Governmental Activities	Business-Type Activities	Total	Component Units
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION				
LIABILITIES				
Accounts payable	\$ 2,255,967	\$ 268,417	\$ 2,524,384	\$ 35,053
Accrued liabilities	1,619,344	669,465	2,288,809	121,064
Obligations under security lending agreements	—	122,237	122,237	—
Due to other governments	1,568,935	43,818	1,612,753	—
Unearned revenues	466,082	62,583	528,665	8,747
Long-term liabilities:				
Due within one year	1,898,706	2,581,358	4,480,064	11,410
Due in more than one year	34,087,221	30,950,414	65,037,635	321,527
Total Liabilities	41,896,255	34,698,292	76,594,547	497,801
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows on hedging derivatives	3,869	—	3,869	—
Deferred inflows on refundings	2,183	23	2,206	—
Deferred inflows on pensions	1,029,198	83,086	1,112,284	2,424
Deferred inflows on OPEB	737,501	106,161	843,662	529
Deferred inflows on irrevocable split interest agreements	45,663	—	45,663	—
Deferred inflows on property taxes	—	—	—	25,031
Total Deferred Inflows of Resources	1,818,414	189,270	2,007,684	27,984
NET POSITION				
Net investment in capital assets	21,749,060	846,822	22,595,882	351,429
Restricted for:				
Unemployment compensation	—	4,824,074	4,824,074	—
Nonexpendable permanent endowments	2,674,263	—	2,674,263	—
Expendable endowment funds	1,639,382	—	1,639,382	—
Pensions	1,879,159	454	1,879,613	—
Wildlife and natural resources	1,089,027	—	1,089,027	—
Transportation	1,399,032	—	1,399,032	—
Budget stabilization	1,369,438	—	1,369,438	—
Higher education	126,261	—	126,261	—
Capital projects	274,454	—	274,454	—
Other purposes	877,098	—	877,098	9,773
Unrestricted	(4,163,206)	(9,815,409)	(13,978,615)	511,241
Total Net Position	28,913,968	(4,144,059)	24,769,909	872,443
Total Liabilities, Deferred Inflows of Resources, and Net Position	\$ 72,628,637	\$ 30,743,503	\$ 103,372,140	\$ 1,398,228

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

Statement of Activities
For the Fiscal Year Ended June 30, 2018
(expressed in thousands)

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capitol Grants and Contributions
PRIMARY GOVERNMENT				
Governmental Activities:				
General government	\$ 1,686,943	\$ 907,821	\$ 292,686	\$ 796
Education - K-12 education	12,012,236	27,778	1,111,103	—
Education - higher education	7,661,620	3,058,782	2,311,847	157,878
Human services	18,862,827	736,677	12,075,552	—
Adult corrections	1,066,875	28,527	2,439	—
Natural resources and recreation	1,184,591	616,605	193,743	32,952
Transportation	2,485,116	1,794,268	132,466	781,527
Interest on long-term debt	1,002,024	—	—	—
Total Governmental Activities	45,962,232	7,170,458	16,119,836	973,153
Business-Type Activities:				
Workers' compensation	3,689,553	2,774,652	11,466	—
Unemployment compensation	935,042	1,039,340	40,569	—
Higher education student services	3,118,741	3,139,025	13,811	—
Washington's lottery	557,187	736,816	—	—
Guaranteed education tuition program	173,651	84,004	—	—
Other	188,086	145,730	457	—
Total Business-Type Activities	8,662,260	7,919,567	66,303	—
Total Primary Government	\$ 54,624,492	\$ 15,090,025	\$ 16,186,139	\$ 973,153
COMPONENT UNITS	\$ 727,499	\$ 742,132	\$ 31,466	\$ —
Total Component Units	\$ 727,499	\$ 742,132	\$ 31,466	\$ —

General Revenues:

Taxes, net of related credits:

Sales and use

Business and occupation

Property

Motor vehicle and fuel

Excise

Cigarette and tobacco

Public utilities

Insurance premium

Other

Interest and investment earnings

Total general revenues

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

Contributions to endowments

Transfers

Change in Net Position

Net Position - Beginning, as restated

Net Position - Ending

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

**Net (Expense) Revenue and
Changes in Net Position**

Primary Government			
Governmental Activities	Business-Type Activities	Total	Component Units
\$ (485,640)	\$ —	\$ (485,640)	
(10,873,355)	—	(10,873,355)	
(2,133,113)	—	(2,133,113)	
(6,050,598)	—	(6,050,598)	
(1,035,909)	—	(1,035,909)	
(341,291)	—	(341,291)	
223,145	—	223,145	
(1,002,024)	—	(1,002,024)	
(21,698,785)	—	(21,698,785)	
—	(903,435)	(903,435)	
—	144,867	144,867	
—	34,095	34,095	
—	179,629	179,629	
—	(89,647)	(89,647)	
—	(41,899)	(41,899)	
—	(676,390)	(676,390)	
\$ (21,698,785)	\$ (676,390)	\$ (22,375,175)	
			\$ 46,099
			\$ 46,099
11,154,008	—	11,154,008	—
4,182,744	—	4,182,744	—
3,347,110	—	3,347,110	22,722
1,731,565	—	1,731,565	—
1,599,522	22,570	1,622,092	—
422,264	—	422,264	—
481,571	—	481,571	—
630,657	—	630,657	—
1,313,813	—	1,313,813	17,414
561,344	501,765	1,063,109	3,466
25,424,598	524,335	25,948,933	43,602
3,725,813	(152,055)	3,573,758	89,701
108,860	—	108,860	—
151,536	(151,536)	—	—
3,986,209	(303,591)	3,682,618	89,701
24,927,759	(3,840,468)	21,087,291	782,742
\$ 28,913,968	\$ (4,144,059)	\$ 24,769,909	\$ 872,443