

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, 2015. 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 \$20.60 billion (reported as net position). Of this amount, \$(12.89) 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 \$14.70 billion, an increase of 2.4 percent compared with the prior year as restated.
- The state implemented Statement No. 68 of the Governmental Accounting Standards Board (GASB) *Accounting and Financial Reporting for Pensions* for fiscal year 2015 financial reporting which resulted in a decrease in the beginning balance of net position of \$3.04 billion in Governmental Activities and a decrease of \$474.2 million for Business-Type Activities.
- The state's capital assets increased by \$1.39 billion, total bond debt increased by \$670.1 million, and the state's net investment in capital assets is \$20.93 billion.

Overview of the Financial Statements

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

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

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

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

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

The business-type activities of the state of Washington include the workers' compensation and unemployment compensation programs, as well as Washington's lottery, the Guaranteed Education Tuition Program (GET), and various higher education student services such as housing and dining.

The government-wide financial statements can be found on pages 36-39 of this report.

FUND FINANCIAL STATEMENTS

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

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

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

Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for three major funds and an aggregate total for all nonmajor funds. The state's major governmental funds are the General Fund, Higher Education Special Revenue Fund, and the Higher Education Endowment Fund. Individual fund data for the state's nonmajor governmental funds are provided in the form of combining statements elsewhere in this report. The governmental fund financial statements can be found on pages 42-45 of this report.

Proprietary Funds. The state of Washington maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Internal service funds represent an accounting device used to accumulate and allocate costs internally among the state of Washington's various functions. The

state of Washington uses internal service funds to account for general services such as motor pool, central stores, data processing services, risk management, employee health insurance, and printing services. Because internal service funds predominately benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

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

The internal service funds are combined for presentation purposes. Individual fund data for the state's nonmajor proprietary funds are provided in the form of combining statements elsewhere in this report. The proprietary fund financial statements can be found on pages 46-55 of this report.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the state of Washington's own programs. Washington's fiduciary funds include state administered pension plans. The accounting used for fiduciary funds is much like that used for proprietary funds. Individual fund data for the state's fiduciary funds are provided in the form of combining statements elsewhere in this report. The fiduciary fund financial statements can be found on pages 56-57 of this report.

Component Units. Component units that are legally separate from the state and primarily serve or benefit those outside the state are discretely presented. They are either financially accountable to the state, or have relationships with the state such that exclusion would cause the state's financial statements to be misleading or incomplete. The state discretely reports four major component units, the Valley Medical Center, Northwest Hospital, the Washington State Public Stadium Authority and the Health Benefit Exchange, as well as four nonmajor component units. Refer to Note 1 on pages 67-68 for more detailed information. Individual fund data for the state's nonmajor component units are provided in the form of combining statements elsewhere in this report. The component unit financial statements can be found on pages 58-63 of this report.

NOTES TO THE FINANCIAL STATEMENTS

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 65-164 of this report.

OTHER INFORMATION

In addition to this discussion and analysis, this report also presents required supplementary information on budgetary comparisons, pension plans and other postemployment

benefits information, and infrastructure assets reported using the modified approach.

Required supplementary information can be found on pages 167-190 of this report.

The combining statements referred to earlier are presented immediately following the required supplementary information. Combining financial statements and individual fund schedules can be found on pages 193-257 of this report.

STATE OF WASHINGTON						
Statement of Net Position						
<i>(in millions of dollars)</i>						
	Governmental		Business-Type		Total	
	Activities		Activities			
	2015	2014	2015	2014	2015	2014
ASSETS						
Current and other assets	\$ 23,812	\$ 21,468	\$ 24,557	\$ 24,394	\$ 48,369	\$ 45,862
Capital assets	37,783	36,375	2,925	2,850	40,708	39,225
Total assets	61,595	57,843	27,482	27,244	89,077	85,087
DEFERRED OUTFLOWS OF RESOURCES	481	-	83	15	564	15
LIABILITIES						
Current and other liabilities	5,339	5,043	1,035	1,190	6,374	6,233
Long-term liabilities outstanding	30,459	25,994	30,104	29,947	60,563	55,941
Total liabilities	35,798	31,037	31,139	31,137	66,937	62,174
DEFERRED INFLOWS OF RESOURCES	1,944	2	158	-	2,102	2
NET POSITION						
Net investment in capital assets	19,958	19,816	973	625	20,931	20,441
Restricted	8,320	6,589	4,240	3,815	12,560	10,404
Unrestricted	(3,944)	399	(8,945)	(8,318)	(12,889)	(7,919)
Total net position	\$ 24,334	\$ 26,804	\$ (3,732)	\$ (3,878)	\$ 20,602	\$ 22,926

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 \$20.60 billion at June 30, 2015, as compared to \$22.93 billion as reported at June 30, 2014.

The largest portion of the state's net position (101.6 percent for fiscal year 2015 as compared to 89.2 percent

for fiscal year 2014) 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 (61.0 percent for fiscal year 2015 as compared to 45.4 percent for fiscal year 2014) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$(12.89) 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 decreased from \$26.80 billion in fiscal year 2014 to \$24.33 billion in fiscal year 2015. Beginning balance adjustments accounted for \$2.14 billion of the decrease in net position. These include the implementation of GASB Statement No. 68 and offsetting adjustments to correct prior accounting practices. The remaining decrease of \$327.9 million reflects increases in expenses that outpaced the increases in revenues.

In business-type activities, the deficit is caused by the workers' compensation program that provides time-loss,

medical, disability, and pension payments to qualifying individuals who sustain work-related injuries or develop occupational diseases as a result of their required work activities.

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

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

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

	Governmental		Business-Type		Total	
	Activities		Activities			
	2015	2014	2015	2014	2015	2014
REVENUES						
Program revenues:						
Charges for services	\$ 5,985	\$ 5,850	\$ 6,631	\$ 6,416	\$ 12,616	\$ 12,266
Operating grants and contributions	15,158	13,240	77	326	15,235	13,566
Capital grants and contributions	867	1,066	-	-	867	1,066
General revenues:						
Taxes	18,132	17,849	20	22	18,152	17,871
Interest and investment earnings (loss)	307	621	377	1,618	684	2,239
Total revenues	<u>40,449</u>	<u>38,626</u>	<u>7,105</u>	<u>8,382</u>	<u>47,554</u>	<u>47,008</u>
EXPENSES						
General government	(1,987)	(1,607)	-	-	(1,987)	(1,607)
Education - K-12	(9,426)	(8,914)	-	-	(9,426)	(8,914)
Education - Higher education	(7,095)	(6,910)	-	-	(7,095)	(6,910)
Human services	(16,890)	(15,052)	-	-	(16,890)	(15,052)
Adult corrections	(956)	(911)	-	-	(956)	(911)
Natural resources and recreation	(1,335)	(1,137)	-	-	(1,335)	(1,137)
Transportation	(2,309)	(2,400)	-	-	(2,309)	(2,400)
Interest on long-term debt	(981)	(938)	-	-	(981)	(938)
Workers' compensation	-	-	(3,018)	(3,142)	(3,018)	(3,142)
Unemployment compensation	-	-	(968)	(1,380)	(968)	(1,380)
Higher education student services	-	-	(2,314)	(2,080)	(2,314)	(2,080)
Washington's lottery	-	-	(466)	(463)	(466)	(463)
Guaranteed education tuition program	-	-	585	(185)	585	(185)
Other business-type activities	-	-	(158)	(133)	(158)	(133)
Total expenses	<u>(40,979)</u>	<u>(37,869)</u>	<u>(6,339)</u>	<u>(7,383)</u>	<u>(47,318)</u>	<u>(45,252)</u>
Excess (deficiency) of revenues over expenses before contributions to endowments and transfers	(530)	757	766	999	236	1,756
Contributions to endowments	66	66	-	-	66	66
Transfers	136	94	(136)	(94)	-	-
Increase (decrease) in net position	(328)	917	630	905	302	1,822
Net position - July 1, as restated	24,662	25,887	(4,362)	(4,783)	20,300	21,104
Net position - June 30	<u>\$ 24,334</u>	<u>\$ 26,804</u>	<u>\$ (3,732)</u>	<u>\$ (3,878)</u>	<u>\$ 20,602</u>	<u>\$ 22,926</u>

Governmental Activities. Governmental activities resulted in a decrease in the state of Washington's net position of \$327.9 million. A number of factors were in play including increases in both spending on K-12 education and tax revenues.

- Expenses grew by \$511.9 million for K-12 education in 2015 as compared to fiscal year 2014. The state is working to meet the requirements of the state Supreme Court's 2012 McCleary ruling to meet its constitutional duty to fund basic education.
- Tax revenues increased by \$282.7 million in fiscal year 2015 as compared to fiscal year 2014 reflecting positive growth in the economy. Sales and use taxes reported an increase of \$636.1 million. Sales and use taxes are the main tax revenue for governmental activities. Real estate excise tax revenue increased by \$209.9 million. Real estate excise taxes are levied on the sale of real estate. These tax revenue increases reflect the rebounding economy, recovering housing markets, and improving employment picture in Washington.
- Sales of recreational marijuana generated \$64.9 million in new excise tax in 2015.
- Tuition and fee revenues at higher education institutions held steady in fiscal year 2015 compared with fiscal year 2014.
- Operating grants and contributions grew by \$1.92 billion in fiscal year 2015 compared with 2014 and was matched with an increase in human services expenses. The increases in both grant revenue and human services expenditures are largely due to the state expansion of its Medicaid program under the Affordable Care Act providing coverage to 534,000 newly eligible adults.

Business-Type Activities. Business-type activities increased the state of Washington's net position by \$629.6 million. Workers' compensation, unemployment compensation, and guaranteed education tuition activities contributed to the increase. Key factors contributing to the operating results of business-type activities are:

- The workers' compensation activity decrease in net position in fiscal year 2015 was \$400.9 million compared to an increase of \$240.4 million in fiscal year 2014. Premium revenue increased by \$137.1 million as a result of an increase in the number of hours reported by employers, a mid-year premium rate increase, and an increase in the number of hours reported by businesses in higher rate classes. Claim costs decreased by \$144.2 million in fiscal year 2015 compared with

fiscal year 2014 reflecting a reduction in the number of time-loss claims. Nonoperating investment income decreased by \$902.6 million due predominately to a net decrease in realized and unrealized gains on debt securities. The workers' compensation portfolio is 86.1 percent debt securities.

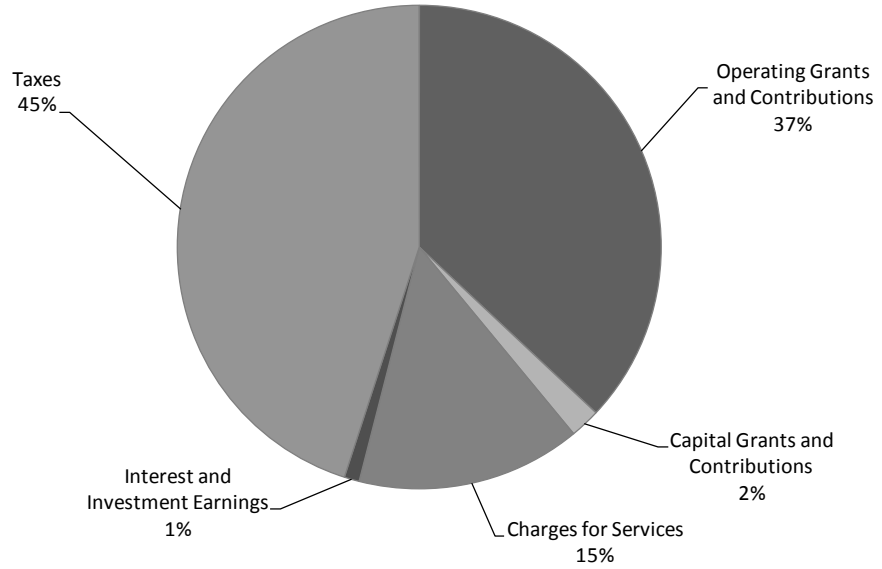
- The unemployment compensation activity reported an operating income in fiscal year 2015 of \$344.9 million, compared to \$272.6 million in fiscal year 2014. Washington's unemployment insurance program is an experience-based system with the largest part of an individual employer's tax rate being based on the employer's layoff experience over the past four years. The economic recovery in the state has stabilized employment and resulted in a decline in unemployment insurance benefits of \$411.7 million in fiscal year 2015 over fiscal year 2014. The decrease in benefit costs was the result of a decline in both the number of claims and the duration of the claims. The unemployment rate for the state for June 2015 was 5.3 percent, down from 5.4 percent in June 2014, and the insured rate declined to 1.5 percent in fiscal year 2015 from 1.8 percent in fiscal year 2014. The state's unemployment insurance premiums are experience based and the unemployment rate is declining, which resulted in premium revenue decreasing by 6.8 percent. The \$247.0 million decline in federal aid also reflects the decrease in the unemployment rate.
- The Guaranteed Education Tuition (GET) Program reported an increase in net position of \$658.7 million increasing its funded status to 140.1 percent, up from 105.8 percent the previous year, in spite of the fact that the number of tuition units sold dropped for the fourth straight year and investment returns were down.

Investment returns declined to 0.8 percent in fiscal year 2015 compared to 16.4 percent in fiscal year 2014. The GET investment portfolio was rebalanced during fiscal year 2015 to diversify the portfolio across various investment types as well as broadly within asset classes in order to reduce the aggregate volatility of the total portfolio.

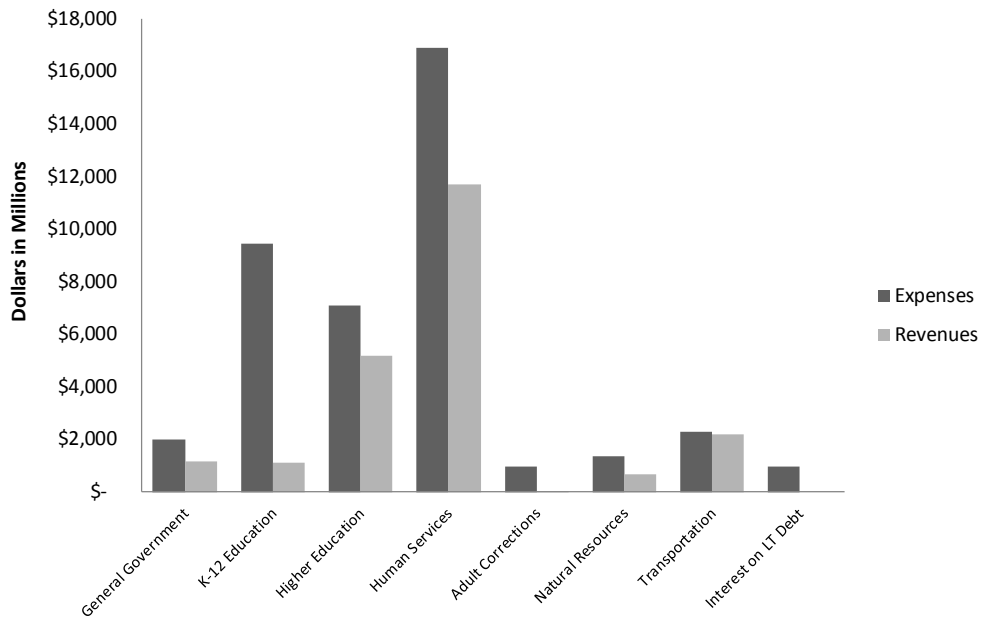
While current year investment returns were down, the actuarial valuation of the obligation for future tuition benefits assumed a higher rate of investment return based on a recent experience study. The valuation also assumed a lower rate of tuition growth in response to recently enacted legislation. Overall the tuition benefit obligation decreased by 29.8 percent.

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

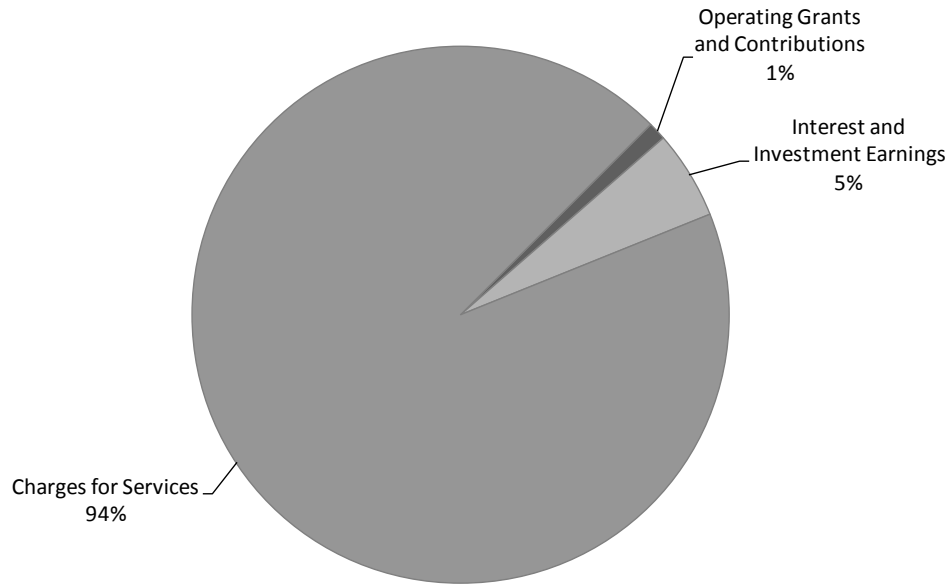
Revenues by Source: Governmental Activities



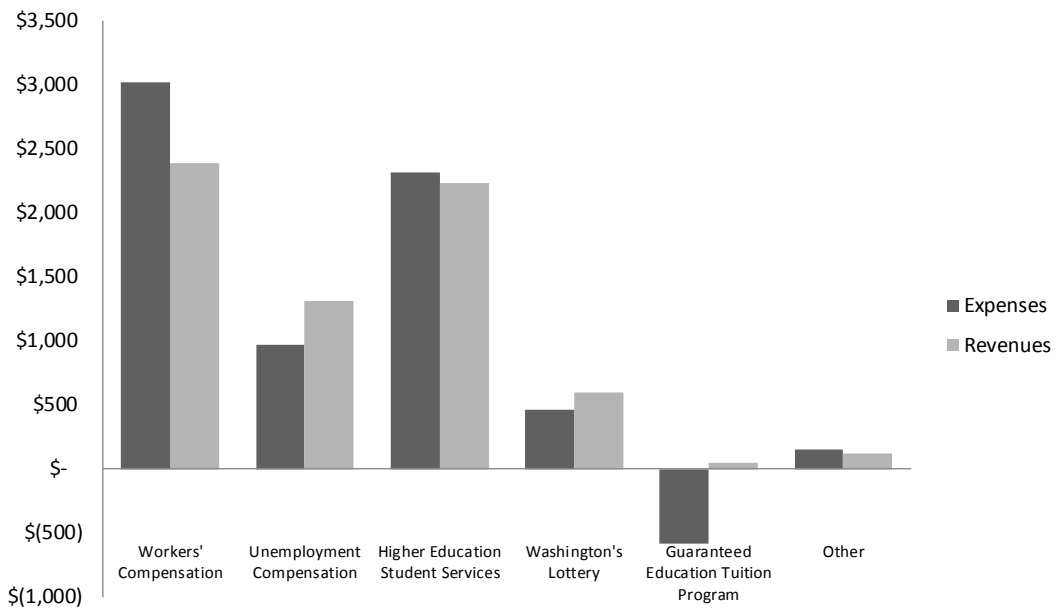
Program Revenues and Expenses: Governmental Activities



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.

Adjustments to Beginning Fund Balances. As described in Note 2 to the financial statements on pages 79 and 80, beginning fund balances of governmental funds were adjusted to correct prior period activity.

Fund Balances. At June 30, 2015, the state's governmental funds reported combined ending fund balances of \$14.70 billion. Of this amount, \$2.53 billion or 17.3 percent is nonspendable, either due to its form or legal constraints, and \$4.37 billion or 29.7 percent is

restricted for specific programs by external constraints, constitutional provisions or contractual obligations. An additional \$5.97 billion or 40.6 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 \$1.03 billion or 7.0 percent of total fund balance has been assigned to specific purposes by management.

The General Fund is the chief operating fund of the state of Washington. As noted in the table below, fund balance improved as a result of operations by \$854.3 million in fiscal year 2015, as compared to a \$443.5 million gain in fiscal year 2014. Increased revenues from taxes and federal grants-in-aid and targeted spending increases in K-12 education and social and health services combined with a concerted effort to hold the line on other spending were the key contributing factors. Assigned fund balance of \$1.01 billion is reported for fiscal year 2015 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
	2015	2014	Increase (Decrease)
REVENUES			
Taxes	\$ 17,025	\$ 16,008	\$ 1,017
Federal grants	12,053	10,226	1,827
Investment revenue (loss)	8	7	1
Other	698	614	84
Total	29,784	26,855	2,929
EXPENDITURES			
Human services	16,794	14,920	1,874
Education	10,177	9,754	423
Other	1,505	1,460	45
Total	28,476	26,134	2,342
Net transfers in (out)	(653)	(447)	(206)
Other financing sources	199	170	29
Net increase (decrease) in fund balance	\$ 854	\$ 444	\$ 410

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

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

- The change in net position of the Higher Education Special Revenue Fund in fiscal year 2015 was \$126.1 million compared to \$140.6 million in fiscal year 2014. The decline in fiscal year 2015 was largely due to a 6.8 percent increase in expenditures outpacing revenue growth. Revenues showed only a slight gain of 2.7 percent reflecting the state’s decision to hold tuition steady.
- The fund balance for the Higher Education Endowment Fund increased by \$80.8 million in fiscal year 2015. Fiscal year 2015 reported a decrease of \$283.6 million in investment earnings due to a downturn in the market.

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

- The Workers’ Compensation Fund reported a decrease in net position of \$400.9 million in fiscal year 2015. Operating revenues increased by \$138.1 million and operating expenses decreased by \$123.5 million as compared to fiscal year 2014. As previously reported, operating revenues increased due to an increase in reported hours in higher rate classes and claims expense decreased due to a reduction in the number of time-loss claims. Investment income decreased \$902.6 million over fiscal year 2014 due to a decrease in net realized and unrealized capital gains.
- Washington’s Unemployment Compensation Fund reported an increase in net position of \$425.4 million. As reported previously, premium revenue increased reflecting a growing workforce and higher taxable wage base. Unemployment benefit claims expense decreased by \$411.7 million in fiscal year 2015 as compared to 2014 and federal aid decreased by \$247.0 million over the same period. The decreases in both benefit claims and federal aid are consistent with the decline in the state’s unemployment rate.

- The Guaranteed Education Tuition (GET) Program Fund reported an increase in net position of \$658.7 million in fiscal year 2015. As previously reported, the increase is due primarily to a reduction in the assumed rate of tuition growth and a higher assumed rate of investment return.
- The Higher Education Student Services Fund and the nonmajor enterprise funds reported activity fairly consistent with the prior year.

General Fund Budgetary Highlights

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

- Estimated biennial resources increased by \$2.63 billion over the course of the biennium. The major increase in estimated resources is reported in federal grants-in-aid reflecting the state expansion of its Medicaid program under the Affordable Care Act.
- Appropriated expenditure authority increased by \$1.97 billion over the biennium to address increases in mandatory and high priority programs. The major increases in appropriation authority were in human services. The availability of additional federal funding allowed the state to provide coverage to more than 534,000 newly eligible adults under the Affordable Care Act.

The state did not overspend its legal spending authority for the 2013-15 biennium. Actual General Fund revenues and expenditures were 97.8 and 97.0 percent of final budgeted resources and appropriations, respectively, for the 2013-15 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, 2015, totaled \$40.71 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 2015 investment in capital assets, net of current year depreciation, increased \$1.39 billion over fiscal year 2014, including increases to the state's transportation infrastructure of \$818.2 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 \$2.42 billion.

Additional information on the state of Washington's capital assets can be found in Note 6 beginning on page 110 of this report.

Infrastructure. The state uses the modified approach for reporting selected infrastructure assets. The modified approach requires that the state meet certain requirements regarding the inventory and maintenance of eligible capital assets, including condition assessments. Under the modified approach, assets are not depreciated and certain maintenance and preservation costs associated with those assets are expensed. Assets accounted for under this approach include approximately 20,732 lane miles of pavement, 3,288 bridges, and 48 highway safety rest areas. Infrastructure asset categories are assessed on a two year cycle, either on a calendar year or fiscal year basis.

STATE OF WASHINGTON						
Capital Assets - Net of Depreciation						
<i>(in millions of dollars)</i>						
	Governmental Activities		Business-Type Activities		Total	
	2015	2014*	2015	2014	2015	2014
Land	\$ 2,625	\$ 2,571	\$ 58	\$ 61	\$ 2,683	\$ 2,632
Transportation infrastructure and other assets not depreciated	23,376	22,554	5	5	23,381	22,559
Buildings	7,826	7,702	2,312	2,410	10,138	10,112
Furnishings, equipment, and intangible assets	1,829	1,513	183	189	2,012	1,702
Other improvements and infrastructure	1,236	1,223	75	81	1,311	1,304
Construction in progress	891	906	293	104	1,184	1,010
Total	\$ 37,783	\$ 36,469	\$ 2,926	\$ 2,850	\$ 40,709	\$ 39,319

* Prior year balances restated for comparability

The state's goal is to maintain 85 percent of pavements and 90 percent of bridges at a condition level of fair or better. The condition of these assets, along with the rating scales, and additional detail comparing planned to actual preservation and maintenance spending are available in the required supplementary information beginning on page 187.

The most recent pavements condition assessment indicates that 92.8 percent of pavements were in fair or better condition. The condition of pavements has remained steady in the last three assessment periods, averaging 92.2 percent in fair or better condition. For fiscal year 2015, actual maintenance and preservation expenditures were 17.8 percent lower than planned, and over the past five

fiscal years, the actual expenditures were 6.2 percent lower than planned.

The most recent bridge condition assessment indicates that 92.1 percent of bridges were in good or fair condition. The condition of bridges has remained steady over the last three assessment periods, averaging 93 percent in good or fair condition. For fiscal year 2015, the actual maintenance and preservation expenditures were 9.9 percent lower than planned, and over the past five fiscal years, the actual expenditures were 8.4 percent lower than planned.

Bond Debt. At the end of fiscal year 2015, the state of Washington had general obligation bond debt outstanding including accreted interest and issuance premiums of \$19.87 billion, an increase of 2.4 percent from fiscal year 2014. This debt is secured by a pledge of the full faith and credit of the state. Additionally, the state had authorized \$5.61 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, 2015, does not exceed that amount for which payments of principal and interest in any fiscal year would require the state to expend more than 8.5 percent of the arithmetic mean of its general state revenues for the six immediately preceding fiscal years. The arithmetic mean of its general state revenues for fiscal years 2009 - 2014 is \$14.79 billion. The debt service limitation, 8.5 percent of this mean, is \$1.26 billion. The state's maximum annual debt service as of June 30, 2015, subject to the constitutional debt limitation is \$1.13 billion, or \$128.3 million less than the debt service limitation.

For further information on the debt limit, refer to the statistical section on page 282 of this report or the Certification of the Debt Limitation of the State of Washington, available from the Office of the State Treasurer at: http://www.tre.wa.gov/documents/debt_cdl2015.pdf.

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

As of June 30, 2015, 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						
<i>(in millions of dollars)</i>						
	Governmental		Business-Type		Total	
	Activities		Activities			
	2015	2014*	2015	2014*	2015	2014
General obligation (GO) bonds	\$ 19,396	\$ 18,954	\$ 4	\$ 8	\$ 19,400	\$ 18,962
Accreted interest on zero interest rate GO bonds	472	416	-	-	472	416
Revenue bonds	2,316	2,021	1,991	2,109	4,307	4,130
Total	\$ 22,184	\$ 21,391	\$ 1,995	\$ 2,117	\$ 24,179	\$ 23,508

* Prior year balances restated for comparability

The state had revenue debt outstanding at June 30, 2015, of \$4.31 billion, an increase of \$177.1 million over fiscal year 2014. The increase is primarily related to grant anticipation revenue bonds issued by the Washington State Department of Transportation and revenue bonds issued by state colleges and universities. This debt is not supported or intended to be supported by the full faith and credit of the state. Revenue bond debt is generally secured by specific sources of revenue. The exception is the University of Washington and Washington State University which issue general revenue bonds that are payable from general revenues of each university.

General obligation and revenue bonds totaling \$3.19 billion were refunded during the year. Washington's refunding activity produced \$449.4 million in gross debt service savings.

Additional information on the state's bond debt obligations is presented in Note 7 beginning on page 114 of this report.

Conditions with Expected Future Impact

Economic Outlook. Washington is well positioned for economic and population expansion. The state has a diverse industrial and environmental base that supports trade with Pacific Rim countries as well as knowledge-based industries including information, health, business, and financial services.

Washington's expanding economy, accelerated gains in hiring, and recovering housing markets have had a positive

effect on revenue growth. Further economic growth and a continued expansion in the housing and commercial building markets should keep revenues growing at a sound pace.

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

- The slowing Chinese economy, the negative impact of a stronger dollar on exports, and the volatility in the stock markets pose threats to the U.S. and Washington economies.
- Under legislation approved in 2012, and beginning with the 2013-15 biennium, Washington became the only state in the nation required to pass a budget that balances spending against anticipated revenue over a four year period.
- The courts have also made it clear that in addressing budget shortfalls the past six years, the state sometimes went too far in cutting services, such as for at-risk children and individuals with mental illness. Washington continues to address the requirements of the state Supreme Court 2012 McCleary ruling that found that the state has failed to meet its constitutional requirement to amply fund basic education. Although funding progress was made during the 2013-15 biennium, it was insufficient to satisfy the court.

General Election. There is a measure on the state's November 3, 2015, general election ballot that addresses state taxes. This measure would reduce the state retail sales tax by 1 percent unless the Legislature refers to voters a constitutional amendment requiring two-thirds legislative approval or voter approval to raise taxes and legislative approval for fee increases. If passed, the measure could impact the state fiscally.

Election results are not final or official until certified. By law December 3, 2015, is the last day for the Office of the Secretary of State to certify General Election returns. Information is posted as available on the Secretary of State's website at: <http://www.sos.wa.gov>.

Rainy Day Account. In November 2007, Washington state voters ratified Engrossed Substitute Senate Joint Resolution 8206, amending the state's Constitution and establishing the Budget Stabilization Account (BSA). The

Constitution details a limited number of circumstances under which funds can be appropriated from the BSA, one of which is a favorable vote of at least three-fifths of the members of each house of the Legislature.

On June 30, 2015, \$211.9 million was transferred to the BSA from the General Fund in accordance with the provisions of the Constitution. During fiscal year 2015, by three-fifths vote of each house, the Legislature appropriated \$77.2 million from the BSA solely for emergency fire service mobilization, fire suppression, and fire damage recovery costs. Additionally, the Legislature, also by three-fifths vote of each house, authorized the transfer from the BSA to the General Fund the amount attributable to extraordinary revenue growth, not to exceed \$50.0 million. The BSA had a fund balance of \$513.1 million as of June 30, 2015.

The Guaranteed Education Tuition (GET) Program.

The funded status of the GET Program increased during fiscal year 2015 reflecting lower assumed tuition growth in response to Engrossed Second Substitute Bill (E2SSB) 5954 which was signed into law by the Governor on July 6, 2015. E2SSB 5954 reduces tuition at all public institutions of higher learning during the fiscal years 2016 and 2017 and limits tuition growth in future years. In response to E2SSB 5954, the GET Program Committee authorized refunds of approximately \$75.0 million in amortization fees to account holders which was recognized as of June 30, 2015. The Committee also permitted account holders, upon request, to receive a refund of their contributions or a fixed payout value, whichever is greater, without the usual penalties, fees, or waiting period. The full extent of E2SSB 5954's impact on the Program cannot reasonably be estimated as of the date of these financial statements.

Requests for Information

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

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