Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2021

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Note 1

Summary of Significant Accounting Policies

The accompanying financial statements of the state of Washington have been prepared in conformity with generally accepted accounting principles (GAAP). The Office of Financial Management (OFM) is the primary authority for the state's accounting and reporting requirements. OFM has adopted the pronouncements of the Governmental Accounting Standards Board (GASB), which is nationally accepted as the standard-setting body for establishing governmental accounting and financial reporting principles. Following is a summary of the significant accounting policies:

A. REPORTING ENTITY

In defining the state of Washington for financial reporting purposes, management considers all funds, organizations, institutions, agencies, departments, and offices that are legally part of the state (the primary government) and organizations that are financially accountable to the state. Additionally, other organizations that do not meet the financial accountability criteria may be included in the reporting entity if the nature and significance of their relationship with the state are such that exclusion would cause the state's financial statements to be misleading.

Financial accountability exists when the primary government appoints a voting majority of an organization's governing body and is either (1) able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government. The primary government is also financially accountable if an organization is fiscally dependent on and there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government regardless of whether the organization has (1) a separately elected governing board, (2) a governing board appointed by a higher level of government, or (3) a jointly appointed board. An organization is fiscally dependent if it is unable to determine its budget without another government having the substantive authority to approve or modify that budget, to levy taxes or set rates or charges without substantive approval by another government, or to issue bonded debt without substantive approval by another government. The organization has a financial benefit or burden relationship with the primary government if, for example, any one of these conditions exists: (1) the primary government is legally entitled to or can access the organization's resources, (2) the primary government is legally obligated or has otherwise assumed the obligation to finance or provide financial support to the organization, (3) the primary government is obligated in some manner for the debt of the organization.

Based on these criteria, the following are included in the financial statements of the primary government:

State Agencies. Except as otherwise described herein, all state elected offices, departments, agencies, commissions, boards, committees, authorities, councils (agencies), and all funds and subsidiary accounts of the state are included in the primary government. Executives of these agencies are either elected, directly appointed by the Governor, appointed by a board which is appointed by the Governor, or appointed by a board which is in part appointed by the Governor. Additionally, a small number of board positions are established by statute or independently elected.

The Legislature creates these agencies, assigns their programs, approves operational funding, and requires financial accountability. The Legislature also authorizes all bond issuances for capital construction projects for the benefit of state agencies. The legal liability for these bonds and the ownership of agency assets reside with the state.

Colleges and Universities. The governing boards of the five state universities, the state college, and the 34 state community and technical colleges are appointed by the Governor. The governing board of each college and university appoints a president to function as chief administrator. The Legislature approves budgets and budget amendments for the appropriated funds of each college and university, which include the state's General Fund as well as certain capital projects funds. The State Treasurer issues general obligation debt for major campus construction projects. However, the colleges and universities are authorized to issue revenue bonds.

The University of Washington (UW) and Washington State University issue general revenue bonds that are payable from general revenues, including student tuition, grant indirect cost recovery, sales and services revenue, and investment income. All other revenue bonds issued by colleges and universities pledge the income derived from acquired or constructed assets such as housing, dining, and parking facilities. These revenue bonds are payable solely from, and secured by, fees and revenues derived from the operation of constructed facilities. The legal liability for the bonds and the ownership of the college and university assets reside with the state.

Colleges and universities do not have separate corporate powers and sue and are sued as part of the state with legal representation provided through the state Attorney General's Office. Since the colleges and universities are legally part of the state, their financial operations, including their blended component units, are reported in the state's financial statements using the fund structure prescribed by GASB.

Retirement Systems. The state of Washington, through the Department of Retirement Systems (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 Fire Fighters' Retirement System, the Washington State Patrol Retirement System, the Public Safety Employees' Retirement System, the Judicial Retirement System, and the Judges' Retirement Fund. The director of DRS is appointed by the Governor.

There are three additional retirement systems administered outside of the DRS. The Volunteer Fire Fighters' and Reserve Officers' Relief and Pension Fund is administered through the State Board for Volunteer Fire Fighters and Reserve Officers, which is appointed by the Governor. The Judicial Retirement Account is administered through the Administrative Office of the Courts under the direction of the Board for Judicial Administration. The Higher Education Retirement Plan Supplemental Benefit Fund Plans are administered by the state's colleges and universities.

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

All of the aforementioned retirement systems are included in the primary government's financial statements.

Blended Component Units

Blended component units, although legally separate entities, are part of the state's operations in substance. Accordingly, they are reported as part of the state and blended into the appropriate funds. Financial information for the state's blended component units may be obtained from the Office of Financial Management, Accounting Division, P.O. Box 43127, Olympia, WA 98504-3127. The following entities are blended in the state's financial statements:

Tobacco Settlement Authority was created by the Legislature in March 2002 as a public instrumentality separate and distinct from the state. It is governed by a five-member board appointed by the Governor. It was created solely for the purpose of issuing bonds to securitize a portion of the state's future tobacco settlement revenue. Proceeds of the debt instrument were transferred to the state to help fund health care, long-term care, and other programs of the state. Refer to Note 7.A for additional information.

University of Washington Physicians (UWP) was established for the exclusive benefit of the University of Washington School of Medicine (UWSOM). UWP employs UWSOM faculty and bills and collects for their clinical services as an agent for UWSOM.

UW Medicine Neighborhood Clinics (UW Neighborhood Clinics) were established for the exclusive benefit of the UWSOM, UWP and its affiliated medical centers, Harborview Medical Center, and the UW Medical Center (UWMC). The UW Neighborhood Clinics were organized to coordinate and develop patient care in a community clinical setting. They enhance the academic environment of UWSOM by providing additional sites of primary care practice and training for faculty, residents, and students.

Washington Biomedical Research Properties I and II, and Washington Biomedical Research Facilities 3, 3.2, and 3.3 were formed to acquire, construct, or renovate certain real properties for the benefit of the UW in fulfilling its educational, medical, or scientific research missions.

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.

Discrete Component Units

Discretely presented component units are reported in a separate column in the government-wide financial statements. Discretely presented component units are legally separate from the state and primarily serve or benefit those outside of the state. They are financially accountable to the state or have relationships with the state such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. These entities are reported as discrete component units because state officials either serve on or appoint the members of the governing bodies of the institutions. The state also has the ability to influence the operations of the institutions through legislation.

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

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

The **Washington State Public Stadium Authority (PSA**) was created by the Legislature to acquire, construct, own, and operate a football/soccer stadium, exhibition center, and parking garage. Construction was completed in 2002. At June 30, 2021, PSA capital assets, net of accumulated depreciation, total $207.7 million. The state issued general obligation bonds for a portion of the cost of the stadium construction. The total public share of the stadium and exhibition center cost did not exceed $300 million from all state and local government funding sources, as required in statute.

Project costs in excess of $300 million were the responsibility of the project's private partner, First & Goal, Inc. The bonds are being repaid through new state lottery games, a state sales tax credit, extension of the local hotel/motel tax, and parking and admissions taxes at the new facility. The final debt payment was made in fiscal year 2021.

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 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
PO Box 657
Olympia, WA 98507

Valley Medical Center was created July 1, 2011, through a strategic alliance between UW Medicine and Public Hospital District No. 1 of King County. Valley Medical Center owns and operates a 321-bed full service acute care hospital and 45 clinics located throughout southeast King County.

Financial reports of Valley Medical Center may be obtained at the following address:

Valley Medical Center
400 S. 43rd Street
Renton, WA 98055-5010

The **Washington State Housing Finance Commission,** the **Washington Higher Education Facilities Authority,** the **Washington Health Care Facilities Authority,** and the **Washington Economic Development Finance Authority** (financing authorities) were created by the Legislature in a way that specifically prevents them from causing the state to be liable or responsible for their acts and obligations including, but not limited to, any obligation to pay principal and interest on financing authority bonds. The financing authorities cannot obligate the state, either legally or morally, and the state has not assumed any obligation of, or with respect to, the financing authorities.

Financial reports of these financing authorities may be obtained from each authority at the following addresses:

Washington Health Care Facilities Authority
410 11th Avenue SE, Suite 201
Olympia, WA 98501

Washington State Housing Finance Commission
Washington Higher Education Facilities Authority
Washington Economic Development Finance Authority
1000 Second Avenue, Suite 2700
Seattle, WA 98104

Joint Ventures

In 1998, the University of Washington Medical Center (Medical Center) entered into an agreement with Seattle Children's Hospital and Fred Hutchinson Cancer Research Center to establish the **Seattle Cancer Care Alliance (SCCA)**. Each member of the SCCA has a one-third interest. The mission of the SCCA is to eliminate cancer as a cause of human suffering and death and to become recognized as the premier cancer research and treatment center in the Pacific Northwest. The SCCA integrates the cancer research, teaching, and clinical cancer programs of all three institutions to provide state-of-the-art cancer care. Under the agreement, the Medical Center provides the patient care to all adult inpatients of the SCCA.

Inpatient Services - The SCCA operates a 20-bed unit located within the Medical Center in which its adult inpatients receive care. The fiscal intermediary has determined that the 20-bed unit qualifies as a hospital within a hospital for Medicare reimbursement purposes. The SCCA provides medical oversight and management of the inpatient unit. Under agreements, the Medical Center provides inpatient care services to the SCCA including necessary personnel, equipment, and ancillary services.

Outpatient Services - The SCCA operates an ambulatory cancer care service facility in Seattle. The Medical Center provides various services to the SCCA's outpatient facility including certain pharmacy, laboratory, and pathology services as well as billing, purchasing, and other administrative services.

The state accounts for the Medical Center's interest in the SCCA under the equity method of accounting. Income of $50.8 million was recorded in fiscal year 2021, bringing the total equity investment to $259.3 million which is recognized in the state's financial statements in the Higher Education Student Services Fund.

Separate financial statements for the SCCA may be obtained from:

Seattle Cancer Care Alliance
825 Eastlake Avenue East
PO Box 19023
Seattle, WA 98109-1023

The University of Washington and Seattle Children's Hospital established **Children's University Medical Group (CUMG)** to assist the organizations in carrying out their pediatric patient care, as well as charitable, educational, and scientific missions.

CUMG employs UWSOM faculty physicians and bills and collects for their services as an agent for UWSOM. The University records revenue from CUMG based on the income distribution plan effective December 31, 2008. The University's patient services receivable includes amounts due from CUMG of $12.3 million in 2021.

Separate financial statements for CUMG may be obtained from:

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

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Government-wide Financial Statements

The state presents two basic government-wide financial statements: the Statement of Net Position and the Statement of Activities. These government-wide financial statements report information on all non-fiduciary activities of the primary government and its component units. The financial information for the primary government is distinguished between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods and services.

Statement of Net Position. The Statement of Net Position presents the state's non-fiduciary assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. As a general rule, balances between governmental and business-type activities are eliminated.

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

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

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

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 746 accounts that are combined into 53 rollup funds. The state presents separate financial statements for governmental funds, proprietary funds, and fiduciary funds. Major individual governmental funds and major individual proprietary funds are reported in separate columns in the fund financial statements, with nonmajor funds being combined into a single column regardless of fund type. Internal service and fiduciary funds are reported by fund type. Major funds include:

Major Governmental Funds:

- **General Fund** is the state's primary operating fund. This fund accounts for all financial resources and transactions not accounted for in other funds.

- **Higher Education Special Revenue Fund** primarily accounts for tuition, student fees, and grants and contracts received for educational and research purposes.

- **Higher Education Endowment Permanent Fund** accounts for gifts and bequests that the donors have specified must remain intact. Each gift is governed by various restrictions on the investment and use of the income earned on investments.

Major Enterprise Funds:

- **Workers' Compensation Fund** accounts for the workers' compensation program that provides medical, time-loss, and disability benefit payments to qualifying individuals sustaining work-related injuries.

- **Unemployment Compensation Fund** accounts for the unemployment compensation program. It accounts for the deposit of funds, requisitioned from the Federal Unemployment Trust Fund, to provide services to eligible participants within the state and to pay unemployment benefits.

- **Higher Education Student Services Fund** is used by colleges and universities principally for bookstore, cafeteria, parking, student housing, food service, and hospital business enterprise activities.

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

The state includes the following nonmajor funds:

Nonmajor Governmental Funds:

- **Special Revenue Funds** account for the proceeds of specific revenue sources (other than trusts for individuals, private organizations, other governments, or for major capital projects) that are restricted or committed to expenditures for specific purposes. These include a variety of state programs including public safety and health assistance programs; natural resource and wildlife protection and management programs; the state's transportation programs which include the operation of the state's ferry system and maintenance and preservation of interstate and non-interstate highway systems; driver licensing, highway and non-highway operations, and capital improvements; K-12 school construction; and construction and loan programs for local public works projects.

- **Debt Service Funds** account for the accumulation of resources that are restricted or committed to expenditures for, and the payment of, principal and interest on the state's bonds issued in support of governmental activities.

- **Capital Projects Funds** account for financial resources that are restricted or committed to expenditures for the acquisition, construction, or improvement of major state-owned capital facilities (other than highway infrastructure or those financed by proprietary funds).

- **Common School Permanent Fund** accounts for the principal derived from the sale of timber. Interest earned is used for the benefit of common schools.

Nonmajor Proprietary Funds:

- **Enterprise Funds** account for the state's business type operations for which a fee is charged to external users for goods or services including: the state lottery, vocational/education programs at correctional institutions, the Guaranteed Education Tuition program, paid family and medical leave compensation, and other activities.

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

Nonmajor Fiduciary Funds:

- **Pension (and other employee benefit) Trust Funds** are used to report resources that are required to be held in trust by the state for the members and beneficiaries of defined benefit pension plans, defined contribution pension plans, and other employee benefit plans.

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

- **Private-Purpose Trust Funds** are used to report trust arrangements, other than pension and investment trusts, under which principal and income benefit individuals, private organizations, or other governments such as the administration of unclaimed property.

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

Operating and Nonoperating Revenues and Expenses. The state's proprietary funds make a distinction between operating and nonoperating revenues and expenses. Operating revenues and expenses generally result from providing goods and services directly related to the principal operations of the funds. For example, operating revenues for the state's workers' compensation and health insurance funds consist of premiums and assessments collected. Operating expenses consist of claims paid to covered individuals, claims adjustment expenses, costs of commercial insurance coverage, and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating, including interest expense and investment gains and losses.

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

For government-wide reporting purposes, the state uses the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

For fund statement reporting purposes, the state uses the current financial resources measurement focus and modified accrual basis of accounting for governmental funds. With the current financial resources measurement focus, generally only current assets, current liabilities, deferred outflows of resources, and deferred inflows of resources are included on the governmental funds balance sheet. Operating statements for these funds present inflows (i.e., revenues and other financing sources) and outflows (i.e., expenditures and other financing uses) of expendable financial resources.

Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be reasonably estimated. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Primary revenues that are determined to be susceptible to accrual include sales taxes, business and occupation taxes, motor fuel taxes, federal grants-in-aid, and charges for services.

Revenues from property taxes are determined to be available if collectible within 60 days. Taxes imposed on exchange transactions are accrued when the underlying exchange transaction occurs if collectible within one year. Revenue for timber cutting contracts is accrued when the timber is harvested. Revenues from licenses, permits, and fees related to a future time period are recognized when received in cash. Revenues related to expenditure-driven grant agreements are recognized when the qualifying expenditures are made, provided that the availability criteria are met. Expenditure-driven grant revenue is considered available if it can be collected by the state at the same time cash is disbursed to cover the associated grant expenditure. Pledges are accrued when the eligibility requirements are met and resources are available. All other accrued revenue sources are determined to be available if collectible within 12 months.

Property taxes are levied in December for the following calendar year. The first half-year collections are due by April 30, and the second half-year collections are due by October 31. Since the state is on a fiscal year ending June 30, the first half-year collections are recognized as revenue if collectible within 60 days of the fiscal year end. The second half-year collections are recognized as receivables offset by unavailable revenue. The lien date on property taxes is January 1 of the tax levy year.

Under modified accrual accounting, expenditures are generally recognized when the related liability is incurred. However, unmatured interest on general long-term obligations is recognized when due. Certain liabilities including compensated absences, other postemployment benefits, and claims and judgments are recognized when the obligations are expected to be liquidated with available spendable financial resources.

The state reports both unavailable and unearned revenues on its governmental fund balance sheet. Unavailable revenues arise when a potential revenue does not meet both the "measurable" and the "available" criteria for revenue recognition in the current period. Unearned revenues arise when resources are received by the state before it has a legal claim to them, such as when grant monies are received prior to incurring qualifying expenditures/expenses.

All proprietary and fiduciary funds are accounted for using the economic resources measurement focus. With this measurement focus, all assets, liabilities, deferred outflows of resources, and deferred inflows of resources associated with the operations of these funds are included on their respective statements of net position. Operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in total net position.

All proprietary and fiduciary funds are reported using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred.

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

1. Cash and Investments

Investments of surplus or pooled cash balances are reported on the accompanying Statements of Net Position, Balance Sheets, and Statements of Cash Flows as "Cash and Cash Equivalents." The Office of the State Treasurer invests state treasury cash surplus where funds can be disbursed at any time without prior notice or penalty. For reporting purposes, pooled investments are stated at fair value or amortized cost, which approximates fair value. For purposes of reporting cash flows, the state considers cash and pooled investments to be cash equivalents. Pooled investments include short-term, highly-liquid investments that are both readily convertible to cash and are so near their maturity dates that they present insignificant risk of changes in value because of changes in interest rates.

The method of accounting for investments varies depending upon the fund classification. Investments in the state's Local Government Investment Pool (LGIP), a qualified external investment pool, are reported at amortized cost which approximates fair value. The Office of the State Treasurer prepares a stand-alone LGIP financial report. A copy of the report is available from the Office of the State Treasurer, PO Box 40200, Olympia, WA 98504-0200, online at: https://tre.wa.gov/partners/for- local- governments/local- government- investment-pool-lgip/lgip-comprehensive-annual-financial-report/ or phone number (360) 902-9000. TTY users dial 711 to be connected to the state TTY operator.

The fair value of certain pension trust fund investments that are organized as limited partnerships and have no readily ascertainable fair values (including real estate, private equity, and tangible assets) has been determined by using the net asset value per share of the Pension Funds' ownership interest in partners' capital. These values are based on the individual investee's capital account balance reported at fair value at the closest available reporting period, adjusted for subsequent activity. At June 30, 2021, these alternative investments are valued at $73.73 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, 2021, 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 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 $8.7 million in federally donated consumable inventories, which are offset by unearned revenue because they are not earned until they are distributed to clients.

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

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

In proprietary and trust fund type accounts, prepaid items are accounted for using the consumption method. The portion of supplies or services consumed or used during a period is recorded as an expense. The balance that remains is reported as an asset until consumed or used.

4. Restricted Assets

Certain cash, investments, and other assets are classified as restricted assets on the Statement of Net Position and Balance Sheet because their use is limited by debt covenants, escrow arrangements, or other regulations.

5. Capital Assets

Capital assets are tangible and intangible assets held and used in state operations, which have a service life of more than one year and meet the state's capitalization policy.

It is the state's policy to capitalize:

- All land, including land use rights with indefinite lives acquired with the purchase of the underlying land, and ancillary costs.
- The state highway system operated by the Department of Transportation.
- Infrastructure, other than the state highway system, with a cost of $100,000 or more.
- Buildings, building improvements, improvements other than buildings, and leasehold improvements with a cost of $100,000 or more.
- Intangible assets, either purchased or internally developed, with a cost of $1 million or more that are identifiable by meeting one of the following conditions:
    - The asset is capable of being separated or divided and sold, transferred, licensed, rented, or exchanged.
    - The asset arises from contractual or other legal rights, regardless of whether those rights are transferable or separable.
- All capital assets acquired with Certificates of Participation, a debt financing program administered by the Office of the State Treasurer.
- 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 capital leases 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.

The value of assets constructed by agencies for their own use includes all direct construction costs and costs that are related to the construction. In enterprise and trust funds, net interest costs (if material) incurred during the period of construction are capitalized. In fiscal year 2021, $88.0 million in interest costs were incurred, and $900 thousand net interest costs were capitalized.

State agencies are not required to capitalize art collections, library reserve collections, and museum and historical collections that are considered inexhaustible, in that their value does not diminish over time, if all of the following conditions are met:

- The collection is held for public exhibition, education, or research in furtherance of public service, rather than financial gain.
- The collection is protected, kept unencumbered, cared for, and preserved.

- The collection is subject to policy requirements that the proceeds from sales of collection items be used to acquire other items for the collection.

Depreciation/amortization is calculated using the straight-line method over the estimated useful lives of the assets.

Generally, estimated useful lives are as follows:

Buildings & building components	5-50 years
Furnishings, equipment & collections	3-50 years
Other improvements	3-50 years
Intangibles	3-50 years
Infrastructure	20-50 years

The cost and related accumulated depreciation/amortization of disposed capital assets are removed from the accounting records.

The state capitalizes the state highway system as a network but does not depreciate it since the system is being preserved approximately at or above a condition level established by the state. That condition level is documented and disclosed 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. Deferred Outflows/Inflows of Resources

In addition to assets, the Balance Sheet and Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of fund equity that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The category of deferred outflow of resources reported in the government-wide and proprietary fund statements of net position relates to debt refunding, pensions, other postemployment benefits (OPEB), and hedging derivative instruments.

In addition to liabilities, the Balance Sheet and Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of fund equity that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Deferred inflows of resources reported by the state relate to unavailable revenue, debt refunding, pensions, OPEB, and hedging derivative instruments.

Unavailable revenue arises only under the modified accrual basis of accounting, and so is reported only on the governmental funds Balance Sheet. Governmental funds report deferred inflows for unavailable revenues primarily from two sources: taxes and long-term receivables. These amounts are recognized as inflows of resources in the periods that the amounts become available.

7. Compensated Absences

State employees accrue vested vacation leave at a variable rate based on years of service. In general, accrued vacation leave cannot exceed 240 hours at the employee's anniversary date.

Employees accrue sick leave at the rate of one day per month without limitation on the amount that can be accumulated. Sick leave is not vested (i.e., the state does not pay employees for unused sick leave upon termination except upon employee death or retirement). At death or retirement, the state is liable for 25 percent of the employee's accumulated sick leave. In addition, the state has a sick leave buyout option in which, each January, employees who accumulate sick leave in excess of 480 hours may redeem sick leave earned but not taken during the previous year at the rate of one day's pay in exchange for each four days of sick leave.

It is the state's policy to liquidate its compensated absences obligations with future resources rather than advance funding it with available spendable financial resources.

For government-wide reporting purposes, the state reports compensated absences obligations as liabilities in the applicable governmental or business-type activities columns on the Statement of Net Position.

For fund statement reporting purposes, governmental funds recognize an expenditure for annual and sick leave when it is payable (i.e., upon employee's use, resignation, death or retirement). Proprietary and trust funds recognize the expense and accrue a liability for annual leave and estimated sick leave buyout, including related payroll taxes and benefits, as applicable, as the leave is earned.

8. Long-Term Liabilities

In the government-wide and proprietary fund financial statements, long-term obligations of the state are reported as liabilities on the Statement of Net Position. Bonds payable are reported net of applicable original issuance 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.

9. Fund Equity

In governmental fund type accounts, fund equity is called fund balance. Fund balance is reported in classifications which reflect the extent to which the state is bound to honor constraints on the purposes for which the amounts can be spent. Classifications include:

- **Nonspendable** fund balance represents amounts that are either not in a spendable form or are legally or contractually required to remain intact.
- **Restricted** fund balance represents amounts for which constraints are placed on their use by the state Constitution, enabling legislation, or external resource providers such as creditors, grantors, or laws or regulations of other governments.
- **Committed** fund balance represents amounts that can only be used for specific purposes pursuant to constraints imposed by state law as adopted by the state Legislature. The commitment remains in place until the Legislature changes or eliminates the state law.
- **Assigned** fund balance represents amounts that are intended for a specific purpose by management, but are neither restricted nor committed. Generally, assignment is expressed by joint legislative and executive staff action.
- **Unassigned** fund balance represents the residual amount for the General Fund that is not contained in the other classifications. Additionally, any deficit fund balance within the other governmental fund types is reported as unassigned.

When resources meeting more than one of the classifications (excluding nonspendable) are comingled in an account, assuming that the expenditure meets the constraints of the classification, the assumed order of spending is restricted first, committed second, and finally assigned.

For government-wide reporting as well as in proprietary funds, fund equity is called net position. Net position is comprised of three components: net investment in capital assets, restricted, and unrestricted.

- **Net investment in capital assets** consists of capital assets, net of accumulated depreciation and reduced by outstanding balances of bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are included in this component of net position.
- **Restricted** net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Assets are reported as restricted when constraints are placed on asset use either by external parties or by law through constitutional provision or enabling legislation.
- **Unrestricted** net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that does not meet the definition of the two preceding categories.

When both restricted and unrestricted resources are available for use, it is the state's policy to use restricted resources first and then use unrestricted resources as they are needed.

In fiduciary funds, net 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 44833, Olympia, WA 98504-4833 or by visiting their website at: https://lni.wa.gov/insurance/state-fund-financial-reports.

Risk Management. The state of Washington operates a self-insurance liability program pursuant to RCW 4.92.130. The state manages its tort claims as an insurance business activity rather than a general governmental activity. The state's policy is generally not to purchase commercial insurance for the risk of losses to which it is exposed. Instead, the state's management believes it is more economical to manage its risks internally and set aside assets for claims settlement in the Risk Management Fund, an internal service fund. Coverage is provided up to $10 million for each claim with no deductible. Commercial insurance is purchased for various liabilities arising from the operations of the Washington state governmental functions in order 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 administers and provides medical, vision, dental, basic life, and basic long-term disability insurance coverage for eligible state employees and their dependents. In addition, the Washington Health Benefit Exchange, tribal governments, political subdivisions, and employee organizations representing state civil service employees can contract with the state to provide these benefits to their employees. The state establishes eligibility requirements and approves plan benefits of all participating health care organizations.

Due to the addition of School Employees Benefits Board accounts in fiscal year 2020, the Health Insurance Fund, formerly accounted for as an internal service fund, is now accounted for as an enterprise fund.

The state's share of the cost of coverage for state employees is based on a per capita amount determined annually by the Legislature and allocated to state agencies.

The Health Care Authority (HCA), as administrator of the health care benefits programs, collects the monthly "premium" from agencies for each active employee. State employees self pay for coverage beyond the state's contribution. For non-state employees, their respective employers, who have contracted with the HCA to provide employee benefits, pay the cost of coverage. Former employees and employees who are temporarily not in pay status are able to pay for the full cost of coverage on a self-paid basis for medical and dental benefits. Most coverage is also available on a self-paid basis to eligible retirees. For additional information, refer to Note 12.

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 67 percent of the eligible subscribers in fiscal year 2021. 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 11 Retirement Plans and Note 12 Other Postemployment Benefits.

3. Interfund/Interagency Activities

The state engages in two major categories of interfund/ interagency activity: reciprocal and nonreciprocal. Reciprocal interfund/interagency activity is the internal counterpart to exchange and exchange-like transactions and includes both interfund loans and services provided and used. Nonreciprocal activity is nonexchange in nature and includes both transfers and reimbursements.

4. Donor-restricted Endowments

The state of Washington reports endowments in higher education endowment permanent accounts. These accounts are established outside of the state treasury for use by the higher education institutions. There is no state law that governs endowment spending; rather, the policies of individual university and college boards govern the spending of net appreciation on investments.

Under the current spending policies, distributions to programs approximate an annual percentage rate of 3.76 percent of a five-year rolling average of the endowments' market valuation.

The net appreciation available for authorization for expenditure by governing boards totaled $1.37 billion. This amount is reported as restricted for expendable endowment funds on the government-wide Statement of Net Position.

Note 2
Accounting and Reporting Changes

Reporting Changes. Effective for fiscal year 2021 reporting, the state adopted the following new standards issued by the Governmental Accounting Standards Board (GASB):

Statement No. 84, *Fiduciary Activities.* This statement establishes criteria for identifying fiduciary activities of all state and local governments. Governments with activities meeting the criteria should present a Statement of Fiduciary Net Position and a Statement of Changes in Fiduciary Net Position.

Statement No. 90, *Majority Equity Interests.* This statement specifies that a majority equity interest in a legally separate organization should be reported as a component unit. The government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method if the definition of an investment is met. This statement did not have an impact on the financial statements.

GASB Statement No. 84 Implementation. The majority of activities previously classified as agency funds are now reported under the new custodial fund classification. To implement GASB Statement No. 84 in the custodial funds, $907.5 million in liabilities were reclassified, increasing net position by the same amount, including $232.0 million in Other Custodial Funds, $641.9 million in the Local Government Distributions Fund, and $33.6 million in the Retiree Health Insurance Fund.

To implement GASB Statement No. 84, the state performed a detailed analysis of existing accounts to evaluate account activities and fund type assignment to identify any financial reporting changes. As a result, the following funds were reclassified:

- An account was reclassified from a fiduciary fund to a governmental fund. This resulted in a beginning fund balance reduction of $41 thousand in the Private-Purpose Trust Fund, a fiduciary fund, and a beginning fund balance increase of $41 thousand in the Human Services Fund, a nonmajor special revenue fund.

- An account was reclassified from an enterprise fund to a fiduciary fund, resulting in a beginning fund balance increase of $518 thousand in the State Guaranteed Education Tuition Program Fund, a nonmajor enterprise fund, and a beginning fund balance reduction of $518 thousand in the Private-Purpose Trust Fund, a fiduciary fund.

- The beginning fund balance of the Higher Education Special Revenue Fund, a major governmental fund, was reduced by $1.3 million for non-custodial activities that were previously accounted for in an agency fund which had no fund balance.

Fund Reclassification. Effective fiscal year 2021, an account was reclassified from the Administrative Accounts in the General Fund to a fiduciary fund. This resulted in a beginning fund balance reduction of $106.4 million in the General Fund and an increase of $106.4 million in the Higher Education Retirement Plan Supplemental Benefit Fund, a pension (and other employee benefit) trust fund. The assets of the reclassified account were distributed in fiscal year 2021 to seven newly created higher education supplemental retirement plan funds – one for each higher education institution – that meet the definition of a trust or equivalent arrangements.

The Health Insurance Fund was reclassified from a nonmajor enterprise fund to a major enterprise fund.

Prior Period Adjustments. The Public Stadium Authority, a major component unit, recorded an increase in net position of $11 thousand for transactions reported in the component unit's fiscal year 2020 financial statements after the state of Washington's fiscal year 2020 Annual Comprehensive Financial Report was published.

The state also recorded an increase in net position of $3.3 million for Valley Medical Center, a major component unit, to adjust to its final audited ending net position for June 30, 2020.

Fund equity at July 1, 2020, has been restated as follows (expressed in thousands):

	Fund equity (deficit) at June 30, 2020, as previously reported	Fund Reclassification	Prior Period Adjustment	Fund equity (deficit) at July 1, 2020, as restated
Governmental Funds:				
General	$ 4,779,117	$ (106,361)	$ —	$ 4,672,756
Higher Education	4,001,874	(1,259)	—	4,000,615
Higher Ed. Endowment & Other Permanent Funds	4,433,893	—	—	4,433,893
Nonmajor Governmental	6,629,293	41	—	6,629,334
Proprietary Funds:				
Enterprise Funds				
Workers' Compensation	(12,064,200)	—	—	(12,064,200)
Unemployment Compensation	3,571,282	—	—	3,571,282
Higher Education Student Services	853,733	—	—	853,733
Health Insurance	444,753	—	—	444,753
Nonmajor Enterprise	1,009,328	518	—	1,009,846
Internal Service Funds	(996,560)	—	—	(996,560)
Fiduciary Funds:				
Private-Purpose Trust Fund	6,560	(559)	—	6,001
Local Government Investment Pool	18,005,837	—	—	18,005,837
Pension (and Other Employee Benefit) Trust Funds	125,187,200	106,361	—	125,293,561
Custodial Funds	—	—	907,507	907,507
Component Units:				
Public Stadium Authority	229,787	—	11	229,798
Health Benefit Exchange	11,793	—	—	11,793
Valley Medical Center	275,292	—	3,255	278,547
Nonmajor Component Units	532,426	—	—	532,426

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, 2021, $1.21 billion of the state's deposits with financial institutions were insured or collateralized, with the remaining $330 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 in the Washington State Retirement System and related earnings on those contributions. The Retirement System is administered by the Department of Retirement Systems. The WSIB has exclusive control of the investment of all money invested in the pension trust funds.

In accordance with RCW 43.33A.110, the WSIB manages the pension fund portfolio to achieve maximum return at a prudent level of risk. The WSIB establishes asset allocation targets that must be considered at all times when making investment decisions. The asset mix may deviate from the target. Deviations greater than predetermined acceptable levels require rebalancing back to the target. When an asset class exceeds its range, the goal of rebalancing is to meet the target allocation within consideration of the other remaining asset classes.

Eligible Investments. The WSIB is authorized by statute as having investment management responsibility for pension trust funds. The WSIB is authorized to invest as provided by statute (chapter 43.33A RCW) and WSIB policy in the following: U.S. treasury bills; discount notes; repurchase agreements; reverse repurchase agreements; banker's acceptances; commercial paper; guaranteed insurance 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 2021.

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 19 separate retirement plans. These plans hold shares in the CTF which represent a percentage ownership in the pool of investments. Plans are allowed to purchase or sell shares in the CTF, based on the fair value of the underlying assets, on the first business day of each month.

In addition to share ownership in the CTF, each retirement plan holds short-term investments that are used to manage the cash needs of each retirement plan.

The CTF consists of the Public Employees' Retirement System (PERS) Plans 1 and 2/3; Teachers' Retirement System (TRS) Plans 1 and 2/3; School Employees' Retirement System (SERS) Plan 2/3; Law Enforcement Officers' and Fire Fighters' Retirement Plans 1 and 2 and the Benefits Improvement Fund; Washington State Patrol Retirement System Plans 1 and 2; Public Safety Employees' Retirement System Plan 2; Volunteer Fire Fighters' and Reserve Officers' Relief and Pension Fund; and the Higher Education Retirement Pension (HERP) Supplemental Benefit Fund, which consists of plans for seven higher education entities: University of Washington, Washington State University, Eastern Washington University, Central Washington University, The Evergreen State College, Western Washington University, and the State Board for Community and Technical Colleges. The CTF includes both the defined benefit and defined contribution portions of PERS Plan 3, TRS Plan 3, and SERS Plan 3, which are hybrid defined benefit/defined contribution plans. The participants of those plans have the option to direct their contributions to the CTF or invest their defined contributions in other external options not managed by the WSIB.

CTF Investment Policies and Restrictions. The CTF is comprised of public markets equities, fixed income securities, private equity investments, real estate, tangible assets, and an innovation portfolio. The CTF's performance objective is to exceed the return of two custom benchmarks, each consisting of public indices weighted according to asset allocation targets.

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

When market values fall outside policy ranges, assets are rebalanced first by using normal cash flows and then through reallocations of assets across asset classes. In cases of a major rebalancing, the pension trust funds can utilize futures, forward contracts, and options in order to maintain exposure within each asset class and reduce transaction costs. Major rebalancing can occur to bring asset classes within their target ranges or when the pension trust funds are transitioning managers.

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., and emerging markets. The program has a global benchmark, currently the Morgan Stanley Capital International (MSCI) All Country World Investable Market Index. A mix of external managers approved by the WSIB is used to manage the program. Passive management delivers broad diversified equity market exposure at low cost and is used when active managers cannot be identified and monitored appropriately. Passive management is also used when it is considered an appropriate alternative to active management, typically in more efficient markets. Active management is used when the pension trust funds can identify, access, and monitor successful managers in markets that are less efficient. Active management seeks to enhance the risk/return profile of the program.

Fixed Income. The fixed income segment is managed to achieve the highest return possible consistent with the desire to manage interest rate and credit risk, provide diversification to the overall investment program, provide liquidity to the pension trust fund investment program, and to meet or exceed the return of the Bloomberg Barclays 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 market value at the time of purchase and 6 percent of its market value thereafter. However, the WSIB manages with a more restrictive concentration constraint, limiting exposure to any corporate issuer to 3 percent of the CTF fixed income portfolio's market value at all times.

The fixed income portfolio is constrained by policy from investing more than 1 percent of the portfolio's par value in any single issuer with a quality rating below investment grade (as defined by Bloomberg Barclays Global Family of Fixed Income Indices). Total market value of below investment grade credit bonds (as defined by Bloomberg Barclays Global Family of Fixed Income Indices) shall not exceed 15 percent of the market value of the fixed income portfolio. Although below investment grade mortgage-backed, asset-backed, or commercial mortgage-backed securities may not be purchased, portfolio holdings that are downgraded to those levels or are no longer rated may continue to be held. The total market value of below investment grade mortgage-backed, asset-backed, and commercial mortgage-backed securities shall not exceed 5 percent of the market value of the fixed income portfolio. The duration of the portfolio is targeted to be within plus or minus 25 percent of the duration of the Bloomberg Barclays U.S. Universal Index.

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

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

Asset allocation policy constraints may, from time to time, place unintended burdens on the portfolios.

Therefore, policy exceptions are allowed under certain circumstances. These events include changes in market interest rates, portfolio rebalancing to strategic targets, and bond rating downgrades. The portfolio can remain outside of policy guidelines until it can be rebalanced without harming the portfolio.

Private Equity. Pension trust funds can be invested in any appropriate private equity investment opportunity that has the potential for returns superior to traditional investment opportunities and which is not prohibited by the WSIB's policies or by law. These investment types are generally divided into venture capital, corporate finance, growth equity, special situations, distressed, mezzanine, and other investments. Private equity investments are made through limited partnership or direct investment vehicles.

The private equity investment portfolio is managed to exceed the returns of the MSCI All Country World Index Investable Market Index, lagged by one calendar quarter, by 300 basis points in the long run. To meet the return and plan objectives, the private equity portfolio has diversified investments in companies in a variety of growth stages. The portfolio also includes a broad cross-section of opportunities in different industries and geographic regions.

Real Estate. The WSIB's real estate program is an externally managed pool of selected partnership investments intended to provide alternative portfolio characteristics when compared to traditional stock and bond investments. The majority of the WSIB's partnerships invest in institutional-quality real estate assets that are leased to third parties. The income generated from bond-like lease payments coupled with the hard asset qualities of commercial real estate combine to generate returns that are expected to fall between the return expectations for fixed income and equities over the long term. The real estate portfolio is managed to deliver risk-adjusted returns that are consistent with the WSIB's long-term return expectations for the asset class.

The pension trust funds' real estate partnerships typically invest in private real estate assets that are held for long-term income and appreciation. Many of the pension trust funds' investment partnerships do not involve co-investment with other financial entities, thereby providing the WSIB with control provisions, related transactions, and ongoing operational decisions for annual capital expenditures.

The pension trust funds may invest in any real estate opportunity demonstrating acceptable risk-adjusted returns, provided it is not prohibited by state law or WSIB policy. Investment structures may include real estate operating companies, joint ventures, commingled funds (closed or open-ended), and co-investments with existing WSIB real estate partners. Diversification within the real estate program is achieved through consideration of property type, capital structure, life cycle, geographic region, partner concentration, and property capital level.

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

Tangible Assets. The primary goal of the tangible asset portfolio is to generate a long-term, predictable and persistent income stream. The secondary goal is to generate appreciation approximately commensurate with inflation. The structure of the investments is primarily targeted to those private funds or separate accounts providing the WSIB with the most robust governance provisions related to acquisitions, dispositions, debt levels, and ongoing operational decisions for annual capital expenditures. For diversification purposes, the tangible asset portfolio focuses on income-producing physical assets in the upstream and midstream segments of four main industries: minerals and mining, energy, agriculture, and society essentials.

The WSIB's current return objective for tangible assets calls for a target benchmark of 400 basis points above the U.S. Consumer Price Index over a long-term investment horizon defined as at least five years.

Innovation Portfolio. The innovation portfolio investment strategy is to provide the WSIB with the ability to invest in assets that fall outside of traditional asset classes and to provide the WSIB with comfort and demonstrated success before committing large dollar amounts to the strategy. The overall benchmark for the innovation portfolio is the weighted average of the underlying benchmark for each asset in the portfolio.

Currently, there are eight investment strategies in the innovation portfolio involving private partnerships.

2. Valuation of Investments

The pension trust fund reports investments at fair value and categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. Unrealized gains and losses are included in the Statement of Changes in Net Position.

The following table presents fair value measurements as of June 30, 2021:

Pension Trust Funds
Investments Measured at Fair Value
June 30, 2021
(expressed in thousands)

Investments by Fair Value Level	Fair Value	Fair Value Measurements Using: Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Debt Securities				
Mortgage and other asset-backed securities	$ 2,197,502	$ —	$ 2,197,502	$ —
Corporate bonds	15,661,683	—	15,661,683	—
U.S. and foreign government and agency securities	6,587,924	—	6,587,924	—
Total Debt Securities	24,447,109	—	24,447,109	—
Equity Securities				
Common and preferred stock	25,887,402	25,824,134	61,986	1,282
Depository receipts and other miscellaneous	1,545,074	1,544,981	93	—
Mutual funds and exchange traded funds	76,793	76,793	—	—
Real estate investment trusts	404,315	404,315	—	—
Total Equity Securities	27,913,584	27,850,223	62,079	1,282
Alternative Investments				
Real estate	920,765	—	—	920,765
Tangible assets	408,931	395,413	—	13,518
Total Alternative Investments	1,329,696	395,413	—	934,283
Total Investments by Fair Value Level	53,690,389	$ 28,245,636	$ 24,509,188	$ 935,565
Investments Measured at Net Asset Value (NAV)				
Private equity	41,511,934			
Real estate	24,602,977			
Tangible assets	7,615,698			
Collective investment trust funds (equity securities)	18,681,423			
Total Investments Measured at the NAV	92,412,032			
Total Investments Measured at Fair Value	$ 146,102,421			
Other Assets (Liabilities) at Fair Value				
Collateral held under securities lending agreements	$ 249,453	$ —	$ 249,453	$ —
Net foreign exchange contracts receivable-forward and spot	5,148	—	5,148	—
Margin variation receivable-futures contracts	15,560	15,560	—	—
Obligations under securities lending agreements	(249,453)	—	(249,453)	—
Total Other Assets (Liabilities) Measured at Fair Value	$ 20,708	$ 15,560	$ 5,148	$ —

Investments classified as level 1. Investments classified as level 1 in the previous table are exchange traded equity securities whose values are based on published market prices and quotations from national security exchanges as of the appropriate market close, as of each reporting period end.

Investments classified as level 2. Investments classified as level 2 in the previous table are primarily comprised of publicly traded debt securities and exchange traded stocks traded in inactive markets. Publicly traded debt securities are sourced from reputable pricing vendors using models that are market-based measurements representing their good faith opinion as to the exit value of a debt security in an orderly transaction under current market conditions. Such models take into account quoted prices, nominal yield spreads, benchmark yield curves, prepayment speeds, and other market corroborated inputs.

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

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

Collective Investment Trust Funds. The pension trust fund invests in three separate collective investment trust funds (fund). Each fund determines a fair value by obtaining fair values of the underlying holdings using reputable pricing sources and computing an overall net asset value per share. The holdings within each fund are publicly traded equity securities.

Two funds are passively managed to approximate the capitalization weighted total rates of return of the MSCI U.S. Investable Market Index and the MSCI Emerging Markets Investable Market Index. Each fund has daily openings and contributions, and withdrawals can be made on any business day. The fund managers, at their discretion, may require withdrawal proceeds to be made partially or wholly in kind. Under certain circumstances, the fund managers may choose to suspend valuation and/or the right to make contributions and withdrawals from the fund. Such circumstances include actual or anticipated closure, restriction, or suspension of trading activity in any markets or exchanges where the fund investments are traded; where the purchase, sale, or pricing of the fund's investments would not be reasonably practicable or advisable; or where suspending contributions or withdrawals would be in the best interest of the fund or participants.

The third fund seeks to achieve long-term capital appreciation through active investment management in emerging market countries. The index against which the fund compares its performance is the MSCI Emerging Market Index. The pension trust funds may redeem some or all of their holdings on each monthly valuation date. The fund manager may delay redemption proceeds if it determines that it is reasonably necessary to prevent a material adverse impact on the fund or other investors. The fund manager, at their discretion, may require withdrawal proceeds to be made partially or wholly in kind.

Alternative Assets. The fair value of investments that are organized as limited partnerships and have no readily ascertainable fair value is determined by using the net asset value per share (or its equivalent) of the pension trust funds' ownership interest in partners' capital. These values are based on the individual investee's capital account balance reported at fair value by the general partner at the closest available reporting period, adjusted for subsequent contributions, distributions, management fees, changes in values of foreign currency, and published market prices for certain securities.

The limited partnerships' annual financial statements are audited by independent auditors. These investments are valued at approximately $73.73 billion as of June 30, 2021. Because of the inherent uncertainties in estimating fair values, it is possible that the estimates will change in the near-term or the subsequent sale of assets will be different than the June 30, 2021, reported net asset value.

These investments can never be redeemed. Instead, the nature of these investments provides for distributions through the sale or liquidation of the underlying assets or from net operating cash flows. It is anticipated that the various investments within each asset class will be liquidated over the following periods:

Pension Trust Funds
Alternative Assets Expected Liquidation Periods
June 30, 2021
(expressed in thousands)

	Investment Type				
Liquidation Periods	**Private Equity**	**Real Estate**	**Tangible Assets**	**Total**	**Percentage of Total**
Less than 3 years	$ 115,391	$ 4,257	$ 381	$ 120,029	0.2 %
3 to 9 years	3,793,733	2,131,046	638,878	6,563,657	8.9 %
10 or more years	37,602,810	22,467,674	6,976,439	67,046,923	90.9 %
Total	$ 41,511,934	$ 24,602,977	$ 7,615,698	$ 73,730,609	100.0 %

Private Equity. This includes 298 private equity limited liability partnerships that invest primarily in the United States, Europe, and Asia in leveraged buyouts, venture capital, distressed debt, and growth equity. The fair value of individual capital account balances is based on the valuation reported by private equity partnerships using the following methodologies to value the underlying portfolio companies:

- Valuations of publicly traded portfolio companies are based on active exchanges using quoted market prices as of the close of trading for each month end.

- When a portfolio company investment does not have a readily available market price but has a return that is determined by reference to an asset for which a market price is readily available, valuations are based on the closing market price of the reference asset on the valuation date, adjusted for unique factors that affect the fair value of the investment held.

- When the portfolio company investments are private holdings and are not traded on active security exchanges, valuation methodologies consist primarily of income and market approaches. The income approach involves a discounted cash flow analysis based on portfolio companies' projections. The market approach involves valuing a company at a multiple of a specified financial measure, generally earnings before interest, taxes, depreciation, and amortization, based on multiples of comparable publicly traded companies.

Real Estate. This includes 25 real estate investments. Targeted investment structures within the real estate portfolio include real estate operating companies, limited liability companies, joint ventures, commingled funds, and co-investments. Real estate partnerships provide quarterly valuations to the pension trust fund management based on the most recent capital account balance. Individual properties are valued by the investment management at least annually and are adjusted as frequently as quarterly if material market or operational changes have occurred. Properties are externally appraised generally every one to five years, depending upon the investment. Structured finance investments receive quarterly adjustments by the partners, generally applying the assumption that all such positions will be held to maturity. Annual audits of most partnerships include a review of compliance with the partnership's valuation policies.

Tangible Assets. This includes 58 limited liability structures and funds. Valuation practices of general partners and asset managers are consistent with private equity limited partnerships.

Other assets and liabilities measured at fair value. Forward exchange contracts are valued by interpolating a value using the spot foreign exchange rate and forward points (based on the spot rate and currency interest rate differentials), which are all inputs that are observable in active markets (level 2).

Cash collateral 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 custodial bank provides quoted prices for these securities from a reputable pricing vendor.

3. Unfunded Commitments

The WSIB has entered into a number of agreements that commit the pension trust funds, upon request, to make additional investment purchases up to predetermined amounts. As of June 30, 2021, the pension trust funds had total unfunded commitments of $34.22 billion in the following asset classes: $20.92 billion in private equity, $8.15 billion in real estate, and $5.15 billion in tangible assets.

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, 2021, was approximately $468.2 million. The pension trust funds report securities on loan in their respective categories in the Statement of Net Position. At June 30, 2021, cash collateral received totaling $249.5 million is reported as securities lending obligation, and the fair value of the reinvested cash collateral totaling $249.5 million is reported as security lending collateral in the Statement of Net Position. Securities received as collateral for which the pension trust funds do not have the ability to pledge or sell unless the borrower defaults are not reported as assets and liabilities in the Statement of Net Position. Total securities received as collateral at June 30, 2021, was $240.0 million.

During the fiscal year, debt and equity securities were loaned and collateralized by the pension trust funds' agent with cash and U.S. government or U.S. agency securities including U.S. agency mortgage-backed securities (exclusive of letters of credit). When the loaned securities had collateral denominated in the same currency, the collateral requirement was 102 percent of the fair value, including accrued interest, of the securities loaned. All other securities were required to be collateralized at 105 percent of the fair value, including accrued interest, of the loaned securities.

The following table summarizes the securities held by the pension trust funds from reinvestment of cash collateral and securities received as collateral at June 30, 2021 (in millions):

U.S. treasuries	$	224.0
Repurchase agreements		139.9
Yankee CD		52.8
Commercial paper		29.5
Mortgage-backed securities		16.0
Cash equivalents and other		27.3
Total Collateral Held	$	489.5

During fiscal year 2021, securities lending transactions could be terminated on demand by either the pension trust funds or the borrower. As of June 30, 2021, the cash collateral held had an average duration of 18.6 days and an average weighted final maturity of 43.3 days.

Because the securities lending agreements were terminable at will, their duration did not generally match the duration of the investments made with the cash collateral. Non-cash collateral could not be pledged or sold absent borrower default. No more than 20 percent of the total on loan value could be held by a specific borrower. Collateral investment guidelines specifically prohibit European domiciled holdings. There are no restrictions on the amount of securities that can be lent.

Securities were lent with the agreement that they would be returned in the future for exchange of the collateral. State Street Corporation indemnified the pension trust funds by agreeing to purchase replacement securities or return the cash collateral in the event a borrower failed to return the loaned securities or pay distributions thereon. State Street Corporation's responsibilities included performing appropriate borrower and collateral investment credit analyses, demanding adequate types and levels of collateral, and complying with applicable federal regulations concerning securities lending.

During fiscal year 2021, 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 2021 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 Barclays 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, 2021, 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, 2021. 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, 2021
(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)***
Mortgage and other asset-backed securities	$ 1,565,283	$ 14,474	$ 1,506,422	$ 44,387	$ —	3.0
Corporate bonds	15,661,683	491,727	6,436,547	5,691,809	3,041,600	7.1
U.S. government and agency securities	4,124,161	100,219	3,061,617	539,352	422,973	4.8
Foreign government and agency securities	2,463,763	7,410	1,232,327	732,650	491,376	6.5
Total internally managed fixed income	23,814,890	613,830	12,236,913	7,008,198	3,955,949	6.4
Mortgage-backed TBA forwards	632,219	632,219	—	—	—	—
Total Investments Categorized	24,447,109	$ 1,246,049	$ 12,236,913	$ 7,008,198	$ 3,955,949	6.2
Investments Not Required to be Categorized:						
Cash and cash equivalents	4,052,741					
Equity securities	46,595,006					
Alternative investments	75,060,305					
Total investments not categorized	125,708,052					
Total Investments	$150,155,161					

* 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, 2021
(expressed in thousands)

	Investment Type			
Moody's Equivalent Credit Rating	**Mortgage and Other Asset-Backed Securities**	**Corporate Bonds**	**Foreign Government and Agency Securities**	**Total Fair Value**
Aaa	$ 2,197,189	$ 627,470	$ 115,490	$ 2,940,149
Aa1	—	144,201	234,605	378,806
Aa2	—	267,429	59,169	326,598
Aa3	—	772,002	209,636	981,638
A1	—	1,107,624	429,584	1,537,208
A2	—	1,712,144	67,514	1,779,658
A3	—	2,322,187	—	2,322,187
Baa1	—	2,036,500	80,008	2,116,508
Baa2	313	2,432,261	471,582	2,904,156
Baa3	—	2,072,448	285,518	2,357,966
Ba1 or lower	—	2,167,417	510,657	2,678,074
Total	$ 2,197,502	$ 15,661,683	$ 2,463,763	$ 20,322,948

6. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The pension trust funds' investment policies limit the fixed income securities to investment grade or higher at the time of purchase. Investment grade securities are those fixed income securities with a Moody's rating of Aaa to Baa or a Standard and Poor's rating of AAA to BBB. The rated debt investments of the pension trust funds as of June 30, 2021, were rated by Moody's and/or an equivalent national rating organization.

Concentration of Credit Risk. Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. The policy of the pension trust funds states no corporate fixed income issue cost shall exceed 3 percent of cost at the time of purchase or 6 percent of fair value thereafter of the fund, and no high yield issues shall exceed 1 percent of cost or 2 percent of fair value of the fund. There was no concentration of credit risk exceeding these policy guidelines as of June 30, 2021.

Custodial Credit Risk. Custodial credit risk is the risk that, in the event a depository institution or counterparty fails, the pension trust funds would not be able to recover the value of their deposits, investments, or collateral securities. The pension trust funds do not have a policy relating to custodial credit risk. The WSIB mitigates custodial credit risk by having its investment securities (excluding cash, cash equivalents, and repurchase agreements held as securities lending collateral) registered and held in the name of the WSIB for the benefit of the pension trust funds.

7. Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The pension trust funds do not have a formal policy to limit foreign currency risk. The WSIB manages their exposure to fair value loss by requiring their international securities investment managers to maintain diversified portfolios by sector and by issuer, to limit foreign currency and security risk.

The following schedule presents the exposure of the pension trust funds' investments to foreign currency risk. The schedule provides information on deposits and investments held in various foreign currencies. Private equity, real estate, and tangible assets are presented according to the financial reporting currency of the individual funds. This is not a presentation of currency exposure relating to the underlying holdings. The schedule is stated in U.S. dollars. In addition, the CTF has foreign currency exposure at June 30, 2021, of $694.2 million invested in one emerging market commingled equity investment trust fund.

Pension Trust Funds
Foreign Currency Exposure by Country
June 30, 2021
(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	$ 1,699	$ 62,071	$ 550,946	$ 298,666	$ (1,039)	$ 912,343
Brazil-Real	3,776	—	354,303	—	524	358,603
Canada-Dollar	4,076	—	762,810	—	(501)	766,385
China-Yuan Renminbi	2,280	16,219	371,451	—	3,064	393,014
Denmark-Krone	105	—	303,434	—	145	303,684
E.M.U.-Euro	4,058	—	3,595,537	5,482,747	(1,033)	9,081,309
Hong Kong-Dollar	10,213	—	1,387,792	—	(19)	1,397,986
India-Rupee	2,427	—	267,545	—	(53)	269,919
Indonesia-Rupiah	100	—	54,626	—	—	54,726
Japan-Yen	23,041	—	3,277,871	—	13,833	3,314,745
Mexico-Peso	79	—	83,171	—	2,732	85,982
New Taiwan-Dollar	4,608	—	522,777	—	563	527,948
Norway-Krone	180	—	68,816	—	(68)	68,928
Singapore-Dollar	582	—	163,249	—	(4)	163,827
South Africa-Rand	2,109	—	58,676	39,406	(1,762)	98,429
South Korea-Won	1,099	—	633,311	—	134	634,544
Sweden-Krona	551	—	436,514	—	(1,017)	436,048
Switzerland-Franc	690	—	1,057,536	—	(3,584)	1,054,642
Thailand-Baht	200	—	61,985	—	—	62,185
United Kingdom-Pound	3,919	—	1,931,176	—	(4,782)	1,930,313
Uruguay-Peso	—	52,067	—	—	—	52,067
Other	1,197	35,279	262,871	—	(1,985)	297,362
Total	$ 66,989	$ 165,636	$ 16,206,397	$ 5,820,819	$ 5,148	$ 22,264,989

8. Derivative Instruments

Pension trust funds are authorized to utilize various derivative instrument financial instruments including financial futures, forward contracts, interest rate swaps, credit default swaps, equity swaps, and options. Derivative instrument transactions involve, to varying degrees, market and credit risk. At June 30, 2021, the pension trust funds held investments in financial futures, forward currency contracts, and total return swap contracts that are recorded at fair value with changes in value recognized in investment income in the Statement of Revenues, Expenses, and Changes in Net Position in the period of change. The derivative instruments are considered investment 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, 2021, the pension trust funds counterparty risk was approximately $60.8 million. The majority of the counterparties (60 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, 2021, the pension trust funds had outstanding forward currency contracts with a net unrealized gain of $5.1 million. The aggregate forward currency exchange contracts receivable and payable were $7.70 billion and $7.70 billion, respectively. The contracts have varying maturity dates ranging from July 1, 2021, to June 1, 2023.

Total return swap contracts are agreements where one party makes payments based on a set rate, either fixed or variable, while the other party makes payments based on the return of the underlying or reference asset. Total return swaps allow the party receiving the total return to gain exposure and benefit from a reference asset without physically owning the security. The pension trust funds swap total bond market index returns for total equity index returns as the reference asset in emerging markets. The values of these contracts are highly sensitive to interest rate changes. As of June 30, 2021, the pension trust funds held no total return swap contracts.

At June 30, 2021, the pension trust funds' fixed income portfolio held derivative instrument securities consisting of collateralized mortgage obligations with a fair value of $106.0 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, 2021
(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	$ (66,632)	$ 17,240	$ 1,458,100
Equity index futures	242,640	(1,679)	646
Total	$ 176,008	$ 15,561	$ 1,458,746
Forward Currency Contracts	$ 22,128	$ 5,146	$ 7,737,003

C. INVESTMENTS - WORKERS' COMPENSATION FUND

1. Summary of Investment Policies

Under RCW 43.33A.030, trusteeship of the Workers' Compensation Fund investments is vested in the voting members of the Washington State Investment Board (WSIB). The Legislature established a standard of care for investment of these funds in RCW 43.33A.140. Additionally, the WSIB and its staff must comply with other state laws, such as the Ethics in Public Service Act, chapter 42.52 RCW, in making investment decisions and seeking to meet investment objectives.

The Workers' Compensation Fund consists of contributions from employers and their employees participating in the state workers' compensation program and related earnings on those contributions. The workers' compensation program provides medical, time-loss, and disability benefit payments to qualifying individuals sustaining work-related injuries.

In accordance with state laws, the Workers' Compensation Fund investments are managed to limit fluctuations in the industrial insurance premiums. Subject to this purpose, these portfolios seek to achieve a maximum return at a prudent level of risk. Based on this requirement, the order of the objectives is:

- Maintain the solvency of the funds.
- Maintain premium rate stability.
- Ensure sufficient assets are available to fund the expected liability payments.
- Subject to the objectives above, achieve a maximum return at a prudent level of risk.

Eligible Investments. Eligible investments are securities and deposits that are in accordance with the WSIB's investment policy and chapter 43.33A RCW. Eligible investments include:

- U.S. equities.
- International equities.
- U.S. treasuries and government agencies.
- Credit bonds.
- Mortgage-backed securities rated investment grade, as defined by Bloomberg Barclays Family of Fixed Income Indices.
- Asset-backed securities rated investment grade, as defined by Bloomberg Barclays Family of Fixed Income Indices.
- Commercial mortgage-backed securities rated investment grade, as defined by Bloomberg Barclays Family of Fixed Income Indices.
- Investment grade non-U.S. dollar bonds.
- Real estate.

Investment Policies and Restrictions. To meet stated objectives, investments of the Workers' Compensation Fund are subject to the following constraints:

- All assets under the management of the WSIB are to be invested to maximize return at a prudent level of risk in accordance with RCW 43.33A.110 and RCW 43.33A.140.
- No corporate fixed income issue cost shall exceed 3 percent of the fund's fair value at the time of purchase, nor shall its fair value exceed 6 percent of the fund's fair value at any time.
- Asset allocations are to be reviewed every four years or sooner if there are significant changes in funding levels or the liability durations.
- Assets are to be rebalanced across asset classes when the fair value of the assets falls outside the policy ranges. The timing of any rebalancing will be based on market opportunities, cash flows, and the consideration of transaction costs; therefore, they need not occur immediately.

The WSIB has elected a gradual implementation plan to reach the strategic asset allocation. During this implementation period, if real estate is above or below its target due to timing or illiquidity, fixed income will be used to offset the balance.

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

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

Sector allocation of fixed income investments must be managed within the ranges presented below. Deviations may occur in the short term as a result of interim market conditions. However, if a range is exceeded, the portfolios must be rebalanced to the target allocations as soon as it is practical.

Target Allocations for the Fixed Income Sectors:

U.S. treasuries and government agencies	5% - 25%
Credit bonds	20% - 80%
Asset-backed securities	0% - 10%
Commercial mortgage-backed securities	0% - 10%
Mortgage-backed securities	0% - 25%

Total market value of below investment grade credit bonds (as defined by Bloomberg Barclays Family of Fixed Income Indices) shall not exceed 5 percent of the total market value of the funds. Although below investment grade mortgage-backed, asset-backed, and commercial mortgage-backed securities may not be purchased, portfolio holdings that are downgraded to those levels or are no longer rated may continue to be held. Total market value of below investment grade mortgage-backed, asset-backed, and commercial mortgage-backed securities shall not exceed 5 percent of total market value of the funds.

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 return will be generated by current income, and the portfolio will be intentionally constructed to focus on yield rather than total return.

- The portfolio will be diversified across geography and property type.

- No more than 15 percent of the real estate portfolio will be invested in a single property after the program's build-out period.

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, 2021:

Workers' Compensation Fund
Investments Measured at Fair Value
June 30, 2021
(expressed in thousands)

		Fair Value Measurements Using		
Investments by Fair Value Level	**Fair Value**	**Level 1 Inputs**	**Level 2 Inputs**	**Level 3 Inputs**
Debt securities				
Mortgage and other asset-backed securities	$ 1,010,390	$ —	$ 1,010,390	$ —
Corporate bonds	12,081,992	—	12,081,992	—
U.S. and foreign government and agency securities	4,123,730	—	4,123,730	—
Total Investments by Fair Value Level	17,216,112	$ —	$ 17,216,112	$ —
Investments Measured at Net Asset Value (NAV)				
Commingled equity investment trusts	3,829,399			
Real estate	10,715			
Total investments measured at the NAV	3,840,114			
Total Investments Measured at Fair Value	$ 21,056,226			

Investments classified as level 2. Investments classified as level 2 in the above table are comprised of publicly traded debt securities. Publicly traded debt securities are sourced from reputable pricing vendors using models that are market-based measurements representing their good faith opinion as to the exit value of a security, in an orderly transaction under current market conditions. Such models take into account quoted prices, nominal yield spreads, benchmark yield curves, prepayment speeds, and other market corroborated inputs.

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

Collective Investment Trust Funds. The Workers' Compensation Fund invests in a single collective investment trust fund (fund). The fund is passively managed to track the investment of a broad, global equity index, the MSCI All Country World Investable Market Index net 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 holdings are publicly traded equity securities.

The fund has daily openings, and contributions and withdrawals can be made on any business day. The fund manager, at their discretion, may require withdrawal proceeds to be made partially or wholly in kind. Under certain circumstances, the fund manager may choose to suspend valuation and/or the right to make contributions and withdrawals from the fund. Such circumstances include actual or anticipated closure, restriction, or suspension of trading activity in any markets or exchanges where the fund investments are traded; where the purchase, sale, or pricing of the fund's investments would not be reasonably practicable or advisable; or where suspending contributions or withdrawals would be in the best interest of the fund or participants.

Alternative Investments. The fair value of investments that are organized as limited partnerships and have no readily ascertainable fair value is determined by using the net asset value per share (or its equivalent) of the Workers' Compensation Funds' ownership interest in partners' capital. These values are based on the individual investee's capital account balance reported at fair value by the general partner at the most recently available reporting period, adjusted for subsequent contributions, distributions, management fees, changes in values of foreign currency, and published market prices for certain securities.

The limited partnerships' annual financial statements are audited by independent auditors. These investments are valued at approximately $10.7 million as of June 30, 2021. 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, 2021, reported net asset value.

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

Real Estate. This includes one real estate investment. Targeted investment structures within the Workers' Compensation Fund real estate portfolio include limited liability companies, limited partnerships, joint ventures, commingled funds, and co-investments. Real estate partnerships generally provide quarterly valuations based on the most recent capital account balance. Individual properties are valued by the investment management at least annually and are adjusted as frequently as quarterly if material market or operational changes have occurred. Properties are externally appraised generally at least every five years, depending upon the investment. Annual audits of most partnerships include a review of compliance with the partnership's valuation policies.

3. Securities Lending

State law and WSIB policy permit the Workers' Compensation Fund to participate in securities lending programs to augment investment income. The WSIB has entered into an agreement with State Street Corporation to act as agent for the Workers' Compensation Fund in securities lending transactions. As State Street Corporation is the custodian bank for the Workers' Compensation Fund, it is counterparty to securities lending transactions.

When debt securities are loaned during the fiscal year, they are collateralized by the Workers' Compensation Fund's agent with cash and U.S. government or U.S. agency securities including U.S. agency mortgage-backed securities (exclusive of letters of credit). When the loaned securities 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. No securities were lent by the Workers' Compensation Fund during the current fiscal year and, accordingly, no collateral was held at June 30, 2021.

Securities lending transactions can be terminated on demand by either the Workers' Compensation Fund or the borrower. Non-cash collateral could not be pledged or sold absent borrower default. No more than 20 percent of the total on-loan value can be held by a specific borrower. Collateral investment guidelines specifically prohibit European domiciled holdings. There are no restrictions on the amount of securities that can be lent.

Securities are lent with the agreement that they will be returned in the future for exchange of the collateral. State Street Corporation indemnified the Workers' Compensation Fund by agreeing to purchase replacement securities or return the cash collateral in the event a borrower failed to return the loaned securities or pay distributions thereon. State Street Corporation's responsibilities included performing appropriate borrower and collateral investment credit analyses, demanding adequate types and levels of collateral, and complying with applicable federal regulations concerning securities lending.

During fiscal year 2021, no securities were lent and, accordingly, there were no significant violations of legal or contractual provisions, and no failures by any borrowers to return loaned securities or to pay distributions thereon. Further, the Workers' Compensation Fund incurred no losses during fiscal year 2021 resulting from a default by either the borrowers or the securities lending agents.

4. Interest Rate Risk

Interest rate risk is the risk that changes in interest rates over time will adversely affect the fair value of an investment. While the Workers' Compensation Fund does not have a formal policy relating to interest rate risk, the risk is managed within the Workers' Compensation Fund portfolio using effective duration, which is the measure of a debt investment's exposure to fair value changes arising from changes in interest rates. Increases in prevailing interest rates generally translate into decreases in fair values of fixed income investments. As of June 30, 2021, 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, 2021. 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, 2021
(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)***
Mortgage and other asset-backed securities	$ 1,010,390	$ 60,573	$ 838,682	$ 111,135	$ —	3.8
Corporate bonds	12,081,992	1,000,565	5,069,532	2,688,657	3,323,238	7.3
U.S. government and agency securities	2,616,989	65,736	1,420,864	635,182	495,207	6.9
Foreign government and agencies	1,506,741	206,325	831,414	381,277	87,725	4.8
Total Investments Categorized	17,216,112	$ 1,333,199	$ 8,160,492	$ 3,816,251	$ 3,906,170	6.8
Investments Not Required to be Categorized:						
Commingled investment trusts	3,829,399					
Cash and cash equivalents	249,145					
Real estate	10,715					
Total investments not categorized	4,089,259					
Total Investments	$ 21,305,371					

** 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, 2021
(expressed in thousands)

	Investment Type			
Moody's Equivalent Credit Rating	**Mortgage and Other Asset-Backed Securities**	**Corporate Bonds**	**Foreign Government and Agencies**	**Total Fair Value**
Aaa	$ 1,010,390	$ 596,588	$ 276,426	$ 1,883,404
Aa1	—	177,752	270,882	448,634
Aa2	—	234,962	170,074	405,036
Aa3	—	959,986	251,045	1,211,031
A1	—	1,612,819	343,578	1,956,397
A2	—	2,471,058	30,563	2,501,621
A3	—	2,125,921	—	2,125,921
Baa1	—	1,762,477	—	1,762,477
Baa2	—	1,568,969	119,901	1,688,870
Baa3	—	441,752	39,112	480,864
Ba1 or lower	—	129,708	5,160	134,868
Total	$ 1,010,390	$ 12,081,992	$ 1,506,741	$ 14,599,123

5. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Workers' Compensation Fund investment policies limit the fixed income securities to investment grade or higher at the time of purchase. Investment grade securities are those fixed income securities with a Moody's rating of Aaa to Baa or a Standard and Poor's rating of AAA to BBB.

The rated debt investments of the Workers' Compensation Fund as of June 30, 2021, were rated by Moody's and/or an equivalent national rating organization.

Concentration of Credit Risk. Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. The Workers' Compensation Fund policy states that no corporate fixed income issues cost shall exceed 3 percent of the fund's fair value at the time of purchase, nor shall its fair value exceed 6 percent of the fund's fair value at any time. There was no concentration of credit risk as of June 30, 2021.

Custodial Credit Risk. Custodial credit risk is the risk that, in the event a depository institution or counterparty fails, the Workers' Compensation Fund would not be able to recover the value of its deposits, investments, or collateral securities. The Workers' Compensation Fund does not have a policy relating to custodial credit risk. The WSIB mitigates custodial credit risk by having its investment securities (excluding cash, cash equivalents, and repurchase agreements held as securities lending collateral) registered and held in the name of the WSIB for the benefit of the Workers' Compensation Fund.

6. Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The Workers' Compensation Fund does not have a formal policy to limit foreign currency risk. At June 30, 2021, the only securities held by the Workers' Compensation Fund with foreign currency exposure were $1.57 billion (excludes U.S. dollar denominated securities) invested in an international commingled equity index fund.

The following schedule presents the exposure of the Workers' Compensation Fund to foreign currency risk. The schedule is stated in U.S. dollars.

Workers' Compensation Fund Foreign Currency Exposure by Country June 30, 2021 *(expressed in thousands)*	
Foreign Currency Denomination	**Equity Securities**
Australia-Dollar	$ 75,726
Brazil-Real	26,458
Canada-Dollar	111,441
China-Yuan Renminbi	19,789
Denmark-Krone	24,555
E.M.U.-Euro	315,526
Hong Kong-Dollar	148,082
India-Rupee	52,937
Japan-Yen	241,027
New Taiwan-Dollar	72,661
South Africa-Rand	17,307
South Korea-Won	67,378
Sweden-Krona	43,712
Switzerland-Franc	90,789
United Kingdom-Pound	149,493
Miscellaneous Foreign Currencies	109,619
Total	$ 1,566,500

7. Derivative Instruments

To manage its exposure to fluctuations in interest and currency rates while increasing portfolio returns, the Workers' Compensation Fund is authorized to utilize various derivative instrument 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, 2021, the only derivative instrument securities held directly by the Workers' Compensation Fund were collateralized mortgage obligations of $382.6 million.

D. INVESTMENTS - LOCAL GOVERNMENT INVESTMENT POOL

1. Summary of Investment Policies

The Local Government Investment Pool (LGIP) is managed and operated by the Office of the State Treasurer (OST). The State Finance Committee is the administrator of the statute that created the pool and adopts appropriate rules. The State Treasurer is responsible for establishing the investment policy for the pool and reviews the policy annually. Any proposed changes are reviewed by the LGIP Advisory Committee. The terms of the policy are designed to ensure the safety and liquidity of the funds deposited in the LGIP.

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

The LGIP portfolio is invested in a manner that meets the requirements set forth by the Governmental Accounting Standards Board for the maturity, quality, diversification, and liquidity for external investment pools that elect to measure, for financial reporting purposes, all of its investments at amortized costs. The funds are limited to high quality obligations with regulated maximum and average maturities, the effect of which is to minimize both market and credit risk. The LGIP transacts with its participants at a stable net asset value per share of one dollar, which results in the amortized cost reported equaling the number of shares in the LGIP.

The OST prepares a stand-alone LGIP financial report. A copy of the report is available from the OST, PO Box 40200, Olympia, WA 98504-0200, online at: https:// tre.wa.gov/ partners/ for- local- governments/ local- government- investment- pool- lgip/lgip-comprehensive- annual-financial-report/, 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 will remain liquid to enable the State Treasurer to meet all cash requirements that might reasonably be anticipated.

The LGIP will be structured with the objective of attaining a market rate of return throughout budgetary and economic cycles, commensurate with the investment risk parameters and the cash flow characteristics of the pool.

Eligible Investments. Eligible investments are only those securities and deposits authorized by statute (chapters 39.58 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 market value that approximates their amortized cost.
- The weighted average maturity of the portfolio will not exceed 60 days.
- The weighted average life of the portfolio will not exceed 120 days.
- The purchase of investments in securities other than those issued by the U.S. government or its agencies will be limited.
- Cash generated through securities lending or reverse repurchase agreement transactions will not increase the dollar amount of specified investment types beyond stated limits.

Participant Transactions. The LGIP transacts with its participants at a stable net asset value per share of $1.00, 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 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 2021, the LGIP lent U.S. agency and U.S. treasury securities while other securities were received as collateral. At June 30, 2021, the fair value of securities on loan was $888.4 million and the fair value of securities received for collateral was $906.4 million.

The LGIP investment policy requires that any securities on loan be made available by the lending agent for next day liquidity at the option of the LGIP. During fiscal year 2021, 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, 2021, the LGIP had a weighted average maturity of 36 days and a weighted average life of 78 days.

The following schedule presents the LGIP investments and related maturities, and provides information about the associated interest rate risks as of June 30, 2021:

Local Government Investment Pool (LGIP)
Schedule of Maturities
June 30, 2021
(expressed in thousands)

		Maturity	
Investment Type	**Amortized Cost**	**Less than 1 Year**	**1-5 Years**
U.S. agency securities	$ 4,069,183	$ 3,634,188	$ 434,995
Repurchase agreements	1,550,000	1,550,000	—
U.S. treasury securities	16,266,019	15,868,510	397,509
Interest bearing bank accounts	2,116,515	2,116,515	—
Supranational securities	426,241	426,241	—
Certificates of deposit	112,000	112,000	—
Total Investments	$ 24,539,958	$ 23,707,454	$ 832,504

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.

Repurchase agreements comprise 6.3 percent of the total portfolio as of June 30, 2021. The LGIP limits the securities utilized in repurchase agreements to U.S. treasury and U.S. agency securities. The LGIP requires delivery of all securities utilized in repurchase agreements and the securities are priced daily.

As of June 30, 2021, U.S. treasury securities comprised 66.3 percent of the total portfolio. U.S. agency securities comprised 16.6 percent of the total portfolio, including Federal Farm Credit Bank (8.7 percent), Federal Home Loan Bank (6.9 percent), and Federal National Mortgage Association (1.0 percent). Supranational securities comprised 1.7 percent of the total portfolio.

6. Repurchase Agreements

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

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, 2021, repurchase agreements totaled $1.55 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 82 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 cash balances in the Invested Funds Pool. At June 30, 2021, the Short-term and Intermediate-term Invested Funds Pools totaled $2.46 billion. The Invested Funds Long-term Pool owns units in the Consolidated Endowment Fund valued at $812.0 million on June 30, 2021. In addition, the Long-term Pool owns a passive global equity index valued at $141.0 million as of June 30, 2021.

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 2021. University Advancement received 3.0 percent of the average balances in endowment operating and gift accounts in fiscal year 2021. 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.

In February 2019, the Board of Regents approved an amendment to the CEF Investment Policy to reduce the total spending rate from 5.0 percent to 4.5 percent. A three-year phased reduction was implemented to cushion the impact on University units, starting with a 4.9 percent spending rate in fiscal year 2020 followed by a 4.7 percent spending rate in fiscal year 2021. Under the CEF spending policy, quarterly distributions to programs are based on an annual percentage rate of 3.76 percent applied to the five-year rolling average of the CEF's market value. The reduction to 4.5 percent will be in full effect for fiscal year 2022 and beyond.

Additionally, the policy allows for an administrative fee of 0.94 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 market value in the Restricted Nonexpendable Net Position category. All endowments are recorded at the original gift value at June 30, 2021.

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 $89.8 million in fiscal year 2021 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 in the fair value of investments during the year ended June 30, 2021, was $1.19 billion.

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, 2021:

University of Washington
Investments Measured at Fair Value
June 30, 2021
(expressed in thousands)

		Fair Value Measurements Using		
Investments by Fair Value Level	**Fair Value**	**Level 1 Inputs**	**Level 2 Inputs**	**Level 3 Inputs**
Fixed Income Securities				
U.S. treasury	$ 1,759,679	$ 18,629	$ 1,741,050	$ —
U.S. government agency	406,941	12,798	394,143	—
Mortgage-backed	251,384	—	251,384	—
Asset-backed	424,420	—	424,420	—
Corporate and other	206,137	22,774	183,363	—
Total Fixed Income Securities	3,048,561	54,201	2,994,360	—
Equity Securities				
Global equity investments	639,501	634,313	5,188	—
Private equity and venture capital funds	—	—	—	—
Real estate	25,678	20,442	—	5,236
Other	10,189	—	—	10,189
Total Equity Securities	675,368	654,755	5,188	15,425
Externally managed trusts	153,793	—	—	153,793
Total Investments by Fair Value Level	3,877,722	$ 708,956	$ 2,999,548	$ 169,218
Investments Measured at Net Asset Value (NAV)				
Global equity investments	2,062,207			
Absolute return strategy funds	714,894			
Private equity and venture capital funds	854,297			
Real asset funds	170,996			
Other	55,270			
Total Investments Measured at the NAV	3,857,664			
Total Investments Measured at Fair Value	7,735,386			
Cash equivalents at amortized cost	393,556			
Total Investments	$ 8,128,942			

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. Real estate 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, 2021
(expressed in thousands)

	Fair Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Global equity investments	$ 2,062,207	$ —	Monthly to annually	15-180 days
Absolute return strategy funds	714,894	—	Quarterly to annually	30-90 days
Private equity and venture capital funds	854,297	554,603	n/a	—
Real asset funds	170,996	85,166	n/a	—
Other	55,270	2,156	Quarterly to annually	30-95 days
Total Investments Measured at the NAV	$ 3,857,664			

Global Equity. This investment category includes public equity investments in separately managed accounts, long-only commingled funds, unconstrained limited partnerships, and passive market indices. As of June 30, 2021, approximately 79 percent of the value of the investments in this category can be redeemed within 90 days, and approximately 94 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. Approximately 82 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 the majority of the 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 the majority of the 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. Approximately 37 percent of the value of the investments in this category can be redeemed or anticipate distribution within one year. The remaining balance of these investments contain restrictions on redemption within one year or will be distributed as underlying investments are liquidated. It is expected that the underlying assets of the funds will be liquidated over the next 10 years.

3. Funding Commitments

The University enters into contracts with investment managers to fund alternative investments. As of June 30, 2021, the University had outstanding commitments to fund alternative investments in the amount of $641.9 million. These commitments are expected to be called over a multi-year timeframe. The University believes it has adequate liquidity and funding sources to meet these obligations.

4. Interest Rate Risk

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

Effective duration is a commonly used measure of interest rate risk. The longer the duration, the more sensitive the portfolio is to changes in interest rates. The weighted average effective duration of the University's fixed income portfolio was 1.95 years at June 30, 2021.

5. Credit Risk

Fixed income securities are subject to credit risk, which is the risk that the issuer or other counterparty to a financial instrument will not fulfill its obligations, or that negative perceptions of the issuer's ability to make these payments will cause prices to decline. The University's investment policies limit fixed income exposure to investment grade assets. The investment policy for the Invested Funds' short-term pool requires each manager to maintain an average quality rating of AA as issued by a nationally recognized rating organization. The investment policy for the Invested Funds' intermediate-term pool requires each manager to maintain an average quality rating of A and to hold at least 25 percent of their portfolios in government and government agency issues. The investment policy for the CEF reflects its long-term nature by specifying average quality rating levels by individual manager, but still restricting investments to investment grade credits.

Custodial Credit Risk. Custodial credit risk is the risk that, in the event of a failure of the counterparty to a transaction, the University will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. The University does not have a formal policy regarding custodial credit risk. However, all University investments in the CEF and the Invested Funds Pool are held in the name of the University and are not subject to custodial credit risk.

Concentration of Credit Risk. Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. The CEF investment policy limits concentration by manager, country (other than U.S.), and market sector. The University further mitigates concentration of credit risk through the due diligence of each manager and careful monitoring of asset concentrations.

Duration is a calculation of the number of years required to recover the true cost of a bond. The duration presented below represents a broad average across all fixed income securities held in the CEF, Invested Funds Pool (IF or operating funds), and debt service reserve funds. The CEF and IF portfolios are managed to have a duration below their policy benchmarks to protect principal and provide liquidity to the overall portfolio.

The following schedule summarizes the composition of the fixed income securities along with credit quality and effective duration measures at June 30, 2021. The schedule excludes $31.5 million of fixed income securities held by component units. These amounts make up 1.03 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, 2021
(expressed in thousands)

Investment Type	U.S. Government	Investment Grade*	Non-Investment Grade	Not Rated	Total	Effective Duration (in years)
U.S. treasury securities	$ 1,741,050	$ —	$ —	$ —	$ 1,741,050	1.76
U.S. government agency	402,551	—	—	—	402,551	3.66
Mortgage-backed	—	129,171	58,852	63,361	251,384	2.00
Asset-backed	—	367,299	14,682	42,439	424,420	0.83
Corporate and other	—	87,908	27,684	82,068	197,660	2.51
Total	$ 2,143,601	$ 584,378	$ 101,218	$ 187,868	$ 3,017,065	1.95

* 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, 2021, of $1.81 billion.

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

University of Washington
Consolidated Endowment Fund
Foreign Currency Risk
June 30, 2021
(expressed in thousands)

Foreign Currency	Amount
Australia-Dollar	$ 26,735
Brazil-Real	102,402
Britain-Pound	138,836
Canada-Dollar	60,192
China-Renminbi	390,837
E.M.U.-Euro	176,789
Hong Kong-Dollar	58,543
India-Rupee	199,687
Japan-Yen	258,092
Norway-Krone	21,369
Russia-Ruble	19,404
Singapore-Dollar	54,863
South Africa-Rand	21,624
South Korea-Won	67,748
Sweden-Krona	45,463
Switzerland-Franc	43,872
Taiwan-Dollar	36,479
Remaining currencies	91,819
Total	$ 1,814,754

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, 2021, the University had outstanding futures contracts with notional amounts totaling $232.6 million and accumulated unrealized gains on these contracts totaled $760 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, 2021. The University had no hedging derivative instruments or derivative instruments for investment purposes as of June 30, 2021.

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 2021, 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)).

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

- Local Government Investment Pool (LGIP).

- Obligations of the state of Washington or its political subdivisions.

Investment Restrictions. To provide for the safety and liquidity of Treasury/Trust funds, the Cash Management Account investment portfolio is subject to the minimum restrictions listed below. Certain investment instruments are subject to more restrictive limitations.

- The final maturity of any security will not exceed ten years.

- Purchase of collateralized mortgage obligations is not allowed.

- The allocation to investments subject to high price sensitivity or reduced marketability will not exceed 15 percent of the daily balance of the portfolio.

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

Limitations and Restrictions on LGIP Participant Withdrawals. Participants of the LGIP may contribute and withdraw funds on a daily basis and must inform the OST of any contribution or withdrawal over one million dollars no later than 9:00 a.m. on the same day the transaction is made. Contributions or withdrawals for one million dollars or less can be requested at any time prior to 10:00 a.m. on the day of the transaction. However, participants may complete transactions greater than one million dollars when notification is made between 9:00 a.m. and 10:00 a.m., at the sole discretion of the OST. The LGIP does not impose liquidity fees or redemption gates on participant withdrawals.

2. Valuation of Investments

The OST reports investments at fair value and categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles.

The following table presents fair value measurements as of June 30, 2021:

Office of the State Treasurer
Cash Management Account
Investments Measured at Fair Value
June 30, 2021
(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	$ 5,234,420	$ —	$ 5,234,420	$ —
U.S. agency securities	1,897,661	—	1,897,661	—
Supranational securities	1,967,223	—	1,967,223	—
Corporate notes	438,162	—	438,162	—
Total Investments Measured at Fair Value	$ 9,537,466	$ —	$ 9,537,466	$ —

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

The cash is invested by the lending agent in repurchase agreements, deposit accounts, or money market instruments, in accordance with investment guidelines approved by the OST. The securities held as collateral and the securities underlying the cash collateral are held by the custodian. During fiscal year 2021, 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, 2021, the fair value of securities on loan totaled $696.4 million.

The OST investment policy requires that any securities on loan be made available by the lending agent for next day liquidity at the option of the OST. During fiscal year 2021, 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 based on cash flow expectations. Policy also directs due diligence to be exercised with timely reporting of material deviation from expectations and actions taken to control adverse developments as may be possible.

The following schedules present the OST investments and related maturities, and provide information about the associated interest rate risks as of June 30, 2021:

Office of the State Treasurer
Cash Management Account
Schedule of Maturities
June 30, 2021
(expressed in thousands)

		Maturity		
Investment Type	**Total Fair Value**	**Less than 1 Year**	**1-5 Years**	**6-10 Years**
U.S. government securities	$ 5,384,947	$ 671,161	$ 4,713,786	$ —
U.S. agency securities	1,941,660	525,307	1,416,353	—
Supranational securities	2,654,526	813,334	1,816,246	24,946
Corporate notes	438,162	34,749	403,413	—
Investments with LGIP	3,136,884	3,136,884	—	—
Certificates of deposit	63,047	63,047	—	—
Interest bearing bank accounts	233,777	233,777	—	—
Total Investments	$ 13,853,003	$ 5,478,259	$ 8,349,798	$ 24,946

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, 2021
(expressed in thousands)

	Investment Type		
S&P Credit Rating	**Corporate Notes**	**Supranationals**	**Total Fair Value**
AAA	$ 36,753	$ 2,654,526	$ 2,691,279
AA+	36,650	—	36,650
AA	64,706	—	64,706
AA-	35,741	—	35,741
A+	52,091	—	52,091
A	147,197	—	147,197
A-	30,462	—	30,462
Unrated	34,562	—	34,562
Total	$ 438,162	$ 2,654,526	$ 3,092,688

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, and deposits with qualified public depositaries. 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 market 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 2021. There were no repurchase agreements as of June 30, 2021.

Note 4
Receivables and Unearned/Unavailable Revenues

A. GOVERNMENTAL FUNDS

Taxes Receivable
Taxes receivable at June 30, 2021, consisted of the following (expressed in thousands):

Taxes Receivable	General	Higher Education Special Revenue	Higher Education Endowment	Nonmajor Governmental Funds	Total
Property	$ 2,145,719	$ —	$ —	$ 10,553	$ 2,156,272
Sales	2,037,109	4,884	—	30,456	2,072,449
Business and occupation	1,131,869	38,948	—	795	1,171,612
Estate	—	11,451	—	—	11,451
Fuel	—	—	—	163,640	163,640
Beer and wine	—	—	—	6,358	6,358
Marijuana	—	—	—	48,224	48,224
Real estate excise	6,724	676	—	1,195	8,595
Insurance Premium	68	—	—	—	68
Public utilities	52,297	2,181	—	—	54,478
Hazardous substance	—	—	—	24,416	24,416
Other	2,427	2	—	1,637	4,066
Subtotal	5,376,213	58,142	—	287,274	5,721,629
Less: Allowance for uncollectible receivables	720,388	2,974	—	4,573	727,935
Total Taxes Receivable	$ 4,655,825	$ 55,168	$ —	$ 282,701	$ 4,993,694

Receivables
Receivables at June 30, 2021, consisted of the following (expressed in thousands):

Receivables	General	Higher Education Special Revenue	Higher Education Endowment	Nonmajor Governmental Funds	Total
Public assistance [(1)]	$ 419,678	$ —	$ —	$ —	$ 419,678
Accounts receivable	949,334	568,786	165,971	499,522	2,183,613
Interest	17,593	9,288	4,035	10,573	41,489
Loans [(2)]	6,077	85,610	—	591,308	682,995
Long-term contracts [(3)]	4,205	—	14,758	103,844	122,807
Miscellaneous	1,121	724	—	374	2,219
Subtotal	1,398,008	664,408	184,764	1,205,621	3,452,801
Less: Allowance for uncollectible receivables	459,837	86,034	—	119,685	665,556
Total Receivables	$ 938,171	$ 578,374	$ 184,764	$ 1,085,936	$ 2,787,245

Notes:
[(1)] Public assistance receivables mainly represent amounts owed to the state as a part of the Support Enforcement Program at the Department of Social and Health Services for the amounts due from persons required to pay support for individuals currently on state assistance, and have a low realization expectation. Accordingly, the receivable is offset by a large allowance for uncollectible receivables.
[(2)] Significant long-term portions of loans receivable include $69.5 million in the Higher Education Special Revenue Fund for student loans and $549.5 million in Nonmajor Governmental Funds for low income housing, public works, and economic development/ revitalization loans.
[(3)] Long-term contracts in Nonmajor Governmental Funds are for timber sales contracts.

Unearned Revenue

Unearned revenue at June 30, 2021, consisted of the following (expressed in thousands):

Unearned Revenue	General	Higher Education Special Revenue	Higher Education Endowment	Nonmajor Governmental Funds	Total
Other taxes	$ 5,761	$ —	$ —	$ —	$ 5,761
Charges for services	46,927	268,865	—	31,483	347,275
Donable goods	—	—	—	5,042	5,042
Grants and donations [1]	3,011,398	23,311	—	8,148	3,042,857
Tolls	—	—	—	29,033	29,033
Transportation	—	—	—	22,734	22,734
Miscellaneous	1,036	12,623	—	8,764	22,423
Total Unearned Revenue	$ 3,065,122	$ 304,799	$ —	$ 105,204	$ 3,475,125

Notes:

[1] Unearned revenue from grants and donations includes $2.88 billion in federal stimulus funds received during fiscal year 2021 from the U.S. Department of the Treasury under the American Rescue Plan and the Coronavirus Aid, Relief, and Economic Security (CARES) Act, but not yet spent.

Unavailable Revenue

Unavailable revenue at June 30, 2021, consisted of the following (expressed in thousands):

Unavailable Revenue	General	Higher Education Special Revenue	Higher Education Endowment	Nonmajor Governmental Funds	Total
Property taxes	$ 2,010,474	$ —	$ —	$ 924	$ 2,011,398
Other taxes	988,560	7,929	—	11,908	1,008,397
Timber sales	4,205	—	14,758	103,844	122,807
Transportation	—	—	—	3,562	3,562
Charges for services	4,578	—	—	5,032	9,610
Miscellaneous	8,479	—	—	12,350	20,829
Total Unavailable Revenue	$ 3,016,296	$ 7,929	$ 14,758	$ 137,620	$ 3,176,603

B. PROPRIETARY FUNDS

Receivables

Receivables at June 30, 2021, consisted of the following (expressed in thousands):

Receivables	Business-Type Activities Enterprise Funds — Workers' Compensation	Unemployment Compensation	Higher Education Student Services
Accounts receivable	$ 931,790	$ 1,040,289	$ 409,023
Interest	113,356	—	812
Investment trades pending	—	—	—
Loans	—	—	1
Miscellaneous	64	—	354
Subtotal	1,045,210	1,040,289	410,190
Less: Allowance for uncollectible receivables	219,361	402,178	18,787
Total Receivables	$ 825,849	$ 638,111	$ 391,403

Unearned Revenue

Unearned revenue at June 30, 2021, consisted of the following (expressed in thousands):

Unearned Revenue	Business-Type Activities Enterprise Funds — Workers' Compensation	Unemployment Compensation	Higher Education Student Services
Charges for services	$ —	$ —	$ 148,921
Grants and donations	—	—	—
Premiums and assessments	7,381	—	—
Miscellaneous	—	—	363
Total Unearned Revenue	$ 7,381	$ —	$ 149,284

Taxes Receivables

Taxes receivables at June 30, 2021, consisted of $3.7 million for petroleum products, net of allowance.

C. FIDUCIARY FUNDS

Other Receivables

Receivables at June 30, 2021, consisted of $14.8 million for interest and other miscellaneous amounts.

Unearned Revenue

Unearned revenue at June 30, 2021, consisted of $821 thousand for service credit restorations reported in Pension and Other Employee Benefit Plans.

			Governmental Activities
Health Insurance	Nonmajor Enterprise Funds	Total	Internal Service Funds
$ 30,687	$ 262,348	$ 2,674,137	$ 19,178
790	1,941	116,899	77
—	1,079	1,079	—
—	—	1	1
—	—	418	80
31,477	265,368	2,792,534	19,336
818	57	641,201	1,481
$ 30,659	$ 265,311	$ 2,151,333	$ 17,855

			Governmental Activities
Health Insurance	Nonmajor Enterprise Funds	Total	Internal Service Funds
$ 1,740	$ 466	$ 151,127	$ 3,870
—	1,453	1,453	—
—	38,530	45,911	—
—	3	366	—
$ 1,740	$ 40,452	$ 198,857	$ 3,870

Note 5
Interfund Balances and Transfers

A. INTERFUND BALANCES

Interfund balances as reported in the financial statements at June 30, 2021, consisted of the following (expressed in thousands):

	Due From				
Due To	General	Higher Education Special Revenue	Higher Education Endowment	Nonmajor Governmental Funds	Workers' Compensation
General	$ —	$ 1,007,051	$ —	$ 636,710	$ 154
Higher Education Special Revenue	109,937	—	512,923	61,765	906
Higher Education Endowment	—	—	—	12	—
Nonmajor Governmental Funds	65,764	2,478	2,847	360,481	23
Workers' Compensation	140	13	—	57	—
Unemployment Compensation	1,522	1,097	—	555	174
Higher Education Student Services	—	4,530	—	192	45
Health Insurance	—	—	—	—	—
Nonmajor Enterprise Funds	13,593	31	—	2,052	101
Internal Service Funds	35,079	20,893	—	25,182	4,637
Totals	$ 226,035	$ 1,036,093	$ 515,770	$ 1,087,006	$ 6,040

Except as noted below, interfund balances are expected to be paid within one year from the date of the financial statements. These balances resulted from the time lag between the dates that (1) interfund goods and services were provided and when the payments occurred and (2) interfund transfers were accrued and when the liquidations occurred.

Interfund balances include: (1) a $6.1 million loan from the General Fund to a nonmajor governmental fund which is expected to be paid over the next two years, and (2) $128.1 million on a revolving loan from the Higher Education Special Revenue Fund to the Higher Education Student Services Fund.

In addition to the interfund balances noted in the schedule above, there are interfund balances of $113.3 million within the state's Pension Trust Funds.

Due From						
Unemployment Compensation	Higher Education Student Services	Health Insurance	Nonmajor Enterprise Funds	Internal Service Funds	Fiduciary Funds	Totals
$ 55	$ 18	$ 425	$ 30,846	$ 225,254	$ —	$ 1,900,513
67	217,236	170	143	26,915	—	930,062
—	—	—	—	—	—	12
1,604	5	—	582	18,112	—	451,896
1	5	—	6	7	—	229
—	3	—	2	15	—	3,368
—	—	—	—	4,117	—	8,884
—	—	—	—	—	—	—
1	1	—	59,044	45	—	74,868
43	1,164	148	812	16,717	90	104,765
$ 1,771	$ 218,432	$ 743	$ 91,435	$ 291,182	$ 90	$ 3,474,597

B. INTERFUND TRANSFERS

Interfund transfers as reported in the financial statements for the year ended June 30, 2021, consisted of the following (expressed in thousands):

	Transferred To				
Transferred From	**General**	**Higher Education Special Revenue**	**Higher Education Endowment**	**Nonmajor Governmental Funds**	**Workers' Compensation**
General	$ —	$ 46,058	$ 300	$ 1,570,895	$ 75
Higher Education Special Revenue	167,843	—	26,440	173,633	—
Higher Education Endowment	—	189,262	—	41,674	—
Nonmajor Governmental Funds	577,305	156,206	1,480	1,103,370	—
Workers' Compensation	1,326	—	—	—	—
Unemployment Compensation	—	—	—	—	—
Higher Education Student Services	—	585,427	—	4,123	—
Health Insurance	33,928	—	—	1,003	—
Nonmajor Enterprise Funds	237,285	—	—	14,679	—
Internal Service Funds	—	19,785	—	11,480	—
Fiduciary Funds	2,109	—	—	—	—
Totals	$ 1,019,796	$ 996,738	$ 28,220	$ 2,920,857	$ 75

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.

During fiscal year 2021, in accordance with budget and other legal provisions, there was a one-time transfer of $1.82 billion from the Budget Stabilization Account (BSA) to the General Fund to assist in pandemic-related costs. In addition, $1.00 billion was transferred from the General Fund to the Washington Rescue Plan Transition Account for responding to the coronavirus pandemic (COVID-19) including activities related to education, human services, health care, and the economy. The BSA and Washington Rescue Plan Transition Account are reported as Administrative Accounts within the General Fund.

On June 30, 2021, $269.5 million was transferred from the General Fund Basic Account to the 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 $103.4 million within the state's Pension Trust Funds.

Transferred To						
Unemployment Compensation	Higher Education Student Services	Health Insurance	Nonmajor Enterprise Funds	Internal Service Funds	Fiduciary Funds	Totals
$ —	$ —	$ 8,896	$ 20,057	$ 16,849	$ —	$ 1,663,130
—	637,172	—	—	20,849	—	1,025,937
—	—	—	—	—	—	230,936
82,000	—	—	—	—	—	1,920,361
—	—	—	—	—	—	1,326
—	—	—	—	—	—	—
—	—	—	—	414	—	589,964
—	—	—	—	—	—	34,931
—	—	—	—	—	—	251,964
—	—	—	—	—	—	31,265
—	—	—	—	—	—	2,109
$ 82,000	$ 637,172	$ 8,896	$ 20,057	$ 38,112	$ —	$ 5,751,923

Note 6
Capital Assets

Capital assets at June 30, 2021, 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, 2021 (expressed in thousands):

Capital Assets	Balances July 1, 2020	Additions	Deletions/ Adjustments	Balances June 30, 2021
Capital Assets, Not Being Depreciated:				
Land	$ 2,896,094	$ 53,810	$ (17,116)	$ 2,932,788
Transportation infrastructure	26,100,380	474,850	—	26,575,230
Intangible assets - indefinite lives	37,163	—	—	37,163
Art collections, library reserves, and museum and historical collections	153,774	2,385	(2)	156,157
Construction in progress	1,531,098	533,008	(573,853)	1,490,253
Total Capital Assets, Not Being Depreciated	30,718,509			31,191,591
Capital Assets, Being Depreciated:				
Buildings	15,410,742	716,011	(38,306)	16,088,447
Accumulated depreciation	(6,784,885)	(424,425)	14,269	(7,195,041)
Net buildings	8,625,857			8,893,406
Other improvements	1,654,568	42,128	(5,224)	1,691,472
Accumulated depreciation	(938,106)	(48,162)	1,811	(984,457)
Net other improvements	716,462			707,015
Furnishings, equipment, and intangible assets	6,164,800	297,780	(162,567)	6,300,013
Accumulated depreciation	(3,997,372)	(318,359)	140,203	(4,175,528)
Net furnishings, equipment, and intangible assets	2,167,428			2,124,485
Infrastructure	1,317,960	65,963	—	1,383,923
Accumulated depreciation	(717,451)	(41,841)	—	(759,292)
Net infrastructure	600,509			624,631
Total Capital Assets, Being Depreciated, Net	12,110,256			12,349,537
Governmental Activities Capital Assets, Net	$ 42,828,765			$ 43,541,128

B. BUSINESS-TYPE CAPITAL ASSETS

The following is a summary of business-type capital asset activity for the year ended June 30, 2021 (expressed in thousands):

Capital Assets	Balances July 1, 2020	Additions	Deletions/ Adjustments	Balances June 30, 2021
Capital Assets, Not Being Depreciated:				
Land	$ 74,401	$ 320	$ —	$ 74,721
Intangible assets - indefinite lives	4,580	—	—	4,580
Art collections	40	—	—	40
Construction in progress	249,370	151,160	(93,593)	306,937
Total Capital Assets, Not Being Depreciated	328,391			386,278
Capital Assets, Being Depreciated:				
Buildings	4,593,767	76,684	(2,732)	4,667,719
Accumulated depreciation	(1,705,734)	(148,634)	1,948	(1,852,420)
Net buildings	2,888,033			2,815,299
Other improvements	124,479	32,263	(223)	156,519
Accumulated depreciation	(71,270)	(4,449)	(73)	(75,792)
Net other improvements	53,209			80,727
Furnishings, equipment, and intangible assets	883,012	27,378	(8,354)	902,036
Accumulated depreciation	(750,280)	(52,476)	7,357	(795,399)
Net furnishings, equipment, and intangible assets	132,732			106,637
Infrastructure	59,753	4,780	(20)	64,513
Accumulated depreciation	(34,277)	(3,569)	20	(37,826)
Net infrastructure	25,476			26,687
Total Capital Assets, Being Depreciated, Net	3,099,450			3,029,350
Business-Type Activities Capital Assets, Net	$ 3,427,841			$ 3,415,628

C. DEPRECIATION

Depreciation expense for the year ended June 30, 2021, was charged by the primary government as follows (expressed in thousands):

		Amount
Governmental Activities:		
General government	$	94,951
Education - elementary and secondary (K-12)		6,081
Education - higher education		480,837
Human services		47,878
Adult corrections		43,106
Natural resources and recreation		45,257
Transportation		114,677
Total Depreciation Expense - Governmental Activities *	$	832,787
Business-Type Activities:		
Workers' compensation	$	4,371
Unemployment compensation		—
Higher education student services		202,274
Health Insurance		52
Other		2,431
Total Depreciation Expense - Business-Type Activities	$	209,128

* Includes $95.9 million internal service fund depreciation that was allocated to governmental activities as a component of net internal service fund activity.

D. CONSTRUCTION IN PROGRESS

Major construction commitments of the state at June 30, 2021, are as follows (expressed in thousands):

Continued

Agency / Project Commitments	Construction in Progress June 30, 2021	Remaining Project Commitments
Office of the Secretary of State:		
Library-Archives building	$ 1,943	$ 123,078
Department of Enterprise Services:		
East Plaza water infiltration and elevator, Capitol Campus Childcare Center, and other projects	27,441	335
Department of Labor and Industries:		
Division of Occupational Safety and Health Lab, and Training Facility	4,052	49,151
Military Department:		
Thurston County, Centralia, and Tri-Cities Readiness Centers, and other projects	70,509	11,856
Department of Social and Health Services:		
Residential, rehabilitation, and other facilities	41,164	77,130
State hospitals / treatment centers	94,119	177,324
Department of Children, Youth, and Family:		
Green Hill school recreation center replacement and other miscellaneous projects	5,610	41,855
Department of Corrections:		
Correctional center units security and safety improvements	6,804	21,335
Other projects	8,048	10,921
Center for Deaf and Hard of Hearing Youth:		
Academic and physical education facility	774	54,130
Department of Transportation:		
Olympic Region and Northwest Region Headquarters building projects	80,166	3,666
State ferry vessels and terminals, and other projects	523,094	121,424
Transportation infrastructure	—	3,650,739
Other miscellaneous projects	1,621	705
State Parks and Recreation Commission:		
Beverly bridge rehabilitation and other miscellaneous projects	4,183	6,852
Department of Fish and Wildlife:		
Soos Creek, Naselle, and Wallace River hatcheries, Deschutes watershed, and other projects	77,031	130,514
Employment Security Department:		
Family and Medical Leave system	59,496	10,623
Long-Term Services and Support system	7,897	10,091

Concluded

Agency / Project Commitments	Construction in Progress June 30, 2021	Remaining Project Commitments
University of Washington:		
Health Sciences Center, Harborview Research and Training building restoration, Behavioral Health teaching facility, Founders Hall, UW Bothell/Cascadia College Science, Technology, Engineering, Math (STEM), and UW Tacoma renovation projects	$ 197,330	$ 159,527
Intercollegiate Athletics (ICA) Softball Performance Center, and other projects	5,441	1,701
Student housing, campus bike house program, and other projects	66	307
UW Medical Center expansion, upgrades, and renovation projects	147,555	10,760
Washington State University:		
Chief Joseph building and other housing projects	2,469	239
Modernization initiative, Vancouver Life Sciences building, and other facility projects	20,151	17,431
Smith gym renovation, and utilities for indoor practice facility	68	7
Campus upgrades and renovation projects	2,116	328
Eastern Washington University:		
Science Center renovation, energy plant, housing improvements, and other projects	8,573	20,302
Central Washington University:		
Health Science Building, and other projects	54,728	—
Western Washington University:		
Engineering & Computer Science Building, and other projects	4,008	70,392
New residence hall	55,905	11,320
Science building addition and renovation	53,109	14,217
Community and Technical Colleges:		
Bates Allied Health Science Center	34,107	8,045
Columbia Basin student recreation center	15,747	211,807
Edmonds Science, Technology, Engineering, Math (STEM) building	47,096	6,623
Pierce parking garage	6,676	34,763
Seattle South Automotive Technology building renovation	17,280	270
Seattle wellness center, library renovation, and miscellaneous projects	12,403	4,146
Other miscellaneous community college projects	64,762	9,657
Other Agency Projects:	33,648	10,937
Total Construction in Progress	$ 1,797,190	$ 5,094,508

Note 7

Long-Term Liabilities

A. BONDS AND NOTES PAYABLE

Bonds payable at June 30, 2021, 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 2021 is $1.70 billion.

This computation excludes specific bond issues and types that are not secured by general state revenues. Of the $20.40 billion general obligation bond debt principal outstanding at June 30, 2021, $12.44 billion is subject to the limitation.

Based on the debt limitation calculation, the debt service requirements as of June 30, 2021, 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 https://www. tre. wa. gov/wp-content/uploads/Debt-Limit-Certification-2021-Final-web.pdf or to Schedule 11 in the Statistical Section of this report.

Authorized But Unissued

The state had a total of $15.77 billion in general obligation bonds authorized but unissued as of June 30, 2021, for the purpose of capital construction, higher education, transportation, and various other projects throughout the state.

Interest Rates

Interest rates on fixed rate general obligation bonds range from 0.25 to 5.70 percent. Interest rates on revenue bonds range from 0.19 to 8.00 percent.

Debt Service Requirements to Maturity

General Obligations Bonds

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

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

- Transportation construction and improvement projects.

- Assistance to local governments for public works capital projects.

- Refunding of general obligation bonds outstanding.

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

Total debt service requirements to maturity for general obligation bonds as of June 30, 2021, are as follows (expressed in thousands):

	Governmental Activities		Business-Type Activities		Totals	
General Obligation Bonds	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**
By Fiscal Year:						
2022	$ 1,062,717	$ 994,681	$ —	$ —	$ 1,062,717	$ 994,681
2023	1,065,102	954,284	—	—	1,065,102	954,284
2024	1,082,749	907,887	—	—	1,082,749	907,887
2025	1,086,635	858,670	—	—	1,086,635	858,670
2026	1,101,421	806,857	—	—	1,101,421	806,857
2027-2031	5,457,388	3,233,504	—	—	5,457,388	3,233,504
2032-2036	4,575,325	1,790,720	—	—	4,575,325	1,790,720
2037-2041	3,559,240	812,614	—	—	3,559,240	812,614
2042-2046	1,411,910	154,080	—	—	1,411,910	154,080
Total Debt Service Requirements	$ 20,402,487	$ 10,513,297	$ —	$ —	$ 20,402,487	$ 10,513,297

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, 2021, include $906.4 million in governmental activities and $1.87 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, 2021, are as follows (expressed in thousands):

	Governmental Activities		Business-Type Activities		Totals	
Revenue Bonds	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**
By Fiscal Year:						
2022	$ 158,852	$ 80,375	$ 133,552	$ 92,915	$ 292,404	$ 173,290
2023	159,325	73,943	75,147	95,882	234,472	169,825
2024	157,658	66,213	77,838	92,407	235,496	158,620
2025	145,565	58,422	90,480	88,852	236,045	147,274
2026	92,079	84,775	93,043	85,228	185,122	170,003
2027-2031	287,226	223,047	483,039	367,003	770,265	590,050
2032-2036	311,833	154,745	491,898	268,939	803,731	423,684
2037-2041	252,532	92,141	461,879	159,775	714,411	251,916
2042-2046	182,973	51,162	318,859	68,799	501,832	119,961
2047-2051	140,815	20,482	67,584	16,202	208,399	36,684
Total Debt Service Requirements	$ 1,888,858	$ 905,305	$ 2,293,319	$ 1,336,002	$ 4,182,177	$ 2,241,307

Governmental activities include revenue bonds outstanding at June 30, 2021, of $92.6 million issued by the Tobacco Settlement Authority (TSA), which is a blended component unit of the state. In November 2002, the TSA issued $517.9 million in bonds and transferred $450.0 million to the state to be used for increased health care, long-term care, and other programs.

These bonds do not constitute either a legal or moral obligation of the state, nor does the state pledge its full faith, credit, or taxing power for payment of these bonds. The bonds are obligations of the TSA and are secured solely by the TSA's right to receive 29.2 percent of the state's tobacco settlement revenues, restricted investments of the TSA, undistributed TSA bond proceeds, and the earnings thereon held under the indenture authorizing the bonds. Total principal and interest remaining on the bonds is $111.2 million, payable through 2033. For the current year, both pledged revenue and debt service were $37.8 million.

Governmental activities include grant anticipation revenue bonds outstanding at June 30, 2021, of $360.9 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 $397.8 million, payable through 2024. For the current year, both pledged revenue and debt service were $99.7 million.

Governmental activities include the Transportation Infrastructure Finance and Innovation Act Bond (TIFIA Bond) outstanding at June 30, 2021, of $287.1 million. The bonds were issued to finance a portion of the State Route 520 Corridor Program.

The TIFIA Bond is payable solely from toll revenues and does not constitute either a legal or moral obligation of the state, nor does the state pledge its full faith, credit, or taxing power for payment of this bond. Total principal and interest remaining on the bond is $491.6 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, 2021, of $30.8 million issued by TOP, which is a blended component unit of the state. The bonds, issued in 2004, are payable solely from the trust estate pledged under the indenture, including rental payments. The bonds were used to construct an office building in Tumwater, Washington which the state occupied beginning in fiscal year 2006.

The bonds are not a general obligation of the state, nor does the state pledge its full faith, credit, or taxing power for payment of these bonds. Total principal and interest remaining on the bonds is $36.9 million, payable through 2029. For the current year, both pledged revenue and debt service were $4.2 million.

Governmental activities include revenue bonds outstanding at June 30, 2021, of $210.7 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 $323.9 million, payable through 2039. For the current year, both pledged revenue and debt service were $18.1 million.

Additionally, governmental activities include revenue bonds outstanding at June 30, 2021, of $350 thousand issued by the City of Aberdeen. The bonds were used to extend utilities to the state Department of Corrections Stafford Creek Corrections Center. The Department of Corrections entered into an agreement with the City of Aberdeen to pay a system development fee sufficient to pay the debt service on the bonds. The bonds were issued in 1998 and 2002, and refunded by the city in 2010, and are payable solely from current operating appropriations.

The bonds are not a general obligation of the state, nor does the state pledge its full faith, credit, or taxing power for payment of these bonds. Total principal and interest remaining on these bonds is $376 thousand payable through 2022. For the current year, both pledged revenue and debt service were $190 thousand.

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, 2021, are as follows (expressed in thousands):

Source of Revenue Pledged	Housing and Dining Revenues (Net of Operating Expenses)	Student Facilities Fees and Earnings on Invested Fees	Bookstore Revenues
Current revenue pledged	$ 30,568	$ 19,293	$ 148
Current year debt service	15,459	9,863	202
Total future revenues pledged *	458,925	78,235	2,629
Description of debt	Housing and dining bonds issued in 2008-2020	Student facilities bonds issued in 2004-2015	Bookstore bonds issued in 2013
Purpose of debt	Construction and renovation of student housing and dining facilities	Construction and renovation of student activity and sports facilities	Bookstore remodel
Term of commitment	2026-2049	2029-2037	2034
Percentage of debt service to pledged revenues (current year)	50.57 %	51.12 %	136.60 %

* Total future principal and interest payments.

B. CERTIFICATES OF PARTICIPATION

Certificates of participation at June 30, 2021, 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, 2021, are as follows (expressed in thousands):

	Governmental Activities		Business-Type Activities		Totals	
Certificates of Participation	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**
By Fiscal Year:						
2022	$ 160,733	$ 52,402	$ 7,626	$ 2,486	$ 168,359	$ 54,888
2023	62,352	23,831	19,352	7,397	81,704	31,228
2024	50,245	20,777	15,596	6,449	65,841	27,226
2025	42,156	18,355	13,085	5,697	55,241	24,052
2026	40,207	16,301	12,480	5,060	52,687	21,361
2027-2031	147,839	57,151	45,888	17,739	193,727	74,890
2032-2036	95,949	30,055	29,781	9,329	125,730	39,384
2037-2041	57,407	10,264	17,818	3,186	75,225	13,450
2042-2046	14,934	1,524	4,636	473	19,570	1,997
Total Debt Service Requirements	$ 671,822	$ 230,660	$ 166,262	$ 57,816	$ 838,084	$ 288,476

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 November 3, 2020, the state issued $105.0 million in various purpose general obligation refunding bonds with an average interest rate of 5.00 percent to refund $113.0 million of various purpose general obligation bonds with an average interest rate of 5.00 percent. The refunding resulted in $11.0 million gross debt service savings over the next 5 years and an economic gain of $10.9 million.

On March 3, 2021, the state issued $396.3 million in motor vehicle fuel tax general obligation refunding bonds with an average interest rate of 5.00 percent to refund $458.9 million of motor vehicle fuel tax general obligation bonds with an average interest rate of 5.01 percent. The refunding resulted in $102.0 million gross debt service savings over the next 20 years and an economic gain of $76.5 million.

On May 4, 2021, the state issued $164.1 million in various purpose general obligation refunding bonds with an average interest rate of 4.36 percent to refund $188.5 million of various purpose general obligation bonds with an average interest rate of 4.74 percent. The refunding resulted in $39.5 million gross debt service savings over the next 15 years and an economic gain of $36.9 million.

Also on May 4, 2021, the state issued $191.6 million in motor vehicle fuel tax general obligation refunding bonds with an average interest rate of 4.22 percent to refund $229.1 million of motor vehicle fuel tax general obligation bonds with an average interest rate of 4.74 percent. The refunding resulted in $72.6 million gross debt service savings over the next 20 years and an economic gain of $64.6 million.

Business-Type Activities

On September 24, 2020, Western Washington University issued $21.8 million in housing and dining system revenue refunding bonds with an average interest rate of 2.40 percent to refund $11.5 million of general revenue bonds to build or improve housing and the student multicultural center with an average interest rate of 4.81 percent. The refunding resulted in $684 thousand gross debt service expenses over the next year and an economic loss of $9.0 million.

On October 29, 2020, Washington State University issued $100.8 million in general revenue refunding bonds with an average interest rate of 5.00 percent to refund $92.7 million of athletics and housing and dining revenue bonds with an average interest rate of 4.91 percent. The refunding resulted in $14.7 million gross debt service savings over the next 24 years and an economic gain of $10.8 million.

On February 9, 2021, the University of Washington issued $117.8 million in general revenue refunding bonds with an average interest rate of 5.00 percent to refund $142.7 million of general revenue bonds to fund various capital projects with an average interest rate of 4.82 percent. The refunding resulted in $33.1 million gross debt service savings over the next 13 years and an economic gain of $27.6 million.

On March 4, 2021, the University of Washington issued $77.4 million in general revenue refunding bonds with an average interest rate of 5.00 percent to refund $7.2 million of general revenue bonds to fund various capital projects with an average interest rate of 4.25 percent. The refunding resulted in $1.3 million gross debt service savings over the next 11 years and an economic gain of $1.4 million.

Also on March 4, 2021, the University of Washington issued $249.3 million in general revenue refunding bonds with an average interest rate of 2.14 percent to refund $222.3 million of general revenue bonds to fund various capital projects with an average interest rate of 5.00 percent. The refunding resulted in $47.5 million gross debt service savings over the next 21 years and an economic gain of $48.4 million.

Certificates of Participation

On October 14, 2020, the state issued $25.6 million in refunding certificates of participation with an average interest rate of 5.00 percent to refund $30.3 million of certificates of participation with an average interest rate of 4.51 percent. The refunding resulted in a $7.5 million gross debt service savings over the next 10 years and a net present value savings of $4.9 million.

On June 2, 2021, the state issued $490 thousand in refunding certificates of participation with an average interest rate of 5.00 percent to refund $770 thousand of certificates of participation with an average interest rate of 5.00 percent. The refunding resulted in a $37 thousand gross debt service savings over the next 2 years and a net present value savings of $37 thousand.

Current Year In-Substance Defeasances

Bonds

Governmental Activities

On October 30, 2020, and on May 14, 2021, the state deposited $10.4 million and $4.9 million, respectively, of existing resources into an irrevocable escrow account, for the defeasance of debt service coming due on June 1, 2021. The cash defeasances in fiscal year 2021 were completed to ensure the State Route 520 system met the required coverage targets.

Prior Year Defeasances

In prior years, the state defeased certain general obligation bonds, revenue bonds, and certificates of participation by placing the proceeds of new bonds and certificates of participation in an irrevocable trust to provide for all future debt service payments on the prior bonds and certificates of participation.

Accordingly, the trust account assets and the liability for the defeased bonds and certificates of participation are not included in the state's financial statements.

General Obligation Bond Debt

On June 30, 2021, $879.8 million of general obligation bond debt outstanding is considered defeased.

Revenue Bond Debt

On June 30, 2021, $229.2 million of revenue bond debt outstanding is considered defeased.

D. LEASES

Leases at June 30, 2021, are reported by the state of Washington within governmental activities and business-type activities, as applicable.

The state leases land, office facilities, office and computer equipment, and other assets under a variety of agreements. Although lease terms vary, most leases are subject to appropriation from the Legislature to continue the obligation. If the possibility of receiving no funding from the Legislature is remote, leases are considered noncancelable for financial reporting purposes. Leases that represent acquisitions are classified as capital leases, and the related assets and liabilities are recorded in the financial records at the inception of the lease.

Other leases are classified as operating leases with the lease payments recorded as expenditures or expenses during the life of the lease. Certain operating leases are renewable for specified periods. In most cases, management expects that the leases will be renewed or replaced by other leases.

Land, buildings, and equipment under capital leases as of June 30, 2021, include the following (expressed in thousands):

	Governmental Activities	Business-Type Activities
Buildings	$ —	$ 4,512
Equipment	6,027	11,419
Less: Accumulated Depreciation	(3,944)	(13,887)
Totals	$ 2,083	$ 2,044

The following schedule presents future minimum payments for capital and operating leases as of June 30, 2021, (expressed in thousands):

Capital and Operating Leases	Capital Leases: Governmental Activities	Capital Leases: Business-Type Activities	Operating Leases: Governmental Activities	Operating Leases: Business-Type Activities
By Fiscal Year:				
2022	$ 931	$ 1,785	$ 236,061	$ 51,993
2023	839	1,045	198,749	48,856
2024	461	—	174,437	35,598
2025	31	—	140,288	34,332
2026	—	—	101,253	22,630
2027-2031	—	—	207,552	93,603
2032-2036	—	—	41,673	100,003
2037-2041	—	—	26,585	100,597
2042-2046	—	—	15,230	113,853
2047-2051	—	—	1,102	131,808
Total Future Minimum Payments	2,262	2,830	1,142,930	733,273
Less: Executory Costs and Interest Costs	(30)	(67)	—	—
Net Present Value of Future Minimum Lease Payments	$ 2,232	$ 2,763	$ 1,142,930	$ 733,273

The total operating lease rental expense for fiscal year 2021 for governmental activities was $414.6 million, of which $6 thousand was for contingent rentals. The total operating lease rental expense for fiscal year 2021 for business-type activities was $68.0 million.

E. 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, 2021, $43.86 billion of unpaid claims and claim adjustment expenses are presented at their net present and settlement value of $34.58 billion. These claims are discounted at assumed interest rates of 1.0 percent for non-pension and cost of living adjustments, 5.8 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 $34.58 billion as of June 30, 2021, include $19.05 billion for supplemental pension cost of living adjustments (COLAs) that by statute are not to be fully funded. These COLA payments are funded on a pay-as-you-go basis, and the workers' compensation actuaries have indicated that future premium payments will be sufficient to pay these claims as they come due.

The remaining claims liabilities of $15.53 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 2020 and 2021 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
2020	$ 29,166,819	6,092,143	(2,465,821)	$ 32,793,141
2021	$ 32,793,141	4,304,760	(2,515,592)	$ 34,582,309

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, 2021, outstanding and actuarially determined claims against the state and its agencies, with the exception of the University of Washington, including actuarially projected defense costs were $1.19 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 2020 and 2021 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
2020	$ 649,095	1,249,286	(677,990)	(26,313)	$ 1,194,078
2021	$ 1,194,078	129,509	(100,716)	(28,409)	$ 1,194,462

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, 2021, health insurance claims liabilities totaling $174.5 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 2020 and 2021 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
2020	$ 104,846	1,517,345	(1,475,083)	$ 147,108
2021	$ 147,108	2,184,118	(2,156,685)	$ 174,541

F. POLLUTION REMEDIATION

The state reports pollution remediation obligations in accordance with GASB Statement No. 49. The liability reported involves estimates of financial responsibility and amounts recoverable as well as remediation costs.

The liability could change over time as new information becomes available and as a result of changes in remediation costs, technology, and regulations governing remediation efforts. Additionally, the responsibilities and liabilities discussed in this disclosure are intended to refer to obligations solely in the accounting context. This disclosure does not constitute an admission of any legal responsibility or liability. Further, it does not establish or affect the rights or obligations of any person under the law, nor does this disclosure impose upon the state any new mandatory duties or obligations.

The state and its agencies are participating as potentially responsible parties in numerous pollution remediation projects under the provisions of the federal Comprehensive Environmental Response, Compensation, and Liability Act of 1980 (CERCLA, generally referred to as Superfund) and the state Model Toxics Control Act.

There are 36 projects in progress for which the state has recorded a liability of $98.5 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, 2021, the state has recorded a liability of $130.0 million for remaining project commitments.

Overall, the state has recorded a pollution remediation liability of $228.5 million, measured at its estimated amount, using the expected cash flow technique. The overall estimate is based on professional judgment, experience, and historical cost data. For some projects, the state can reasonably estimate the range of expected outlays early in the process because the site situation is common or similar to other sites with which the state has experience. In other cases, the estimates are limited to an amount specified in a settlement agreement, consent decree, or contract for remediation services.

The pollution remediation activity at some sites for which the state would otherwise have a reportable obligation is at a point where certain costs are not reasonably estimable. For example, a site assessment, remedial investigation, or feasibility study is in progress and the cleanup methodology has not yet been determined; consequently, associated future costs cannot be estimated.

The state's reported liability does not include remediation costs for future activities where costs are not yet reasonably estimable.

G. ASSET RETIREMENT OBLIGATIONS

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

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

The state has recorded an asset retirement obligation of $29.1 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 asset. 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.

H. LONG-TERM LIABILITY ACTIVITY

Long-term liability activity at June 30, 2021, 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 2021 is as follows (expressed in thousands):

Governmental Activities:	Beginning Balance July 1, 2020	Additions	Reductions	Ending Balance June 30, 2021	Amounts Due Within One Year
Long-Term Debt:					
GO Bonds Payable:					
General obligation (GO) bonds	$ 19,535,350	$ 2,595,200	$ 1,947,845	$ 20,182,705	$ 1,034,235
GO - zero coupon bonds (principal)	258,307	—	38,525	219,782	28,482
Subtotal - GO bonds payable	19,793,657	2,595,200	1,986,370	20,402,487	1,062,717
Accreted interest - GO - zero coupon bonds	359,293	—	31,714	327,579	43,643
Revenue bonds payable	2,032,942	73,752	217,836	1,888,858	158,852
Plus: Unamortized premiums on bonds sold	2,131,890	698,989	193,862	2,637,017	—
Total Bonds Payable	24,317,782	3,367,941	2,429,782	25,255,941	1,265,212
Other Liabilities:					
Certificates of participation	691,760	103,761	123,699	671,822	160,733
Plus: Unamortized premiums on COPs sold	17,922	7,628	4,781	20,769	—
Claims and judgments payable	1,539,764	123,226	64,631	1,598,359	354,553
Installment contracts	1,180	—	137	1,043	137
Leases	8,445	755	6,968	2,232	911
Compensated absences	787,926	504,472	450,634	841,764	142,178
Net pension liability	2,980,950	1,819,702	2,611,389	2,189,263	—
Total OPEB liability	5,065,182	2,014,704	1,856,505	5,223,381	91,876
Pollution remediation obligations	175,852	59,322	6,704	228,470	—
Unclaimed property refunds	252,410	422	5,171	247,661	7,067
Asset retirement obligations	27,939	1,193	—	29,132	—
Other	373,924	117,281	101,978	389,227	40,285
Total Other Liabilities	11,923,254	4,752,466	5,232,597	11,443,123	797,740
Total Long-Term Debt	$ 36,241,036	$ 8,120,407	$ 7,662,379	$ 36,699,064	$ 2,062,952

For governmental activities, certificates of participation are being repaid approximately 23.54 percent from the General Fund, 54.08 percent from the Higher Education Special Revenue Fund, and the balance from various governmental funds. The compensated absences liability will be liquidated approximately 46.04 percent by the General Fund, 32.32 percent by the Higher Education Special Revenue Fund, and the balance by various other governmental funds. The claims and judgments liability will be liquidated approximately 74.73 percent by the Risk Management Fund, 11.29 percent by the Higher Education Revolving Fund (both are nonmajor internal service funds), and the balance by various other governmental funds. The other post employment benefits liability will be liquidated approximately 43.94 percent by the General Fund, 27.28 percent by the Higher Education Special Revenue Fund, and the balance by various other governmental funds. The net pension liability will be liquidated approximately 50.25 percent by the General Fund, 33.41 percent by the Higher Education Special Revenue Fund, and the balance by various other governmental funds. The pollution remediation liability will be liquidated approximately 69.03 percent by the Wildlife and Natural Resources Fund (a nonmajor governmental fund), and the balance by various other governmental funds. The unclaimed property refunds will be liquidated against future unclaimed property deposited to the General Fund. Leases, installment contract obligations, and other liabilities will be repaid from various other governmental funds.

Long-term liability activity for business-type activities for fiscal year 2021 is as follows (expressed in thousands):

Business-Type Activities	Beginning Balance July 1, 2020	Additions	Reductions	Ending Balance June 30, 2021	Amounts Due Within One Year
Long-Term Debt:					
Revenue bonds payable	$ 2,235,186	$ 603,217	$ 545,084	$ 2,293,319	$ 133,552
Plus: Unamortized premiums on bonds sold	179,778	49,846	47,498	182,126	—
Total Bonds Payable	2,414,964	653,063	592,582	2,475,445	133,552
Other Liabilities:					
Certificates of participation	145,413	28,910	8,061	166,262	7,626
Plus: Unamortized premiums on COPs sold	19,934	7,991	1,284	26,641	—
Claims and judgments payable	32,987,192	4,151,948	2,356,577	34,782,563	2,579,109
Installment contracts	76,171	—	73,306	2,865	697
Lottery prize annuities payable	125,814	9,708	16,636	118,886	15,368
Tuition benefits payable	1,185,000	82,599	16,599	1,251,000	97,000
Leases	4,612	—	1,849	2,763	1,730
Compensated absences	123,034	50,852	48,047	125,839	85,114
Net pension liability	357,912	320,964	358,504	320,372	—
Total OPEB liability	734,560	376,035	282,885	827,710	14,559
Other	114,169	584	31,271	83,482	3,738
Total Other Liabilities	35,873,811	5,029,591	3,195,019	37,708,383	2,804,941
Total Long-Term Debt	$ 38,288,775	$ 5,682,654	$ 3,787,601	$ 40,183,828	$ 2,938,493

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, 2021, balances for the "No Commitment" debt of the state's financing authorities (expressed in thousands)

Financing Authorities	Principal Balance
Washington State Housing Finance Commission	$ 6,907,398
Washington Health Care Facilities Authority	5,295,552
Washington Higher Education Facilities Authority	735,422
Washington Economic Development Finance Authority	740,250
Total No Commitment Debt	$ 13,678,622

:

Note 9

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.9.

A summary of governmental fund balances at June 30, 2020, is as follows (expressed in thousands):

Fund Balances	General	Higher Education Special Revenue	Higher Education Endowment	Nonmajor Governmental Funds	Total
Nonspendable:					
Permanent funds	$ —	$ —	$ 3,099,426	$ 245,275	$ 3,344,701
Consumable inventories and prepaids	21,031	39,823	—	52,800	113,654
Other receivables – long-term	38,029	—	—	—	38,029
Total Nonspendable Fund Balance	$ 59,060	$ 39,823	$ 3,099,426	$ 298,075	$ 3,496,384
Restricted for: *					
Higher education	$ —	$ 49,644	$ 2,683,547	$ 39,549	$ 2,772,740
Education	—	—	6,795	83,382	90,177
Transportation	—	—	—	1,114,976	1,114,976
Other purposes	—	—	—	4,326	4,326
Human services	2,873,349	—	—	673,001	3,546,350
Wildlife and natural resources	5,366	—	1	1,228,790	1,234,157
Local grants and loans	10,232	—	—	54	10,286
School construction	94	—	—	18,776	18,870
Budget stabilization	19,191	—	—	—	19,191
Debt service	—	—	—	52,400	52,400
Pollution remediation	—	—	—	60,004	60,004
Operations and maintenance	—	—	—	11,856	11,856
Repair and replacement	—	—	—	20,384	20,384
Revenue stabilization	—	—	—	17,805	17,805
Deferred sales tax	—	—	—	9,000	9,000
Third tier debt service	—	—	—	3,182	3,182
Fourth tier debt service	—	—	—	1,917	1,917
Total Restricted Fund Balance	$ 2,908,232	$ 49,644	$ 2,690,343	$ 3,339,402	$ 8,987,621
Committed for:					
Higher education	$ 157,217	$ 4,028,098	$ —	$ 29,872	$ 4,215,187
Education	217	—	—	5,819	6,036
Transportation	—	—	—	513,082	513,082
Other purposes	51,919	—	—	474,823	526,742
Human services	946,436	—	—	1,052,745	1,999,181
Wildlife and natural resources	38,103	—	—	684,196	722,299
Local grants and loans	27,217	—	—	745,695	772,912
State facilities	—	—	—	16,566	16,566
Debt service	—	—	—	242,820	242,820
Total Committed Fund Balance	$ 1,221,109	$ 4,028,098	$ —	$ 3,765,618	$ 9,014,825
Assigned for:					
Working capital	$ 1,915,952	$ 109,939	$ —	$ —	$ 2,025,891
Total Assigned Fund Balance	$ 1,915,952	$ 109,939	$ —	$ —	$ 2,025,891

*Net position restricted as a result of enabling legislation totaled $9.8 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, 2021, the Budget Stabilization Account had restricted fund balance of $19.2 million.

Note 10
Deficit Net Position

Data Processing Revolving Fund
The Data Processing Revolving Fund, an internal service fund, had a deficit net position of $38.0 million at June 30, 2021. The Data Processing Revolving Fund is primarily used to account for and report activities such as data processing and communication services to other state agencies.

The Data Processing Revolving Fund is supported by user charges. Due to budgetary considerations, user rates are designed to cover cash outflows including debt service as opposed to the full cost of services which includes depreciation. Since the Data Processing Revolving Fund reports a debt-financed building, this funding approach has an impact on net position. Debt service allocates principal retirement on a straight-line basis. Depreciation on the fund's building is componentized, which accelerates expense in the early years of the building's life. As a result, the fund reports both an operating loss and a negative net investment in capital assets.

The following schedule details the change in net position for the Data Processing Revolving Fund during the fiscal year ended June 30, 2021 (expressed in thousands):

Data Processing Revolving Fund		Net Position
Balance, July 1, 2020	$	(55,155)
Fiscal year 2021 activity		17,170
Balance, June 30, 2021	$	(37,985)

Risk Management Fund
The Risk Management Fund, an internal service fund, had a deficit net position of $1.42 billion at June 30, 2021. 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, 2021 (expressed in thousands):

Risk Management Fund		Net Position
Balance, July 1, 2020	$	(1,383,291)
Fiscal year 2021 activity		(40,319)
Balance, June 30, 2021	$	(1,423,610)

Lottery Fund

The Lottery Fund, an enterprise fund, had a deficit net position of $9.8 million at June 30, 2021. 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, 2021 (expressed in thousands):

Lottery Fund		Net Position
Balance, July 1, 2020	$	(217)
Fiscal year 2021 activity		(9,537)
Balance, June 30, 2021	$	(9,754)

State Facilities Fund

The State Facility Fund, a capital projects fund, had a deficit fund balance of $110.1 million at June 30, 2021. The State Facilities Fund is used to pay for various capital projects throughout the state.

The State Facilities Fund is primarily supported by bond proceeds, income from property, and sales of property.

Costs were incurred during fiscal year 2021, but the bonds to support these projects were not issued until after June 30, 2021, resulting in a deficit fund balance.

The following schedule details the change in net position for the State Facilities Fund during the fiscal year ended June 30, 2021 (expressed in thousands):

State Facilities Fund		Fund Balance
Balance, July 1, 2020	$	79,195
Fiscal year 2021 activity		(189,341)
Balance, June 30, 2021	$	(110,146)

Other Activities Fund

The Other Activities Fund, an enterprise fund, had a deficit net position of $11.6 million at June 30, 2021. The Other Activities Fund is used to account for operation of the Pollution Liability Insurance Program, the Judicial Information System, the local Certificate of Participation (COP) financing program, the Local Government Audit Program, and the Secretary of State's Corporate Public Records Program.

The Other Activities Fund is supported by various operating revenues which are comprised of charges for services and premiums and assessments. Operating expenses include cost of goods and services and administrative expenses.

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 Other Activities Fund during the fiscal year ended June 30, 2021 (expressed in thousands):

Other Activities Fund		Net Position
Balance, July 1, 2020	$	(7,301)
Fiscal year 2021 activity		(4,252)
Balance, June 30, 2021	$	(11,553)

Note 11

Retirement Plans

A. GENERAL

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

In accordance with GASB Statement No. 68, the state has elected to use the prior fiscal year end as the measurement date for reporting net pension liabilities.

The state Legislature establishes and amends laws pertaining to the creation and administration of all state public retirement systems. Additionally, the state Legislature authorizes state agency participation in plans other than those administered by the state.

Basis of Accounting. Pension plans administered by the state are accounted for using the accrual basis of accounting. Under the accrual basis of accounting, employee and employer contributions are recognized in the period in which employee services are performed; investment gains and losses are recognized as incurred; and benefits and refunds are recognized when due and payable in accordance with the terms of the applicable plan. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, information about the fiduciary net position of all plans, and additions to/deductions from all plan fiduciary net position have been determined in all material respects on the same basis as they are reported by the plans.

The following table represents the aggregate pension amounts for all plans for the state as an employer, for fiscal year 2021 (expressed in thousands):

Aggregate Pension Amounts - All Plans		
Pension liabilities	$	2,509,635
Pension assets	$	(2,467,388)
Deferred outflows of resources on pensions	$	1,695,946
Deferred inflows of resources on pensions	$	1,581,936
Pension expense/expenditures	$	61,212

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 Fire Fighters' Retirement System (LEOFF)
  - Plan 1 - defined benefit
  - Plan 2 - defined benefit
- Public Safety Employees' Retirement System (PSERS)
  - Plan 2 - defined benefit
- Washington State Patrol Retirement System (WSPRS)
  - Plan 1 - defined benefit
  - Plan 2 - defined benefit
- Judicial Retirement System (JRS)
  - Defined benefit plan
- Judges' Retirement Fund (JRF)
  - Defined benefit plan

Although some assets of the plans are commingled for investment purposes, each plan's assets may be used only for the payment of benefits to the members of that plan in accordance with the terms of the plan.

Administration of the PERS, TRS, SERS, LEOFF, PSERS, and WSPRS systems and plans is funded by an employer rate of 0.18 percent of employee salaries. Administration of the JRS and JRF plans is funded by means of legislative appropriations.

Pursuant to RCW 41.50.770, the state offers its employees and employees of political subdivisions that elect to participate a deferred compensation program in accordance with Internal Revenue Code Section 457. The deferred compensation is not available to employees until termination, retirement, disability, death, or unforeseeable financial emergency. This deferred compensation plan is administered by the DRS.

The DRS prepares a stand-alone financial report that is compliant with the requirements of GASB Statement No. 67. Copies of the report may be obtained by contacting the Washington State Department of Retirement Systems, PO Box 48380, Olympia, WA 98504-8380 or online at http://www.drs.wa.gov/news/.

State Board for Volunteer Fire Fighters and Reserve Officers. As established in chapter 41.24 RCW, the State Board for Volunteer Fire Fighters and Reserve Officers administers the Volunteer Fire Fighters' and Reserve Officers' Relief and Pension Fund (VFFRPF), a defined benefit plan. Administration of the VFFRPF is funded through legislative appropriation.

Administrative Office of the Courts. As established in chapter 2.14 RCW, the Administrative Office of the Courts administers the Judicial Retirement Account (JRA), a defined contribution plan. Administration of JRA is funded through member fees.

Higher Education. As established in chapter 28B.10 RCW, eligible higher education state employees may participate in higher education retirement plans. These plans include a defined contribution plan administered by a third party with a supplemental defined benefit component (funded on a pay-as-you-go basis) which is administered by the state.

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

B. STATE PARTICIPATION IN PLANS ADMINISTERED BY DRS

1. DRS Plans - Employer Disclosures

The state is not an employer in SERS Plan 2/3 nor LEOFF Plan 1.

Plan Descriptions

Public Employees' Retirement System. The Legislature established the Public Employees' Retirement System (PERS) in 1947. PERS retirement benefit provisions are established in chapters 41.34 and 41.40 RCW and may be amended only by the Legislature. Membership in the system includes: elected officials; state employees; employees of the Supreme Court, Court of Appeals, and Superior Courts (other than judges currently in a judicial retirement system); employees of legislative committees; community and technical colleges, college, and university employees not in national higher education retirement programs; judges of district and municipal courts; and employees of local governments.

PERS is a cost-sharing, multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a combination defined benefit/defined contribution plan. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 defined benefit plan may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered a single defined benefit plan for reporting purposes. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members.

PERS members who joined the system by September 30, 1977, are Plan 1 members. Plan 1 is closed to new entrants. Those who joined on or after October 1, 1977, and by February 28, 2002, for state and higher education employees, or August 31, 2002, for local government employees, are Plan 2 members unless they exercised an option to transfer their membership to PERS Plan 3.

PERS participants joining the system on or after March 1, 2002, for state and higher education employees, or September 1, 2002, for local government employees, have the irrevocable option of choosing membership in either PERS Plan 2 or PERS Plan 3. The option must be exercised within 90 days of employment. Employees who fail to choose within 90 days default to PERS Plan 3.

Refer to Note 11.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 3.

Refer to Note 11.E for a description of the defined contribution component of TRS Plan 3.

Law Enforcement Officers' and Fire Fighters'. The Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) was established in 1970 by the Legislature. LEOFF retirement benefit provisions are established in chapter 41.26 RCW and may be amended only by the Legislature. Membership includes all full-time, fully compensated, local law enforcement commissioned officers, fire fighters, and as of July 24, 2005, emergency medical technicians. LEOFF membership is comprised primarily of non-state employees, with Department of Fish and Wildlife enforcement officers who were first included effective July 27, 2003, being an exception.

LEOFF is a cost-sharing, multiple-employer retirement system comprised of two separate defined benefit plans. LEOFF members who joined the system by September 30, 1977, are Plan 1 members. Plan 1 is closed to new entrants. Those who joined on or after October 1, 1977, are Plan 2 members.

Effective July 1, 2003, the LEOFF Plan 2 Retirement Board was established by Initiative 790 to provide governance of LEOFF Plan 2. The Board's duties include adopting contribution rates and recommending policy changes to the Legislature.

Public Safety Employees' Retirement System. The Public Safety Employees' Retirement System (PSERS) was created by the 2004 Legislature and became effective July 1, 2006. PSERS retirement benefit provisions are established in chapter 41.37 RCW and may be amended only by the Legislature. PSERS membership includes full-time employees meeting specific eligibility criteria that are employed by Department of Corrections; Department of Natural Resources; Gambling Commission; Liquor and Cannabis Board; Parks and Recreation Commission; Washington State Patrol; Washington state counties; corrections departments of Washington state cities except for Seattle, Tacoma, and Spokane; or correctional entities formed by PSERS employers under the Interlocal Cooperation Act.

PSERS is a cost-sharing, multiple-employer retirement system comprised of a single defined benefit plan, PSERS Plan 2.

Washington State Patrol Retirement System. The Washington State Patrol Retirement System (WSPRS) was established by the Legislature in 1947. WSPRS benefits are established in chapter 43.43 RCW and may be amended only by the Legislature. Any commissioned employee of the Washington State Patrol is eligible to participate.

WSPRS is a single-employer, defined benefit retirement system. WSPRS members who joined the system by December 31, 2002, are Plan 1 members. Plan 1 is closed to new entrants. Those who joined on or after January 1, 2003, are Plan 2 members. For financial reporting and investment purposes, however, both plans are accounted for in the same pension fund.

Effective June 7, 2012, those WSPRS members who have service credit within PERS Plan 2 have options to transfer their service credit earned as commercial vehicle enforcement officers or as communications officers into the WSPRS, provided the member pays the full actuarial cost of the transfer.

At retirement, these members also have the option of selecting an actuarially reduced benefit in order to provide for post-retirement survivor benefits.

For membership information refer to the table presented in Note 11.B.3.

Judicial Retirement System. The Judicial Retirement System (JRS) was established by the Legislature in 1971. The JRS retirement benefit provisions are established in chapter 2.10 RCW and may be amended only by the Legislature. Membership includes judges elected or appointed to the Supreme Court, Court of Appeals, and Superior Courts on or after August 9, 1971.

The JRS is a single-employer, defined benefit retirement system. There are no active members remaining in the Judicial Retirement System.

For membership information refer to the table presented in Note 11.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 11.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 50-52 with 20 years of service. Plan 2 members receive a benefit of 2 percent of the FAS per year of service. FAS is based on the highest consecutive 60 months.

A COLA is granted based on the Consumer Price Index, capped at 3 percent annually. LEOFF Plan 2 members have the option to retire early with reduced benefits.

LEOFF members meeting specific eligibility requirements have options available to enhance their retirement benefits. Some of these options are available to their survivors, generally with reduced benefits.

PSERS. PSERS provides retirement, disability, and death benefits to eligible members.

PSERS members are vested after an employee completes five years of eligible service. PSERS members may retire with a monthly benefit of 2 percent of the average final compensation (AFC) at the age of 65 with five years of service, or at the age of 60 with at least 10 years of PSERS service, or at age 53 with 20 years of service. A cost of living allowance is granted based on the Consumer Price Index, capped at 3 percent annually. The AFC is the average of the member's 60 highest paid consecutive months. PSERS members have the option to retire early with reduced benefits.

PSERS members meeting specific eligibility requirements have options available to enhance their retirement benefits. Some of these options are available to their survivors, generally with reduced benefits.

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

WSPRS members are vested after the completion of five years of eligible service. Active members are eligible for retirement at the age of 55 with no minimum required service credit, or at any age with 25 years of service credit, and must retire at age 65. This mandatory requirement does not apply to the Chief of the Washington State Patrol. Inactive members can retire at age 60 or at age 55 with a reduced benefit to account for the receipt of benefits over a longer period of time.

The monthly benefit is 2 percent of the average final salary (AFS) per year of service, capped at 75 percent. A cost of living allowance is granted based on the Consumer Price Index, capped at 3 percent annually.

WSPRS members meeting specific eligibility requirements have options available to enhance their retirement benefits. Some of these options are available to their survivors, generally with reduced benefits.

JRS. The JRS provides retirement, disability, and death benefits to eligible members.

JRS members are eligible for retirement at the age of 60 with 15 years of service; or are age 60 or older, left office involuntarily with 12 years of service credit, and at least 15 years have passed since the beginning of the initial term. The system was closed to new entrants on July 1, 1988, with new judges joining PERS.

The benefit per year of service calculated as a percent of final average salary (FAS) is shown in the table below. This benefit is capped at 75 percent of FAS, exclusive of cost-of-living increases.

Years of Service	Percent of FAS
15+	3.50%
10-14	3.00%

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

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

Contributions

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

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

Each biennium, the state Pension Funding Council adopts employer contribution rates for PERS Plan 1 and 3 and for TRS Plan 1 and 3; employee and employer contribution rates for PERS Plan 2, TRS Plan 2, and PSERS Plan 2; 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 2021 are presented in the table in Note 11.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 2021, the state contributed $78.2 million to LEOFF Plan 2.

Required contribution rates for fiscal year 2021 are presented in the table in Note 11.B.3.

The state is not an employer for LEOFF Plan 1; however, the state is a nonemployer contributing entity for LEOFF Plan 1. For LEOFF Plan 2, the state is both an employer and a nonemployer contributing entity.

Refer to Note 11.B.2 for nonemployer contributing entity disclosures.

JRS and JRF: The JRF and JRS have no active members; therefore, no employer or employee contributions are required. The state guarantees the solvency of the JRF and JRS 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 2021 the state contributed $400 thousand for JRF and $7.6 million for JRS.

Actuarial Assumptions

PERS, TRS, LEOFF, PSERS, and WSPRS: The total pension liability was determined by an actuarial valuation as of June 30, 2019, with the results rolled forward to the June 30, 2020, measurement date using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75 %
Salary increases	3.50 %
Investment rate of return	7.40 %

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, 2019, valuation were based on the results of the 2013-2018 Demographic Experience Study Report and the 2019 Economic Experience Study. Additional assumptions for subsequent events and law changes are current as of the 2019 actuarial valuation report.

The 7.40 percent long-term expected rate of return on pension plan investments was determined using a building-block method in which a best estimate of expected future rates of return (expected returns, net of pension plan investment expense, but including inflation) are developed for each major asset class by the WSIB. Refer to the 2019 Report on Financial Condition and Economic Experience Study located on the OSA website for additional information and background on the development of the long-term rate of return assumption.

WSIB's Capital Market Assumptions (CMAs) contain the following three pieces of information for each class of assets the WSIB currently invests in:

- Expected annual return.
- Standard deviation of the annual return.
- Correlations between the annual returns of each asset class with every other asset class.

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

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2020, are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Fixed income	20 %	2.2 %
Tangible assets	7 %	5.1 %
Real estate	18 %	5.8 %
Global equity	32 %	6.3 %
Private equity	23 %	9.3 %
Total	100 %	

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

For purposes of OSA's 2020 Actuarial Valuation Report (AVR), a non-contribution rate setting valuation under current funding policy, the OSA introduced temporary method changes to produce asset and liability measures as of the valuation date. A high-level summary of those changes is outlined in the following paragraph. OSA will revert back to the methods outlined in the 2019 AVR when preparing the 2021 AVR, a contribution rate-setting valuation, which will serve as the basis for 2022 Annual Comprehensive Financial Report results.

To produce measures at June 30, 2020, unless otherwise noted in the 2020 AVR, the OSA relied on the same data, assets, methods, and assumptions as the 2019 AVR. OSA projected the data forward one year reflecting assumed new hires and current members exiting the plan as expected. June 30, 2020, assets were estimated by relying on the fiscal year-end 2019 assets, reflecting actual investment performance over fiscal year 2020, and reflecting assumed contribution amounts and benefit payments during fiscal year 2020. The actual June 30, 2020, participant and financial data was reviewed to determine if any material changes to projection assumptions were necessary. Any material impacts to the plans from 2021 legislation were also considered.

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

Mortality rates for JRS and JRF are consistent with those used for members of PERS. Members of JRS are assumed to receive a 2.75 percent annual COLA.

Discount rate

PERS, TRS, LEOFF, PSERS, and WSPRS: The discount rate used to measure the total pension liability was 7.40 percent. To determine the discount rate, an asset sufficiency test was completed to test whether the pension plan's fiduciary net position was sufficient to make all projected future benefit payments of current plan members.

Based on the assumptions in OSA's Certification Letter, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.40 percent on pension plan investments was applied to determine the total pension liability.

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

JRS and JRF: Contributions are made to ensure cash is available to make benefit payments. Since these plans are operated on a pay-as-you-go basis, the discount rate used to measure the total pension liability was set equal to the Bond Buyer General Obligation 20-Bond Municipal Bond Index, or 2.21 percent for the June 30, 2020, measurement date.

Refer to the table in Note 11.B.3 for the change in net pension liability.

Pension Expense

The state recognized the following pension expense for the year ended June 30, 2021 (expressed in thousands):

Pension Expense	
Plans	
PERS Plan 1	$ 82,480
PERS Plan 2/3	71,040
TRS Plan 1	5,681
TRS Plan 2/3	6,277
LEOFF Plan 2	(390)
PSERS Plan 2	19,651
WSPRS	21,766
JRS	5,726
JRF	(243)

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, 2021 (expressed in thousands):

	PERS Plan 1	PERS Plan 2/3	TRS Plan 1	TRS Plan 2/3	LEOFF Plan 2	PSERS Plan 2
Proportionate share of the collective net pension liability/(asset)	$ 1,485,148	$ 646,953	$ 28,507	$ 17,767	$ (17,948)	$ (8,567)
State's proportion	42.07%	50.58%	1.18%	1.16%	0.88%	62.26%
Increase/(decrease)	0.27%	0.08%	0.09%	0.10%	(0.02)%	7.65%

Net Pension Liability/(Asset)

WSPRS, JRS, and JRF: The following presents the state's net pension liability as of June 30, 2021 (expressed in thousands):

	WSPRS	JRS	JRF
Proportionate share of the collective net pension liability/(asset)	$ 58,908	$ 68,625	$ 812

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 7.40 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 (6.40 percent) or 1 percentage point higher (8.40 percent) than the current rate (expressed in thousands):

	Net Pension Liability (Asset)		
Plans	1% Decrease	Current Discount Rate	1% Increase
PERS Plan 1	$ 1,860,233	$ 1,485,148	$ 1,158,036
PERS Plan 2/3	4,025,514	646,953	(2,135,294)
TRS Plan 1	36,118	28,507	21,865
TRS Plan 2/3	52,362	17,767	(10,453)
LEOFF Plan 2	(355)	(17,948)	(32,353)
PSERS Plan 2	93,262	(8,567)	(89,159)
WSPRS	260,955	58,908	(105,534)

JRS and JRF: The following presents the net pension liability/(asset) of the state as an employer, calculated using the discount rate of 2.21 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 (1.21 percent) or 1 percentage point higher (3.21 percent) than the current rate (expressed in thousands):

	Net Pension Liability (Asset)		
Plans	1% Decrease	Current Discount Rate	1% Increase
JRS	$ 75,272	$ 68,625	$ 62,864
JRF	879	812	749

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, 2021, 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	—	8,268
Change in proportion	—	—
State contributions subsequent to the measurement date	324,909	—
Total	$ 324,909	$ 8,268

PERS Plan 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 231,600	$ 81,079
Changes of assumptions	9,214	441,925
Net difference between projected and actual earnings on pension plan investments	—	32,856
Change in proportion	18,465	—
State contributions subsequent to the measurement date	486,584	—
Total	$ 745,863	$ 555,860

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	—	184
Change in proportion	—	—
State contributions subsequent to the measurement date	7,196	—
Total	$ 7,196	$ 184

TRS Plan 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 11,229	$ 64
Changes of assumptions	2,292	1,947
Net difference between projected and actual earnings on pension plan investments	—	174
Change in proportion	2,021	—
State contributions subsequent to the measurement date	7,749	—
Total	$ 23,291	$ 2,185

LEOFF Plan 2	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 2,483	$ 318
Changes of assumptions	26	2,779
Net difference between projected and actual earnings on pension plan investments	—	200
Change in proportion	231	78
State contributions subsequent to the measurement date	1,762	—
Total	$ 4,502	$ 3,375

PSERS Plan 2	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 11,770	$ 641
Changes of assumptions	44	16,194
Net difference between projected and actual earnings on pension plan investments	458	—
Change in proportion	1,455	3
State contributions subsequent to the measurement date	32,571	—
Total	$ 46,298	$ 16,838

WSPRS Plan 1/2	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 24,853	$ —
Changes of assumptions	5,609	11,313
Net difference between projected and actual earnings on pension plan investments	—	3,111
Change in proportion	—	—
State contributions subsequent to the measurement date	20,882	—
Total	$ 51,344	$ 14,424

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	308	—
Change in proportion	—	—
State contributions subsequent to the measurement date	7,600	—
Total	$ 7,908	$ —

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	34	—
Change in proportion	—	—
State contributions subsequent to the measurement date	400	—
Total	$ 434	$ —

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, 2022.

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

PERS Plan 1		
2022	$	(37,524)
2023	$	(1,180)
2024	$	11,450
2025	$	18,986
2026	$	—
Thereafter	$	—

PERS Plan 2/3		
2022	$	(263,631)
2023	$	(59,352)
2024	$	16,314
2025	$	61,055
2026	$	(22,392)
Thereafter	$	(28,575)

TRS Plan 1		
2022	$	(806)
2023	$	(24)
2024	$	245
2025	$	401
2026	$	—
Thereafter	$	—

TRS Plan 2/3		
2022	$	(26)
2023	$	1,991
2024	$	2,488
2025	$	2,513
2026	$	1,679
Thereafter	$	4,712

LEOFF Plan 2		
2022	$	(1,301)
2023	$	(158)
2024	$	285
2025	$	620
2026	$	(101)
Thereafter	$	20

PSERS Plan 2		
2022	$	(2,251)
2023	$	(528)
2024	$	795
2025	$	2,094
2026	$	(547)
Thereafter	$	(2,674)

WSPRS Plan 1/2		
2022	$	(5,128)
2023	$	2,993
2024	$	6,263
2025	$	10,571
2026	$	1,339
Thereafter	$	—

JRS		
2022	$	135
2023	$	94
2024	$	51
2025	$	28
2026	$	—
Thereafter	$	—

JRF		
2022	$	14
2023	$	10
2024	$	6
2025	$	4
2026	$	—
Thereafter	$	—

2. DRS Plans - Nonemployer Contributing Entity Disclosures

For fiscal year 2021, the state was considered a nonemployer contributing entity in special funding situations for two DRS-administered pension plans, LEOFF Plan 1 and LEOFF Plan 2. State contributions are required by statute to be made directly to these plans to fund pensions. Note 11.B.1 provides the detailed descriptions of these plans, their benefit terms, contribution requirements, significant assumptions used to measure pension liability and mortality, and the discount rate.

Basis for Nonemployer Contributing Entity Contributions. LEOFF Plan 1 has a net pension asset as of the June 30, 2020, 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 2020, 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, 2020, measurement date. In this plan, the state is an employer and a nonemployer contributing entity. RCW 41.26.725 limits the employee contributions to 50 percent, employer contributions to 30 percent, and the state contribution to 20 percent of the cost of benefits. In no instance shall the state contribution exceed four percent of payroll. For fiscal year 2020, the nonemployer contributing entity's proportionate share of the net pension asset was considered substantial at 39.00 percent based on total plan contributions received in fiscal year 2020.

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, 2021 (expressed in thousands).

	LEOFF Plan 1	LEOFF Plan 2
Proportionate share of the collective net pension liability/(asset)	$ (1,645,269)	$ (795,604)
State's proportion	87.12%	39.00%
Increase/(decrease)	—%	(0.30)%

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 2020 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 7.40 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 (6.40 percent) or 1 percentage point higher (8.40 percent) than the current rate (expressed in thousands):

LEOFF Plan 1 Nonemployer Contributing Entity Proportionate Share of Net Pension Liability/(Asset)	
1% decrease	$ (1,339,165)
Current discount rate	$ (1,645,269)
1% increase	$ (1,910,101)

LEOFF Plan 2 Nonemployer Contributing Entity Proportionate Share of Net Pension Liability/(Asset)	
1% decrease	$ (15,751)
Current discount rate	$ (795,604)
1% increase	$ (1,434,148)

Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions. For the year ended June 30, 2021, the state as a nonemployer contributing entity recognized $(84.5) million pension expense for LEOFF Plan 1 and $(17.3) million pension expense for LEOFF Plan 2.

At June 30, 2021, 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	—	17,210
Change in proportion	—	—
State contributions subsequent to the measurement date	(5)	—
Total	$ (5)	$ 17,210

LEOFF Plan 2	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 110,085	$ 14,111
Changes of assumptions	1,153	123,195
Net difference between projected and actual earnings on pension plan investments	—	8,868
Change in proportion and difference between state contributions and proportionate share of contributions	10,226	3,433
State contributions subsequent to the measurement date	78,123	—
Total	$ 199,587	$ 149,607

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, 2022.

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		
2022	$	(61,433)
2023	$	(3,203)
2024	$	17,464
2025	$	29,962
2026	$	—
Thereafter	$	—

LEOFF Plan 2		
2022	$	(57,653)
2023	$	(7,014)
2024	$	12,633
2025	$	27,477
2026	$	(4,490)
Thereafter	$	904

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

TABLE 1: Single Employer Plan Membership

Membership of the single employer plans administered by the Department of Retirement Systems consisted of the following at June 30, 2020, 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	1,196	66	373	1,635
WSPRS 2	2	39	681	722
JRS	87	—	—	87
JRF	10	—	—	10
Total	1,295	105	1,054	2,454

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, 2020, the date of the latest actuarial valuation for all plans, with the results rolled forward to the June 30, 2021, measurement date (expressed in thousands):

Change in Net Pension Liability/(Asset)	WSPRS	JRS	JRF
TOTAL PENSION LIABILITY			
Service cost	$ 23,091	$ —	$ —
Interest	100,877	2,634	80
Changes of benefit terms	2,400	—	—
Differences between expected and actual experience	11,919	(447)	(315)
Changes of assumptions	581	3,675	12
Benefit payments, including refunds of member contributions	(68,838)	(7,921)	(265)
Net Change in Total Pension Liability	70,030	(2,059)	(488)
Total Pension Liability--Beginning	1,373,918	79,178	2,427
Total Pension Liability--Ending	$ 1,443,948	$ 77,119	$ 1,939
PLAN FIDUCIARY NET POSITION			
Contributions--employer	$ 19,897	$ 7,800	$ 400
Contributions--employee	10,630	—	—
Net investment income	60,358	155	18
Benefit payments, including refunds of member contributions	(68,838)	(7,921)	(265)
Administrative expense	(96)	—	—
Other	808	—	—
Net Change in Plan Fiduciary Net Position	22,759	34	153
Plan Fiduciary Net Position--Beginning	1,362,281	8,460	974
Plan Fiduciary Net Position--Ending	$ 1,385,040	$ 8,494	$ 1,127
Plan's Net Pension Liability/(Asset)--Beginning	$ 11,637	$ 70,718	$ 1,453
Plan's Net Pension Liability/(Asset)--Ending	$ 58,908	$ 68,625	$ 812

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 2021 were as follows:

Required Contribution Rates	Employer				Employee		
	Plan 1	Plan 2	Plan 3		Plan 1	Plan 2	Plan 3
PERS							
Employees Not Participating in JBM							
State agencies, local governmental units	7.92 %	7.92 %	7.92 %		6.00 %	7.90 %	**
Administrative fee	0.18 %	0.18 %	0.18 %				
PERS Plan 1 UAAL	4.87 %	4.87 %	4.87 %				
Total	12.97 %	12.97 %	12.97 %	*			
State govt elected officials	11.88 %	7.92 %	7.92 %		7.50 %	7.90 %	**
Administrative fee	0.18 %	0.18 %	0.18 %				
PERS Plan 1 UAAL	7.31 %	4.87 %	4.87 %				
Total	19.37 %	12.97 %	12.97 %	*			
Employees Participating in JBM							
State agencies	10.42 %	10.42 %	10.42 %		9.76 %	17.25 %	7.50%***
Administrative fee	0.18 %	0.18 %	0.18 %				
PERS Plan 1 UAAL	4.87 %	4.87 %	4.87 %				
Total	15.47 %	15.47 %	15.47 %	*			
Local governmental units	7.92 %	7.92 %	7.92 %		12.26 %	19.75 %	7.50%***
Administrative fee	0.18 %	0.18 %	0.18 %				
PERS Plan 1 UAAL	4.87 %	4.87 %	4.87 %				
Total	12.97 %	12.97 %	12.97 %	*			
TRS							
Employees Not Participating in JBM							
State agencies, local governmental units	8.15 %	8.15 %	8.15 %		6.00 %	7.77 %	**
Administrative fee	0.18 %	0.18 %	0.18 %				
TRS Plan 1 UAAL	7.41 %	7.41 %	7.41 %				
Total	15.74 %	15.74 %	15.74 %	*			
State govt elected officials	8.15 %	8.15 %	8.15 %		7.50 %	7.77 %	**
Administrative fee	0.18 %	0.18 %	0.18 %				
TRS Plan 1 UAAL	7.41 %	7.41 %	7.41 %				
Total	15.74 %	15.74 %	15.74 %	*			
Employees Participating in JBM							
State agencies	8.15 %	N/A	N/A		9.76 %	N/A	N/A
Administrative fee	0.18 %	N/A	N/A				
TRS Plan 1 UAAL	7.41 %	N/A	N/A				
Total	15.74 %						
LEOFF							
Ports and universities	N/A	8.59 %	N/A		N/A	8.59 %	N/A
Administrative fee	0.18 %	0.18 %	N/A				
Total	0.18 %	8.77 %					
Local governmental units	N/A	5.15 %	N/A		N/A	8.59 %	N/A
Administrative fee	0.18 %	0.18 %	N/A				
Total	0.18 %	5.33 %					
State of Washington	N/A	3.44 %	N/A		N/A	N/A	N/A
WSPRS							
State agencies	17.66 %	17.66 %	N/A		8.61 %	8.61 %	N/A
Administrative fee	0.18 %	0.18 %	N/A				
Total	17.84 %	17.84 %					
PSERS							
State agencies, local governmental units	N/A	7.20 %	N/A		N/A	7.20 %	N/A
Administrative fee	N/A	0.18 %	N/A				
PSERS Plan 1 UAAL	N/A	4.87 %	N/A				
Total		12.25 %					

* Plan 3 defined benefit portion only.
** Variable from 5% to 15% based on rate selected by the member.
*** Minimum rate.
N/A indicates data not applicable.

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

Volunteer Fire Fighters' and Reserve Officers' Relief and Pension Fund

Plan Description. The Volunteer Fire Fighters' Relief Act was created by the Legislature in 1935, and the pension portion of the act was added in 1945. As established in chapter 41.24 RCW, the Volunteer Fire Fighters' and Reserve Officers' Relief and Pension Fund (VFFRPF) is a cost-sharing, multiple-employer defined benefit plan and is administered by the State Board for Volunteer Fire Fighters and Reserve Officers. The board is appointed by the Governor and is comprised of five members of fire departments covered by chapter 41.24 RCW. Administration costs of the VFFRPF are funded through legislative appropriation.

As of June 30, 2021, there were approximately 362 municipalities contributing to the plan. Additionally, the state, a nonemployer contributing entity, contributes 40 percent of the fire insurance premium tax.

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

At June 30, 2020, VFFRPF membership consisted of the following:

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

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

Benefits Provided. VFFRPF provides retirement, disability, and death benefits to eligible members. Benefits are established in chapter 41.24 RCW which may be amended only by the Legislature.

Since retirement benefits cover volunteer service, benefits are paid based on years of service, not salary. Municipalities consist of fire departments, emergency medical service districts, and law enforcement agencies.

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

Members are vested after ten years of service. VFFRPF members earn no interest on contributions and may elect to withdraw their contributions upon termination.

Death and active duty disability benefits are provided at no cost to the member. Death benefits in the line of duty consist of a lump sum of $214 thousand. Funeral and burial expenses are also paid in a lump sum of $2 thousand for members on active duty. Members receiving disability benefits at the time of death shall be paid $500.

Effective June 7, 2012, at any time prior to retirement or at the time of retirement, a member of the VFFRPF may purchase retirement pension coverage for years of eligible service prior to the member's enrollment in the system or for years of service credit lost due to the withdrawal of the member's pension fee contributions. A member choosing to purchase such retirement pension coverage must contribute to the system an amount equal to the actuarial value of the resulting benefit increase.

There were no material changes in VFFRPF benefit provisions for the fiscal year ended June 30, 2021.

Contributions. VFFRPF retirement benefits are financed from a combination of investment earnings, member contributions, municipality contributions, and state contributions. In accordance with chapter 41.24 RCW, the state contribution is set at 40 percent of the fire insurance premium tax. The state is considered a nonemployer contributing entity; however, this is not considered a special funding situation. For fiscal year 2021, the fire insurance premium tax contribution was $7.7 million.

The municipality rate for emergency medical service districts (EMSD) and law enforcement agencies is set each year by the State Board for Volunteer Fire Fighters and Reserve Officers, based on the actual cost of participation as determined by the Office of the State Actuary (OSA). All other contribution rates are set by the Legislature. Municipalities may opt to pay the member's fee on their behalf.

The contribution rates set for calendar year 2021 were the following:

	Firefighters	EMSD & Reserve Officers
Member fee	$ 30	$ 30
Municipality fee	30	105
Total fee	$ 60	$ 135

Investments. The Washington State Investment Board (WSIB) has been authorized by statute as having investment management responsibility for the pension funds. The WSIB manages retirement fund assets to maximize return at a prudent level of risk.

Retirement funds are invested in the Commingled Trust Fund (CTF). Established on July 1, 1992, the CTF is a diversified pool of investments that invests in fixed income, public equity, private equity, real estate, and tangible assets. Investment decisions are made within the framework of a Strategic Asset Allocation Policy and a series of written WSIB-adopted investment policies for the various asset classes in which the WSIB invests.

Further information about the investment of pension funds by the WSIB, their valuation, classifications, concentrations, and maturities can be found in Note 3.B.

The Office of the State Treasurer (OST) manages a small portion of the assets for the VFFRPF. By statute, balances in the accounts in the state treasury and in the custody of the treasurer may be pooled for banking and investment purposes.

The overall objective of the OST investment policy is to construct, from eligible investments noted below, an investment portfolio that is optimal or efficient. An optimal or efficient portfolio is one that provides the greatest expected return for a given expected level of risk, or the lowest expected risk for a given expected return. Eligible investments are only those securities and deposits authorized by statute.

Further information about the investment of pension funds by the OST, their valuation, classifications, concentrations, and maturities can be found in Note 3.F.

Rate of Return. The money-weighted rates of return are provided by the WSIB and OST. For the year ended June 30, 2021, the annual money-weighted rate of return on VFFRPF investments, net of pension plan investment expense, was 3.11 percent. This money-weighted rate of return expresses investment performance, net of pension plan investment expense, and reflects both the size and timing of external cash flows.

Pension Liability/(Asset). The components of the net pension liability of the participating VFFRPF municipalities at June 30, 2021, were as follows (dollars expressed in thousands):

Pension Liability	
Total pension liability	$ 246,205
Plan fiduciary net position	268,210
Participating municipality net pension liability/ (asset)	$ (22,005)
Plan fiduciary net position as a percentage of the total pension liability	108.94%

Actuarial Assumptions. The VFFRPF has a long-term expected rate of return of 6.00 percent. For further details, see the *2020 VFF Actuarial Valuation Report*.

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 Public Employees' Retirement System.

The actuarial assumptions used in the June 30, 2020, 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.

The WSIB uses the CMAs and their target asset allocation to simulate future investment returns over various time horizons. The CMAs contain the following three pieces of information for each class of asset the WSIB currently invests in:

- Expected annual return.
- Standard deviation of the annual return.
- Correlations between 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, 2021, are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Fixed income	20%	2.2%
Tangible assets	7%	5.1%
Real estate	18%	5.8%
Public equity	32%	6.3%
Private equity	23%	9.3%
Total	100%	

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

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

In consultation with the OST, the OSA selected a 3.50 percent long-term investment rate of return on assets managed by the OST. See OSA's 2020 VFF Actuarial Report for further details. https://leg.wa.gov/osa/presentations/Documents/Valuations/2020VAVR FinalWeb.pdf.

As the VFFRPF has assets managed by both the WSIB and the OST, the long-term expected rate of return of 6.00 percent represents an approximate 90 percent/10 percent weighted-average of the assets managed by the WSIB and OST, respectively. See the 2020 VFF Actuarial Valuation Report for further details.

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 Certification Letter, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 6.00 percent on plan investments was applied to determine the total pension liability.

Sensitivity of the Net Pension Liability/(Asset) to Changes in the Discount Rate. The following presents the net pension liability/(asset) of the municipalities calculated using the discount rate of 6.00 percent, as well as what the municipalities' net pension liability/(asset) would be if it were calculated using a discount rate that is 1 percentage point lower (5.00 percent) or 1 percentage point higher (7.00 percent) than the current rate (expressed in thousands):

Municipalities' Net Pension Liability/(Asset)		
1% decrease	$	9,737
Current discount rate	$	(22,005)
1% increase	$	(47,968)

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. The supplemental component is financed on a pay-as-you-go basis. State institutions of higher education make direct payments to qualifying retirees when the retirement benefits provided by the fund sponsors do not meet the benefit goals. House Bill 1661, effective fiscal year 2021, created separate Supplemental Retirement Plan (SRP) funds by institution that met the definition of a trust or equivalent arrangements. As a result, this is the first year these plans will be reported under GASB Statement No. 67/68. Prior to this, the SRP's were reported under GASB Statement No. 73.

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

RCW 28B.10.400, et seq. assigns the authority to establish and amend benefit provisions to the board of regents of the state universities, the boards of trustees of the regional universities and the state college, the state board for community and technical colleges, and the Student Achievement Council.

The Higher Education Defined Contribution Retirement Plans are described in Note 11.E.

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

As of July 1, 2011, all Higher Education Supplemental Retirement Plans 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. The total pension liability (TPL) was determined by an actuarial valuation as of June 30, 2020, with the results rolled forward to the June 30, 2021, measurement date using the following actuarial assumptions, applied to all periods included in the measurement:

Salary increases	3.50%-4.00%
Fixed income and variable income investment returns*	N/A

**Measurement reflects actual investment returns through June 30, 2020*

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 June 30, 2020, valuation were based on the results of the August 2021 Supplemental Plan Experience Study. Additional assumptions related to salary growth were based on feedback from financial administrators of the Higher Education Supplemental Retirement Plans.

Material assumption changes. Some significant changes in plan provisions and actuarial assumptions from the prior fiscal year impacted the TPL.

House Bill 1661 (Chapter 103 Laws of 2020) created dedicated funds to pay SRP benefits that mimic the trust arrangements for the rest of the state retirement systems. The change results in the SRP reporting under GASB 67/68 instead of GASB 73. As a result of this change:

- The discount rate is based on the long-term expected rate of return on the pension plan investments. This resulted in an increase in the discount rate used to measure the TPL from 2.21 percent as of June 30, 2020, to 7.40 percent.

- The TPL is now compared against the plan's fiduciary net position to determine the net pension liability.

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 7.40 percent for the June 30, 2021, 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, 2021, the Higher Education Supplemental Retirement Plans reported the following for pension expense (expressed in thousands):

Pension Expense		
Plans		
University of Washington (UW)	$	(29,561)
Washington State University (WSU)		(8,579)
Eastern Washington University (EWU)		(635)
Central Washington University (CWU)		(1,815)
The Evergreen State College (TESC)		(638)
Western Washington University (WWU)		(1,839)
State Board for Community and Technical Colleges (SBCTC)		(5,893)
Total	**$**	**(48,960)**

Plan Membership. Membership of the Higher Education Supplemental Retirement Plans consisted of the following at June 30, 2020, the date of the latest actuarial valuation for all plans:

Number of Participating Members				
Plans	**Inactive Members (or Beneficiaries) Currently Receiving Benefits**	**Inactive Members Entitled to But Not Yet Receiving Benefits**	**Active Members**	**Total Members**
University of Washington (UW)	1,076	160	5,081	6,317
Washington State University (WSU)	399	53	1,591	2,043
Eastern Washington University (EWU)	57	59	290	406
Central Washington University (CWU)	64	4	81	149
The Evergreen State College (TESC)	28	13	144	185
Western Washington University (WWU)	79	3	483	565
State Board for Community and Technical Colleges (SBCTC)	293	325	4,623	5,241
Total	1,996	617	12,293	14,906

Change in Net Pension Liability/(Asset). The following table presents the change in net pension liability/(asset) of Higher Education Supplemental Retirement Plans at June 30, 2021 (expressed in thousands):

Change in Net Pension Liability/(Asset)	**UW**	**WSU**	**EWU**	**CWU**	**TESC**	**WWU**	**SBCTC**
TOTAL PENSION LIABILITY							
Service cost	$ 22,877	$ 3,114	$ 668	$ 74	$ 250	$ 922	$ 4,672
Interest	17,677	2,666	523	187	201	798	3,323
Differences between expected and actual experience	(372,651)	(47,565)	(7,646)	(1,386)	(3,198)	(15,050)	(29,981)
Changes of assumptions	(223,327)	(33,228)	(7,364)	(2,394)	(2,495)	(8,260)	(54,110)
Benefit payments	(9,733)	(2,827)	(280)	(467)	(119)	(524)	(1,992)
Net Change in Total Pension Liability	$ (565,158)	$ (77,840)	$ (14,099)	$ (3,987)	$ (5,361)	$ (22,115)	$ (78,088)
Total Pension Liability--Beginning	781,829	118,942	23,139	8,622	8,894	35,442	146,676
Total Pension Liability--Ending	$ 216,672	$ 41,102	$ 9,040	$ 4,635	$ 3,533	$ 13,327	$ 68,588
PLAN FIDUCIARY NET POSITION							
Contributions--Employer	$ 7,105	$ 919	$ 165	$ 173	$ 40	$ 196	$ 656
Net Investment Income	22,275	4,422	892	894	348	1,326	8,211
Net Change in Plan Fiduciary Net Position	29,380	5,341	1,057	1,067	388	1,522	8,866
Plan Fiduciary Net Position--Beginning	60,961	12,305	2,492	2,493	984	3,733	23,393
Plan Fiduciary Net Position--Ending	$ 90,341	$ 17,646	$ 3,549	$ 3,560	$ 1,372	$ 5,255	$ 32,259
Plan's Net Pension Liability (Asset)--Ending	$ 126,331	$ 23,456	$ 5,490	$ 1,075	$ 2,162	$ 8,072	$ 36,329

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 7.40 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 (6.40 percent) or 1 percentage point higher (8.40 percent) than the current rate (expressed in thousands):

Net Pension Liability / (Asset)			
Plans	**1% Decrease**	**Current Discount Rate**	**1% Increase**
University of Washington (UW)	$ 149,669	$ 126,331	$ 106,289
Washington State University (WSU)	27,303	23,456	20,120
Eastern Washington University (EWU)	6,396	5,490	4,711
Central Washington University (CWU)	1,431	1,075	762
The Evergreen State College (TESC)	2,479	2,162	1,885
Western Washington University (WWU)	9,449	8,072	6,884
State Board for Community and Technical Colleges (SBCTC)	43,527	36,329	30,132
Total	**$ 240,254**	**$ 202,915**	**$ 170,783**

Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At June 30, 2021, the Higher Education Supplemental Retirement Plans 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	$ 87,128	$ 365,021
Changes of assumptions	128,885	211,024
Difference between projected and actual	—	14,004
Total	$ 216,013	$ 590,049

Washington State University (WSU)	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 3,831	$ 48,529
Changes of assumptions	16,970	31,375
Difference between projected and actual	—	2,782
Total	$ 20,801	$ 82,686

Eastern Washington University (EWU)	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 2,625	$ 7,176
Changes of assumptions	2,965	6,648
Difference between projected and actual	—	562
Total	$ 5,590	$ 14,386

Central Washington University (CWU)	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 42	$ 616
Changes of assumptions	138	1,064
Difference between projected and actual	—	562
Total	$ 180	$ 2,242

The Evergreen State College (TESC)	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 321	$ 3,245
Changes of assumptions	1,216	2,252
Difference between projected and actual	—	219
Total	$ 1,537	$ 5,716

Western Washington University (WWU)	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 2,612	$ 15,201
Changes of assumptions	5,146	7,955
Difference between projected and actual	—	834
Total	$ 7,758	$ 23,990

State Board for Community and Technical Colleges (SBCTC)	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 9,750	$ 39,567
Changes of assumptions	22,990	50,185
Difference between projected and actual	—	5,164
Total	$ 32,740	$ 94,916

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)		
2022	$	(65,346)
2023	$	(65,346)
2024	$	(65,346)
2025	$	(51,766)
2026	$	(42,448)
Thereafter	$	(83,784)

Washington State University (WSU)		
2022	$	(13,416)
2023	$	(12,741)
2024	$	(10,039)
2025	$	(9,344)
2026	$	(10,131)
Thereafter	$	(6,214)

Eastern Washington University (EWU)		
2022	$	(1,636)
2023	$	(1,479)
2024	$	(1,113)
2025	$	(1,567)
2026	$	(2,064)
Thereafter	$	(937)

Central Washington University (CWU)		
2022	$	(1,641)
2023	$	(141)
2024	$	(141)
2025	$	(139)
2026	$	—
Thereafter	$	—

The Evergreen State College (TESC)		
2022	$	(1,015)
2023	$	(855)
2024	$	(748)
2025	$	(776)
2026	$	(785)
Thereafter	$	—

Western Washington University (WWU)		
2022	$	(3,276)
2023	$	(2,944)
2024	$	(2,171)
2025	$	(2,160)
2026	$	(3,246)
Thereafter	$	(2,435)

State Board for Community and Technical Colleges (SBCTC)		
2022	$	(12,133)
2023	$	(12,133)
2024	$	(10,485)
2025	$	(8,012)
2026	$	(7,400)
Thereafter	$	(12,013)

E. DEFINED CONTRIBUTION PLANS

Public Employees' Retirement System Plan 3

The Public Employees' Retirement System (PERS) Plan 3 is a combination defined benefit/defined contribution plan administered by the state through the Department of Retirement Systems (DRS). Refer to Note 11.B for PERS Plan descriptions.

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. As established by chapter 41.34 RCW, employee contribution rates to the defined contribution component range from 5 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 11.B for TRS Plan descriptions.

TRS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. As established by chapter 41.34 RCW, employee contribution rates to the defined contribution component range from 5 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, 2021, there were no active members, 98 inactive members and one member 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 2021, the state recognized a pension refund for contributions of $5 thousand made to employee accounts.

The administrator of JRA has entered an agreement with the DRS for accounting and reporting services, and the Washington State Investment Board (WSIB) for investment services. Under this agreement, the DRS is responsible for all record keeping, accounting, and reporting of member accounts and the WSIB is granted the full power to establish investment policy, develop participant investment options, and manage the investment funds for the JRA Plan, consistent with the provisions of RCW 2.14.080 and 43.84.150.

Higher Education Retirement Plans

The Higher Education Retirement Plans are privately administered defined contribution plans with a supplemental defined benefit plan component. The state and regional universities, the state college, the state community and technical colleges, and the Student Achievement Council each participate in a plan. As authorized by chapter 28B.10 RCW, the plans cover faculty and other positions as designated by each participating employer.

Contributions to the plans are invested in annuity contracts or mutual fund accounts offered by one or more fund sponsors. Benefits from fund sponsors are available upon separation or retirement at the member's option. Employees have, at all times, a 100 percent vested interest in their accumulations.

RCW 28B.10.400, et seq. assigns the authority to establish and amend benefit provisions to the board of regents of the state universities, the boards of trustees of the regional universities and the state college, the state board for community and technical colleges, and the Student Achievement Council.

Employee contribution rates, based on age, range from 3.74 percent to 9.40 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 2021, employer and employee contributions were $242.2 and $238.3 million, respectively, for a total of $480.5 million.

Note 12

Other Postemployment Benefits

General Information

The state implemented Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* for fiscal year 2018 financial reporting. In addition to pension benefits as described in Note 11, 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 footnote 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 13 of the state's K-12 schools and educational service districts (ESDs)[1], and 261 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, 2020

Active employees*	129,218
Retirees receiving benefits**	35,843
Retirees not receiving benefits***	6,000
Total active employees and retirees	171,061

*Reflects active employees eligible for PEBB program participation as of June 30, 2020.

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

***This is an estimate of the number of retirees that may be eligible to join a post-retirement PEBB program in the future. They are not eligible for benefits unless they choose to join in the future. In order to do so, they must show proof of continuous medical coverage since their separation of employment with the state of Washington that meets the requirements set forth in Washington Administrative Code 182-12-205.

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 Fire Fighters' 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 2020, the average weighted implicit subsidy was valued at $372 per adult unit per month. In

[1] The decrease in school district and ESD's participating in the PEBB OPEB Plan from the prior year is due to the creation of the School Employees Benefits Board Plan by HB 2242 in the 2017 legislative session. As of June 30, 2021, there are 318 K-12 school districts and ESDs with represented employees participating in the SEBB Plan.

calendar year 2021, the average weighted implicit subsidy is projected to be $384 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 2021, the explicit subsidy was up to $183 per member per month, and it will remain $183 per member per month in calendar year 2022.

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	$	1,120
Dental		81
Life		4
Long-term disability		2
Total	$	1,207
Employer contribution	$	1,041
Employee contribution		166
Total	$	1,207

*Per 2020 PEBB Financial Projection Model version 8.0. Per capita cost based on subscribers, includes non-Medicare risk pool only. Figures based on calendar year 2020 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: https:// leg. wa. gov/ osa/ additional services/ Pages/OPEB.aspx. 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	6/30/2020
Actuarial measurement date	6/30/2020
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	2.75%
Projected salary changes	3.50% plus service-based salary increases
Health care trend rates	Initial trend rate ranges from 2-11%, reaching an ultimate rate of approximately 4.3% in 2075.
Post-retirement participation percentage	65%
Percentage with spouse coverage	45%

In projecting the growth of the explicit subsidy, after 2022 when the cap is $183, it is assumed to grow at the health care trend rates. The Legislature determines the value of the cap and no future increases are guaranteed; however, based on historical growth patterns, future increases to the cap are assumed.

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

Most demographic actuarial assumptions, including mortality and when members are expected to terminate and retire, were based on the results of the 2013-2018 Demographic Experience Study Report. The post-retirement participation percentage and percentage with spouse coverage, were reviewed in 2017. Economic assumptions, including inflation and salary increases, were based on the results of the 2019 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 3.50 percent for the June 30, 2019, measurement date and 2.21 percent for the June 30, 2020, measurement date.

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

Total OPEB Liability. As of June 30, 2021, the state reported a total OPEB liability of $6.06 billion.

Changes in Total OPEB Liability

The following table presents the change in the total OPEB liability as of the June 30, 2021, reporting date (expressed in thousands):

Changes in Total OPEB Liability	State	Component Units	Total
Total OPEB Liability - Beginning as restated	$ 5,800,108	$ 5,087	$ 5,805,195
Changes for the year:			
Service cost	251,118	399	251,517
Interest	210,064	165	210,229
Difference between expected and actual experience*	(32,190)	(19)	(32,209)
Changes in assumptions*	136,169	202	136,371
Changes in proportion	187	(184)	3
Benefit payments	(100,015)	(77)	(100,092)
Other**	(213,966)	(128)	(214,094)
Net Changes in Total OPEB Liability	251,367	358	251,725
Total OPEB liability - Ending	$ 6,051,475	$ 5,445	$ 6,056,920

*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.

**Impact of removing trends that include excise tax. Legislation under H.R. 1865 repealed the excise tax after the previous measurement date.

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

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate. The following presents the total OPEB liability of the state as an employer calculated using the discount rate of 2.21 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 (1.21 percent) or 1 percentage point higher (3.21 percent) than the current rate (expressed in thousands):

	State	Component Units	Total
1% decrease	$ 7,326,844	$ 6,412	$ 7,333,256
Current discount rate	$ 6,051,475	$ 5,445	$ 6,056,920
1% increase	$ 5,058,419	$ 4,650	$ 5,063,069

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 4.30 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%) than the current rate (expressed in thousands):

	State	Component Units	Total
1% decrease	$ 4,931,309	$ 4,429	$ 4,935,738
Current health care cost trend rate	$ 6,051,475	$ 5,445	$ 6,056,920
1% increase	$ 7,553,262	$ 6,769	$ 7,560,031

OPEB Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to OPEB. For the year ending June 30, 2021, the state recognized OPEB expense of $68.7 million.

On June 30, 2021, 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	$ 132,839	$ 28,875
Changes of assumptions	416,500	1,428,150
Transactions subsequent to the measurement date	106,505	—
Changes in proportion	196,065	196,094
Total	$ 851,909	$ 1,653,119

Deferred outflows of resources and deferred inflows of resources related to OPEB for component units as of the June 30, 2021, reporting date were as follows (expressed in thousands):

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 80	$ 261
Changes of assumptions	381	962
Transactions subsequent to the measurement date	64	—
Changes in proportion	92	232
Total	$ 617	$ 1,455

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, 2022.

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	
2022	$ (178,864)
2023	$ (178,864)
2024	$ (178,864)
2025	$ (178,864)
2026	$ (178,864)
Thereafter	$ (13,395)

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	
2022	$ (145)
2023	$ (145)
2024	$ (145)
2025	$ (145)
2026	$ (145)
Thereafter	$ (177)

Note 13
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 consumption.

The following table presents the hedging derivative instruments as of June 30, 2021 (expressed in thousands):

	Changes in Fair Value		Fair Value at June 30, 2021		Notional Amount
	Classification	Amount	Classification	Amount	(in Gallons)
Governmental Activities					
Cash flow hedges:					
Commodity swaps	Deferred Outflow	$ (2,347)	Accounts Payable	$ —	—

The commodity swaps noted above were reviewed for hedge accounting and were deemed effective using the regression analysis method.

Objective

The objective for the hedge transaction is to minimize the volatility of the price of diesel fuel and therefore stabilize the percentage of the WSF operating budget represented by fuel purchases. To accomplish this, a strategy of active hedging has been implemented by WSF to control the uncertain costs of fuel and allow for more accurate budget estimates.

Significant Terms

The significant terms of WSF active hedges during fiscal year 2021 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	BofA - Merrill Lynch	1.72	NYMEX ULSD Heating Oil	1/27/2020	7/2020 - 6/2021	252,000
Commodity Swap	BofA - Merrill Lynch	1.72	NYMEX ULSD Heating Oil	2/14/2020	7/2020 - 6/2021	252,000
Commodity Swap	BofA - Merrill Lynch	1.24	NYMEX ULSD Heating Oil	3/16/2020	7/2020 - 6/2021	252,000

The hedging strategy consists of a reference to futures contracts of New York Mercantile Exchange (NYMEX) Ultra Low Sulfur Diesel (ULSD) Heating Oil. This commodity remains highly correlated to the diesel fuel type being used by WSF. These fuel hedges require no initial cash investment and provide monthly settlements.

The monthly settlements are based on the daily prices of the respective commodities whereby WSF will either receive a payment or make a payment to the counterparty, depending on the average monthly prices of the commodities in relation to the contract prices.

Fair Value

The state reports its hedging derivative instruments at fair value as either accounts payable - liability (negative fair value amount) or as other receivables - asset (positive fair value amount). The fair value represents the current price to settle swap assets or liabilities in the market place if a swap were to be terminated. The changes in fair value for hedging derivative instruments represent the unrealized gain or loss on the contracts and are reported as deferred inflows or deferred outflows of resources, respectively. At fiscal year end, the state reports the fair value and changes in fair value related to hedging derivative instruments on the Balance Sheet for Nonmajor Governmental Funds and the Government-wide Statement of Net Position.

Risks

The following risks are generally associated with commodity swap agreements:

Basis risk. Basis risk is the risk that arises when variable rates or prices of a hedging derivative instrument and a hedged item are based on different reference rates. Statistically, the relationship between heating oil prices and diesel fuel prices has been quite stable over the past five years with a 98 percent correlation. This means that the heating oil futures price explains 98 percent of the variance in the price that WSF pays for its diesel fuel, making it highly reliable. In order to mitigate basis risk, WSF continually monitors the relationship between futures prices and the price of diesel fuel delivered.

Termination Risk. Termination risk is the risk that there will be a mandatory early termination of the commodity swap that would result in WSF either paying or receiving a termination payment. Mandatory terminations generally result when a counterparty suffers degraded credit quality or fails to perform. Upon termination, payment may be required by either party, reflecting fair value at the time of termination.

Credit Risk. Credit risk is the risk that the counterparty fails to make the required payments or otherwise comply with the terms of the swap agreement. WSF is exposed to credit risk in the amount of the derivative instrument's fair value. When the fair value of any derivative instrument has a positive market value, then WSF is exposed to the actual risk that the counterparty will not fulfill its obligation. To mitigate credit risk, WSF monitors the credit ratings of the counterparties. At June 30, 2021, credit ratings of the state's counterparty were as follows:

Counterparty	Moody's	Standard & Poor's	Fitch
Bank of America Merrill Lynch International Limited	-	A+	AA

Note 14

Tax Abatements

During fiscal year 2021, the state of Washington provided material tax abatements through seven programs, four 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 and 82.12.986, 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.

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, and receiving a wage equivalent to or greater than 150 percent of the per capita personal income of the county in which the data center is located. All previously exempted sales and use tax are immediately due and payable for a qualifying business that does not meet these requirements.

High-Technology Business Tax Deferral Program

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

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

Multi-Unit Urban Housing Tax Exemption

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

The property owner must apply for the exemption certificate with the city or county where the property is located before beginning construction. If the application is approved, the exemption certificate will be issued after the owner certifies all requirements have been met upon completion of the project. If the application for a tax exemption certificate was submitted before July 22, 2007, the property is exempt for ten years. If the application for a tax exemption certificate was submitted on or after July 22, 2007, the property is exempt for eight years, unless the applicant commits to renting or selling at least 20 percent of the units as affordable housing units to low and moderate-income households, making it exempt for 12 years. 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.

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 report with DOR.

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 report with DOR.

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 report with DOR.

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 purchase of goods and services, including labor, for the construction of new buildings used to manufacture commercial airplanes or fuselages or wings of commercial airplanes are exempt from sales and use tax per RCW 82.08.980 and 82.12.980. The exemption also applies to new buildings or parts of new buildings used for storing raw materials or finished products used to manufacture commercial airplanes and certain commercial airplane parts. Port districts, political subdivisions, or municipal corporations may also use the sales and use tax exemption when constructing new facilities to lease to these manufacturers. The eligible purchaser must present a Buyers' Retail Sales Tax Exemption Certificate to the seller at the time of purchase. Per RCW 82.32.330(2), the amount of sales and use tax abated from this exemption cannot be disclosed because there are fewer than three taxpayers that received the exemption in fiscal year 2021.

The following table shows the amount of taxes abated during fiscal year 2021 (expressed in thousands):

Tax Abatement Program	**Amount of Taxes Abated**
Data center server equipment and power infrastructure exemption	$ 54,770
High-technology business tax deferral program	33,487
Multi-unit urban housing tax exemption	35,730
Aerospace incentives:	
Aerospace product development expenditures credit	55,726
Aerospace business facilities credit	22,127
Computer hardware, software, and peripherals exemption	5,103
TOTAL	$ 206,942

Note 15

Commitments and Contingencies

A. CAPITAL COMMITMENTS

Outstanding commitments related to state infrastructure and facility construction, improvement, and/or renovation totaled $5.09 billion at June 30, 2021.

B. ENCUMBRANCES

Encumbrances, which represent commitments related to unperformed contracts for goods or services, are included in restricted, committed, or assigned fund balance, as appropriate. Operating encumbrances lapse at the end of the applicable appropriation period. Capital outlay encumbrances lapse at the end of the biennium unless reappropriated by the Legislature in the ensuing biennium. There were no encumbrances outstanding against continuing appropriations at the end of fiscal year 2021.

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.E, Claims and Judgments, Risk Management.

The state is defending a case where the plaintiffs challenge the constitutionality of the capital gains tax which will go into effect in January 2022. The new tax is estimated to bring in approximately $442 million per year starting fiscal year 2023.

The state is also the defendant in a number of cases alleging inadequate funding of state programs or services, as well as various assertions by unions representing individual service providers. Claims include insufficient funding for the provision of mental health services to Medicaid eligible children; insufficient competency services at state hospitals; and violation of the Minimum Wage Act. Collective claims in these programmatic and service cases exceed $35 million. In addition, adverse rulings in some of these cases could result in significant future costs.

The state is contesting these lawsuits and the outcomes are uncertain at this time.

Tobacco Settlement

In November 1998, Washington joined 45 other states in a Master Settlement Agreement (MSA) with the nation's largest tobacco manufacturers to provide restitution for monies spent under health care programs for the treatment of smoking-related illnesses.

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

For every annual MSA payment cycle since 2006, the participating manufacturers have withheld the amount of the available NPM adjustment from their MSA payments claiming all of the states were not diligent, depositing the amount of the available adjustment into a Disputed Payments Account. For Washington, the amount withheld from each payment has been in the range of approximately $17.5 million to $22.2 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 state's 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 has been underway since shortly after the conclusion of the 2003 dispute. In September 2019, one of the states' three elected arbitration panel members passed away before any decisions were finalized. The states subsequently selected a replacement who reviewed all filings and transcripts and participated in the panel's decisions.

In September 2021, the panel determined that Washington was not diligent and decided two central legal issues to the contrary of the 2003 panel rulings. Washington faces a potential downward NPM adjustment in its next MSA payment between $29 million $137 million. The amount of any penalty against Washington's next MSA payment will be determined by post-award litigation over the validity of the 2004 panel's ruling and its rulings on reallocation.

The 2005, 2006, and 2007 NPM Adjustment disputes are currently underway and the arbitration panel for multiple years has convened for the first time. The common case for those years is set for July 6 to July 15, 2022. State specific hearings will commence in the fall of 2022.

D. FEDERAL ASSISTANCE

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

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

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

E. ARBITRAGE REBATE

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

The rebatable arbitrage must be paid to the federal government. The state estimates that rebatable arbitrage liability, if any, will be immaterial to its overall financial condition.

F. FINANCIAL GUARANTEES

School District Credit Enhancement Program

In accordance with chapter 39.98 RCW (School District Credit Enhancement Program), the state has guaranteed outstanding voter-approved general obligation bonds of school districts within the state in the amount of $16.32 billion at June 30, 2021. The guarantees extend through the life of the bonds, with a final maturity date of the longest series in 2045.

In the event that a school district has insufficient funds to make a required debt service payment on a guaranteed bond, the state is required to transfer sufficient funds to make the payment. School districts for which the state has made all or part of a debt service payment shall reimburse the state for all money drawn on their behalf, as well as interest and penalties.

On June 1, 2021, the state made a debt service payment of $3.2 million on behalf of a school district when its debt service wire payment failed to transmit to the receiving bank before the deadline due to technical issues. The wire payment was subsequently transmitted successfully, and the state was fully refunded on the same day.

G. COLUMBIA RIVER CROSSING

The Washington State Department of Transportation (WSDOT) and the Oregon Department of Transportation (ODOT) worked together, along with federal and local agencies, on the Columbia River Crossing (CRC) project. The CRC project was a bridge, transit, highway, bicycle, and pedestrian improvement project intended to replace the existing two highway spans on Interstate 5 (I-5) across the Columbia River, along with new interchanges on both the Washington and Oregon sides of the river. It also included extension of light rail public transit into Vancouver, Washington.

In 2014, the CRC project was shut down due to lack of funding by both the Washington and Oregon legislatures. During the project, WSDOT expended approximately $54 million in federal funds, of which $15 million was jointly awarded to Washington and Oregon.

Under Federal Highway Administration (FHWA) policy, failure to advance a project to the construction phase within 10 years of the initial obligation of funds could trigger a requirement to repay federal funds used on the project. FHWA has granted Washington and Oregon an extension to September 30, 2024.

In 2019, the Washington Legislature provided $35 million to establish a project office jointly staffed by Washington and Oregon. The funding also covers pre-design activities to replace the I-5 Columbia River bridge crossing. The

Oregon Transportation Commission (OTC) allocated $9 million as the state's initial contribution to restarting the work. In August 2019, the OTC approved an additional $4 millions to be obligated to the program from the fiscal year 2020 federal redistribution funds.

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

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

H. OTHER COMMITMENTS AND CONTINGENCIES

Local Option Capital Asset Lending Program

On September 1, 1998, the state lease-purchase program was extended to local governments seeking low cost financing of essential equipment and, in the year 2000, for real estate. The Local Option Capital Assets Lending (LOCAL) program allows local governments to pool their financing requests together with Washington state agencies in Certificates of Participation (COPs). Refer to Note 7.B for the state's COP disclosure.

These COPs do not constitute a debt or pledge of the full faith and credit of the state; rather, local governments pledge their full faith and credit in a general obligation pledge.

In the event that any local government fails to make any payment, the state is obligated to withhold an amount sufficient to make such payment from the local government's share, if any, of state revenues or other amounts authorized or required by law to be distributed by the state to such local government, if otherwise legally permissible.

Upon failure of any local government to make a payment, the state is further obligated, to the extent of legally available appropriated funds, to make such payment on behalf of such local government. The local government remains obligated to make all COP payments and reimburse the state for any conditional payments.

As of June 30, 2021, outstanding COP notes totaled $135.3 million for 137 local governments participating in LOCAL. The state estimates that the LOCAL program liability, if any, will be immaterial to its overall financial condition.

Note 16

Subsequent Events

A. BOND ISSUES

In July 2021, the state issued:

- $599.5 million in general obligation bonds to provide funds to pay and reimburse for various state capital projects.
- $42.3 million in motor vehicle fuel tax general obligation bonds to provide funds to pay and reimburse for construction of state and local highway improvements and preservation projects.
- $93.1 million in taxable general obligation bonds to provide funds to pay and reimburse for various non-transportation capital projects.

In November 2021, the state issued:

- $133.0 million in general obligation refunding bonds for the purpose of refunding certain various general obligation bonds of the state.
- $133.4 million in motor vehicle fuel tax general obligation refunding bonds for the purpose of refunding certain motor vehicle fuel tax general obligation bonds of the state.

B. CERTIFICATES OF PARTICIPATION

In October 2021, the state issued $26.4 million in Certificates of Participation (COPs), of which $6.9 million were refunding COPs.