Washington State Department of
Labor & Industries

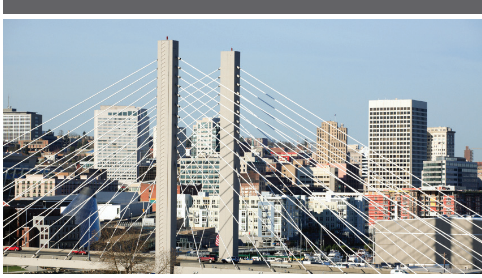
Workers' Compensation Program

An Enterprise Fund of the State of Washington

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2014

Olympia, Washington



Workers' Compensation Program
An Enterprise Fund of the State of Washington

Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2014

Olympia, Washington

Prepared by:

Department of Labor and Industries
Joel Sacks, Director
Ernie LaPalm, Deputy Director
Randi Warick, Deputy Director for Financial Management

Actuarial Services
Bill Vasek, FCAS, Senior Actuary
Mark Mercier, ACAS, MAAA
Russell Frank, FCAS, MAAA
Joshua Ligosky, FCAS, MAAA

Administrative Services
Chris Freed, Assistant Director

Financial Services
Sharon Elias, Chief Accounting Officer
Rob Cotton, MBA, CPA, CMA, CGAP, Workers' Compensation Accounting Manager
Margo Driver, CPA, Revenue Accounting Manager
Linda Tilson, Accounting Services Manager
Cara Hsieh, CPA, Workers' Compensation Accountant
Cathy Mowlds, Workers' Compensation Accountant
Anna Quichocho, CPA, Workers' Compensation Accountant
Mariya Rohde, Workers' Compensation Accountant
Leslie Yonkers, Workers' Compensation Accountant
Financial Services Program Personnel

Insurance Services Division Personnel

Additional assistance provided by:
Washington State Office of Financial Management
Washington State Investment Board

Washington State Department of
Labor & Industries

Keep Washington Safe and Working

Table of Contents

Page

INTRODUCTORY SECTION

Letter of Transmittal 3

Certificate of Achievement for Excellence in Financial Reporting 11

Organization Chart 13

FINANCIAL SECTION

Independent Auditor's Report 17

Management's Discussion and Analysis 21

Basic Financial Statements
- Statement of Net Position 33
- Statement of Revenues, Expenses, and Changes in Net Position 34
- Statement of Cash Flows 35
- Notes to the Basic Financial Statements 37

Required Supplementary Information
- Schedules of Claims Development Information. 69
- Reconciliation of Claim Liabilities by Plan. 71

Supplementary Information
- Combining and Individual Account Financial Schedules 75
- Independent Actuarial Opinion 79

Table of Contents

Continued

Page

STATISTICAL SECTION

Financial Trends

Schedule 1 - Net Position by Component, Last Ten Fiscal Years 89
Schedule 2 - Changes in Net Position, Last Ten Fiscal Years 90

Revenue Capacity

Schedule 3 - Revenues by Source, Last Ten Fiscal Years 91
Schedule 4 - Employer Accounts, Last Ten Fiscal Years 92

Debt Capacity

Schedule 5 - Ratios of Outstanding Debt, Last Ten Fiscal Years 93
Schedule 6 - Schedule of Changes in Claims Payable, Last Ten Fiscal Years 94

Demographic Information

Schedule 7 - Washington State Population and Components of Change, Last Ten Calendar Years 95
Schedule 8 - Washington State Personal Income, Last Ten Calendar Years 96
Schedule 9 - Washington State Unemployment Rates, Last Ten Calendar Years 96
Schedule 10 - Washington State Principal Employers by Industry, Last Calendar Year and Nine Years Ago 97
Schedule 11 - Washington State Annual Average Wage Rates by Industry, Last Ten Calendar Years 98
Schedule 12 - Demographics of Accepted Claims, Last Ten Fiscal Years 99

Operating Information

Schedule 13 - Number of Employees by Division, Last Ten Fiscal Years 100
Schedule 14 - Capital Asset Indicators, Last Ten Calendar Years 101
Schedule 15 - Claims Statistics and Five Most Frequent Injuries, Last Ten Fiscal Years 102
Schedule 16 - Risk Classes with Greatest Number of Ultimate Claims, Last Ten Fiscal Years 103

Introductory Section

Washington State Department of
Labor & Industries

Keep Washington Safe and Working

STATE OF WASHINGTON

DEPARTMENT OF LABOR AND INDUSTRIES

P.O. Box 44000 • Olympia Washington 98504-4000

October 24, 2014

The Honorable Jay Inslee, Governor
Honorable Members of the Legislature
Director of Office of Financial Management
Washington State Citizens
Olympia, Washington 98504

RE: Comprehensive Annual Financial Report

The Revised Code of Washington 51.44.115 requires the Department of Labor & Industries (L&I) to publish a Comprehensive Annual Financial Report (CAFR) for the Workers' Compensation Program within six months of the close of each fiscal year. This report is published to fulfill that requirement for the fiscal year ended June 30, 2014.

L&I is fully responsible for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal controls established for this purpose. Because the cost of internal controls should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

The State Auditor has issued an unmodified ("clean") opinion on the Workers' Compensation Program financial statements for the year ended June 30, 2014. The independent auditor's report is located at the front of the financial section of this report.

Management's Discussion and Analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview, and analysis of the basic financial statements. The MD&A complements the information provided in this letter of transmittal and should be read together with it.

Following the MD&A are the basic financial statements, notes to the basic financial statements, the required supplementary information, and the combining and individual account financial schedules, the independent actuarial opinion, and the statistical section.

PROFILE OF WORKERS' COMPENSATION PROGRAM

L&I, an agency of Washington State, is responsible for managing the state's workers' compensation system; enforcing the Washington Industrial Safety and Health Act; providing safety and health consultations and information; enforcing wage and hour, child labor and family leave requirements; managing the state's Crime Victims' Compensation Program; registering contractors and apprentices; inspecting electrical work, elevators, boilers and factory-assembled structures; and issuing licenses for certain skilled trades. L&I headquarters is located at 7273 Linderson Way SW in Tumwater, Washington. There are 18 additional L&I field offices across Washington State that enable us to respond to specific needs in different localities.

The workers' compensation system has existed in Washington State for 103 years. Washington was one of the first states to enact workers' compensation laws. Our state's Workmen's Compensation Act, established on July 28, 1911, was designed to protect workers and employers from injustice and financial hardship arising from work-related injuries in extremely hazardous work. In 1923, Washington became one of only two states where workers pay a portion of the insurance premiums.

Washington's workers' compensation insurance was provided solely through the State Fund until 1971, when the system underwent a major overhaul. In 1971, the Legislature expanded the scope of coverage to virtually all workers and created an option for qualified employers to self-insure. The Self-Insurance Program allows employers with sufficient financial resources to self-insure, thus paying the cost of claims for their injured workers from their own funds and also assuming responsibility for their own claims administration. The workers of self-insured employers are entitled to the same rights and benefits as those workers insured by the State Fund managed by L&I. There are approximately 355 employers who are self-insured, covering approximately one-quarter of all workers in Washington.

The state also has an optional financial incentive program, called the Retrospective Rating Program, to help qualifying employers insured with the State Fund reduce their industrial insurance costs through safety and return-to-work efforts. Employers who join the Retrospective Rating Program receive partial refunds if their claim costs are lower than expected, but must pay additional premiums if their claim costs are higher than expected.

The State Fund Workers' Compensation Program covers 169,000 employers and approximately 2.58 million workers statewide. Total premiums assessed in fiscal year 2014, including both the employer and worker portions, in the State Fund were $1.86 billion. Over 86,000 claims were accepted in fiscal year 2014; about 80 percent of the accepted claims were for medical benefits only and received no compensation for time off work or disability-related benefits. Approximately 40,000 claims are active in any given month, of which about 18,000 are receiving time-loss benefits, many of which involve long-term disability and complex medical issues. In the same year, retraining plans were completed by 501 injured workers who were not able to return to any type of work after injury.

BUDGET CYCLE

The Workers' Compensation Program operates as an enterprise fund made up of seven accounts that are financed and operated in a manner similar to private business entities. The budget operates on a two-year cycle beginning on July 1 of each odd-numbered year. The biennial budget for administering the program is appropriated and allotted through Washington State's legislative process. The final 2013-2015 appropriated budget for administering the Workers'

Compensation Program was $614,964,326, which included $552,366,000 that was appropriated to L&I. This budget includes $16,812,000 of federal funds dedicated to the Safety & Health Assessment & Research for Prevention (SHARP) Program and the Division of Occupational Safety and Health (DOSH). The allotted administering budget for fiscal year 2014 for the Worker's Compensation Program was $309,847,768, and the portion of the total fiscal year 2014 budget that was allotted for L&I was $278,426,000.

The benefit expense portions of the accounts that make up the program are non-appropriated and non-allotted. Premiums collected from employers and workers and investment earnings finance the cost of providing medical coverage, time-loss payments, and disability benefits to qualifying individuals sustaining work-related injuries and illnesses, as well as Stay at Work reimbursements, and structured settlements.

LOCAL ECONOMY AND IMPACT ON LABOR & INDUSTRIES

Washington is comprised of ten major metropolitan areas and vast regions of wilderness and farmland. Of the ten metropolitan areas, only four are east of the Cascade Mountains. The Seattle/Bellevue/Everett/Tacoma metropolitan area alone accounts for more than half of the state's non-farm employment.

Workers' compensation insurance covers all industries in the state of Washington. The economy of Washington was once dominated by commercial airplane manufacturing (Boeing), logging, and agriculture. More recently, a vibrant high-tech industry has developed, including such worldwide companies as Microsoft and Amazon.com. Other Washington companies, such as Starbucks, Costco, and Nordstrom, have national reputations. Most of these larger companies are self-insured.

CURRENT ECONOMIC ACTIVITY AND OUTLOOK

The recession, which ended in the summer of 2009, was followed by a slow and uneven recovery. Although growth remains modest, the pace of growth appears to be consistent. As of the summer of 2014, the national economy continues to advance at a moderate pace despite a first quarter contraction. Positive signs include 200,000 or more new jobs added each month for the last five months across industry sectors, a six-year low unemployment rate of 6.1 percent in June, and a record high stock market.

Risks to the recovery are still mainly from outside the state and from a slow United States (U.S.) Gross Domestic Product (GDP) growth. Risks include:

- a slow recovery and high unemployment rate in the Euro area since the recession.
- a growth slowdown in Asia, especially in China.
- political unrest in the Middle East and Ukraine.
- a recent flattening out in housing activity, especially in the existing home sales market.

As of November 2013, Washington had recovered all of the 189,200 jobs that it lost during the recession. Over the 12 months from May 2013-May 2014, the state added 62,800 new jobs (8th largest job gain in the nation), and the unemployment rate fell 0.9 percentage point. By May 2014, Washington's unemployment rate was 6.1 percent, compared with 7.0 percent in May 2013. The Seattle/Bellevue/Everett metropolitan area registered a 5.0 percent jobless rate in May 2014, down from 5.3 percent 12 months earlier, and the Seattle city jobless rate was 4.9 percent in 2013, which was the third lowest among the 50 largest cities based on Census 2000 population.

Moody's and Fitch continued to rate Washington's credit outlook as stable on June 11, 2014, after lawmakers balanced the state's books by passing a $33.5 billion budget in late June 2013. Together with Standard & Poor's, they affirm the state's top-tier rating (Aa1/AA+/AA+) with a *stable* outlook.

Housing/construction
Over the past year, housing activity, reflected by overall home prices and home sales, experienced a slower increase after rapid post-recession growth. U.S. monthly new home sales, by contrast, recorded a 6.3 percent gain in May from the same month a year earlier. The National Association of Home Builders (NAHB) housing market index is a gauge of home sales and expectations for future home building. June's NAHB index stood at 49 percent and was the fifth consecutive month with the reading below 50, which means more builders said the overall condition was bad rather than good. However, it improved significantly from the post-recession low of 15 recorded in the summer of 2009. In Washington State, the total housing units authorized by building permits averaged 2,598 per month in the first five months of 2014, which is higher than the monthly average of the final quarter of 2013. Regional home prices continue to rise but at a slower pace compared with 2013. In April 2014, Seattle area home prices were 11.2 percent higher than the same month last year.

Large Employers
Despite challenges with the 787, Boeing's first quarter revenue increased 8 percent to a total of $20.5 billion, reflecting higher commercial deliveries. The company delivered 181 commercial planes during the second quarter of 2014, a 7.1 percent increase from the same period a year ago. The price of Microsoft stock reached $40 in March, 2014, the highest since its last stock split in 2003.

Small Business
Small business confidence has been increasing. The National Federation of Independent Business (NFIB) small business optimism index increased for the third month in a row in May to 96.6, followed by a 1.6 point drop reported in June. Small business employment improved as well. A monthly, up-to-date measure of change in small business employment in the U.S., the Paychex IHS Small Business Jobs Index analyzes year-over-year worker count changes, trending the results to reveal movement in small business employment. An upward trend represents a strengthening job market, while a downward trend is a sign of a slowdown. In July, the index reported the U.S. 12-month index number change at 0.34 percent. Washington and the Seattle Metropolitan Statistical Area (MSA) remain top ranks in this index among states/MSAs, with 0.87 percent and 0.93 percent 12-month change, respectively.

Financial markets
In the first half of 2014, the U.S. stock market had a much smaller gain after a record run last year, with the Standard & Poor's (S&P) 500 up 6 percent and the Dow Industrial up 1.5 percent. Meanwhile, the Nasdaq Indices registered a healthy 5.5 percent gain so far this year. Mortgage rates eased in recent months, as the 30-year average rate fell to 4.19 and 4.16 percent in May and June, respectively, from last year's peak of 4.49 percent recorded in September. The average rate of 4.23 percent in the second quarter was lower than the average of 4.36 percent for the quarter prior, but significantly higher than the 3.69 percent for the same quarter last year.

Workers' Compensation Impacts
The positive economic news will likely mean increased workers' compensation premiums over the coming year as businesses increase hiring and worker hours. According to the U.S. Bureau of Labor Statistics, the average annual pay in Washington State and the U.S. shows an upward trend in the past ten years, despite a short period of stagnation due to the recession. Statewide, the average annual wage in 2013 increased 2 percent, or $1,040, over 2012 to $52,635. On June 26, 2014, L&I announced that time-loss and pension benefit payments would increase by 2 percent for most workers injured before July 1, 2013, based on the change in the state's average wage. It is unclear how the implementation of the nation's highest minimum wage of $15 in the Seattle area and the implementation of the Affordable Care Act may impact workers' compensation benefits and medical costs. Interest rates are still expected to rise slowly, limiting the rates of return that workers' compensation carriers are likely to earn on their investments. This puts increased pressure on premium rates to cover benefit costs.

LONG-TERM FINANCIAL PLANNING

A number of new initiatives have been implemented to help workers return to work sooner and assist employers with reducing the risk of work-related injuries. These efforts are designed to reduce the potential for injured workers to become permanently disabled, thus, and lower long-term disability claims. In addition, L&I adopted a nine-year plan to increase the contingency reserve from 13 to 15 percent of liabilities, while reducing the rate used to discount pension liabilities from 6.5 to 4.5 percent. A rate increase of 2.7 percent for workers' compensation premiums was implemented in January 2014 to offset the increase in liabilities from the discount rate adjustment, to protect against wage inflation, and to help build the contingency reserve.

RELEVANT FINANCIAL POLICIES

L&I has an established investment policy designed to maintain solvency of the Workers' Compensation Program's accounts and to keep premium rates stable. The Washington State Investment Board (WSIB) manages the L&I portfolio and meets regularly to make decisions on improving investment results and striking a balance between risk and return.

MAJOR INITIATIVES

Governor Jay Inslee directed state agencies to measure performance, improvements, innovation, engagement, transparency and accountability in state government. In response, L&I is focused on five goal areas:

1. Make workplaces safe.
2. Help injured workers heal and return to work.
3. Make it easy to do business with L&I.
4. Help honest workers and businesses by cracking down on the dishonest ones.
5. Ensure L&I is an employer of choice.

L&I's efforts to make workplaces safe involve reducing the rate of injury in the workplace, and fostering a culture of safety in the work environment. In fiscal year 2014, a new logging safety initiative was implemented, 7,000 work sites over various industries were inspected, and 6,000 young workers were introduced to the Injured Young Worker Speakers Program.

L&I is helping injured workers heal and return to work by creating a culture where employers, workers, medical providers, vocational experts, and L&I staff are all focused on maintaining the workers' connection to the workforce, along with their motivation to return to work. In fiscal year 2014, claim processors were added to our claims units, allowing claim managers to focus on complex cases. Two more Centers of Occupational Health and Education were added, the Stay at Work Awareness Campaign increased new employer participation in the Stay at Work program, and by May 2014, over 20,000 providers were part of a new provider network.

In an effort to make it easier to do business with L&I, informational material has become clearer, processes have been improved based on customer expectations, and new computer applications now allow employers to pay workers' compensation quarterly premiums and businesses to purchase licenses online. As a result, online filing of quarterly reports has increased from 52 percent in 2011 to 90 percent in 2014.

L&I is cracking down on unscrupulous business practices by improving methods for identifying illegal activities. L&I created an Underground Economy Advisory Committee to develop strategies for improving the effectiveness of combatting the underground economy.

In order to ensure L&I is an employer of choice, L&I continues to encourage and promote safety, well-being, and a culture of trust, as well as to provide employees with opportunities to grow and learn. L&I is continuing to use Lean to empower employees to make decisions that affect their work. Employee-led Lean projects have reduced time for claim processing, improved relationships with customers, streamlined our collections process, and reduced burden on staff.

AWARDS AND ACKNOWLEDGEMENTS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to L&I for its CAFR for the fiscal year ended June 30, 2013. A copy of the Certificate of Achievement is included in the introductory section of the CAFR. This was the fourth consecutive year that L&I received this prestigious award. In order to be awarded a Certificate of Achievement, a governmental unit must publish an easy-to-read and efficiently-organized CAFR. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

As in the work and service we provide every day, this CAFR represents our commitment to maintain excellence in financial reporting, and the financial statements are in conformance with the highest standards of financial accountability. The preparation of this report could not have been accomplished without the professionalism and dedication demonstrated by the financial and management personnel of L&I, the Washington State Office of Financial Management, and the WSIB.

Sincerely,

Joel Sacks
Director

Randi Warick
Deputy Director for
Financial Management

Vickie Kennedy
Assistant Director for
Insurance Services

Washington State Department of
Labor & Industries

Keep Washington Safe and Working

Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Washington State

Department of Labor & Industries

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2013

Executive Director/CEO

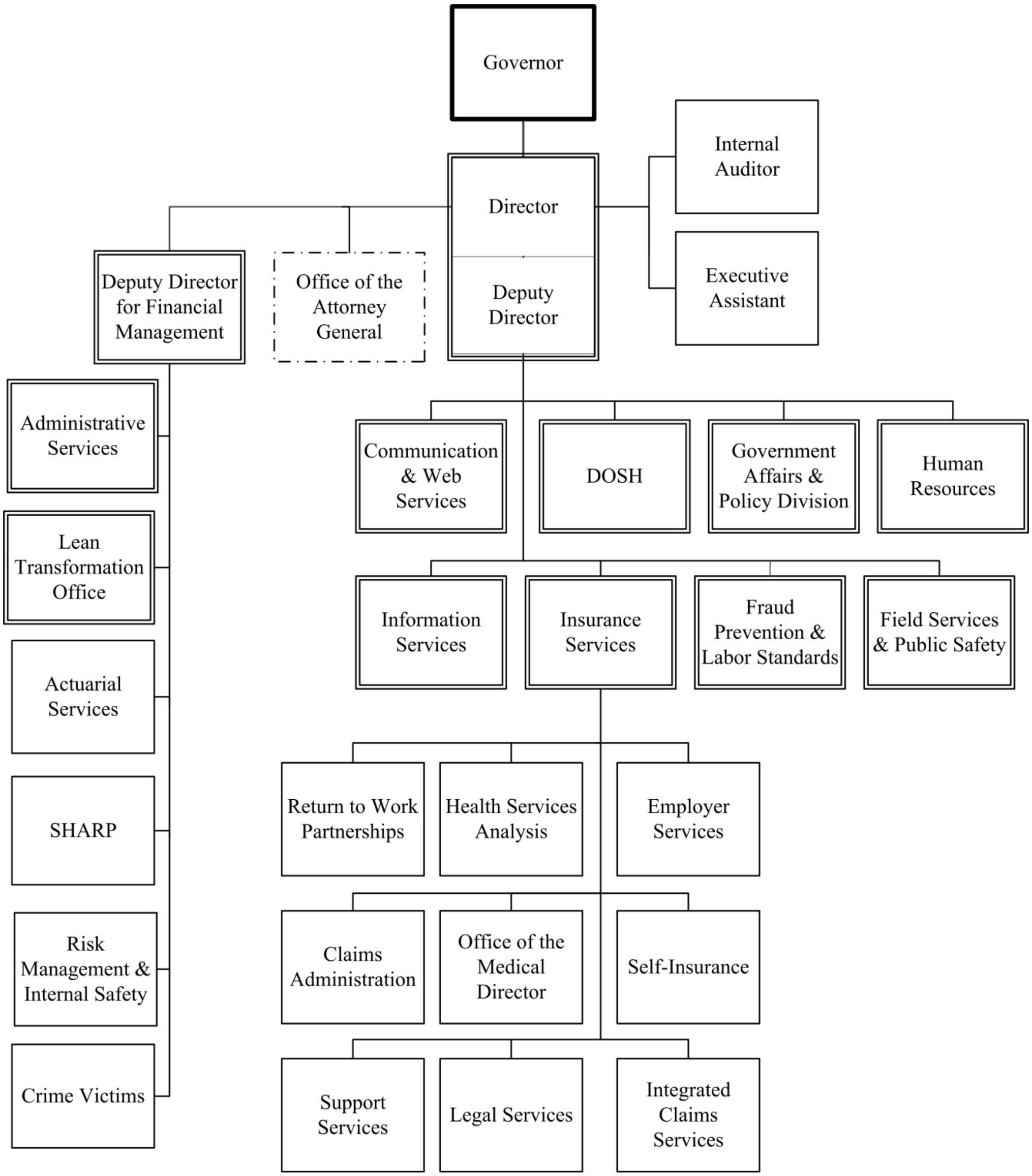
Washington State Department of
Labor & Industries

Keep Washington Safe and Working

Washington State Department of
Labor & Industries

Organization Chart

June 30, 2014



Washington State Department of
Labor & Industries

Keep Washington Safe and Working

Financial Section

Washington State Department of
Labor & Industries

Keep Washington Safe and Working

Washington State Auditor
Troy Kelley

INDEPENDENT AUDITOR'S REPORT

October 24, 2014

Joel Sacks, Director
Department of Labor and Industries
Olympia, Washington

REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Workers' Compensation Program, an enterprise fund of the state of Washington, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Program's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Labor and Industries' Funds of the state of Washington as managed by the Washington State Investment Board, which include the Program's investments and related investment income as discussed in Note 3. These investments represent 95 percent, 100 percent and 33 percent, respectively, of the assets, net position, and total revenues of the Program. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Workers' Compensation Program of the state of Washington, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Program's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Program's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the Workers' Compensation Program, an enterprise fund of the state of Washington, as of June 30, 2014, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 21 through 30, schedules of claims development information on pages 69 and 70 and reconciliation of claims liabilities by plan on page 71 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We and the other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Program’s basic financial statements. The accompanying information listed as combining financial statements and supplementary information on pages 75 through 77 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. This information has been subjected to auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us and the other auditors. In our opinion, based on our audit, the procedures performed as described above, and the report of the other auditors, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The information identified in the table of contents as the Introductory and Statistical Sections is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Program. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Sincerely,

Troy X. Kelley

TROY KELLEY
STATE AUDITOR

Washington State Department of
Labor & Industries

Keep Washington Safe and Working

Management's Discussion and Analysis

Our management's discussion and analysis of the state of Washington Workers' Compensation Program's Comprehensive Annual Financial Report provides an overview of the Workers' Compensation Program's financial activities for the fiscal year ended June 30, 2014. The information included here should be considered along with the transmittal letter, which can be found on pages 3-9 of this report, and the accompanying basic financial statements and notes to the basic financial statements, which follow this narrative.

Financial Highlights

Condensed Financial Snapshot
(in millions)

	As of and For the Fiscal Year Ended June 30, 2014	As of and For the Fiscal Year Ended June 30, 2013	$ Change	% Change
Total Assets	$ 15,447	$ 14,249	$ 1,198	8.4%
Total Liabilities	24,831	23,874	957	4.0%
Total Revenues Earned	3,382	2,404	978	40.7%
Total Expenses Incurred	3,141	3,340	(199)	(5.9%)
Total Net Position (Deficit)	(9,384)	(9,625)	241	2.5%

- Total assets increased $1,198 million from the prior fiscal year, mainly due to increases in investments of $1,121 million and receivables of $83 million.

- Total liabilities increased $957 million from the prior year, mostly due to increases in claims payable of $810 million and unsettled trade payables of $147 million.

- Total revenues earned increased $978 million, mainly due to increases in net premiums and assessments and realized and unrealized gains on debt and equity securities.

- Total expenses incurred decreased $199 million from the prior year, primarily due to a $204 million decrease in claims expense offset by an increase of $7 million from prior year operating expenses incurred.

- Total net position (deficit) decreased $241 million largely due to an improvement in the net position of the State Fund, offset by an increase in the deficit of the Supplemental Pension Fund.

Overview of the Basic Financial Statements

The Workers' Compensation Program is accounted for as an enterprise fund of the state of Washington, reporting business activities under the accrual basis of accounting, much like a private business enterprise.

These basic financial statements report the financial condition and results of operations for seven accounts, including the Accident, Medical Aid, Pension Reserve, Supplemental Pension, Second Injury, Self-Insured Employer Overpayment Reimbursement, and Industrial Insurance Rainy Day Fund Accounts, known collectively as the Workers' Compensation Program. The Accident, Medical Aid, and Pension Reserve Accounts represent the Workers' Compensation Program Industrial Insurance Fund or Basic Plan.

The Rainy Day Fund was created by the Legislature during the 2011 session to hold transfers from the Accident and Medical Aid Accounts when assets for those accounts combined are between 10 and 30 percent in excess of their funded liabilities. Primarily, balances in this account will be used to reduce future rate increases or aid businesses in recovering from or during economic recessions. There is no activity to report for this account during fiscal year 2014.

For the fiscal year ended on June 30, 2014, the basic financial statements show financial position and results of operations at the roll-up level. Detailed financial information for the individual accounts can be found in the Supplementary Information on pages 75-77 of this financial report.

This discussion and analysis serves as an introduction to the Workers' Compensation Program basic financial statements, which consist of the following components:

> The Statement of Net Position provides information about the program's assets and liabilities and reflects the program's financial position as of June 30, 2014. It can be found on page 33 of this report.
>
> The Statement of Revenues, Expenses, and Changes in Net Position reflects both operating and nonoperating revenues and expenses for the fiscal year. It can be found on page 34 of this report.
>
> The Statement of Cash Flows reflects cash collections and cash payments to arrive at the net increase or decrease in cash and cash equivalents during the fiscal year. It can be found on page 35 of this report.
>
> The Notes to the Basic Financial Statements are an integral part of the basic financial statements and are essential to a full understanding of the Workers' Compensation Program's financial position and results of operations presented in the basic financial statements. They can be found on pages 37-65 of this report.

Financial Analysis of the Workers' Compensation Program

Statement of Net Position (in millions)				
	June 30, 2014	June 30, 2013	$ Change	% Change
Assets				
Current assets	$ 872	$ 793	$ 79	10.0%
DOE assets, noncurrent	5	5	-	0.0%
Investments, noncurrent	14,503	13,382	1,121	8.4%
Capital assets, net	67	69	(2)	(2.9%)
Total Assets	15,447	14,249	1,198	8.4%
Liabilities				
Current liabilities	2,249	2,046	203	9.9%
Noncurrent liabilities	22,582	21,828	754	3.5%
Total Liabilities	24,831	23,874	957	4.0%
Net Position (Deficit)				
Net investment in capital assets	59	58	1	1.7%
Unrestricted	(9,443)	(9,683)	240	2.5%
Total Net Position (Deficit)	$ (9,384)	$ (9,625)	$ 241	2.5%

Current assets - Current assets increased during fiscal year 2014 by $79 million. This change largely resulted from increases in cash and cash equivalents of $17 million and receivables of $83 million, offset by a decrease in securities lending collateral of $23 million. Cash and cash equivalents increased as a result of normal changes from cash flow from operations and cash needs. Most of the receivables increase is from the estimated premiums due for the current quarter ending June 30, 2014. The estimated premium receivables have increased compared to June 30, 2013, mainly as a result of an increase in the number of hours reported by employers, the premium rate increase which was effective January 1, 2014, and more hours reported by businesses in higher-rated classes. Securities lending collateral decreased because demand for borrowing securities was low.

DOE assets - DOE assets are receivables and funds provided from the U.S. Department of Energy to pay pension benefits to Hanford nuclear production complex workers injured on the job. The asset amount stayed about the same from fiscal year 2013 to fiscal year 2014. Additional information can be found in Note 1 of this report.

Noncurrent investments - Noncurrent investments increased during fiscal year 2014 by $1,121 million. The most significant changes in the investment balances are from increases of $880 million in debt securities, $156 million in equities, and $85 million in short-term investments.

- Debt securities increased largely due to a strong bond markets that resulted in unrealized gains. Also, the equity income portfolio was rebalanced, and approximately $220 million was transferred to the fixed income portfolio. In January 2014, the Washington State Investment Board voted to eliminate the strategic asset allocation to U.S. Treasury Inflation Protection Securities (TIPS) and increase the allocation to other debt investment types. TIPS can still be purchased as part of the government allocation. As a result, $1,754 million of TIPS were sold and the proceeds were invested in other debt securities. The remaining increase is from net investment income received and reinvested within the fixed income portfolio.

- Equities increased due to positive investment returns in the public equity markets. The equity portfolio returned 24.0 percent during fiscal year 2014, compared to an 18.5 percent increase during fiscal year 2013. The increase was offset by sales in equity securities as a result of rebalancing our assets.

- Short-term investments fluctuate within policy targets from year-to-year, depending on trading volumes, cash needs of the Workers' Compensation Program, and market conditions.

Current liabilities - Current liabilities, other than claims payable, increased during fiscal year 2014 by $147 million, mainly due to the increase of $147 million in unsettled trade payable. Unsettled trade payable is the amount owed for the purchase of investment securities at June 30, 2014, which was not paid until July. There was no unsettled trade payable at the end of the last fiscal year.

Claims payable - The claims payable includes benefit liabilities and claim administration expense liabilities. The claims payable (included in current and noncurrent liabilities) was $24,438 million at the end of fiscal year 2014, compared to $23,628 million for the previous fiscal year, an increase of $810 million or 3.40 percent. This increase is primarily due to a net increase in benefit liabilities. Benefit liabilities increased $800 million, as shown by the table below.

Schedule of Changes in Benefit Liabilities (Included in Claims Payable) *
(in millions)

	June 30, 2014	June 30, 2013
Benefit liabilities, beginning of year	$ 23,098	$ 22,060
New liabilities incurred, current year	1,772	1,783
Development on prior years		
Change in reserve discount	490	566
Change in discount rate	-	(473)
Other development on prior liabilities	530	1,128
Claim payments	(1,992)	(1,966)
Change in benefit liabilities	800	1,038
Benefit liabilities, end of year	$ 23,898	$ 23,098

* Excludes claim administration expense liabilities

It is expected that benefit liabilities will change every year due to normal activities, such as adding the current accident year liabilities, discounting existing liabilities, and paying claims. In addition, benefit liabilities also changed due to management decisions to refine our actuarial estimates. This fiscal year, benefit liabilities increased as a result of the following managerial decisions that have no direct relationship to claim operations:

- In the past, the total permanent disabilities (TPD) liabilities were discounted using the same discount rate as the pension discount rate of 6.5 percent. L&I has a plan to reduce the pension discount rate from 6.5 percent to 4.5 percent by 2023. The future TPD benefit liabilities were increased $154 million as a result of early adoption of the planned gradual reduction in the pension discount rate over the next nine years.

- It was previously assumed that when a claim was still active at or after 13 years of age, these claims were included in the calculation of pension liabilities which are discounted using a 6.5 percent discount rate. A decision was made to assume that these claims will receive time-loss until they close. This model change for 13-year plus claims resulted in increased liabilities of $102 million.

- When the Legislature passed the Workers' Compensation reforms in 2011, the Department of Labor & Industries (L&I) estimated the potential savings from the reforms and recognized the savings reducing liabilities. Now that the reforms are operational and the savings are reflected in claims data, benefit liabilities were increased to avoid double counting the 2011 reform savings.

Total net position (deficit) - The Workers' Compensation Program's deficit decreased $241 million during fiscal year 2014, ending the year with a deficit balance of $9,384 million. The total net position deficit decrease is mainly due to an increase in premium revenues and investment earnings and a decrease in claims expense, as compared to the prior fiscal year. This deficit consists of an $11,293 million deficit in the Supplemental Pension Account, offset by net position balances in the Accident, Medical Aid, and Pension Reserve Accounts of $648 million, $909 million, and $274 million, respectively. The Second Injury and Self-Insured Overpayment Reimbursement Accounts have a combined net position balance of $78 million. Additional detail regarding the Supplemental Pension Account deficit can be found in Note 8 of this report.

Changes in Net Position (in millions)	Fiscal Year Ended June 30, 2014	Fiscal Year Ended June 30, 2013	$ Change	% Change
Operating Revenues				
Premiums and assessments, net	$ 2,200	$ 2,124	$ 76	3.6%
Miscellaneous revenues	54	47	7	14.9%
Total Operating Revenues	2,254	2,171	83	3.8%
Nonoperating Revenues				
Earnings on investments	1,120	224	896	400.0%
Other revenues	8	9	(1)	(11.1%)
Total Revenues	3,382	2,404	978	40.7%
Operating Expenses				
Salaries and wages	145	140	5	3.6%
Employee benefits	58	54	4	7.4%
Personal services	5	9	(4)	(44.4%)
Goods and services	76	79	(3)	(3.8%)
Travel	4	4	-	0.0%
Claims	2,811	3,015	(204)	(6.8%)
Depreciation	7	9	(2)	(22.2%)
Miscellaneous expenses	34	29	5	17.2%
Total Operating Expenses	3,140	3,339	(199)	(6.0%)
Nonoperating Expenses				
Interest expense	1	1	-	0.0%
Total Expenses	3,141	3,340	(199)	(6.0%)
Income (Loss) before Transfers	241	(936)	1,177	125.7%
Net Transfers	-	-	-	0.0%
Change in Net Position (Deficit)	241	(936)	1,177	125.7%
Net Position (Deficit) - Beginning of Year	(9,625)	(8,689)	(936)	10.8%
Net Position (Deficit) - End of Year	$ (9,384)	$ (9,625)	$ 241	2.5%

Premiums and assessments, net - Net premium and assessment revenues during fiscal year 2014 were $2,200 million compared to $2,124 million for fiscal year 2013, an increase of $76 million, as a result of an increase in the number of hours reported by employers, more hours reported by businesses in higher rate classes, and a premium rate increase in the Medical Aid Account effective January 1, 2014. In fiscal year 2013, employers reported 3,270 million hours worked; this figure increased to 3,388 million hours for fiscal year 2014. There has been a steady growth of quarterly standard premiums for 14 quarters since December 31, 2010. The increase during the 14 quarters was approximately 13 percent.

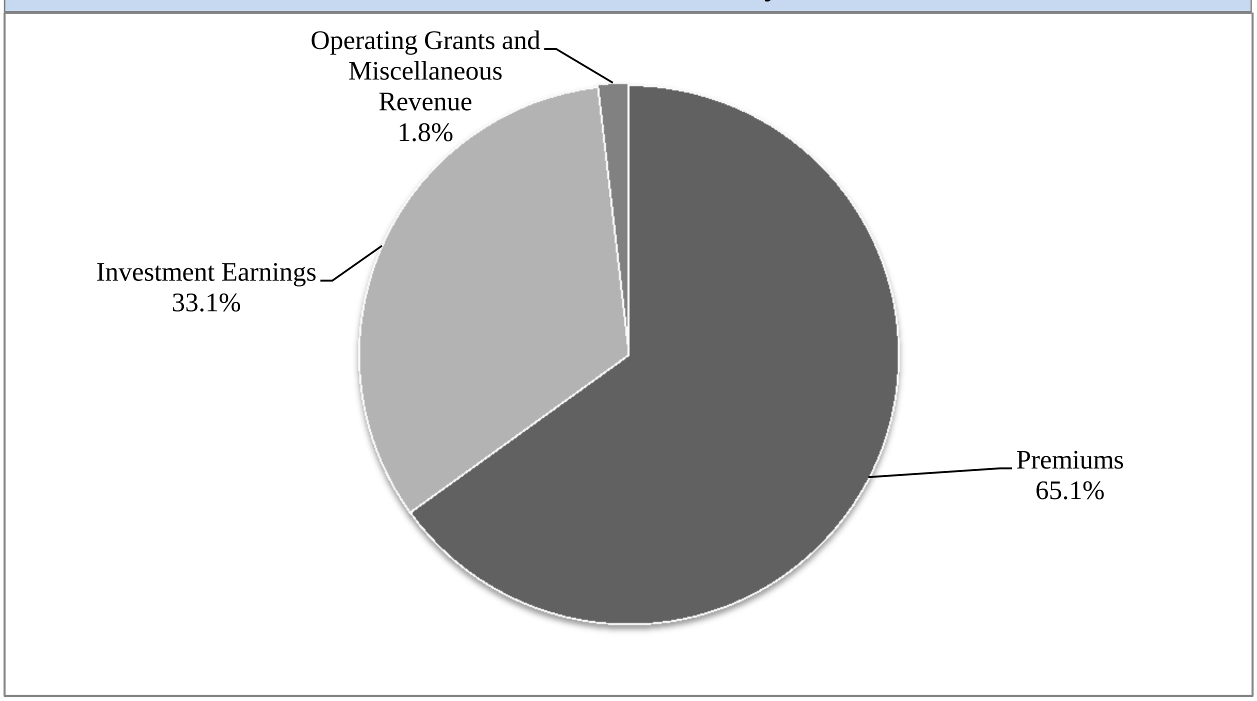
Earnings on investments - The earnings on investments increased $896 million from the prior fiscal year almost entirely due to increases in realized and unrealized gains and losses as described in the paragraphs below. Also contributing to the increase was a $12 million increase in interest and dividends earnings.

- Realized and unrealized gains and losses for debt securities increased $795 million as compared to fiscal year 2013. The realized gains increased $187 million mostly due to the sale of TIPS as a result of an asset allocation policy change. Unrealized gains increased $608 million as a result of the global low interest rate environment. The fair market value of debt securities moves in the opposite direction to changes in interest rates. Rising interest rates result in decreasing bond market prices, while falling rates cause bond prices to increase. During fiscal year 2014, interest rates declined, resulting in bond unrealized gains of $7 million, while in fiscal year 2013, interest rates increased, resulting in bond unrealized losses of $601 million. The total difference between fiscal year 2014 and 2013 is a $608 million increase.

- Equity realized and unrealized gains in fiscal year 2014 increased $89 million as compared to the prior fiscal year. Unrealized gains were $334 million and realized gains were $41 million for equities in fiscal year 2014, while unrealized and realized gains were $273 million and $13 million in fiscal year 2013, respectively. For the second straight year, equity markets in developed countries overcame much of the uncertainty that has plagued the macroeconomic environment recently and delivered positive returns. The Workers' Compensation Program's U.S. equity portfolio returned 25.1 percent, and the international equity portfolio returned 22.4 percent during the current fiscal year.

The following chart provides additional detail on the distribution of revenues by source during fiscal year 2014.

Fiscal Year 2014 Revenues by Source



Claims expenses - Claims expenses for fiscal year 2014 decreased $204 million, or 6.8 percent, as compared to fiscal year 2013. Claims expenses include two main components: payments to beneficiaries and the change in claims payable. Claim payments to beneficiaries increased slightly by $11 million, or 0.6 percent, when compared to the prior year. Claim payments to beneficiaries in the Pension Reserve and Supplemental Pension Accounts increased by $23 million and $19 million, respectively, but were partially offset by decreases of $19 million in the Accident Account and $13 million in the Medical Aid Account. The net increase of $11 million is explained by the following:

- The Accident Account's 3.1 percent decrease in claim payments to beneficiaries mostly resulted from lower time-loss payments because of fewer active time-loss claims being paid.

- The Medical Aid Account's 2.2 percent decrease in claim payments to beneficiaries is mostly due to low medical growth and a small increase to average medical payments per claim. It was also a result of fewer active time-loss claims this year as compared to last year. However, the Stay at Work claim payments to employers increased due to more claimants receiving benefits.

- The Pension Account's claim payments to beneficiaries increased 6.2 percent, mainly because of higher numbers of pensioners receiving benefits, together with higher average monthly benefits.

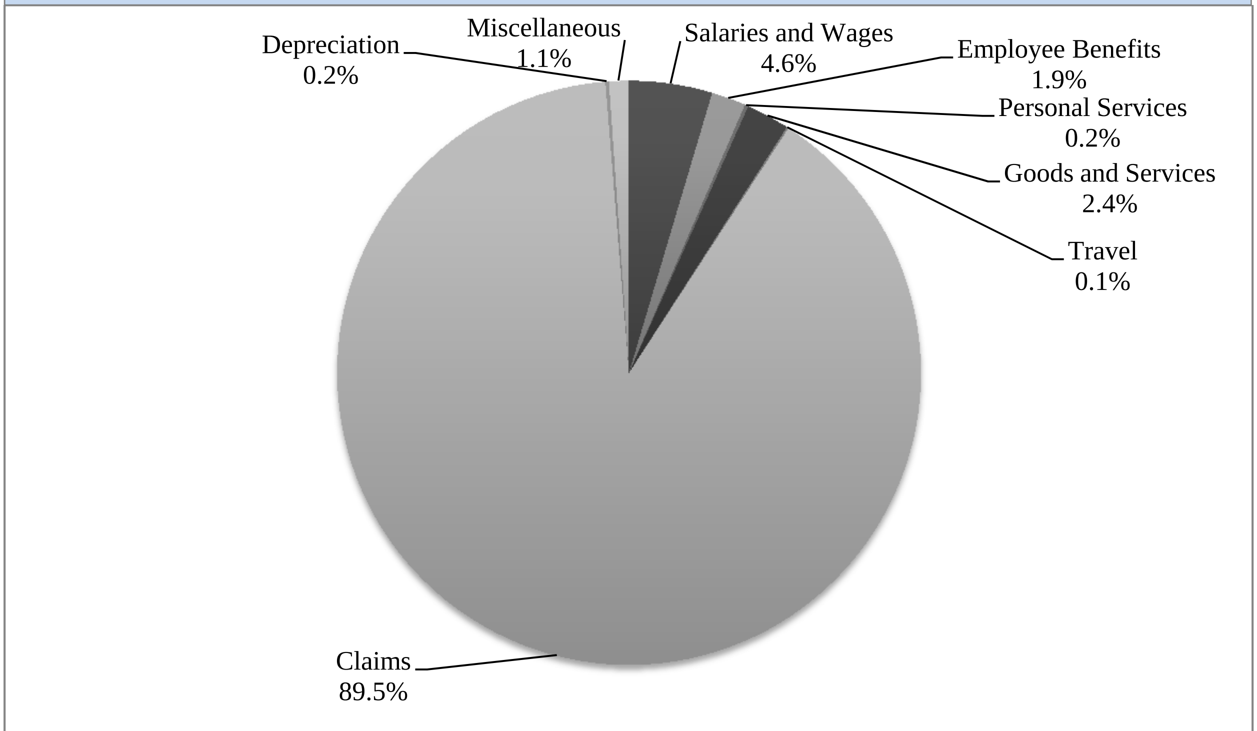
- The Supplemental Pension Account's 4.8 percent increase in claim payments to beneficiaries is mainly due to changes in the state's average annual wage, which is the basis for the increase in the cost of living adjustments paid by the Supplemental Pension Account. The change to the average wages from 2011 to 2012 was 3.41 percent, which affected the cost of living adjustments paid during fiscal year 2014.

The other main component of claim expenses is the change in claims payable. In fiscal year 2014, claims payable increased $810 million, as discussed above. In fiscal year 2013, claims payable increased $1,031 million, mainly due to a change in long-term inflation rate assumption, discount rate reduction, and other development on prior liabilities. The total decrease in the change in claims payable between fiscal years 2014 and 2013 equals $221 million.

Operating expenses - Operating expenses for fiscal year 2014, other than claims expenses, were $331 million as compared to $324 million in fiscal year 2013, a $7 million, or 2.3 percent, increase. Higher operating expenses in fiscal year 2014 were mainly due to increases in salary and employee benefit expenses, resulting from the restoration of the 3 percent salary reduction implemented in the prior biennium, 29 new full-time equivalents for various programs, and an increase of 1.98 percent in L&I's employer contribution rate for employee pensions.

The following chart provides additional detail on the distribution of operating expenses by type during fiscal year 2014.

Fiscal Year 2014 Operating Expenses by Type



Capital Asset and Debt Administration

Capital assets - Capital assets, net of accumulated depreciation, as of June 30, 2014, was $67 million. This reflects a net decrease of $2 million from the previous year. This net decrease is mainly due to the current year's depreciation expense of $7 million, offset by a $5 million increase in internally developed software primarily related to reform programs. Additional information on capital assets can be found in Note 1.D.6 and Note 6 of this report.

Bonds payable - Bond proceeds provided funding for the acquisition and construction of the building and grounds for L&I's headquarters in Tumwater. As of June 30, 2014, the Workers' Compensation Program had $8 million in outstanding bonds payable. Scheduled principal payments in the amount of $4 million were paid during fiscal year 2014. Additional information on the bonds can be found in Note 7.A and Note 7.C of this report.

Potentially Significant Matters with Future Impacts

L&I has a nine-year plan to steadily rebuild the workers' compensation insurance contingency reserve to a range between 13 and 15 percent of liabilities (less securities lending obligations). In order to maintain the actuarial solvency of the funds while keeping reasonable limits on rate fluctuations, L&I's goal for fiscal year 2015 is to increase the contingency reserve balance from

$950 million in the Industrial Insurance Fund up to $1,032 million by increasing rates and reducing costs by $35 to $70 million. The "contingency reserve" refers to any surplus remaining (similar to net position) on the statutory financial statements prepared in accordance with the National Association of Insurance Commissioners statutory accounting principles for the Industrial Insurance Fund.

Currently, L&I discounts pension liabilities using a 6.5 percent discount rate. L&I plans to gradually decrease the pension liability discount rate from 6.5 to 4.5 percent over a nine-year period, as previously discussed. By the end of calendar year 2015, L&I plans to reduce the discount rate to a range between 6.2 and 6.3 percent.

In addition, the mortality assumptions underlying the calculation of pension liabilities, developed by the Office of Insurance Commissioner and used since 1987, do not consider the gender of the recipient. L&I has developed updated mortality tables, including separate tables by gender, and intends to implement them during fiscal year 2015.

Requests for Information

This report is designed to provide a general overview of the Workers' Compensation Program and illustrate the program's financial condition to interested parties. If you have questions about this report or need additional financial information, please contact the Chief Accounting Officer at the Department of Labor & Industries, P.O. Box 44833, Olympia, Washington 98504-4833.

In accordance with the Revised Code of Washington (RCW) 51.44.115, L&I also publishes a Statutory Financial Information Report for the Industrial Insurance Fund (State Fund) annually. This report is prepared in compliance with statutory accounting practices and principles.

The Workers' Compensation Program Comprehensive Annual Financial Report and Statutory Financial Information Report for the Industrial Insurance Fund are also available at L&I's website at http://www.lni.wa.gov/ClaimsIns/Insurance/Learn/StateFund/Default.asp.

Basic Financial Statements

Washington State Department of
Labor & Industries

Keep Washington Safe and Working

Statement of Net Position
June 30, 2014

ASSETS		
Current Assets		
Cash and cash equivalents	$	81,770,603
DOE trust cash and investments		720,472
Collateral held under securities lending agreements		4,417,991
Receivables, net of allowance		782,306,277
Receivables from other state accounts and agencies		1,296,970
Receivables from other governments		1,011,623
Inventories		304,309
Prepaid expenses		235,304
Total Current Assets		872,063,549
Noncurrent Assets		
DOE trust cash and investments, noncurrent		1,950,695
DOE trust receivable		3,510,600
Investments, noncurrent		14,502,551,215
Capital assets, net of accumulated depreciation		66,651,398
Total Noncurrent Assets		14,574,663,908
Total Assets		15,446,727,457
LIABILITIES AND NET POSITION (DEFICIT)		
LIABILITIES		
Current Liabilities		
Accounts payable		3,482,319
Deposits payable		10,440,288
Accrued liabilities		310,970,955
Obligations under securities lending agreements		4,417,991
Bonds payable, current		3,820,000
Payables to other state accounts and agencies		6,299,659
Due to other governments		23,495
Unearned revenues		538,410
DOE trust liabilities		720,472
Claims payable, current		1,907,912,000
Total Current Liabilities		2,248,625,589
Noncurrent Liabilities		
Claims payable, net of current portion		22,529,622,000
Bonds payable, net of current portion		4,050,000
Other long-term liabilities		11,070,807
DOE trust long-term liabilities		5,461,295
Other post-employment benefits		32,299,000
Total Noncurrent Liabilities		22,582,503,102
Total Liabilities		24,831,128,691
NET POSITION (DEFICIT)		
Net investment in capital assets		58,781,398
Unrestricted		(9,443,182,632)
Total Net Position (Deficit)	$	(9,384,401,234)

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

Statement of Revenues, Expenses, and Changes in Net Position
For the Fiscal Year Ended June 30, 2014

OPERATING REVENUES	
Premiums and assessments, net of refunds	$ 2,200,410,278
Miscellaneous revenue	53,985,664
Total Operating Revenues	2,254,395,942
OPERATING EXPENSES	
Salaries and wages	145,431,265
Employee benefits	58,366,750
Personal services	5,660,458
Goods and services	76,388,980
Travel	4,047,088
Claims	2,810,658,150
Depreciation	7,228,029
Miscellaneous expenses	33,953,974
Total Operating Expenses	3,141,734,694
Operating Income (Loss)	(887,338,752)
NONOPERATING REVENUES (EXPENSES)	
Earnings on investments	1,119,760,673
Other revenues	8,329,652
Interest expense	(461,310)
Total Nonoperating Revenues (Expenses)	1,127,629,015
Income Before Transfers	240,290,263
Transfers in	325,015,122
Transfers out	(325,015,122)
Net Transfers	-
Increase in Net Position	240,290,263
Net Position (Deficit) - July 1	(9,624,691,497)
Net Position (Deficit) - June 30	$ (9,384,401,234)

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

Statement of Cash Flows
For the Fiscal Year Ended June 30, 2014

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	$ 2,143,303,773
Payments to/for beneficiaries	(1,996,225,927)
Payments to employees	(197,405,898)
Payments to suppliers	(90,174,399)
Other	51,858,826
Net Cash Flows from Operating Activities	(88,643,625)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers in	325,251,588
Transfers out	(325,251,588)
Operating grants received	8,490,350
License fees collected	81,499
Net Cash Flows from Noncapital Financing Activities	8,571,849
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Interest paid	(526,710)
Principal payments on bonds payable	(3,605,000)
Acquisitions of capital assets	(4,873,347)
Net Cash Flows from Capital and Related Financing Activities	(9,005,057)
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of trust investments	(316,018)
Receipt of interest and dividends	481,394,965
Investment expenses	(4,441,957)
Proceeds from sale of investment securities	7,516,614,461
Purchases of investment securities	(7,887,123,445)
Net Cash Flows from Investing Activities	106,128,006
Net increase in cash and cash equivalents	17,051,173
Cash & cash equivalents, July 1 (includes trust cash of $510,031)	64,913,442
Cash & cash equivalents, June 30 (includes trust cash of $194,012)	$ 81,964,615
CASH FLOWS FROM OPERATING ACTIVITIES	
Operating income (loss)	$ (887,338,752)
Adjustments to Reconcile Operating Income to Net Cash Flows from Operating Activities	
Depreciation	7,228,029
Change in Assets: Decrease (Increase)	
Receivables	(45,352,852)
Inventories	(119,658)
Prepaid expenses	(232,104)
Change in Liabilities: Increase (Decrease)	
Claims and judgments payable	809,974,000
Accrued liabilities	27,197,712
Net Cash Flows from Operating Activities	$ (88,643,625)
NON CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES	
Increase (Decrease) in fair value of investments	$ 340,670,709

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

Washington State Department of
Labor & Industries

Keep Washington Safe and Working

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2014

Index

Page

Note 1 - Summary of Significant Accounting Policies 38

Note 2 - Accounting and Reporting Changes 45

Note 3 - Deposits and Investments 46

Note 4 - Receivables 54

Note 5 - Interfund/Interagency Balances 54

Note 6 - Capital Assets 55

Note 7 - Noncurrent Liabilities 56

Note 8 - Deficit 59

Note 9 - Retirement Plans 60

Note 10 - Other Postemployment Benefits 61

Note 11 - Commitments and Contingencies 64

Note 12 - Subsequent Events 65

Note 1 - Summary of Significant Accounting Policies

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

1.A. Reporting Entity

The Department of Labor & Industries (L&I), an agency of Washington State and a part of the primary government, administers and enforces laws and regulations in accordance with Titles 43 and 51 of the Revised Code of Washington (RCW) and Title 296 of the Washington Administrative Code (WAC). The provisions of Title 51 RCW require all employers, unless excluded or exempted, to secure coverage for job-related injuries and illnesses either by paying insurance premiums to the Workers' Compensation Program or by self-insuring. Direct private insurance is not authorized, although self-insurers are permitted to reinsure up to 80 percent of their obligations.

The Workers' Compensation Fund is classified as an enterprise fund of the state of Washington. The accompanying basic financial statements present only the activity of the Workers' Compensation Program and do not present the financial position, results of operations, or cash flows of L&I or the state of Washington. L&I's financial report is included in the basic financial statements of the Comprehensive Annual Financial Report of the state of Washington. A copy of the report may be obtained from the Washington State Office of Financial Management, Accounting Division, P.O. Box 43113, Olympia, WA 98504-3113. A copy can also be obtained from the OFM website at http://ofm.wa.gov/cafr.

1.B. Basic Financial Statements

The Workers' Compensation Fund consists of the following seven enterprise accounts:

The Accident Account pays compensation directly to injured workers for lost wages during temporary disability and for permanent partial disability awards. It also pays costs for vocational retraining and for structured settlements. The Accident Account also pays to the Pension Reserve Account the present value of pensions awarded to survivors of fatally injured workers and workers who are permanently and totally disabled.

Revenues for this account are from employer-paid premiums based on individual employers' reported payroll hours and are reported net of refunds. Employers may elect to have their premiums retrospectively rated with an annual adjustment for up to three years following the plan year based on individual employers' actual losses incurred. This may result in either a rebate of premiums paid or an assessment of additional premiums due. The premium adjustment calculation considers both the Accident and Medical Aid Accounts' experience and premiums together. However, retrospective premium adjustments are financed entirely through the Accident Account.

On behalf of injured workers, the Medical Aid Account pays for the cost of medical services, vocational rehabilitation services, and Stay at Work reimbursements. Revenues for this account come mostly from equal contributions from employers and employees; employers are required to withhold half of their medical aid premium from their employees' wages.

The Pension Reserve Account pays benefits to all permanently disabled pensioners, including disabled employees of self-insured employers, their dependents, and surviving dependents of fatalities. Funding for pension payments is generated by transfers from the Accident and Second Injury Accounts and reimbursements from self-insured employers. The funds are invested in securities to cover payments for the expected life of the injured worker or survivor(s).

The three accounts described above are referred to as the Industrial Insurance Fund, the Workers' Compensation Program Basic Plan, or the State Fund. The Accident, Medical Aid, and Pension Reserve Accounts are maintained on an actuarially solvent basis; however, a cash flow basis is used for the surety bond components of the Pension Reserve Account. Self-insured employers have the option to guarantee pension-related benefits with a surety bond or to fund the benefits with cash.

The Supplemental Pension Account provides for a supplemental cost-of-living adjustment (COLA) to injured workers and their dependents receiving disability payments. Per RCW 51.32.073, this account operates on a current payment basis, and no assets are allowed to accumulate for the future servicing of claim payments.

COLA and time-loss payment increases are based on the increase in the state's average wage during the preceding calendar year and are made effective in July of the following year. Revenues for COLA payments arise from assessments to State-Fund-insured and self-insured employers; half of the assessment is deducted from employees' wages.

The Second Injury Account is used to pay pension costs on claims where a permanent total disability is at least partially caused by a prior injury and to fund job modifications for some temporarily disabled workers. It is funded by self-insured assessments for self-insured pension claims, transfers from the Accident Account to the Pension Reserve Account for State-Fund-insured pensions, and transfers from the Medical Aid Account to pay for job modification and other claims. An allowance for future second injury benefit payments is contained within the Accident and Medical Aid Accounts' claims liabilities for State-Fund-insured claims. Therefore, the Second Injury Account does not carry any claims liabilities.

The Self-Insured Employer Overpayment Reimbursement Account reimburses self-insured employers for benefits overpaid during the pendency of board or court appeals in which the self-insured employer prevails and has not recovered. The revenue for this account comes from self-insured employer overpayment assessments.

The Industrial Insurance Rainy Day Fund Account was created by the Legislature during the 2011 session to hold transfers from the Accident and Medical Aid Accounts when assets for those accounts combined are between 10 and 30 percent in excess of their funded liabilities. Primarily, balances in this account will be used to reduce future rate increases or aid businesses in recovering from or during economic recessions. The account did not have any activity during fiscal year 2014 or a balance on June 30, 2014.

L&I presents the following basic financial statements: Statement of Net Position; Statement of Revenues, Expenses, and Changes in Net Position; and the Statement of Cash Flows.

Statement of Net Position – This statement presents assets, liabilities, deferred inflows and deferred outflows of resources for the Workers' Compensation Program in order of liquidity. Net position is classified into three categories:

- **Net investments in capital assets –** Consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

- **Restricted –** Consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets.

- **Unrestricted –** Consists of the net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

Statement of Revenues, Expenses, and Changes in Net Position – This statement presents the activity and changes in net position of the Workers' Compensation Program. Activity is distinguished between operating and non-operating revenues and expenses.

Operating revenues for the Workers' Compensation Program consist mainly of premiums and assessments collected, net of refunds. Operating expenses consist of claims paid to covered individuals, claims adjustment expenses, and administrative expenses. All revenues and expenses not meeting this definition are reported as non-operating, including interest expense and investment gains and losses.

Statement of Cash Flows – This statement reports cash collections and payments for the Workers' Compensation Program to arrive at the net increase or decrease in cash and cash equivalents for the fiscal year.

The preparation of the basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the basic financial statements and accompanying notes. Actual results may differ from those estimates.

1.C. Measurement Focus and Basis of Accounting

Measurement focus describes the types of transactions and events reported in an account's operating statement. The Workers' Compensation Program's seven accounts are accounted for using the economic resources measurement focus, much like that of a private-sector business. With this measurement focus, all assets and liabilities associated with the operations of the accounts are included in the Statement of Net Position. Operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in total net position with a focus on transactions and events that have increased or decreased the accounts' total economic resources during the period.

The basis of accounting determines the timing of the recognition of transactions and events. All accounts of the Workers' Compensation Program are reported on using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred.

1.D. Assets, Liabilities, and Net Position

1.D.1. Cash and Cash Equivalents

Cash and cash equivalents are reported on the accompanying Statement of Net Position and Statement of Cash Flows. Cash includes cash in banks, cash on deposit with the Office of the State Treasurer (OST), and cash on hand. Cash equivalents are pooled investments and include short-term, highly-liquid investments that are both readily convertible to cash and mature within three months of the date acquired.

Under RCW 43.08.015, OST has the statutory responsibility to ensure the effective cash management of the state's public funds. RCW 43.84.080 authorizes the Treasurer to invest available cash and includes a list of eligible investments. OST invests Workers' Compensation Program cash surpluses where funds can be disbursed at any time without prior notice or penalty. As a result, the cash balances of accounts with surplus pooled balances are not reduced for these investments.

1.D.2. DOE Trust Cash and Investments

The U.S. Department of Energy has contracted with the Workers' Compensation Program to pay benefits to Hanford nuclear production complex workers injured on the job. Funds provided in advance by the U.S. Department of Energy to cover the pension liability determined by the Workers' Compensation Program are restricted assets and recorded as "DOE trust cash and investments." The remaining pension liability not covered by DOE trust cash and investments is recorded as "DOE trust receivable."

As of June 30, 2014, trust cash and investments of $720,472, representing the estimated current liability to L&I for the reimbursement of pension payments to Hanford injured workers, are classified as current assets on the Statement of Net Position. The remaining balance of trust cash and investments amounted to $1,950,695 and is classified under noncurrent assets. Trust investments were invested in one-year U.S. Treasury Notes.

1.D.3. Investments

Noncurrent investments are reported at fair value. Fair values are based on published market prices, quotations from national security exchanges, and security pricing services.

1.D.4. Receivables and Payables

Current receivables arose in the ordinary course of business and consist of amounts due for workers' compensation premiums, investment interest receivable, and other miscellaneous receivables. Receivables are recorded when they can be reasonably estimated and have been earned (i.e., overpayment has occurred, service has been performed, or the time period has passed). Receivables due for workers' compensation premiums for the quarter ended June 30, 2014, are estimated. All receivables are reported net of an allowance for accounts estimated to be uncollectible. Current accounts receivable are generally expected to be collected within one year following the end of the fiscal year.

The Workers' Compensation Program uses the allowance method for establishing an allowance for uncollectible receivables. Management regularly reviews receivables and adjusts the allowance based on weighted average percentages calculated from a historical analysis of past collection activity. The allowance percentages are determined based on age category and collection activity for each receivable. Interest accrues on overdue accounts receivable at the rate of 1 percent per month. When an account is deemed uncollectible, it is written off against the allowance; however, such accounts are not forgiven until allowed by law. The Workers' Compensation Program does not require collateral for its accounts receivable except for self-insurance pension receivables.

The Workers' Compensation Program establishes claims liabilities (unpaid loss and loss adjustment expense liabilities) based on estimates of the ultimate cost of claims (including future claims adjustment expenses) that have been reported but not resolved and claims that have been incurred but not reported. The length of time for which such costs must be estimated varies depending on the type of benefit involved. Because actual claim costs depend on complex factors, such as inflation, changes in doctrines of legal liabilities, claim adjudication, and judgments, the actual ultimate claim costs may differ from the estimates. In accordance with GASB Statement No.10, the claims liabilities are reported net of recoveries.

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.

In the Accident Account, the incurred but not-yet-awarded pensions are discounted at a rate between 4.5 and 6.5 percent from the anticipated payment dates back to the anticipated time of award, and 1.5 percent from the anticipated time of award to the evaluation date. All other

Accident, Medical Aid, and Supplemental Pension Account claim liabilities are discounted at 1.5 percent. The claim liabilities in the Pension Reserve Account are discounted at 6.5 percent.

The actuaries estimate accrued retrospective premium annual adjustments for unadjusted enrollment periods by reviewing historical participation and return patterns. The historical averages are used to arrive at an estimate of net retrospective return premiums for unadjusted periods. Cumulative return premiums for periods from the first annual adjustment through the third annual adjustment are system-generated, and the accruals are the difference between the cumulative returns and the amount already returned. The third annual retrospective adjustment is final. Retrospective return premiums due to employers are netted with additional premiums due from employers and recorded as a liability in the Accident Account.

1.D.5. Inventories and Prepaid Expenses

Consumable inventories consisting of expendable materials and supplies held for consumption are valued and reported in the Statement of Net Position at weighted average cost if the fiscal year-end balance on hand at an inventory control point exceeds $50,000. The Workers' Compensation Program expenses consumable inventories when used.

Prepaid expenses are certain types of services that will benefit future accounting periods and are accounted for using the consumption method. The portion of services used during a period is recorded as an expense. The remaining balance is reported as an asset until consumed. As of June 30, 2014, prepaid expenses amounted to $235,304.

1.D.6. Capital Assets

Capital assets are tangible or intangible assets held and used in the Workers' Compensation Program operations which have a service life of more than one year and meet the state's capitalization policy. In accordance with OFM policy, it is the Workers' Compensation Program's policy to capitalize:

- All land
- Buildings, building improvements, improvements other than buildings, and leasehold improvements with a cost of $100,000 or greater
- Infrastructure with a cost of $100,000 or greater
- Intangible assets, either purchased or internally developed, with a cost of $1,000,000 or greater and that are "identifiable" by meeting either of the following conditions:
    - The asset is capable of being separated or divided and sold, transferred, licensed, rented, or exchanged; or
    - The asset arises from contractual or other legal rights, regardless of whether those rights are transferable or separable

- All capital assets acquired with a Certificate of Participation

- All other capital assets with a unit cost (including ancillary costs) of $5,000 or greater, unless otherwise noted

Capital assets are recorded at cost. Capital asset costs include the purchase price plus those costs necessary to place the asset in its intended location and condition for use. Normal maintenance and repair costs that do not materially add to the value or extend the life of capital assets are not capitalized.

The value of assets constructed for use in the Workers' Compensation Program includes all direct construction costs and indirect costs such as agency project management costs that are related to the construction. Net interest cost incurred during the period of construction, if material, is capitalized.

Depreciation is calculated using the straight-line method over the estimated useful lives of the assets. The cost and related accumulated depreciation of capital assets that have been disposed of are removed from the accounting records.

Generally, estimated useful lives are as follows:

- Buildings and building components 5 to 50 years

- Furnishings, equipment, and collections 3 to 50 years

- Other improvements 3 to 50 years

- Infrastructure 20 to 50 years

- Intangible assets with definite useful lives 3 to 50 years

1.D.7. Compensated Absences

Workers' Compensation Program employees accrue vested annual leave at a variable rate based on years of service. In general, accrued annual 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 Workers' Compensation Program does not pay employees for unused sick leave upon termination except upon employee death or retirement. At death or retirement, the Workers' Compensation Program is liable for 25 percent of the employee's accumulated sick leave. In addition, the Workers' Compensation Program 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.

The Workers' Compensation Program recognizes the expense and accrues a liability for annual leave and estimated sick leave buyout, including related payroll taxes and applicable benefits, as the leave is earned. It is the Workers' Compensation Program's policy to liquidate unpaid compensated absences outstanding at June 30 with future resources rather than advance funding it with currently available expendable financial resources.

1.E. Other Information

1.E.1. Risk Management

The state of Washington operates a self-insurance liability program pursuant to RCW 4.92.130. The state's policy is generally not to purchase commercial insurance for the risk of losses to which it is exposed. Instead, the state's management believes it is more economical to manage its risks internally and set aside assets for claims settlement in the Risk Management Fund, an internal service fund. A limited amount of commercial insurance is purchased for certain liabilities and to limit the exposure to catastrophic losses. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past ten years. Otherwise, the self-insurance liability program services all claims against the state for injuries and property damage to third parties.

The Workers' Compensation Program participates in the state's self-insurance liability program, in proportion to its anticipated exposure to liability losses, to manage its various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters.

1.E.2. Interfund/Interagency Activities

The Workers' Compensation Program engages in reciprocal and non-reciprocal interfund/interagency activities that may include an element of indirect cost. Reciprocal interfund/interagency activity is the internal counterpart to exchange and exchange-like transactions. Non-reciprocal activity is non-exchange in nature and includes both transfers and reimbursements.

Note 2 - Accounting and Reporting Changes

Reporting Changes

Effective for fiscal year 2014 reporting, the Workers' Compensation Program adopted the following new standard issued by the GASB:

GASB Statement No. 70 *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. GASB Statement No. 70 provides guidance to improve recognition, measurement, and disclosures for financial guarantees that are nonexchange transactions. See Note 11.C. for the Financial Guarantees disclosure.

Note 3 - Deposits and Investments

3.A. Deposits

Custodial credit risk for deposits is the risk that, in the event of a depository financial institution's failure, the Workers' Compensation Program would not be able to recover its deposits. See Note 1.D.1 for more information on cash and cash equivalents.

The Workers' Compensation Program 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 RCW, makes and enforces regulations and administers a collateral pool program to ensure that 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.

The OST manages the deposits for the Workers' Compensation Program. At June 30, 2014, $82.0 million of the Workers' Compensation Program's deposits with financial institutions were either insured or collateralized, with the remaining $2.5 million uninsured/uncollateralized. The Federal Deposit Insurance Corporation (FDIC) covers the Workers' Compensation Program's insured deposits, and the PDPC provides collateral protection.

3.B. Investments

3.B.1. Summary of Investment Policies

Under RCW 43.33A.030, trusteeship of the Workers' Compensation Program's 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, as it makes investment decisions and seeks to meet its investment objectives.

In accordance with RCW 43.33A.110, the Workers' Compensation Program portfolios are to be managed to limit fluctuations in workers' compensation premiums, and, subject to this purpose, achieve a maximum return at a prudent level of risk. Based on this requirement, the objectives are to:

- Maintain the solvency of the accounts.
- Maintain premium rate stability.
- Ensure that 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 Barclays Capital Global Family of Fixed Income Indices
- Asset-backed securities rated investment grade, as defined by Barclays Capital Global Family of Fixed Income Indices
- Commercial mortgage-backed securities rated investment grade, as defined by Barclays Capital Global Family of Fixed Income Indices
- Investment grade non-U.S. dollar bonds

Investment Restrictions - To meet stated objectives, investments of the Workers' Compensation Program 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 three to 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.
- Sector allocation for U.S. equities should be within a range of 55 to 65 percent. Allocation for international equities should be within a range of 35 to 45 percent.
- The benchmark and structure for U.S. equities will be the broad U.S. stock market as defined by the Morgan Stanley Capital International (MSCI) U.S. Investable Market

Index. The benchmark and structure for international equities will be the MSCI All Country World Ex U.S. Investable Market Index. Both portfolios will be 100 percent passively managed in commingled index funds. The commingled funds may use futures for hedging or establishing a long position.

- Sector allocation of fixed income investments are to be managed within prescribed ranges. These targets are long-term in nature. 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 to 25 percent
Credit bonds	20 to 80 percent
Asset-backed securities	0 to 10 percent
Commercial mortgage-backed securities	0 to 10 percent
Mortgage-backed securities	0 to 25 percent

- Total market value of below investment grade credit bonds (as defined by Barclays Capital Global 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 should not exceed 5 percent of total market value of the funds.

3.B.2. Securities Lending

The Workers' Compensation Program participates in securities lending programs with the WSIB and the OST to increase investment income. At June 30, 2014, the Workers' Compensation Program had $4,115,764 of cash collateral received in the Accident Account and invested through the WSIB. There was $302,227 of cash collateral received in the Medical Aid Account and the Supplemental Pension Accounts invested through the OST.

Securities Lending – WSIB

State law and WSIB policy permit the Workers' Compensation Program 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 Program in securities lending transactions. As State Street Corporation is the custodian bank for the Workers' Compensation Program, it is counterparty to securities lending transactions.

The fair value of the securities on loan at June 30, 2014, was approximately $69.4 million. The Workers' Compensation Program reports securities on loan on the Statement of Net Position in their respective categories. At June 30, 2014, cash collateral received totaling $4.1 million is reported as a securities lending obligation, and the fair value of the reinvested cash collateral totaling $4.1 million is reported as security lending collateral in the Statement of Net Position. Securities received as collateral for which the Workers' Compensation Program does not have the ability to pledge or sell unless the borrower defaults are not reported as assets or liabilities in the Statement of Net Position. Total securities received as collateral at June 30, 2014, was $66.9 million.

During fiscal year 2014, debt securities were loaned and collateralized by the Workers' Compensation Program'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.

As of June 30, 2014, the Workers' Compensation Program held the following securities from reinvestment of cash collateral and securities received as collateral:

Collateral Held Under Securities Lending
June 30, 2014
(in thousands)

	Cash Collateral	Non Cash Collateral	Total
Mortgage-backed	$ -	$ 66,867	$ 66,867
Repurchase agreements	2,093	-	2,093
Yankee CD	758	-	758
Cash equivalents and other	1,264	-	1,264
Total Collateral Held	$ 4,115	$ 66,867	$ 70,982

Securities lending transactions could be terminated on demand either by the Workers' Compensation Program or the borrower. As of June 30, 2014, the collateral held had an average duration of 22.5 days and an average weighted final maturity of 82.2 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 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 were lent with the agreement that they would be returned in the future for exchange of the collateral. State Street Corporation indemnified the Workers' Compensation Program 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 2014, there were no significant violations of legal or contractual provisions, no failures by any borrowers to return loaned securities or to pay distributions thereon. Further, the Workers' Compensation Program incurred no losses during fiscal year 2014 resulting from a default by either the borrowers or the securities lending agents.

Securities Lending – OST

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, which has contracted with Citibank as a lending agent to lend securities, receives earnings for this activity.

The OST's lending agent lends U.S. government and U.S. agency 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 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. One option available to the lending agent is to invest cash collateral into an OST account in the Local Government Investment Pool (LGIP). The LGIP portfolio is invested in a manner generally consistent with a Rule 2a-7 money market fund recognized by the Securities and Exchange Commission (17CFR.270.2a-7). Rule 2a-7 funds are limited to high quality obligations with limited maximum and average maturities, the effect of which is to minimize both market and credit risk. At June 30, 2014, the Workers' Compensation Programs' cash collateral totaled $302,227, all of which was invested in the LGIP.

The contract with the lending agent requires them to indemnify the OST if the borrowers fail to return the 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, 2014, the fair value of securities on loan for the Workers' Compensation Program totaled about $295,056.

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 2014, the OST had no credit risk exposure to borrowers because the amounts owed to the borrowers exceeded the amounts the borrowers owed to the OST.

There were no violations of legal or contractual provisions or any losses resulting from a default of a borrower or lending agent during the fiscal year.

3.B.3. Interest Rate Risk

Interest rate risk is the risk that changes in interest rates over time will adversely affect the fair value of an investment. While the Workers' Compensation Program does not have a formal policy relating to interest rate risk, the risk is managed within the Workers' Compensation Program 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 those investments. As of June 30, 2014, the Workers' Compensation Program portfolio durations were within the prescribed duration targets.

The schedule below provides information about the interest rate risks associated with the Workers' Compensation Program investments as of June 30, 2014. The schedule displays various asset classes held by maturity in years, credit ratings, and effective duration. All debt securities are reported using 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.

Schedule of Maturities and Credit Ratings
(in thousands)

		Maturity					Effective
Investment Type	**Fair Value**	**Less than 1 year**	**1-5 years**	**6-10 years**	**More than 10 years**	**Credit Rating**	**Duration (years)**
Mortgage and other asset-backed securities	$ 2,066,899	$ 76,875	$1,667,484	$ 264,417	$ 58,123	Multiple	3.63
Corporate bonds	8,660,211	275,063	3,494,935	1,668,569	3,221,644	Multiple	7.59
U.S. government and agency securities	1,075,340	70,022	974,154	31,164	-	Aaa	3.46
Foreign government and agencies	507,173	48,136	213,168	190,870	54,999	Multiple	5.40
	12,309,623	$ 470,096	$6,349,741	$2,155,020	$3,334,766		
Investments Not Required to be Categorized							
Commingled investment trusts	1,886,836						
Cash and cash equivalents	306,092						
Total investments not categorized	2,192,928						
Total	$ 14,502,551						

Investments with multiple credit ratings at June 30, 2014, are presented using the Moody's rating scale as follows:

Multiple Credit Rating Disclosure
(in thousands)

Moody's Equivalent Credit Rating	Investment Type: Mortgage and Other Asset-Backed Securities	Investment Type: Corporate Bonds	Investment Type: Foreign Government and Agency Securities	Total Fair Value
Aaa	$ 2,016,472	$ 381,324	$ 212,325	$ 2,610,121
Aa1	-	-	-	-
Aa2	-	52,623	95,857	148,480
Aa3	50,427	1,152,991	62,583	1,266,001
A1	-	791,003	38,806	829,809
A2	-	1,176,508	-	1,176,508
A3	-	1,293,549	-	1,293,549
Baa1	-	1,276,628	17,340	1,293,968
Baa2	-	1,502,409	10,865	1,513,274
Baa3	-	757,247	69,397	826,644
Ba1 or lower	-	275,929	-	275,929
Total Fair Value	$ 2,066,899	$ 8,660,211	$ 507,173	$ 11,234,283

3.B.4. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Workers' Compensation Program 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 Program as of June 30, 2014, 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 Program policy states that 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. There was no concentration of credit risk as of June 30, 2014.

Custodial Credit Risk (Investments) - Custodial credit risk is the risk that, in the event that a depository institution or counterparty fails, the Workers' Compensation Program would not be able to recover the value of its deposits, investments, or collateral securities. The Workers' Compensation Program 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 Program.

3.B.5. Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The Workers' Compensation Program does not have a formal policy to limit foreign currency risk. The only security held by the Workers' Compensation Program with foreign currency exposure at June 30, 2014, consisted of $682.4 million invested in an international commingled equity index fund.

3.B.6. Derivatives

To manage its exposure to fluctuations in interest and currency rates while increasing portfolio returns, the Workers' Compensation Program is authorized to utilize various derivative financial instruments, including collateralized mortgage obligations, financial futures, forward contracts, interest rate and equity swaps, and options.

Derivative transactions involve, to varying degrees, market and credit risk. The Workers' Compensation Program mitigates market risks arising from derivative transactions by requiring collateral in cash and investments to be maintained equal to the securities positions outstanding, and thereby prohibiting the use of leverage or speculation. Credit risks arising from derivative 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 securities to manage exposure to risk and increase portfolio returns. Information on the extent of use and holdings of derivative securities by passive equity index fund managers is unavailable.

At June 30, 2014, the only derivative securities held directly by the Workers' Compensation Program were collateralized mortgage obligations (CMOs) of $1.47 billion.

3.B.7. Reverse Repurchase Agreements

State law permits the Workers' Compensation Program to enter into reverse repurchase agreements, i.e., a sale of securities with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest. The fair value of the securities underlying reverse repurchase agreements normally exceeds the cash received, providing the dealers a margin against a decline in fair value of the securities. If the dealers default on their obligations to resell these securities to the state or provide securities or cash of equal value, the Workers' Compensation Program would suffer an economic loss equal to the difference between the fair value plus accrued interest of the underlying securities and the agreement obligation, including accrued interest. There were no reverse repurchase agreements entered into during fiscal year 2014, and there were no liabilities outstanding as of June 30, 2014.

Note 4 - Receivables

Receivables at June 30, 2014, consisted of the following:

Receivables June 30, 2014	
Current Receivables	
Premiums receivable	
Actual premiums receivable	$ 137,359,714
Estimated premiums receivable [1]	574,243,000
Estimated self-insurance premiums receivable [2]	52,124,029
Total Premiums Receivable	763,726,743
Other receivables	
Receivable from overpayments	1,425,784
Investment interest receivable	106,895,872
Safety fines and penalties receivable	10,268,405
Miscellaneous receivables	43,863,013
Total Current Receivables, Gross	926,179,817
Less: Allowance for uncollectible receivables	143,873,540
Total Current Receivables, Net of Allowance	$ 782,306,277

[1]Estimated premiums receivable represents premiums due for the quarter ended June 30, 2014. Premium amounts were estimated by L&I actuaries, to be collected for the Accident, Medical Aid, and Supplemental Pension Accounts.

[2]Estimated self-insurance premiums receivable represents estimated assessment receivables accrued for the quarter ended June 30, 2014, based on prior employer quarterly reports. This amount also includes pension receivables, experting, and current receivable balances.

Note 5 - Interfund/Interagency Balances

Receivables from other state accounts and agencies as of June 30, 2014, consisted of the following:

Receivables From Other State Accounts and Agencies June 30, 2014	
General Fund	$ 1,271,693
L&I accounts	4,475
Other state agencies	20,802
Total Receivables From Other State Accounts and Agencies	$ 1,296,970

Payables to other state accounts and agencies as of June 30, 2014, consisted of the following:

Payables To Other State Accounts and Agencies June 30, 2014	
General Fund	$ 854
L&I accounts	79,881
Other state agencies	6,218,924
Total Payables To Other State Accounts and Agencies	**$ 6,299,659**

All balances are expected to be paid within one year from the date of the basic financial statements. These balances resulted from goods and services provided prior to June 30, 2014, and paid after the fiscal year ended. Receivables or payables within the Workers' Compensation Program are not included in the above totals.

Note 6 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2014, was as follows:

Capital Assets Activity
Fiscal Year 2014

	Beginning Balance July 1, 2013	Increases	Decreases	Ending Balance June 30, 2014
Capital Assets Not Being Depreciated:				
Land and collections	$ 3,239,748	$ -	$ -	$ 3,239,748
Construction in progress	6,202,358	4,458,883	-	10,661,241
Total Capital Assets Not Being Depreciated	9,442,106	4,458,883	-	13,900,989
Capital Assets Being Depreciated:				
Buildings and building components	65,133,602	-	-	65,133,602
Accumulated depreciation	(27,641,460)	(1,353,502)	-	(28,994,962)
Net Buildings and Building Components	37,492,142	(1,353,502)	-	36,138,640
Furnishings, equipment, and collections	68,135,129	415,063	(3,707,432)	64,842,760
Accumulated depreciation	(64,987,862)	(1,037,499)	3,550,596	(62,474,765)
Net Furnishings, Equipment, and Collections	3,147,267	(622,436)	(156,836)	2,367,995
Other improvements	1,289,262	-	-	1,289,262
Accumulated depreciation	(686,767)	(20,408)	-	(707,175)
Net Other Improvements	602,495	(20,408)	-	582,087
Total Capital Assets Being Depreciated, Net	41,241,904	(1,996,346)	(156,836)	39,088,722
Intangible assets - definite useful lives	24,082,987	-	-	24,082,987
Accumulated amortization	(5,604,680)	(4,816,620)	-	(10,421,300)
Total Capital Assets Being Amortized, Net	18,478,307	(4,816,620)	-	13,661,687
Total Capital Assets, Net of Depreciation and Amortization	$ 69,162,317	$ (2,354,083)	$ (156,836)	$ 66,651,398

For fiscal year 2014, the total depreciation expense was $7,228,029.

Note 7 - Noncurrent Liabilities

7.A. Bonds Payable

The Workers' Compensation Program is responsible for semi-annual payments on a certain portion of two series of general obligation bonds issued by the state of Washington between 1993 and 2007. The bond proceeds provided funding for the acquisition and construction of the building and grounds known as L&I's headquarters in Tumwater, Washington, and refunding of general obligation bonds previously outstanding. The federal arbitrage regulations do not apply to the Workers' Compensation Program.

The terms of the bond payment obligations are as follows:

- **The General Obligation Bonds of Series R-93B**
  The Workers' Compensation Program is required to make varying annual principal and interest payments, with the final payment due in fiscal year 2016. The principal amount of these bonds outstanding was $5,005,000 at June 30, 2014. Bonds outstanding at June 30, 2014, have coupon interest rates of 5.7 percent. The original amount of this bond issue was $19,960,000 in fiscal year 1993.

- **The General Obligation Bonds of Series R-2007C**
  The Workers' Compensation Program is required to make annual interest payments. The next principal payment will be in fiscal year 2015, with the final payment due in fiscal year 2016. The principal amount of these bonds outstanding was $2,865,000 at June 30, 2014. Bonds outstanding at June 30, 2014, have coupon interest rates of 5 percent. The original amount of this bond issue was $6,635,000 in fiscal year 2007.

In fiscal year 2014, the Workers' Compensation Program paid $3,605,000 in principal and $526,710 in interest on these bonds. Since a portion of the interest paid was for the prior year, total fiscal year 2014 interest expense was $461,310.

There are no covenants related to the Workers' Compensation Program's obligation for these bonds. The annual debt service requirements to maturity for general obligation bonds for the fiscal years ending June 30 are as follows:

General Obligation Bonds
Debt Service Requirements
by Fiscal Year

	Principal	Interest	Total
2015	$ 3,820,000	$ 324,530	$ 4,144,530
2016	4,050,000	110,263	4,160,263
Total Debt Service Requirements	$ 7,870,000	$ 434,793	$ 8,304,793
Current portion	$ 3,820,000	$ 324,530	$ 4,144,530
Noncurrent portion	$ 4,050,000	$ 110,263	$ 4,160,263

Debt Refunding

When advantageous and permitted by statute and bond covenants, the State Finance Committee authorizes the refunding of outstanding bonds. When the state refunds outstanding bonds, the net proceeds of each refund issued are used to purchase U.S. government securities. These securities 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 has been removed from the Statement of Net Position. There were no debt refundings in fiscal year 2014.

7.B. Claims Payable

The following schedule presents the changes in claims liabilities (unpaid claims and claim adjustment expense liabilities) for the past two fiscal years for the Workers' Compensation Program:

Changes in Claims Liabilities
June 30, 2014 and 2013

Claims Payable	**June 30, 2014**	**June 30, 2013**
Unpaid claims and claim adjustment expenses at beginning of fiscal year	$ 23,627,560,000	$ 22,596,350,000
Incurred claims and claim adjustment expenses		
Provision for insured events of the current fiscal year	1,910,196,000	1,924,011,000
Increase in provision for insured events of prior fiscal years	1,043,312,000	1,226,506,000
Total Incurred Claims and Claim Adjustment Expenses	2,953,508,000	3,150,517,000
Payments		
Claims and claim adjustment expenses attributable to		
Events of the current fiscal year	296,885,000	296,347,000
Insured events of prior fiscal years	1,846,649,000	1,822,960,000
Total payments	2,143,534,000	2,119,307,000
Total Unpaid Claims and Claim Adjustment Expenses at Fiscal Year End	$ 24,437,534,000	$ 23,627,560,000
Current portion	$ 1,907,912,000	$ 1,851,660,000
Noncurrent portion	$ 22,529,622,000	$ 21,775,900,000

At June 30, 2014, $35.4 billion of unpaid loss and loss adjustment expense liabilities are presented at their net present and settlement value of $24.4 billion. These claims are discounted at an assumed interest rate of 1.5 percent (for time-loss and medical), and 4.5 to 6.5 percent (for pension) to arrive at a settlement value.

The claims and claim adjustment liabilities of $24.4 billion, as of June 30, 2014, include $11.5 billion for supplemental pension COLAs that are funded on a current basis per RCW 51.32.073. Management believes the funding is in compliance with the statute. The remaining claim liabilities of $12.9 billion are fully funded by a diverse portfolio of fixed income instruments, equity index funds, and cash, managed by the WSIB.

7.C. Changes in Current and Noncurrent Liabilities

Current and noncurrent liability activity for the fiscal year ended June 30, 2014, was as follows:

Current and Noncurrent Liability Activity
Fiscal Year 2014

Current and Noncurrent Liabilities	**Beginning Balance July 1, 2013**	**Additions**	**Reductions**	**Ending Balance June 30, 2014**	**Due Within One Year[2]**	**Noncurrent Balance June 30, 2014**
Claims payable, current & noncurrent	$ 23,627,560,000	$ 2,953,508,000	$ (2,143,534,000)	$ 24,437,534,000	$ 1,907,912,000	$ 22,529,622,000
Bonds payable						
General obligation bonds						
Series R-93B	7,305,000	-	(2,300,000)	5,005,000	2,430,000	2,575,000
Series R-2007C	4,170,000	-	(1,305,000)	2,865,000	1,390,000	1,475,000
Total Bonds Payable	11,475,000	-	(3,605,000)	7,870,000	3,820,000	4,050,000
Other current and noncurrent liabilities						
Compensated absences[1]	14,661,965	16,426,872	(17,143,787)	13,945,050	2,874,243	11,070,807
DOE trust liabilities	6,386,029	-	(204,262)	6,181,767	720,472	5,461,295
Other postemployment benefits	25,763,000	8,732,000	(2,196,000)	32,299,000	-	32,299,000
Total Other Current and Noncurrent Liabilities	46,810,994	25,158,872	(19,544,049)	52,425,817	3,594,715	48,831,102
Total Current and Noncurrent Liabilities	$ 23,685,845,994	$ 2,978,666,872	$ (2,166,683,049)	$ 24,497,829,817	$ 1,915,326,715	$ 22,582,503,102

[1]Compensated absences due within one year are included in accrued liabilities on the Statement of Net Position.
[2]There are other current liabilities that are not included in the table above.

7.D. Operating Leases

The Workers' Compensation Program leases land, office facilities, office and computer equipment, and other assets under a variety of operating lease agreements. Although lease terms vary, most leases are subject to appropriation from the State Legislature to continue the obligation. Since the possibility of not receiving funding from the Legislature is remote, leases are considered noncancelable for financial reporting purposes. Certain operating leases are renewable for specified periods. Management expects that the leases will be renewed or replaced by other leases.

The following schedule presents future minimum payments for operating leases as of June 30, 2014:

Future Minimum Payments June 30, 2014	
Operating Leases (by Fiscal Year)	
2015	$ 7,545,856
2016	6,519,872
2017	5,136,339
2018	1,775,689
2019	633,362
Total Future Minimum Lease Payments	$ 21,611,118

The total operating lease rental expense for fiscal year 2014 was $ 10,368,992.

Note 8 - Deficit

At June 30, 2014, the Workers' Compensation Program had a deficit of $9.4 billion. This is a result of a $11.3 billion deficit in the Supplemental Pension Account at June 30, 2014, offset by a combined $1.9 billion net position in the total Basic Plan, Second Injury Account, and the Self-Insured Employer Overpayment Reimbursement Account. The Workers' Compensation Program Basic Plan is funded based on rates that will keep the plan solvent in accordance with recognized actuarial principles. Supplemental COLA adjustments granted for time-loss and disability payments, however, are funded on a pay-as-you-go basis. According to RCW 51.32.073, the Supplemental Pension Account is allowed to collect only enough revenue to provide for current payments. At June 30, 2014, non-current claims payable in the Supplemental Pension Account was $11.1 billion.

The following table summarizes the change in deficit balance for the Supplemental Pension Account during fiscal year 2014.

Supplemental Pension Account **Net Position (Deficit)**	
Balance, July 1, 2013	$ (11,069,653,564)
Fiscal year 2014 activity	(223,723,026)
Balance, June 30, 2014	$ (11,293,376,590)

Note 9 - Retirement Plans

Workers' Compensation Program employees participate in the Washington State Public Employees' Retirement System (PERS) administered by the Department of Retirement Systems (DRS).

The Legislature established the 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, 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. Approximately 49 percent of PERS salaries are accounted for by state employment.

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. 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 to be 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, are Plan 2 members, unless they exercised an option to transfer their membership to Plan 3.

PERS participants joining the system on or after March 1, 2002, have the irrevocable option of choosing membership in either Plan 2 or Plan 3. The option must be exercised within 90 days of employment. Employees who fail to make a selection within 90 days default to PERS Plan 3.

PERS plans provide retirement, disability, and death benefits to eligible members. The annual benefit is 2 percent of the average final compensation (AFC) per year of service for Plan 1 and Plan 2, and 1 percent of the AFC per year of service for the defined benefit portion of Plan 3.

PERS Plan 1 and Plan 2 members are vested after the completion of five years of eligible service. Effective June 7, 2006, 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; or after five service credit years earned in PERS Plan 2 by June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan.

An actuarial valuation of the retirement plan for the Workers' Compensation Program as a stand-alone entity is not available. A complete description of benefits and pension note disclosures for the PERS is included in the Comprehensive Annual Financial Report for the state of Washington. A copy of this report may be obtained by contacting the Accounting Division of the

Office of Financial Management at P.O. Box 43113, Olympia, Washington 98504-3113, or online at http://www.ofm.wa.gov/cafr.

Each biennium, the state Pension Funding Council adopts Plan 1 employer contributions rates, Plan 2 employer and employee contribution rates, and Plan 3 employer contribution rates. Contribution requirements are established and amended by state statute. All employers are required to contribute at the level established by the Legislature. The methods used to determine the contribution requirements are established under state statute in accordance with chapters 41.40 and 41.45 RCW.

Employee contribution rates for Plan 1 are established by statute at 6 percent for state agencies. Contributions for Plan 2 members are determined by the aggregate method and may vary over time. The contribution rates for Plan 2 state agency employees at June 30, 2014, 2013, and 2012, were 4.92, 4.64, and 4.64 percent of the employee's annual covered salary, respectively. Under Plan 3, employer contributions finance the defined benefit portion of the plan, and member contributions finance the defined contribution portion. The Director of the DRS sets Plan 3 employee contribution rate options. Members can choose from six rate options ranging from 5 to 15 percent. Two of the options are graduated rates dependent on the employee's age.

The employer contribution rates for the Workers' Compensation Program at June 30, 2014, 2013, and 2012, for each of Plans 1, 2, and 3 were 9.21, 7.21, and 7.08 percent of the employee's annual covered salary, respectively. The Workers' Compensation Program contributed 100 percent of the required amounts, which were $13,528,925, $10,147,452, and $9,858,778, to the PERS during fiscal years 2014, 2013, and 2012, respectively.

Note 10 - Other Postemployment Benefits

The Workers' Compensation Program is administered by L&I, an agency of the state of Washington and part of the primary government. Employees of the Workers' Compensation Program are eligible to participate in the state of Washington's defined benefit Other Postemployment Benefit (OPEB) plan, an agent multiple-employer plan, as administered by the state through the Washington State Health Care Authority (HCA).

Plan Description and Funding Policy

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, including establishment of eligibility criteria for both active and retired employees. PEBB programs include medical, dental, life, and long-term disability insurance.

The relationship between the PEBB OPEB plan and its member employers and their employees and retirees is not formalized in a contract or plan document. Rather, the benefits are provided in accordance with a substantive plan. 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 PEBB retiree OPEB plan is available to employees who elect to continue coverage and pay the administratively established premiums at the time they retire under the provisions of the retirement system to which they belong. Retirees' access to PEBB plans 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, School Employees' Retirement System, Washington State Patrol Retirement System, and Higher Education.

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 claim costs and the premium. In calendar year 2013, the average weighted implicit subsidy was valued at $294 per month per member, and in calendar year 2014, the average weighted implicit subsidy is projected to be $291 per month per member.

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. In calendar year 2013, the explicit subsidy was up to $150 per month per member, and it remained up to $150 per month per member in calendar year 2014.

Administrative costs, as well as implicit and explicit subsidies, are funded by required contributions from participating employers. The subsidies provide monetary assistance for medical benefits.

Contributions are set each biennium as part of the budget process. In fiscal year 2014, the cost of the subsidies was approximately 5.9 percent of the cost of benefits for active employees. The benefits are funded on a pay-as-you-go basis.

The plan has no investments or other assets. Accordingly, the PEBB OPEB plan is not reported in the financial statements of the state nor is a separate financial report publicly available. For information on the results of the most recent actuarial valuation for the OPEB refer to:
http://osa.leg.wa.gov/Actuarial_Services/OPEB/OPEB.htm.

Annual OPEB Cost and Net OPEB Obligation

The state's (general government agencies and higher education institutions) annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the state as the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

The annual OPEB cost recorded for the Workers' Compensation Program represents an allocation of the total ARC of the state of Washington, adjusted for interest and amortization. The Workers' Compensation Program's annual OPEB cost is calculated by the Washington State Office of State Actuaries (OSA) and is recorded by OFM. The allocation is primarily based on L&I's number of active and retired employees in relation to the total number of active and retired employees of the state.

The following tables show components of the Workers' Compensation Program's allocated annual OPEB costs for fiscal year 2014 and changes in the Workers' Compensation Program's Net OPEB Obligation (NOO). All contributions required by the funding method were paid.

Components of Allocated Annual OPEB Cost

Fiscal Year 2014

Annual required contribution	$ 8,625,000
Allocated interest on net OPEB obligation	1,031,000
Allocated amortization of net OPEB obligation	(924,000)
Allocated annual OPEB cost	8,732,000
Allocated contributions made	(2,196,000)
Increase in net OPEB obligation	6,536,000
Net OPEB obligation, beginning of year	25,763,000
Net OPEB obligation, end of year	$ 32,299,000

The Workers' Compensation Program's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the NOO for fiscal years 2014, 2013, and 2012 were as follows:

Net OPEB Obligation

by Fiscal Year

	2014	2013	2012
Allocated annual OPEB cost	$ 8,732,000	$ 8,451,000	$ 7,796,000
Percentage of annual OPEB cost contributed	25.1%	22.8%	27.2%
Net OPEB obligation	$ 32,299,000	$ 25,763,000	$ 19,237,000

The Workers' Compensation Program's NOO represents 1.7 percent, 1.6 percent, and 1.5 percent of the state of Washington's NOO as of June 30, 2014, 2013, and 2012, respectively.

A complete description of the funded status and actuarial assumptions of the state of Washington's OPEB plan is included in the Comprehensive Annual Financial Report for the state of Washington. A copy of this report may be obtained by contacting the Accounting Division of the Office of Financial Management at P.O. Box 43113, Olympia, Washington 98504-3113, or online at http://www.ofm.wa.gov/cafr.

Note 11 - Commitments and Contingencies

11.A. Federal Assistance

The Workers' Compensation Program 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. Any disallowance resulting from a review or audit may become a liability of the Workers' Compensation Program. The Workers' Compensation Program does estimate and recognize a claims liability 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 Workers' Compensation Program's overall financial condition. The total federal assistance for fiscal year 2014 was $8.3 million.

11.B. Contingencies

The Workers' Compensation Program is party to numerous routine legal proceedings that normally occur in the course of operations. At any given point, there may be numerous lawsuits that could financially impact the Program. Although the outcome of these lawsuits is not currently determinable, the resolution of these matters is not likely to have a material impact on the Workers' Compensation Program's financial position, revenues or expenses.

11.C. Financial Guarantees

Effective July 1, 1992, the Washington State Legislature required the Workers' Compensation Program, under RCW 48.22.070, to participate in an assigned risk pool, the Washington United States Longshore and Harbor Workers' Compensation Act Assigned Risk Plan (WARP), providing workers' compensation coverage under the United States Longshoreman and Harbor Workers' Act (USL&H). The Workers' Compensation Program is obligated to participate 50 percent in the underwriting losses or surpluses of the assigned risk pool. This participation is scheduled to continue indefinitely due to amending legislation passed in 1997.

WARP was authorized to provide USL&H coverage to those unable to purchase it through the normal market. The rules governing the plan are contained in chapter 284-22 of the Washington Administrative Code. It is administered by a governing committee appointed by the Insurance

Commissioner and made up of the Director of L&I and three members representing each of the following stakeholder groups: labor, maritime employers, and insurers and insurance producers. The plan has been operating profitably, and the Workers' Compensation Program has not made any payments to this risk pool since enactment of this indefinite commitment. It is unlikely that the Workers' Compensation Program will be required to make any payments in the near future. Therefore, there are no guarantees extended that are outstanding at the reporting date. No payment recovery arrangements were authorized from other parties under the law.

Note 12 - Subsequent Events

12.A. Resolved Litigation

Crabb v. Department of Labor & Industries (including the Workers' Compensation Program)

As part of the 2011 workers' compensation reforms, the Washington Legislature included a one-time cost-of-living adjustment (COLA) freeze to benefit payments for fiscal year 2012 and delayed first COLAs for all claims with injury dates after June 30, 2011, until the second July 1st after the injury. (Until this change, injured workers received a COLA on the first July 1st following the date of injury.) The department applied these changes to all COLA recipients, including injured workers receiving compensation at the statutory maximum amount. When this was challenged, the trial court held that the COLA changes did not apply to workers receiving the maximum benefit rate.

The Court of Appeals agreed with the trial court, publishing its decision in Crabb v. Department of Labor & Industries in June 2014. The Department requested review by the Supreme Court, but that was denied in October 2014. The Department is currently assessing the scope and impact of the ruling, with guidance from legal counsel. An estimate of the impact on the Workers' Compensation Program cannot yet be made.

12.B. Proposed Rate Announcement

Each year, the Director of L&I adopts new workers' compensation insurance premium rates for the next calendar year. On September 16, 2014, the Director announced a proposed 1.8 percent increase in the average premium rate for 2015. The following four principles were used to guide the rate-setting process:

1. Set steady and predictable rate increases to help businesses plan ahead.
2. Benchmark rates against wage inflation (this happens automatically in other states).
3. Slowly rebuild the reserves to protect against unexpected changes.
4. Lower costs while focusing on better outcomes for injured workers.

The final rates will be adopted in early December 2014 and go into effect on January 1, 2015.

Washington State Department of
Labor & Industries

Keep Washington Safe and Working

Required Supplementary Information

Washington State Department of
Labor & Industries

Keep Washington Safe and Working

State of Washington Workers' Compensation Program - Basic Plan
Schedule of Claims Development Information
Fiscal Years 2005 through 2014
(in millions)

The table below illustrates how the Workers' Compensation Program Basic Plan earned revenues (net of reinsurance) and investment revenues compare to the related costs of losses (net of loss assumed by reinsurers) and other expenses assumed by the program as of the end of each of the last ten fiscal years. The Workers' Compensation Program has not purchased reinsurance since September 30, 2002, and has never had a qualifying event that generated a recovery.

The rows of the table are defined as follows:

1. This line shows each fiscal year's earned contribution revenues and investment revenues.
2. This line shows the Basic Plan's incurred claims (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred (called "fiscal accident year").
3. This section shows the cumulative amounts paid as of the end of successive years for each fiscal accident year.
4. This section shows how each fiscal accident year's incurred claims increased or decreased as of the end of successive years. Annual re-estimation results from new information received on known claims, re-evaluation of existing information on known claims, and emergence of new claims not previously known.
5. This line compares the latest re-estimated incurred claims amount to the amount originally established (line 2) and shows whether this latest estimate of claims cost is greater or less than originally thought. As data for individual policy years mature, the correlation between original estimates and re-estimates is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature fiscal accident years.

The columns of the table show data for successive fiscal years.

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
1. Net earned required contribution and investment revenues	$ 2,452	$ 1,392	$ 2,406	$ 1,697	$ 1,692	$ 2,797	$ 2,525	$ 2,581	$ 1,928	$ 2,888
2. Estimated incurred claims and expenses, end of fiscal accident year	2,308	2,141	2,196	2,256	2,363	2,312	2,254	2,086	2,105	2,061
3. Paid (cumulative) as of:										
End of fiscal accident year	260	278	295	310	322	298	289	284	296	297
One year later	556	589	625	679	667	604	584	580	593	
Two years later	715	754	817	890	863	773	747	734		
Three years later	821	873	953	1,042	1,000	890	857			
Four years later	906	964	1,059	1,162	1,107	981				
Five years later	977	1,038	1,144	1,258	1,192					
Six years later	1,039	1,103	1,216	1,337						
Seven years later	1,094	1,159	1,281							
Eight years later	1,142	1,210								
Nine years later	1,186									
4. Re-estimated incurred claims and expenses:										
End of fiscal accident year	2,308	2,141	2,196	2,256	2,363	2,312	2,254	2,086	2,105	2,061
One year later	1,989	2,053	2,234	2,559	2,535	2,271	2,139	2,026	2,001	
Two years later	1,939	2,055	2,390	2,647	2,538	2,261	2,066	1,967		
Three years later	1,954	2,151	2,441	2,724	2,485	2,137	2,012			
Four years later	2,025	2,196	2,526	2,662	2,411	2,147				
Five years later	2,067	2,244	2,445	2,576	2,439					
Six years later	2,111	2,198	2,388	2,621						
Seven years later	2,056	2,186	2,419							
Eight years later	2,058	2,183								
Nine years later	2,050									
5. Increase (decrease) in estimated incurred claims and expenses from end of policy year	(258)	42	223	365	76	(165)	(242)	(119)	(104)	

Source: Washington State Department of Labor & Industries Actuarial Services

State of Washington Workers' Compensation Program - Supplemental Pension Plan

Schedule of Claims Development Information

Fiscal Years 2005 through 2014

(in millions)

The table below illustrates how the Workers' Compensation Program Supplemental Pension Plan earned revenues (net of reinsurance) and investment revenues compare to the related costs of losses (net of loss assumed by reinsurers) as of the end of the last ten fiscal years. The Workers' Compensation Program has not purchased reinsurance since September 30, 2002, and has never had a qualifying event that generated a recovery. The unallocated and other expenses of this plan are paid by the Workers' Compensation Program Basic Plan. This claims development information is reported separate from the Basic Plan for the following reasons:

(1) This plan covers self-insured employees, while the Basic Plan does not.
(2) This plan is not experience rated, while the Basic Plan is.
(3) Statutes restrict the funding of this plan to expected payments of the current year.

The rows of the table are defined as follows:

1. This line shows each fiscal year's earned contribution revenues and investment revenues.
2. This line shows the Supplemental Pension Plan's incurred claims (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred (called "fiscal accident year").
3. This section shows the cumulative amounts paid as of the end of successive years for each fiscal accident year.
4. This section shows how each policy year's incurred claims increased or decreased as of the end of successive years. Annual re-estimation results from new information received on known claims, re-evaluation of existing information on known claims, and emergence of new claims not previously known.
5. This line compares the latest re-estimated incurred claims amount to the amount originally established (line 2) and shows whether this latest estimate of claims cost is greater or less than originally thought. As data for individual policy years mature, the correlation between original estimates and re-estimates is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature policy years.

The columns of the table show data for successive fiscal years.

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
1. Net earned required contribution and investment revenues	$ 326	$ 305	$ 283	$ 334	$ 349	$ 372	$ 440	$ 444	$ 419	$ 432
2. Estimated incurred claims and expenses, end of fiscal accident year	724	804	968	1,093	966	1,082	843	519	441	407
3. Paid (cumulative) as of:										
End of fiscal accident year	-	-	-	-	-	-	-	-	-	-
One year later	1	3	6	8	6	3	1	1	1	
Two years later	4	7	12	14	10	4	3	2		
Three years later	8	14	21	21	14	7	6			
Four years later	15	22	30	28	20	12				
Five years later	22	30	37	36	26					
Six years later	30	38	46	44						
Seven years later	38	46	56							
Eight years later	46	56								
Nine years later	55									
4. Re-estimated incurred claims and expenses:										
End of fiscal accident year	724	804	968	1,093	966	1,082	843	519	441	407
One year later	721	927	1,176	1,121	1,174	843	577	490	407	
Two years later	848	1,065	1,125	1,316	980	601	507	420		
Three years later	971	998	1,272	1,152	718	607	463			
Four years later	897	1,119	1,116	847	703	511				
Five years later	990	958	831	739	625					
Six years later	862	736	684	749						
Seven years later	652	610	773							
Eight years later	587	699								
Nine years later	619									
5. Increase (decrease) in estimated incurred claims and expenses from end of policy year	(105)	(105)	(195)	(344)	(341)	(571)	(380)	(99)	(34)	

Source: Washington State Department of Labor & Industries Actuarial Services

Reconciliation of Claims Liabilities by Plan
Fiscal Years 2014 and 2013
(in thousands)

The schedule below presents the changes in claims liabilities for the past two fiscal years for the Workers' Compensation Basic and Supplemental Pension Plans:

	Basic Plan		Supplemental Pension Plan		Total	
Claims Payable	FY 2014	FY 2013	FY 2014	FY 2013	FY 2014	FY 2013
Unpaid loss and loss adjustment expenses at beginning of fiscal year	$ 12,335,237	$ 11,738,930	$ 11,292,323	$ 10,857,420	$ 23,627,560	$ 22,596,350
Incurred claims and claim adjustment expenses						
Provision for insured events of the current fiscal year	1,643,940	1,631,274	266,256	292,737	1,910,196	1,924,011
Increase (decrease) in provision for insured events of prior fiscal years	650,069	677,906	393,243	548,600	1,043,312	1,226,506
Total incurred claims and claim adjustment expenses	2,294,009	2,309,180	659,499	841,337	2,953,508	3,150,517
Payments						
Claims and claim adjustment expenses attributable to						
Events of the current fiscal year	296,885	296,347	-	-	296,885	296,347
Insured events of prior fiscal years	1,419,824	1,416,526	426,825	406,434	1,846,649	1,822,960
Total payments	1,716,709	1,712,873	426,825	406,434	2,143,534	2,119,307
Total Unpaid Loss and Loss Adjustment Expenses at Fiscal Year End	$ 12,912,537	$ 12,335,237	$ 11,524,997	$ 11,292,323	$ 24,437,534	$ 23,627,560
Current portion	$ 1,458,437	$ 1,411,259	$ 449,475	$ 440,401	$ 1,907,912	$ 1,851,660
Noncurrent portion	$ 11,454,100	$ 10,923,978	$ 11,075,522	$ 10,851,922	$ 22,529,622	$ 21,775,900

Source: Washington State Department of Labor & Industries Actuarial Services

Washington State Department of
Labor & Industries

Keep Washington Safe and Working

Supplementary Information

Washington State Department of
Labor & Industries

Keep Washington Safe and Working

Combining Schedule of Net Position
June 30, 2014

	Accident Account	Medical Aid Account	Pension Reserve Account	Total Basic Plan	Supplemental Pension Account	Second Injury Account	Self-Insured Overpayment Reimbursement Account	Total
ASSETS								
Current Assets								
Cash and cash equivalents	$ 6,820,965	$ 2,258,881	$ 1,220,250	$ 10,300,096	$ 1,188,877	$ 69,546,185	$ 735,445	$ 81,770,603
DOE trust cash and investments	-	-	720,472	720,472	-	-	-	720,472
Collateral held under securities lending agreements	4,115,764	237,929	-	4,353,693	64,298	-	-	4,417,991
Receivables, net of allowance	369,254,336	252,092,092	36,901,414	658,247,842	112,678,086	11,380,349	-	782,306,277
Receivables from workers' compensation accounts	6,952,226	341,230	3,558,405	10,851,861	1,507	-	-	10,853,368 *
Receivables from other state accounts and agencies	1,283,393	13,102	-	1,296,495	475	-	-	1,296,970
Receivables from other governments	829,419	182,204	-	1,011,623	-	-	-	1,011,623
Inventories	152,154	152,155	-	304,309	-	-	-	304,309
Prepaid expenses	117,652	117,652	-	235,304	-	-	-	235,304
Total Current Assets	389,525,909	255,395,245	42,400,541	687,321,695	113,933,243	80,926,534	735,445	882,916,917
Noncurrent Assets								
DOE trust cash and investments, noncurrent	-	-	1,950,695	1,950,695	-	-	-	1,950,695
DOE trust receivable	-	-	3,510,600	3,510,600	-	-	-	3,510,600
Investments, noncurrent	5,204,322,132	4,999,350,595	4,180,061,277	14,383,734,004	118,817,211	-	-	14,502,551,215
Capital assets, net of accumulated depreciation	29,451,684	37,199,714	-	66,651,398	-	-	-	66,651,398
Total Noncurrent Assets	5,233,773,816	5,036,550,309	4,185,522,572	14,455,846,697	118,817,211	-	-	14,574,663,908
Total Assets	$ 5,623,299,725	$ 5,291,945,554	$ 4,227,923,113	$ 15,143,168,392	$ 232,750,454	$ 80,926,534	$ 735,445	$ 15,457,580,825
LIABILITIES AND NET POSITION (DEFICIT)								
LIABILITIES								
Current Liabilities								
Accounts payable	$ 1,699,674	$ 1,749,766	$ 23,518	$ 3,472,958	$ 9,361	$ -	$ -	$ 3,482,319
Deposits payable	8,116,016	127,548	1,886,516	10,130,080	310,208	-	-	10,440,288
Accrued liabilities	174,102,322	122,765,952	13,769,999	310,638,273	326,093	6,589	-	310,970,955
Obligations under securities lending agreements	4,115,764	237,929	-	4,353,693	64,298	-	-	4,417,991
Bonds payable, current	1,910,000	1,910,000	-	3,820,000	-	-	-	3,820,000
Payables to workers' compensation accounts	325,924	34,959	6,918,734	7,279,617	15,346	3,558,405	-	10,853,368 *
Payables to other state agencies and accounts	3,643,342	2,656,236	-	6,299,578	81	-	-	6,299,659
Payables to other governments	18,795	4,700	-	23,495	-	-	-	23,495
Unearned revenues	86,718	47,035	-	133,753	404,657	-	-	538,410
DOE trust liabilities	-	-	720,472	720,472	-	-	-	720,472
Claims payable, current	573,768,000	473,137,000	411,532,000	1,458,437,000	449,475,000	-	-	1,907,912,000
Total Current Liabilities	767,786,555	602,671,125	434,851,239	1,805,308,919	450,605,044	3,564,994	-	2,259,478,957
Noncurrent Liabilities								
Claims payable, net of current portion	4,183,353,000	3,756,980,000	3,513,767,000	11,454,100,000	11,075,522,000	-	-	22,529,622,000
Bonds payable, net of current portion	2,025,000	2,025,000	-	4,050,000	-	-	-	4,050,000
Other long-term liabilities	5,728,086	5,342,721	-	11,070,807	-	-	-	11,070,807
DOE trust long-term liabilities	-	-	5,461,295	5,461,295	-	-	-	5,461,295
Other post-employment benefits	16,549,689	15,749,311	-	32,299,000	-	-	-	32,299,000
Total Noncurrent Liabilities	4,207,655,775	3,780,097,032	3,519,228,295	11,506,981,102	11,075,522,000	-	-	22,582,503,102
Total Liabilities	4,975,442,330	4,382,768,157	3,954,079,534	13,312,290,021	11,526,127,044	3,564,994	-	24,841,982,059
Net Position (Deficit)								
Net investments in capital assets	25,516,684	33,264,714	-	58,781,398	-	-	-	58,781,398
Unrestricted	622,340,711	875,912,683	273,843,579	1,772,096,973	(11,293,376,590)	77,361,540	735,445	(9,443,182,632)
Total Net Position (Deficit)	$ 647,857,395	$ 909,177,397	$ 273,843,579	$ 1,830,878,371	$(11,293,376,590)	$ 77,361,540	$ 735,445	$ (9,384,401,234)

*Receivables from and payables to the workers' compensation accounts are not included in the Statement of Net Position.

Combining Schedule of Revenues, Expenses, and Changes in Net Position
For the Fiscal Year Ended June 30, 2014

	Accident Account	Medical Aid Account	Pension Reserve Account	Total Basic Plan	Supplemental Pension Account	Second Injury Account	Self-Insured Overpayment Reimbursement Account	Total
OPERATING REVENUES								
Premiums and assessments, net of refunds	$ 1,002,504,460	$ 707,465,812	$ 15,503,428	$ 1,725,473,700	$ 431,274,707	$ 43,661,835	$ 36	$ 2,200,410,278
Miscellaneous revenue	42,949,676	3,314,578	64,682	46,328,936	7,656,719	9	-	53,985,664
Total Operating Revenues	1,045,454,136	710,780,390	15,568,110	1,771,802,636	438,931,426	43,661,844	36	2,254,395,942
OPERATING EXPENSES								
Salaries and wages	74,302,788	71,128,477	-	145,431,265	-	-	-	145,431,265
Employee benefits	29,904,537	28,462,213	-	58,366,750	-	-	-	58,366,750
Personal services	2,207,993	3,452,465	-	5,660,458	-	-	-	5,660,458
Goods and services	38,363,281	38,025,699	-	76,388,980	-	-	-	76,388,980
Travel	2,679,571	1,367,517	-	4,047,088	-	-	-	4,047,088
Claims	867,859,021	695,152,201	586,662,742	2,149,673,964	659,804,251	906,434	273,501	2,810,658,150
Depreciation	3,651,031	3,576,998	-	7,228,029	-	-	-	7,228,029
Miscellaneous expenses	24,300,252	5,639,430	-	29,939,682	4,014,376	(84)	-	33,953,974
Total Operating Expenses	1,043,268,474	846,805,000	586,662,742	2,476,736,216	663,818,627	906,350	273,501	3,141,734,694
Operating Income (Loss)	2,185,662	(136,024,610)	(571,094,632)	(704,933,580)	(224,887,201)	42,755,494	(273,465)	(887,338,752)
NONOPERATING REVENUES (EXPENSES)								
Earnings on investments	406,525,992	382,280,870	329,789,636	1,118,596,498	1,164,175	-	-	1,119,760,673
Other revenues	6,794,685	1,534,967	-	8,329,652	-	-	-	8,329,652
Interest expense	(230,655)	(230,655)	-	(461,310)	-	-	-	(461,310)
Total Nonoperating Revenues (Expenses)	413,090,022	383,585,182	329,789,636	1,126,464,840	1,164,175	-	-	1,127,629,015
Income (Loss) Before Transfers	415,275,684	247,560,572	(241,304,996)	421,531,260	(223,723,026)	42,755,494	(273,465)	240,290,263
Transfers in	6,917,227	-	317,187,537	324,104,764	-	910,358	-	325,015,122
Transfers out	(281,091,957)	(910,358)	(6,917,227)	(288,919,542)	-	(36,095,580)	-	(325,015,122)
Net Transfers	(274,174,730)	(910,358)	310,270,310	35,185,222	-	(35,185,222)	-	-
Changes in Net Position	141,100,954	246,650,214	68,965,314	456,716,482	(223,723,026)	7,570,272	(273,465)	240,290,263
Net Position (Deficit) - July 1	506,756,441	662,527,183	204,878,265	1,374,161,889	(11,069,653,564)	69,791,268	1,008,910	(9,624,691,497)
Net Position (Deficit) - June 30	$ 647,857,395	$ 909,177,397	$ 273,843,579	$ 1,830,878,371	$ (11,293,376,590)	$ 77,361,540	$ 735,445	$ (9,384,401,234)

Combining Schedule of Cash Flows
For the Fiscal Year Ended June 30, 2014

	Accident Account	Medical Aid Account	Pension Reserve Account	Total Basic Plan	Supplemental Pension Account	Second Injury Account	Self-Insured Overpayment Reimbursement Account	Total
CASH FLOWS FROM OPERATING ACTIVITIES								
Receipts from customers	$ 978,130,573	$ 675,543,409	$ 15,605,134	$ 1,669,279,116	$ 424,657,627	$ 49,366,993	$ 37	$ 2,143,303,773
Payments to/for beneficiaries	(593,296,717)	(577,055,039)	(397,579,820)	(1,567,931,576)	(427,115,602)	(905,249)	(273,500)	(1,996,225,927)
Payments to employees	(100,958,800)	(96,447,098)	-	(197,405,898)	-	-	-	(197,405,898)
Payments to suppliers	(44,946,400)	(45,209,854)	(12,590)	(90,168,844)	(5,555)	-	-	(90,174,399)
Other	41,409,919	2,727,189	64,681	44,201,789	7,657,028	9	-	51,858,826
Net Cash Flows from Operating Activities	280,338,575	(40,441,393)	(381,922,595)	(142,025,413)	5,193,498	48,461,753	(273,463)	(88,643,625)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES								
Transfers in	8,104,185	369,749	315,732,391	324,206,325	134,905	910,358	-	325,251,588
Transfers out	(281,378,989)	(1,058,670)	(8,062,690)	(290,500,349)	(110,804)	(34,640,435)	-	(325,251,588)
Operating grants received	6,841,038	1,649,312	-	8,490,350	-	-	-	8,490,350
License fees collected	69,116	12,383	-	81,499	-	-	-	81,499
Net Cash Flows from Noncapital Financing Activities	(266,364,650)	972,774	307,669,701	42,277,825	24,101	(33,730,077)	-	8,571,849
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES								
Interest paid	(263,355)	(263,355)	-	(526,710)	-	-	-	(526,710)
Principal payments on bonds payable	(1,802,500)	(1,802,500)	-	(3,605,000)	-	-	-	(3,605,000)
Acquisitions of capital assets	(1,184,634)	(3,688,713)	-	(4,873,347)	-	-	-	(4,873,347)
Net Cash Flows from Capital and Related Financing Activities	(3,250,489)	(5,754,568)	-	(9,005,057)	-	-	-	(9,005,057)
CASH FLOWS FROM INVESTING ACTIVITIES								
Purchases of trust investments	-	-	(316,018)	(316,018)	-	-	-	(316,018)
Receipt of interest and dividends	187,695,647	147,964,685	144,706,482	480,366,814	1,028,151	-	-	481,394,965
Investment expenses	(1,617,293)	(1,489,964)	(1,188,449)	(4,295,706)	(146,251)	-	-	(4,441,957)
Proceeds from sale of investment securities	2,435,385,600	2,873,722,241	1,765,485,393	7,074,593,234	442,021,227	-	-	7,516,614,461
Purchases of investment securities	(2,629,672,890)	(2,975,052,043)	(1,834,556,474)	(7,439,281,407)	(447,842,038)	-	-	(7,887,123,445)
Net Cash Flows from Investing Activities	(8,208,936)	45,144,919	74,130,934	111,066,917	(4,938,911)	-	-	106,128,006
Net increase (decrease) in cash and cash equivalents	2,514,500	(78,268)	(121,960)	2,314,272	278,688	14,731,676	(273,463)	17,051,173
Cash & cash equivalents, July 1 (includes trust cash of $510,031)	4,306,465	2,337,149	1,536,222	8,179,836	910,189	54,814,509	1,008,908	64,913,442
Cash & cash equivalents, June 30 (includes trust cash of $194,012)	$ 6,820,965	$ 2,258,881	$ 1,414,262	$ 10,494,108	$ 1,188,877	$ 69,546,185	$ 735,445	$ 81,964,615
Cash Flows from Operating Activities								
Operating income (loss)	$ 2,185,662	$ (136,024,610)	$ (571,094,632)	$ (704,933,580)	$ (224,887,201)	$ 42,755,494	$ (273,465)	$ (887,338,752)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Flows from Operating Activities								
Depreciation	3,651,031	3,576,998	-	7,228,029	-	-	-	7,228,029
Change in Assets: Decrease (Increase)								
Receivables	(21,213,647)	(26,969,905)	78,031	(48,105,521)	(2,952,407)	5,705,074	2	(45,352,852)
Inventories	(59,829)	(59,829)	-	(119,658)	-	-	-	(119,658)
Prepaid expenses	(116,052)	(116,052)	-	(232,104)	-	-	-	(232,104)
Change in Liabilities: Increase (Decrease)								
Claims and judgments payable	273,878,000	117,209,000	186,213,000	577,300,000	232,674,000	-	-	809,974,000
Accrued liabilities	22,013,410	1,943,005	2,881,006	26,837,421	359,106	1,185	-	27,197,712
Net Cash Flows from Operating Activities	$ 280,338,575	$ (40,441,393)	$ (381,922,595)	$ (142,025,413)	$ 5,193,498	$ 48,461,753	$ (273,463)	$ (88,643,625)
Non Cash Investing, Capital and Financing Activities								
Increase (Decrease) in fair value of investments	$ 129,153,469	$ 77,289,369	$ 133,960,639	$ 340,403,477	$ 267,232	$ -	$ -	$ 340,670,709

Washington State Department of
Labor & Industries

Keep Washington Safe and Working

Deloitte.

Deloitte Consulting LLP
350 South Grand Avenue
Suite 200
Los Angeles, California 90071-3462
USA

Tel: + 1 213 688 0800
Fax: + 1 213 688 0100
www.deloitte.com

October 3, 2014

Statement of Actuarial Opinion
Regarding GAAP Reserves

State of Washington – Workers' Compensation Program

Identification

I, Rod Morris, am a Specialist Leader with the firm of Deloitte Consulting LLP. I am a Member of the American Academy of Actuaries and meet its qualification standards for rendering this Statement of Actuarial Opinion, and I am a Fellow of the Casualty Actuarial Society. I was appointed by the Washington State Auditor's Office to provide a Statement of Actuarial Opinion regarding the reasonableness of the State of Washington Workers' Compensation Program's ("the Program") carried GAAP loss and loss adjustment expense ("LAE") reserves as of June 30, 2014.

The Program is comprised of four Workers' Compensation Program Accounts: the Accident Account, the Medical Aid Account, the Pension Reserve Account, and the Supplemental Pension Account. The Program is currently administered by State of Washington Department of Labor & Industries ("the Department").

Scope

I have examined the reserves for the unpaid loss and LAE as shown in the Program's Comprehensive Annual Financial Report as of June 30, 2014.

In forming my opinion on the loss and LAE reserves, I relied upon data provided by Mr. William Vasek, the Department's Chief Actuary, his actuarial staff, and Sharon Elias, the Department's Financial Services Program Manager. I evaluated that data for reasonableness and consistency. My examination included the use of such actuarial assumptions and methods and such tests of the calculations as I considered necessary.

My review was limited to the reserves listed below and did not include an analysis of any other balance sheet items. I have not examined the Program's assets and I have formed no opinion as to the validity or value of these assets.

Opinion

A summary of the Program's recorded loss and LAE reserves by account in its Comprehensive Annual Financial Report as of June 30, 2014 is as follows:

	Discounted
Accident Account	$4,757,121,000
Medical Aid Account	4,230,117,000
Pension Reserve Account	3,925,299,000
Total Basic Plan Loss and LAE Reserves	$12,912,537,000
Supplemental Pension Account	11,524,997,000
Total Program Loss and LAE Reserves	$24,437,534,000

In my opinion, the loss and LAE amounts listed above and displayed in the Program's Comprehensive Annual Financial Report as of June 30, 2014:

(A) meet the requirements of the insurance laws of the State of Washington.

(B) are consistent with reserves computed in accordance with accepted loss reserving standards and principles.

(C) make a reasonable provision for all unpaid loss and loss expense obligations of the Program under the terms of its contracts and agreements.

Relevant Comments

A. Major Risk Factors

I have identified the major risk factors of the loss and LAE reserves to be the lack of diversity of exposure by line of business and by state, future medical trend, the discounting of the reserves, and future cost of living adjustments. The potential impact of these risk factors is described in the following paragraphs. The absence of other risk factors from this listing does not imply that additional factors will not be identified in the future as having been a significant influence on the Program's reserves.

By statute, the Fund's direct exposure is limited to one line of business (workers' compensation) in one state (Washington). Therefore, any adverse trends affecting this line of business and/or state could have a material effect on the Fund's loss and loss adjustment expense reserves. Such trends would include legislative benefit level changes and adverse decisions or interpretations of law that may have an effect on all open workers' compensation claims.

A major assumption in the analysis of the medical component of the workers' compensation reserves is the selection of a long-term medical trend factor to apply to future calendar year medical payments. Estimating medical trend has become increasingly difficult in recent years because it has been highly variable. In my opinion, there is a higher than normal degree of variability associated with the Fund's medical loss reserves due to the uncertainty surrounding future medical trends and the expected length of medical payments.

The Department discounts the loss and loss adjustment expense reserves to reflect the time value of money using an average annual interest rate of 2.50%. Changes to the interest rate used for discounting could result in material changes to the reserves.

A major assumption in the analysis of the Supplemental Pension Account is future cost of living adjustments and the implicit assumption that the State of Washington cost of living adjustments will be similar to cost of living adjustments approved by the Federal Government for Social Security retirement benefits. Future State of Washington cost of living adjustments different from those anticipated or that vary significantly from those approved by the Federal Government for Social Security retirement benefits could result in a material change in future costs and the adequacy of the reserves.

B. Other Disclosures

Underwriting Pools or Associations

The Program participates in the Washington United States Longshore and Harbor Workers' Compensation Act Assigned Risk Plan ("WARP") which was established to provide USL&H workers' compensation insurance coverage for employers unable to purchase it through the normal private insurance market. The Program pays assessments to WARP and participates in any underwriting losses or surpluses incurred by WARP. Based on discussions with the Department, we understand that WARP is not currently in a deficit position. Therefore, the Program has not booked a reserve to account for any unpaid claim liability related to WARP. We understand that the Program does not participate in any other voluntary or involuntary pools.

Reinsurance

The Program has no ceded or assumed reinsurance. Based on discussions with the Department's management and their description of the Program's ceded (and/or assumed) reinsurance, I am not aware of any reinsurance contract that either has been or should have been accounted for as retroactive reinsurance or financial reinsurance.

Discounting

The Department discounts the loss and loss adjustment expense reserves to reflect the time value of money. The amount of discount is based on an actuarially derived projected payment pattern and selected annual interest rates as follows.

- For the Medical Aid Account, the Department's selected interest rate is 1.5%.
- For the Pension Reserve Account, the Department's selected interest rate is 6.5%.
- For the Accident Account, combinations of interest rates are used to discount the reserves. The future total permanent disability transfers made to the Pension Account assume interest discounts based on an annual rate of 6.5% that is gradually reduced each

calendar quarter for the next eight to nine years until settling on a long term annual rate of 4.5%. The future fatal transfers made to the Pension Account assume interest discounts based on an annual rate of 6.5%. The actual transfer payments and all other payments are discounted using a Department selected rate of 1.5%.

- For the Supplemental Pension Account, the Department selected interest rate is 1.5%.

The average combined interest rate for the Program in total is approximately 2.50%, which is consistent with a recent average of risk free interest rates assuming a similar duration as the loss and loss adjustment expense payments of the Program but slightly lower than current risk free interest rates. As such, I believe the average combined interest rate is not unreasonable.

The interest rate used to discount the Accident Account future total permanent disability transfers made to the Pension Account changed from 6.5% last year to the interest rates that gradually decrease to 4.5% discussed above. The interest rate used to discount the Accident Account future fatal transfers made to the Pension Account remained at 6.5% this year. The interest rate used for all other future payments remained the same this year at 1.5%. The effect of reducing the interest rate assumptions this year was an increase in the discounted unpaid claim liability of $199.8 million including the current fiscal accident year.

Major Assumption Changes and Other Comments

Over the past year, the Department has reduced its estimate of the number of total permanent disability claims for accident periods prior to June 30, 2013. The reduction was the result of the closing of more of the active time loss claims than was expected over the past year and using more recent averages in the selection of claim development factors to reflect more recent history. The effect of reducing this estimate was a decrease in the discounted unpaid claim liability of approximately $157.8 million.

Last year, the Department treated time loss claims open beyond 13 years as total permanent disability claims even though the transfer to the Pension Reserve Account had not actually occurred. The argument was that claims receiving time loss benefits for more than 13 years would eventually turn into pension claims. This year, the Department moved this assumption from 13 years to 30 years. The change does not theoretically change the estimate of future undiscounted payments but it does affect the interest used to discount the reserve for payments occurring between 13 years and 30 years. Last year, the Department used a 1.5% interest rate to discount the time loss payments made in the first 13 years and a 6.5% interest rate for payments made thereafter (treating them like total permanent disability transfer). This year, the Department used a 1.5% interest rate to discount the reserves for time loss payments made in the first 30 years and a 4.5% interest rate for payments made thereafter. This change in approach increased the discounted unpaid claim liability in the Accident Account by $101.6 million.

During our review of the Supplemental Pension Account, we considered the selection of the long term COLA adjustment of 1.5%. This assumption is lower than the long term historical average of COLA adjustments. In our opinion, we believe that a higher assumption (e.g. 2.0% to 3.0%) would be more appropriate.

In considering the reasonableness of the Funds on a combined basis (i.e. the combined Accident Account, Medical Aid Account, Pension Reserve Account, and the Supplemental Pension Account), we also considered that the current risk free interest rates that match the duration of these reserves is higher than the 2.5% that the Department uses to discount these reserves. We believe that if the Department increased the future COLA adjustment to a more reasonable rate, the increase could be offset by an increase in the annual interest rate used to discount the reserves. Therefore, we believe that the overall reserve balance is still reasonable.

C. General Uncertainty

In evaluating whether the reserves make a reasonable provision for unpaid losses and LAE, it is necessary to project future loss and LAE payments. It is certain that actual future losses and LAE will not develop exactly as projected and may, in fact, vary significantly from the projections. No warranty is expressed or implied that such variance will not occur.

Further, my projections make no provision for the broadening of coverage by legislative action or judicial interpretation or for extraordinary future emergence of new classes of losses or types of losses not sufficiently represented in the Program's historical data base or which are not yet quantifiable.

This Statement of Actuarial Opinion regarding GAAP reserves is solely for the use of assessing the reasonableness of the GAAP loss and LAE reserves and is only to be relied upon by the Program and the State of Washington.

Rod Morris

Rod Morris, FCAS, MAAA
Deloitte Consulting LLP
350 South Grand Avenue, Suite 200
Los Angeles, CA 90071
(213) 688-3374
rmorris@deloitte.com
October 3, 2014

Washington State Department of
Labor & Industries

Keep Washington Safe and Working

Statistical Section

Washington State Department of
Labor & Industries

Keep Washington Safe and Working

Statistical Section

Narrative and Index

This section of the state of Washington Workers' Compensation Program's CAFR presents detailed information as a supplement to the information in the basic financial statements, note disclosures, and required supplementary information to assist readers in assessing the program's overall financial health.

Page

FINANCIAL TRENDS

These schedules contain trend information to help readers understand how the program's financial performance and fiscal health have changed over time.

Schedule 1 - Net Position by Component, Last Ten Fiscal Years 89
Schedule 2 - Changes in Net Position, Last Ten Fiscal Years 90

REVENUE CAPACITY

These schedules contain information to help readers assess the program's most significant revenue sources.

Schedule 3 - Revenues by Source, Last Ten Fiscal Years 91
Schedule 4 - Employer Accounts, Last Ten Fiscal Years 92

DEBT CAPACITY

These schedules contain information to help readers assess the affordability of the program's current level of outstanding debt and major obligations.

Schedule 5 - Ratios of Outstanding Debt, Last Ten Fiscal Years 93
Schedule 6 - Schedule of Changes in Claims Payable, Last Ten Fiscal Years 94

DEMOGRAPHIC INFORMATION

These schedules offer demographic and economic indicators to help readers understand the environment in which the program operates.

Schedule 7 - Washington State Population and Components of Change, Last Ten Calendar Years 95
Schedule 8 - Washington State Personal Income, Last Ten Calendar Years 96
Schedule 9 - Washington State Unemployment Rates, Last Ten Calendar Years 96
Schedule 10 - Washington State Principal Employers by Industry, Last Calendar Year and Nine Years Ago 97
Schedule 11 - Washington State Annual Average Wage Rates by Industry, Last Ten Calendar Years 98
Schedule 12 - Demographics of Accepted Claims, Last Ten Fiscal Years 99

OPERATING INFORMATION

These schedules offer operating data to help readers understand how the information in the program's financial report relates to the services it provides and the activities it performs.

Schedule 13 - Number of Employees by Division, Last Ten Fiscal Years 100
Schedule 14 - Capital Asset Indicators – Business Locations, Last Ten Calendar Years 101
Schedule 15 - Claims Statistics and Five Most Frequent Injuries, Last Ten Fiscal Years. 102
Schedule 16 - Risk Classes with Greatest Number of Ultimate Claims, Last Ten Fiscal Years. 103

Sources: Unless otherwise noted, the information in these schedules is derived from the state of Washington's and the Workers' Compensation Program's Comprehensive Annual Financial Reports.

Washington State Department of
Labor & Industries

Keep Washington Safe and Working

Schedule 1 - Net Position (Deficit) by Component

Last Ten Fiscal Years

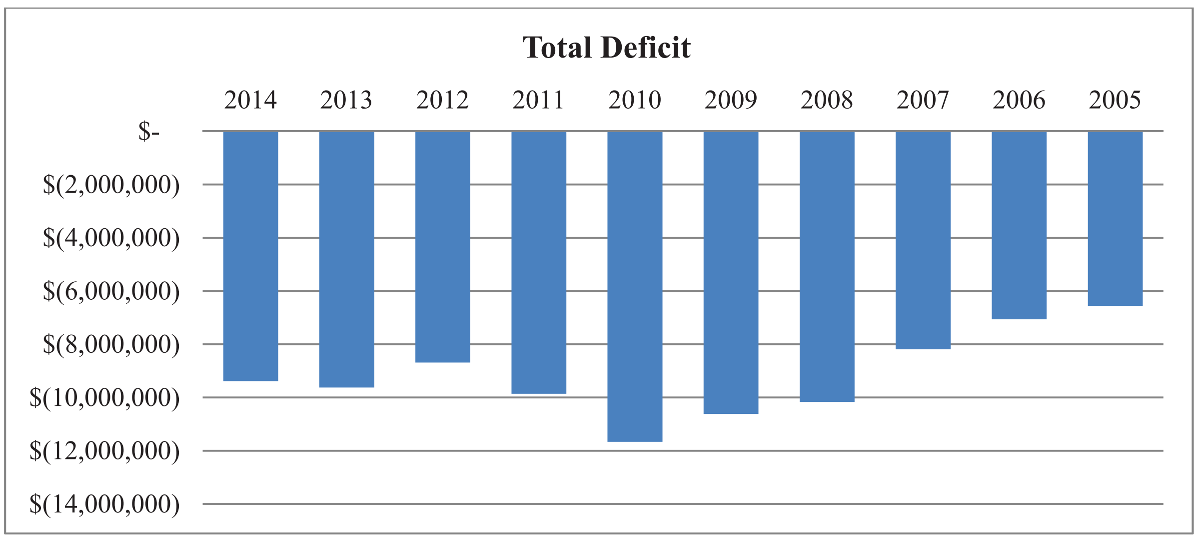
(in thousands)

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Net Investment in capital assets	$ 58,781	$ 57,687	$ 52,708	$ 51,101	$ 41,251	$ 37,415	$ 37,838	$ 39,911	$ 33,011	$ 47,530
Unrestricted	(9,443,182)	(9,682,379)	(8,741,896)	(9,911,590)	(11,708,411)	(10,654,926)	(10,203,709)	(8,225,454)	(7,093,780)	(6,605,610)
Total Net Position (Deficit) [1, 2,3]	$ (9,384,401)	$ (9,624,692)	$ (8,689,188)	$ (9,860,489)	$ (11,667,160)	$ (10,617,511)	$ (10,165,871)	$ (8,185,543)	$ (7,060,769)	$ (6,558,080)

[1] Starting in fiscal year 2009, the Self-Insured Overpayment Reimbursement Account was added to the Workers' Compensation Program.

[2] Fiscal year 2008 deficit is a restated amount.

[3] Fiscal year 2012 deficit is a restated amount.



Schedule 2 - Changes in Net Position
Last Ten Fiscal Years
(in thousands)

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Operating Revenues										
Premiums and assessments, net of refunds	$ 2,200,410	$ 2,123,483	$ 2,014,841	$ 1,983,348	$ 1,727,722	$ 1,824,276	$ 1,563,960	$ 1,689,072	$ 1,729,501	$ 1,689,490
Miscellaneous revenues	53,986	47,354	47,964	51,411	40,250	52,859	50,023	53,589	60,918	31,576
Total Operating Revenues	2,254,396	2,170,837	2,062,805	2,034,759	1,767,972	1,877,135	1,613,983	1,742,661	1,790,419	1,721,066
Operating Expenses										
Salaries and wages	145,431	140,203	136,406	135,979	137,085	134,295	133,773	120,244	116,951	111,995
Employee benefits	58,367	54,367	54,379	51,397	48,545	51,025	41,298	37,803	33,411	29,247
Personal services	5,661	8,895	8,013	6,366	4,521	6,449	7,533	3,800	2,945	4,586
Goods and services	76,389	79,315	69,194	72,443	67,817	73,594	72,568	70,814	64,227	66,145
Travel	4,047	4,068	3,779	3,401	3,339	3,314	4,183	3,482	3,477	3,180
Claims	2,810,658	3,014,796	1,594,192	888,159	3,971,059	2,180,781	3,727,966	3,585,725	1,998,393	2,165,729
Depreciation	7,228	8,428	6,634	8,037	7,991	10,003	10,281	8,220	25,551	3,202
Miscellaneous expenses	33,954	28,486	45,946	52,463	26,287	88,589	63,442	9,320	19,882	20,364
Total Operating Expenses	3,141,735	3,338,558	1,918,543	1,218,245	4,266,644	2,548,050	4,061,044	3,839,408	2,264,837	2,404,448
Operating Income (Loss)	(887,339)	(1,167,721)	144,262	816,514	(2,498,672)	(670,915)	(2,447,061)	(2,096,747)	(474,418)	(683,382)
Nonoperating Revenues (Expenses)										
Earnings on investments	1,119,761	223,875	1,009,688	981,927	1,441,576	216,035	466,963	966,548	(32,486)	1,065,226
Other revenues	8,329	8,998	8,421	9,294	7,878	7,477	7,785	6,978	7,600	5,449
Interest expense	(461)	(656)	(839)	(1,064)	(1,271)	(1,466)	(1,942)	(1,553)	(2,062)	(2,231)
Total Nonoperating Revenues (Expenses)	1,127,629	232,217	1,017,270	990,157	1,448,183	222,046	472,806	971,973	(26,948)	1,068,444
Income (Loss) Before Transfers	240,290	(935,504)	1,161,532	1,806,671	(1,050,489)	(448,869)	(1,974,255)	(1,124,774)	(501,366)	385,062
Transfers in	325,015	371,670	303,273	311,777	323,623	465,908	430,544	339,997	288,987	325,602
Transfers out	(325,015)	(371,670)	(303,273)	(311,777)	(322,783)	(468,679)	(430,544)	(339,997)	(290,310)	(326,724)
Net Transfers	-	-	-	-	840	(2,771)	-	-	(1,323)	(1,122)
Changes in Net Position	240,290	(935,504)	1,161,532	1,806,671	(1,049,649)	(451,640)	(1,974,255)	(1,124,774)	(502,689)	383,940
Net Position (Deficit), July 1 [1,2]	(9,624,691)	(8,689,188)	(9,860,489)	(11,667,160)	(10,617,511)	(10,165,871)	(8,185,543)	(7,060,769)	(6,558,080)	(6,942,020)
Net Position (Deficit), June 30	$ (9,384,401)	$ (9,624,692)	$ (8,698,957)	$ (9,860,489)	$ (11,667,160)	$ (10,617,511)	$ (10,159,798)	$ (8,185,543)	$ (7,060,769)	$ (6,558,080)

[1] Fiscal year 2009 deficit at beginning of year is a restated amount.

[2] Fiscal year 2013 deficit at beginning of year is a restated amount.

Schedule 3 - Revenues by Source

Last Ten Fiscal Years

(dollars in thousands)

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Premiums and Assessments										
State Fund Premiums										
Accident	$ 1,165,138	$ 1,105,903	$ 1,060,670	$ 916,514	$ 767,915	$ 832,584	$ 939,558	$ 918,803	$ 869,177	$ 761,923
Medical Aid	695,460	624,913	596,421	614,714	601,087	637,975	332,781	592,633	615,687	628,821
Supplemental Pension	316,448	302,915	318,328	318,835	264,934	250,211	248,827	206,583	226,508	232,733
Net retrospective rating refunds	(174,854)	(136,404)	(171,509)	(75,011)	(112,494)	(81,255)	(98,125)	(190,285)	(161,893)	(116,729)
Dividend refunds	-	-	-	-	-	-	(33,560)	-	-	-
Total State Fund Premiums	2,002,192	1,897,327	1,803,910	1,775,052	1,521,442	1,639,515	1,389,481	1,527,734	1,549,479	1,506,748
Self-insurance assessments	198,218	226,156	210,931	208,296	206,280	184,761	174,479	161,338	180,022	182,742
Total Premiums and Assessments	$ 2,200,410	$ 2,123,483	$ 2,014,841	$ 1,983,348	$ 1,727,722	$ 1,824,276	$ 1,563,960	$ 1,689,072	$ 1,729,501	$ 1,689,490
Average Standard Premium Rates [1] (per hour worked) - Effective from January 1 to December 31										
Accident	0.3435	0.3435	0.3435	0.3368	0.2595	0.2483	0.2439	0.2554	0.2688	0.2411
Medical Aid [2]	0.2039	0.1844	0.1844	0.1837	0.2048	0.1889	0.1830	0.1656	0.1656	0.1852
Supplemental Pension	0.0907	0.0926	0.0930	0.1075	0.0967	0.0834	0.0779	0.0665	0.0621	0.0738
Stay At Work [3]	0.0069	0.0075	0.0071	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Total Average Standard Premium Rates (composite rate)	0.6450	0.6280	0.6280	0.6280	0.5610	0.5206	0.5048	0.4875	0.4965	0.5001
Employer portion	0.4604	0.4531	0.4506	0.4401	0.3725	0.3516	0.3407	0.3378	0.3433	0.3238
Worker portion	0.1508	0.1423	0.1423	0.1456	0.1508	0.1362	0.1305	0.1161	0.1139	0.1295
State Fund average hourly wage	$ 27.37	$ 26.60	$ 26.10	$ 25.24	$ 24.37	$ 23.86	$ 23.40	$ 22.62	$ 21.54	$ 20.43
Composite rate per $100 Payroll [4]	$ 2.23	$ 2.24	$ 2.27	$ 2.32	$ 2.15	$ 2.04	$ 2.01	$ 2.01	$ 2.12	$ 2.22
Investments [5]										
Investment income (interest and dividend)	$ 479,457	$ 466,299	$ 488,831	$ 501,382	$ 501,143	$ 546,021	$ 601,649	$ 610,844	$ 559,732	$ 503,461
Investment balances	$14,502,551	$13,381,566	$13,321,822	$12,512,715	$11,894,375	$10,886,051	$11,019,207	$10,983,413	$10,170,473	$10,185,293
Average rate of return	3.3%	3.5%	3.7%	4.0%	4.2%	5.0%	5.5%	5.6%	5.5%	4.9%

[1] These rates are for Washington State Fund firms. Past average standard premium rates change annually to reflect the current distribution of risk by class.
[2] Medical Aid premium rate was reduced to zero from 7/1/2007 to 12/31/2007 as a result of a rate holiday.
[3] Stay at Work rate started in calendar year 2012.
[4] This figure equals the composite rate divided by State Fund average hourly wage.
[5] These amounts reflect only investments managed by Washington State Investment Board.

Sources: Washington State Agency Financial Reporting System
Washington Department of Labor & Industries Actuarial Services

Schedule 4 - Employer Accounts
Last Ten Fiscal Years

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Employers insured	169,000	168,000	166,000	163,000	163,000	168,000	171,000	168,000	165,000	161,000
Workers covered	2,577,000	2,487,000	2,420,000	2,360,000	2,330,000	2,460,000	2,570,000	2,500,000	2,400,000	2,300,000
Hours reported	3,388,000,000	3,270,000,000	3,183,000,000	3,100,000,000	3,065,000,000	3,232,000,000	3,380,000,000	3,287,000,000	3,200,000,000	3,049,406,000
Self-insured employers	355	363	365	360	363	369	382	377	382	381
Workers covered under self-insured employers	884,000	845,654	845,085	821,000	826,000	830,000	870,000	830,000	841,000	830,000
Industry Classifications - NAICS Sector										
Construction	21,998	21,229	21,191	21,631	21,963	25,051	27,244	27,184	26,244	24,810
Prof., scientific, and technical services	21,474	20,035	19,960	19,278	17,839	18,428	18,677	18,144	17,506	16,626
Retail trade	16,146	16,219	16,627	16,385	15,779	16,892	17,616	17,844	18,158	18,374
Other services (except public administration)	16,511	16,353	16,613	16,391	15,660	16,115	16,347	16,088	15,992	15,900
Health care and social assistance	15,013	14,843	14,929	14,579	13,929	14,199	14,156	13,904	13,616	13,294
Accommodation and food services	14,611	14,538	14,754	14,642	13,807	14,367	14,641	14,477	14,141	13,777
Administrative and support services	11,138	10,458	10,459	10,018	9,447	9,928	10,261	10,083	9,832	9,491
Wholesale trade	10,652	10,189	10,450	10,218	9,163	9,328	9,431	9,337	9,066	8,799
Agriculture, forestry, fishing, and hunting	6,980	7,141	7,238	7,258	7,284	7,690	7,905	8,157	8,416	8,625
Manufacturing	6,604	6,670	6,717	6,694	6,615	6,993	7,229	7,261	7,290	7,226
Real estate, rental and leasing	6,721	6,642	6,627	6,719	6,563	7,117	7,372	7,099	7,004	6,830
Transportation and warehousing	6,106	5,753	5,569	4,095	3,833	4,013	4,211	4,103	4,019	3,884
Finance and insurance	5,017	5,003	5,073	5,110	4,998	5,437	5,701	5,694	5,496	5,226
Arts, entertainment, and recreation	2,715	2,624	2,655	2,568	2,418	2,508	2,585	2,512	2,485	2,407
Education services	2,769	2,653	2,618	2,487	2,177	2,161	2,126	2,062	1,952	1,879
Information	2,147	2,114	2,107	1,836	1,746	1,880	1,933	1,935	1,852	1,685
Public administration	1,028	1,026	1,030	1,040	1,042	1,063	1,058	1,051	1,043	1,046
Unclassified establishments	985	3,816	382	1,512	8,016	4,537	1,888	572	438	455
Utilities	357	355	352	344	338	345	351	342	352	355
Mining	172	177	180	178	176	200	210	209	208	214
Mgmt. of companies and enterprises	150	144	133	118	103	99	102	106	92	79
Total Employer Accounts	169,294	167,982	165,664	163,101	162,896	168,351	171,044	168,164	165,202	160,982

Note: The data is a snapshot of the fiscal year (July 1 – June 30) as of the first week of the following October.

Sources: Washington State Department of Labor & Industries Actuarial Services
Washington State Department of Labor & Industries Self Insurance Certification Services

Schedule 5 - Ratios of Outstanding Debt
Last Ten Fiscal Years
(dollars in thousands)

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Outstanding Debt										
General obligation bonds [1]	$ 7,870	$ 11,475	$ 14,875	$ 18,080	$ 22,110	$ 25,930	$ 29,555	$ 33,080	$ 36,825	$ 39,870
Debt Ratios										
Principal paid on total debt	$ 3,605	$ 3,400	$ 3,205	$ 4,030	$ 3,820	$ 3,625	$ 3,525	$ 3,370	$ 3,045	$ 2,890
Ratio of principal paid to total debt	45.8%	29.6%	21.5%	22.3%	17.3%	14.0%	11.9%	10.2%	8.3%	7.2%
Interest paid on total debt	$ 527	$ 717	$ 897	$ 1,143	$ 1,346	$ 1,537	$ 1,584	$ 1,733	$ 2,061	$ 2,231
Ratio of interest paid to total debt	6.7%	6.2%	6.0%	6.3%	6.1%	5.9%	5.4%	5.2%	5.6%	5.6%
Premiums and assessments earned	$ 2,200,410	$ 2,123,483	$2,014,841	$1,983,348	$1,727,722	$1,824,276	$1,563,960	$1,689,072	$1,729,501	$1,689,490
Ratio of total debt to premiums and assessments earned	0.4%	0.5%	0.7%	0.9%	1.3%	1.4%	1.9%	2.0%	2.1%	2.4%
Total debt per covered worker [2]	$ 3.05	$ 4.61	$ 6.15	$ 7.66	$ 9.49	$ 10.54	$ 11.50	$ 13.23	$ 15.34	$ 17.33

[1] In fiscal year 2007, bond balances were further reduced as a result of debt refunding in addition to principal payments.
[2] Covered worker data can be found in Schedule 4.

Source: Washington State Agency Financial Reporting System

Schedule 6 - Schedule of Changes in Claims Payable
Last Ten Fiscal Years
(in thousands)

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Unpaid loss and loss adjustment expenses at beginning of fiscal year [1]	$ 23,627,560	$ 22,596,350	$ 22,943,311	$ 24,025,832	$ 22,006,789	$ 21,887,148	$ 19,746,492	$ 17,755,100	$ 17,278,895	$ 16,591,098
Incurred claims and claim adjustment expenses										
Provision for insured events of the current fiscal year	1,910,196	1,924,011	1,823,525	1,950,485	2,204,709	2,225,312	2,273,716	2,138,397	2,449,650	3,315,505
Increase (decrease) in provision for insured events of prior fiscal years	1,043,312	1,226,506	(92,184)	(933,553)	1,895,787	109,437	1,749,155	1,582,629	(318,243)	(1,025,582)
Total incurred claims and claim adjustment expenses	2,953,508	3,150,517	1,731,341	1,016,932	4,100,496	2,334,749	4,022,871	3,721,026	2,131,407	2,289,923
Payments										
Claims and claim adjustment expenses attributable to										
Events of the current fiscal year	296,885	296,347	283,763	288,812	297,520	327,536	316,086	294,879	277,626	259,673
Insured events of prior fiscal years	1,846,649	1,822,960	1,794,539	1,810,641	1,783,933	1,730,293	1,566,129	1,434,755	1,377,576	1,342,453
Total payments	2,143,534	2,119,307	2,078,302	2,099,453	2,081,453	2,057,829	1,882,215	1,729,634	1,655,202	1,602,126
Total unpaid loss and loss adjustment expenses at fiscal year end	$ 24,437,534	$ 23,627,560	$ 22,596,350	$ 22,943,311	$ 24,025,832	$ 22,164,068	$ 21,887,148	$ 19,746,492	$ 17,755,100	$ 17,278,895

[1] Claims payable liabilities are reported net of recoveries starting in fiscal year 2010. In prior years, they were grossed up to include recoveries.

Source: Washington Department of Labor & Industries Actuarial Services

Schedule 7 - Washington State Population and Components of Change

Last Ten Calendar Years

(in thousands)

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Population	6,968.2	6,882.4	6,817.8	6,767.9	6,724.5	6,672.2	6,608.3	6,525.1	6,420.3	6,298.8
Net Increase	85.8	64.6	49.9	43.4	52.4	63.9	83.2	104.8	121.4	90.3
Percent change	1.2%	0.9%	0.7%	0.6%	0.8%	1.0%	1.3%	1.6%	1.9%	1.5%
Components of change										
Births	89.4	88.4	87.5	86.4	88.4	89.8	89.6	87.8	83.2	81.8
Deaths	52.8	50.5	49.7	48.8	47.7	48.1	47.9	46.2	45.3	45.6
Net migration	49.2	26.8	12.1	5.8	11.6	22.2	41.5	63.2	83.6	54.1

Note: Washington State population estimates are as of April 1 of each year. Population estimates for 2009 through 2005 have been revised to reflect intercensal estimates. Intercensal estimates are estimates of population between official census dates. Intercensal estimates are more accurate than postcensal estimates because they are bracketed on both sides by decennial or state-certified special census counts. Estimates for 2010 have been replaced with the 2010 U.S. Census Bureau count. Estimates for 2011 through 2014 are postcensal estimates developed by the Washington State Office of Financial Management. Some figures may not total due to rounding.

Source: Washington State Office of Financial Management Forecasting Division

Schedule 8 - Washington State Personal Income
Last Ten Calendar Years
(dollars in billions, except per capita)

	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Personal income	$ 328	$ 318	$ 303	$ 287	$ 281	$ 290	$ 277	$ 256	$ 236	$ 227
Percent change	3.1%	5.0%	5.6%	2.1%	(3.1%)	4.7%	8.2%	8.5%	5.0%	9.0%
Per capita	$ 47,031	$ 46,045	$ 44,420	$ 42,521	$ 42,112	$ 44,162	$ 42,845	$ 40,139	$ 37,651	$ 36,715

Note: The Bureau of Economic Analysis periodically revises its personal income data for periods up to 10 years.

Source: U.S. Department of Commerce, Bureau of Economic Analysis

Schedule 9 - Washington State Unemployment Rates
Last Ten Calendar Years
(in thousands)

	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Civilian labor force	3,461	3,484	3,482	3,515	3,535	3,479	3,393	3,319	3,259	3,200
Less Employed	3,219	3,202	3,162	3,167	3,206	3,286	3,237	3,155	3,080	3,000
Total unemployed	242	282	320	348	329	193	156	164	179	200
Unemployment rate	7.0%	8.1%	9.2%	9.9%	9.3%	5.5%	4.6%	5.0%	5.5%	6.3%

Note: The Washington State Economic and Revenue Forecast Council periodically revises its civilian labor force and employment data for periods up to 5 years.

Source: Washington State Economic and Revenue Forecast, September 2014

Schedule 10 - Washington State Principal Employers by Industry
Last Calendar Year and Nine Years Ago

	2013 Annual Averages			2004 Annual Averages		
Industry [1]	**Number of Employees [2]**	**Percent of Total**	**Number of Employers**	**Number of Employees [2]**	**Percent of Total**	**Number of Employers**
Government	517,758	17.5%	2,091	498,770	18.6%	2,032
Health care and social assistance	335,769	11.3%	14,749	270,896	10.1%	12,905
Retail trade	324,688	11.0%	14,266	302,860	11.2%	14,476
Manufacturing	283,606	9.6%	6,767	259,349	9.6%	7,145
Accommodation and food services	237,983	8.0%	13,082	206,817	7.7%	11,384
Professional, scientific, and technical services	170,695	5.8%	19,799	129,989	4.8%	14,890
Administrative and support services [3]	144,061	4.9%	9,973	129,802	4.8%	8,119
Construction	139,712	4.7%	20,075	151,691	5.6%	21,856
Other services	133,056	4.5%	77,404	113,837	4.2%	55,179
Wholesale trade	124,829	4.2%	13,312	115,490	4.3%	12,135
Information	105,816	3.6%	2,732	91,741	3.4%	2,217
Agriculture, forestry, fishing, and hunting	94,674	3.2%	7,030	82,072	3.0%	8,347
Finance and insurance	89,999	3.0%	5,473	100,651	3.7%	5,389
Transportation and warehousing	83,886	2.8%	4,061	79,637	3.0%	3,783
Arts, entertainment, and recreation	45,821	1.5%	2,474	43,930	1.6%	2,272
Real estate, rental and leasing	44,915	1.5%	6,139	47,472	1.8%	6,323
Mgmt. of companies and enterprises	38,807	1.3%	649	32,920	1.2%	620
Education services	37,136	1.3%	2,740	28,676	1.1%	1,853
Utilities	4,779	0.2%	230	4,346	0.2%	232
Mining	2,103	0.1%	157	3,203	0.1%	159
Total average employment [4]	2,960,093	100%	223,203	2,694,149	100%	191,316

[1] Industry classifications are based on North American Industry Classification System (NAICS) codes. The state of Washington is legally prohibited from disclosing the names of individual employers. The information in this table is intended to assist readers in understanding the degree of concentration in the state's employment base.

[2] The number of employees is based on annual averages and represents only employees covered by unemployment insurance.

[3] Employment classified under administrative and support services include waste management and remediation services.

[4] Total employment is based on annual averages and may not include private firms or disclosure of individual employers.

Source: Washington State Employment Security Department, Quarterly Census of Employment and Wages

Schedule 11 - Washington State Annual Average Wage Rates by Industry
Last Ten Calendar Years

Industry [1]	Annual Average Wages [2]									
	2013 [4]	2012	2011	2010	2009	2008	2007	2006	2005	2004
Information	$ 135,315	$ 131,872	$ 119,968	$ 109,777	$ 105,715	$ 104,053	$ 96,240	$ 91,081	$ 82,647	$ 78,918
Management of companies and enterprises	105,529	105,535	102,009	95,731	87,642	87,431	86,867	85,031	75,236	75,776
Utilities	86,373	84,024	82,058	77,591	84,410	76,945	73,736	70,404	65,615	63,915
Professional, scientific, and technical services	81,885	79,972	77,178	75,376	71,837	70,120	70,104	63,687	61,181	58,486
Finance and insurance	79,587	77,455	73,154	70,137	71,304	72,653	70,044	66,684	62,382	62,091
Manufacturing	70,801	69,306	68,065	64,925	62,931	61,260	59,568	58,196	54,953	51,788
Wholesale trade	68,280	68,481	65,831	63,348	61,569	61,041	59,345	56,572	53,458	52,027
Mining	62,444	60,231	58,871	55,654	52,981	54,718	58,056	54,924	52,592	51,454
Construction	53,736	53,056	52,304	51,127	51,043	49,443	46,783	43,746	41,482	40,171
Government	53,733	52,871	52,174	51,394	50,420	48,705	46,914	44,745	42,915	41,756
Transportation and warehousing	51,966	50,876	49,628	47,743	46,522	45,433	45,320	44,078	42,798	41,780
Health care and social assistance	47,819	47,067	45,852	44,673	43,561	41,424	39,474	37,654	36,162	34,919
Real estate, rental and leasing	43,427	42,040	39,816	38,359	36,777	36,669	36,334	34,948	32,744	30,582
Administrative and support services [3]	43,261	43,381	42,942	41,466	39,571	37,536	36,463	34,533	33,649	33,466
Education services	36,774	36,226	35,576	35,158	34,505	33,550	32,076	30,901	29,860	28,453
Retail trade	34,084	32,364	30,917	30,021	29,356	29,268	29,082	28,174	27,330	26,602
Arts, entertainment, and recreation	27,771	25,276	25,023	25,121	25,527	26,949	27,643	27,139	25,724	24,331
Agriculture, forestry, fishing, and hunting	26,880	26,295	25,097	24,034	23,675	24,491	23,413	22,239	21,122	20,495
Other services	26,607	25,651	24,549	24,227	24,881	25,637	24,385	23,009	22,010	26,467
Accommodation and food services	19,136	18,698	18,062	17,632	17,063	16,430	16,019	15,469	15,014	14,765

[1] Industry classifications and wages are based on North American Industry Classification System (NAICS) codes.

[2] Wages include only employment covered by unemployment insurance. Wages may not include private firms or disclosure of individual employers.

[3] Wages classified under administrative and support services include waste management and remediation services.

[4] 2013 data is preliminary.

Source: Washington State Employment Security Department, Quarterly Census of Employment and Wages

Schedule 12 - Demographics of Accepted Claims
Last Ten Fiscal Years

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Male Injured Workers	67%	67%	67%	66%	66%	68%	70%	70%	70%	71%
Female Injured Workers	33%	33%	33%	34%	34%	32%	30%	30%	30%	29%
Average Age of Injured Workers	38	38	38	38	38	38	37	37	37	37
Workers Younger than 30	28%	27%	27%	28%	29%	32%	34%	35%	34%	34%
Workers 30 to 50	46%	46%	46%	47%	48%	48%	47%	48%	50%	51%
Workers Older than 50	24%	24%	24%	23%	22%	21%	19%	17%	17%	16%
Percent of Workers Age Unknown	2%	2%	2%	2%	1%	0%	0%	0%	0%	0%

Notes:
Because of rounding, some columns may not add up to 100%.
The data is a snapshot of the fiscal year (July 1 – June 30) as of the following September. Before fiscal year 2012, the data is as of the first week of the following October.

Source: Washington State Department of Labor & Industries Research and Data Services

Schedule 13 - Number of Employees by Division
Last Ten Fiscal Years

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Regional Office 1	60	61	59	56	57	59	58	57	58	98
Regional Office 2	101	100	102	102	102	96	92	90	94	174
Regional Office 3	55	55	54	56	59	60	59	55	58	95
Regional Office 4	70	71	74	70	72	65	64	69	71	113
Regional Office 5	68	71	71	71	71	70	70	70	74	113
Regional Office 6	38	39	40	41	42	43	44	44	42	73
Administrative Services	127	122	121	169	172	171	176	174	171	187
DOSH	356	344	341	330	335	339	332	322	333	115
Director's Office	31	141	87	92	93	88	89	82	80	66
Insurance Services	1,048	955	990	945	944	954	977	980	994	994
Office of Human Resources	46	44	46	45	45	47	50	47	51	47
Fraud Prevention & Labor Standards	122	86	85	83	84	74	79	74	75	52
Information Services	194	175	173	171	178	189	194	194	175	190
Specialty Compliance Services	N/A	37	38	37	40	36	29	27	25	17
Field Services & Public Safety	4	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Communications & Web Services	47	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Division of Financial Management	50	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
New Legislation	6	93	58	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Total	2,423	2,394	2,339	2,268	2,294	2,291	2,313	2,285	2,301	2,334

Note:

The above number of employees is based on Full-Time Equivalents. A Full-Time Equivalent (FTE) is one full calendar year of paid employment, or the equivalent of 2,088 hours (the number of available work hours in a year). It is not the number of employees on the payroll, nor is it the number of positions in the Department of Labor & Industries. It is a computed average number of employees based upon cumulative FTE staff months during one fiscal year or cumulative hours paid during one fiscal year. In fiscal year 2014, the Department of Labor & Industries reorganized the divisions under the Director's Office, Fraud Prevention, and Specialty Compliance.

Source: Washington State Agency Financial Reporting System

Schedule 14 - Capital Asset Indicators – Business Locations
Last Ten Calendar Years

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Tumwater headquarters	1	1	1	1	1	1	1	1	1	1
Number of other offices	2	2	2	1	1	1	1	1	0	0
Number of field offices*	18	18	18	19	19	19	19	19	19	21
Number of warehouses	1	1	1	1	1	1	1	1	1	1
Number of labs	1	1	1	1	1	1	1	1	1	1

*Field offices do not include Tumwater Region 4 field office in Tumwater headquarters.

Source: Washington State Department of Labor & Industries Facilities Services

Schedule 15 - Claim Statistics and Five Most Frequent Injuries
Last Ten Fiscal Years

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Claim Statistics:										
Number of Claims Filed [1]	106,903	103,328	101,524	100,690	102,734	116,616	136,791	140,308	140,887	139,359
Number of Claims Accepted [1, 2]	86,968	84,064	84,863	81,274	86,184	102,440	119,788	121,769	124,391	121,217
Number of Claims Denied [1, 2]	14,593	14,077	13,857	12,762	12,703	14,964	15,748	15,171	15,210	15,977
Fatal Pensions Awarded	51	44	35	59	45	42	63	54	66	63
Total Permanent Disability Pensions Granted	1,085	1,614	925	1,036	937	1,612	1,109	1,557	840	952
Permanent Partial Disability Awards Granted	10,431	10,760	11,524	11,782	11,452	12,684	12,316	12,621	12,535	13,309
New Time-loss (Wage Replacement) Claims [3]	20,049	19,740	20,205	21,377	22,604	26,295	28,593	29,416	29,615	28,521
Medical-only Claims Accepted	69,752	67,171	67,539	63,308	66,885	80,171	95,052	96,505	97,964	96,289
Retraining Plans Completed [4]	501	1,740	1,665	1,667	1,229	1,142	1,694	1,763	1,093	1,058
Total Days Paid for Lost Work	7,054,849	7,521,311	7,850,982	8,099,675	8,121,263	7,926,800	7,488,000	7,540,000	7,480,000	7,240,000
Five Most Frequent Injuries: [5]										
Back, spine, and spinal cord: Traumatic injuries to muscles, tendons, ligaments, and joints(includes sprains and strains)	10,466	10,247	10,829	10,227	12,026	13,486	16,192	15,236	N/A	N/A
Finger(s): Open wounds of finger(s), fingernails (includes cuts and lacerations, and amputation of fingertip or finger)	9,459	8,665	8,761	7,974	8,641	10,837	12,871	13,186	N/A	N/A
Leg(s): Traumatic injuries to muscles, tendons, ligaments, joints, etc., such as knee and thigh (excludes ankle and hip).	3,802	3,614	3,484	3,362	3,774	4,356	4,460	4,042	N/A	N/A
Shoulder: Traumatic injuries to muscles, tendons, ligaments, joints, etc. including clavicle, scapula (injuries to muscles, tendons, and ligaments that are not specifically otherwise classified)	3,646	3,441	3,457	-	3,501	4,053	4,235	-	N/A	N/A
Face: Surface wounds and bruises (includes splinter or other foreign body in eye, and bruises or contusions of the forehead)	3,611	3,723	3,775	3,320	3,753	5,020	6,153	6,261	N/A	N/A
Multiple traumatic injuries and disorders of multiple body parts (includes bruises, sprains, or fractures affecting more than one body part)	-	-	-	3,314	-	-	-	4,456	N/A	N/A

Note: The data is a snapshot of the fiscal year (July 1 – June 30) as of the following September. Before fiscal year 2012, the data is as of the first week of the following October.

[1] Provisional Claims: Number of Claims Accepted plus Number of Claims Denied do not equal Number of Claims Filed, as there are claims in "provisional" status where the decision to accept or deny has yet to be made.

[2] Counts of accepted and denied claims reflect actions in that year regardless of when claim was filed.

[3] Counts of new time-loss (wage replacement) claims reflect actions in that year regardless of when claim was filed.

[4] Beginning in fiscal year 2014, the statistics reported are for retraining plans successfully completed. The previous years include all training plans whether completed successfully or not.

[5] L&I adopted the national coding system for injury categories starting in fiscal year 2007. Data for these injury categories is not available in prior years.

Sources: Washington State Department of Labor & Industries Research and Data Services

Schedule 16 - Risk Classes with Greatest Number of Ultimate Claims
Last Ten Fiscal Years

Risk Class	Risk Class Description	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
3905	Restaurants and Taverns	7,329	6,954	6,721	6,443	6,694	7,133	8,462	8,744	8,874	8,917
4803	Orchards	3,145	2,879	2,661	2,154	2,052	2,222	1,950	2,217	2,042	2,191
6509	Boarding Homes and Retirement Centers	2,516	2,415	2,487	2,402	2,436	2,394	2,363	2,302	2,421	2,472
6109	Physicians & Medical Clinics	2,155	2,136	2,178	2,263	2,219	2,246	2,391	2,346	2,342	2,319
6108	Nursing Homes	2,123	2,088	2,084	2,188	2,271	2,410	2,662	2,676	2,703	2,760
4906	Colleges & Universities	1,738	1,704	1,818	1,770	1,842	1,872	1,903	1,926	1,908	2,029
2104	Fruit & Vegetable Packing - Fresh	1,552	1,484	1,306	1,248	1,311	1,412	1,365	1,459	1,440	1,443
3411	Automobile Dealers, Rentals and Service Shops	1,534	1,560	1,489	1,590	1,599	1,788	2,195	2,309	2,454	2,537
0510	Wood Frame Building Construction	1,396	1,273	1,133	1,201	1,317	2,003	3,142	3,988	4,422	3,991
6103	Schools, Churches and Day Care - Prof./Clerical Staff	1,361	1,350	1,391	1,433	1,343	1,491	1,478	1,412	1,454	1,369
3402	Machine Shops and Machinery Mfg., N.O.C.	1,348	1,251	1,321	1,224	1,131	1,561	2,063	1,918	2,028	2,102
4910	Property and Building Management Services	1,232	1,277	1,292	1,242	1,286	1,333	1,406	1,448	1,479	1,526
4905	Motels and Hotels	1,119	1,125	996	1,022	964	995	1,134	1,134	1,108	1,113
0516	Carpentry, N.O.C.	1,091	953	864	758	899	1,186	1,635	1,648	1,491	1,335
6309	Hardware, Auto Parts and Sporting Good Stores	1,069	1,093	1,080	1,036	1,081	1,225	1,496	1,508	1,554	1,536
1102	Trucking, N.O.C.	1,037	1,033	1,105	1,145	1,166	1,260	1,468	1,663	1,638	1,602
6406	Retail Stores, N.O.C.	1,019	935	1,013	1,011	1,202	1,361	1,492	1,567	1,637	1,579
6402	Supermarkets	1,008	892	792	823	881	962	1,038	1,049	1,097	1,219
1101	Parcel and Package Delivery Service	985	958	964	959	889	1,019	1,322	1,390	1,383	1,362
6602	Janitorial Service	968	939	995	947	849	964	999	1,080	1,112	1,047
6511	Chore Services	967	926	913	958	928	901	903	978	1,049	830
4904	Clerical Office, N.O.C.	956	1,014	1,113	1,161	1,205	1,435	1,546	1,683	1,707	1,787
0601	Electrical Wiring: Buildings and Structures	928	922	870	935	982	1,526	1,806	1,800	1,731	1,707
0307	HVAC Systems, Installation, Service and Repair	874	784	732	797	799	1,116	1,362	1,523	1,567	1,548
5307	State Government - All Other Employees, N.O.C.	864	930	1,073	1,228	1,194	1,256	1,273	1,260	1,354	1,389
0101	Excavation and Grading, N.O.C.	843	736	738	796	852	1,043	1,397	1,547	1,417	1,222
2903	Wood Products Manufacturing, N.O.C.	819	725	732	679	712	818	1,388	1,611	1,679	1,581
3404	Metal Goods Manufacturing, N.O.C. - Under 9 Gauge	819	767	781	677	689	922	1,246	1,291	1,349	1,501
0306	Plumbing	769	726	766	758	789	1,200	1,457	1,479	1,459	1,385
6303	Sales Personnel - Outside, N.O.C.	728	748	749	807	907	874	1,001	1,010	967	1,021
0507	Roofing Work - Construction and Repair	713	691	644	697	687	832	1,064	1,259	1,112	1,046
0518	Non Wood Frame Building Construction	687	684	609	640	760	1,442	1,919	1,678	1,315	1,154

Notes:
These claim counts are estimated by fiscal accident year from counts reported through June 30 of each fiscal year. The claims are "allowed" State Fund claims which have been accepted for benefits. Data is as of September 12, 2014.

The Risk Class is that assigned to the claim.

N.O.C. stands for not otherwise classified.

Per Washington Administrative Code (WAC) 296-17-31002, a Risk Class is defined as: "A grouping of businesses or industries having common or similar exposure to loss without regard to the separate employments, occupations or operations which are normally associated with the business or industry. Basic classifications describe a specific type of business operation or industry such as mechanical logging, sawmills, aircraft manufacturing, or restaurants. In most business operations, some workers are exposed to very little hazard, while others are exposed to greater hazard. Since a basic classification reflects the liability (exposure to hazard) of a given business or industry, all the operations and occupations that are common to an industry are blended together and included in the classification."

Sources: Washington State Department of Labor & Industries Actuarial Services

Washington State Department of
Labor & Industries

Keep Washington Safe and Working

Workers' Compensation Program Comprehensive Annual Financial Report

Other formats for persons with disabilities are available on request.
Call 1-800-547-8367. TDD users, call 360-902-5797.
L&I is an equal opportunity employer.

FY15-237 [10-2014]