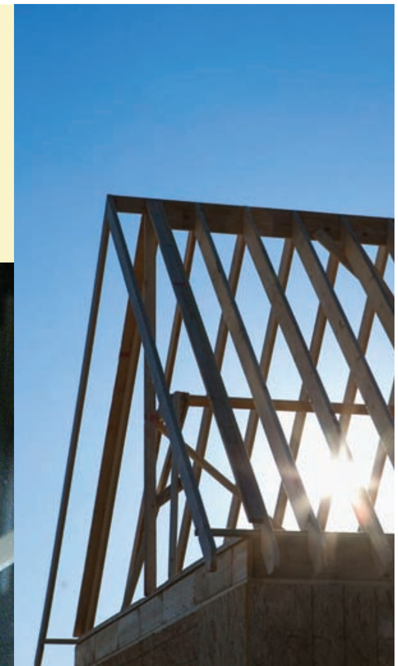
Washington State Department of
Labor & Industries



Workers' Compensation Program

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2008

Washington State Department of
Labor & Industries

State of Washington

Workers' Compensation Program

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2008

December 2008

Report prepared by:

Department of Labor and Industries
Judy Schurke, Director

Insurance Services
Robert Malooly, Assistant Director

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

Administrative Services
Steve McLain, Assistant Director

Financial Services Program
Sharon Elias, Chief Accounting Officer
Christopher Carlile, CPA, CGFM,
Workers' Compensation Accounting Manager
Margo Driver, CPA, Revenue Accounting Manager
Linda Tilson, Accounting Services Manager
Cara Hsieh, CPA, Workers' Compensation Accountant
Financial Services Program fiscal personnel

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

Table of Contents

Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2008

Washington State Department of
Labor & Industries

L&I Mission Statement:

We support the state's economic well-being by protecting the safety of Washington's workers, providing benefits to injured workers and ensuring fair wages and quality industry services.

Areas of Focus

- Improve speed, fairness and quality of workers' compensation claims operations.
- Reduce workplace injuries, illnesses and fatalities.
- Eliminate fraud and abuse by workers, employers and providers.
- Help solve the workforce shortage in construction through apprenticeship.
- Help vulnerable workers be safe on the job and receive the wages and benefits to which they are entitled.
- Recruit and retain a high-performance workforce.

Our Principles

- We understand and embrace our mission.
- We are committed to a knowledgeable, service-oriented, high-performing workforce.
- Ours is an organization with integrity.
- We are dedicated to providing high-quality and timely customer service.

Message from the Director and Assistant Director, Insurance Services

December 2008

In these difficult economic times, management of our resources is more important than ever. That applies to everyone—including us as manager of the state workers' compensation system. To illustrate how we have been doing this, we're pleased to share with you this *Comprehensive Annual Financial Report for the Workers' Compensation Program.*

Financially, our strategic objectives are to keep premium rates fair, stable and not excessive while maintaining the solvency of the State Fund. In order to meet these objectives, the investment portfolio has been prudently managed to maximize earnings at conservatively low levels of risk. Also, the contingency reserve has been managed to be large enough to weather the tough economic times we are experiencing.

Our accomplishments over the past year show that we are striving to manage our resources as effectively as possible, such as enhancing services through technology improvements and making it easier for our customers to conduct business with us. We not only made good progress in expanding online tools and resources, but we also increased fraud recoveries, launched a safety initiative focused on young workers, and improved access to care for injured workers.

Preventing fraud and increasing compliance

We continue to work hard to combat fraud and abuse by workers, employers and health-care providers. For every dollar invested in fighting fraud and improving compliance, we bring in about $8. Between July 1, 2007, and June 30, 2008, our Fraud Prevention and Compliance Program collected $124.9 million.

Raising teens' awareness of job safety and health

Teens are twice as likely as adults to be injured on the job, especially when they are new to the world of work. Last spring, we launched a pilot project that brought a seriously injured young worker to five Washington schools to tell students how he was injured and why they need to pay attention to safety on the job. A total of 750 students from Bellingham, Mattawa, Seattle, Spokane and Tumwater heard speaker Nick Perry.

In 2009, we will expand the Young Workers Speakers Bureau to 20 schools and include outreach to parent groups.

Adding new features to the online Claim & Account Center

Launched in early 2005, the online Claim & Account Center has been a big hit. The center is a secure Web site to check the status of a workers' comp claim or employer account without having to contact L&I. In August, users viewed over 5 million pages within the Claim & Account Center.

With input from employers, we have added enhanced features for filing quarterly reports and the ability to view all or a subset of workers' claims in a single list. Our new Trend Reports helps users understand their account by providing data in charts and graphs. There's also a new cost-analysis calculator for estimating the effect of claims on rates.

Improving access to medical care
Employees who are injured on the job or develop work-related illnesses need timely access to the best health-care providers in our communities to help them recover. But in recent years, access to medical care has been an issue, particularly for long-term treatment. We've been working hard to persuade more health-care providers to treat injured workers.

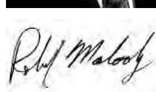
We pay competitively for medical services and pay for paperwork unique to L&I. We also pay quickly – if providers bill electronically, we typically pay within 15 days. We've streamlined many processes and we now provide support to help health-care providers solve problems. And, we've made it easier to do business with us through the online Claim & Account Center.

We want to run one of the best worker's compensation systems in the nation in the quality of service, benefits and costs. Looking ahead, we want to continue to eliminate delays in the claims process in order to speed services to workers and avoid unnecessary costs to employers. We know that early management of new time-loss claims is crucial to preventing long-term disability and improving outcomes for injured workers and employers.

We are committed to working with our partners and customers to ensure mutual protection for workers and employers.

Sincerely,


Judy Schurke
Director

Robert J. Malooly
Assistant Director, Insurance Services

INDEPENDENT AUDITORS' REPORT

Judy Schurke, Director
The Workers' Compensation Program
of the State of Washington
Tumwater, Washington

We have audited the accompanying financial statements (including the individual fund financial statements) of the Workers' Compensation Program of the State of Washington as of and for the year ended June 30, 2008. The Workers' Compensation Program of the State of Washington is a part of the State of Washington's primary government. These financial statements are the responsibility of the management of the Workers' Compensation Program of the State of Washington. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The financial statements referred to in the first paragraph present only the Workers' Compensation Program of the State of Washington and do not purport to, and do not, present fairly the financial position of the Washington State Department of Labor and Industries as of June 30, 2008, or the changes in its fund equity or cash flows for the year then ended in conformity with accounting principles generally accepted in the United States.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Workers' Compensation Program of the State of Washington as of June 30, 2008, and the changes in its fund equity and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States. Also, in our opinion, the financial statements present fairly, in all material respects, the financial position of each of the individual funds of the Workers' Compensation Program of the State of Washington as of June 30, 2008, and the changes in the fund equity and the cash flows of such funds for the year then ended in conformity with accounting principles generally accepted in the United States.

As discussed in Note 2 of the financial statements, certain errors in the classification of previous fiscal years' premium revenue between the various Workers' Compensation Program funds were discovered during the current year. Accordingly, an adjustment has been made to fund equity as of July 1, 2007, to correct the error. There was no change to the Workers' Compensation Program fund equity in total as of July 1, 2007.

The accompanying management discussion and analysis and required supplementary information listed in the accompanying table of contents is not a required part of the basic financial statements, but is supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The introductory section of this report is not a required part of the financial statements, and we did not audit or apply limited procedures to such information and do not express any assurance on such information.

/S/ PETERSON SULLIVAN LLP

December 1, 2008

This page is intentionally left blank.

Management's Discussion and Analysis

This section of the state of Washington Workers' Compensation Program Comprehensive Annual Financial Report presents management's discussion and analysis of the financial performance of the Workers' Compensation Program for the fiscal year that ended June 30, 2008. This discussion should be read in conjunction with the accompanying financial statements and notes to the financial statements. The financial statements, notes to the financial statements, and this discussion are the responsibility of the Workers' Compensation Program management.

General Information on the State of Washington Workers' Compensation Program

The state of Washington's "Workmen's Compensation Act" established the industrial insurance system in 1911, covering only extremely hazardous work. In 1923, Washington became the only state where workers paid a significant portion of the insurance premiums. Washington remained an exclusive State Fund until 1971 when the system underwent a major overhaul. It was expanded to cover virtually all workers, and allowed large employers that met certain financial and safety criteria to self-insure.

Washington State, through Title 51 of the Revised Code of Washington, requires all employers, unless 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.

Financial Highlights (dollars in millions)

	Fiscal Year 2008 Ending June 30, 2008	Fiscal Year 2007 Ending June 30, 2007	$ Change increase (decrease)	% Change increase (decrease)
Total Assets	$14,152	$13,456	$ 696	5.2%
Total Liabilities	24,312	21,642	2,670	12.3%
Total Operating Revenues	1,614	1,743	(129)	(7.4%)
Total Operating Expenses	4,061	3,839	222	5.8%
Total Program Deficit	(10,160)	(8,186)	(1,974)	(24.1%)

Overview of the 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 financial statements report the financial condition and results of operations of five accounts including the Accident, Medical Aid, Pension Reserve, Supplemental Pension, and Second Injury Funds, known collectively as the Workers' Compensation Program. The Accident, Medical Aid, and Pension Reserve Funds represent the Workers' Compensation Program Basic Plan.

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

The Combining Balance Sheet provides information about the Program's assets and liabilities, and reflects the Program's financial position as of June 30, 2008.

The Combining Statement of Revenues, Expenses, and Changes in Fund Equity reflects both operating and nonoperating revenues and expenses for the fiscal year.

The Combining Statement of Cash Flows reflects cash collections and cash payments to arrive at the net increase or decrease in cash and pooled investments during the fiscal year.

The Notes to the Combining Financial Statements are an integral part of the financial statements and are essential to a full understanding of the Workers' Compensation Program's financial position and results of operations presented in the financial statements.

The Supplementary Information section includes required supplemental information that presents ten years of claims development information. This section also includes the Actuarial Opinion from an independent actuarial firm who attested to the unpaid loss and loss adjustment expense liabilities.

Financial Analysis of the Workers' Compensation Program

Assets, Liabilities, and Fund Equity (in millions)

	June 30, 2008	June 30, 2007
Assets:		
Current assets and noncurrent receivables	$ 3,065	$ 2,400
Investments, noncurrent	11,019	10,983
Capital assets, net	68	73
Total Assets	$14,152	$13,456
Liabilities:		
Current liabilities	$ 4,276	$ 3,630
Noncurrent liabilities	20,036	18,012
Total Liabilities	24,312	21,642
Fund Equity (Deficit):		
Invested in capital assets, net of related debt	38	40
Unrestricted	(10,198)	(8,226)
Total Fund Deficit	(10,160)	(8,186)
Total Liabilities and Fund Equity	$ 14,152	$13,456

Current assets increased during Fiscal Year 2008 by $533 million. This change largely resulted from an increase of $571 million in collateral held under security lending agreements due to an increase in securities lending activity.

Noncurrent receivables increased by $132 million due to the recognition of actuarially estimated future third-party recoveries.

Noncurrent investments increased during Fiscal Year 2008 by $36 million. The increase is primarily due to the reinvestment of investment earnings including significant realized gains resulting from the sales of equity securities.

Current liabilities other than claims payable during Fiscal Year 2008 increased by $528 million. This change is a result of a $571 million increase in security lending activities and a $43 million decrease in other current liabilities due to the timing of cash transactions during the fiscal year.

Total **claims payable** (included in current and noncurrent liabilities above) was $21.9 billion at the end of Fiscal Year 2008 compared to $19.7 billion for the previous year, representing an 11% increase. Supplemental Pension Fund liabilities for future cost-of-living adjustments mandated by law increased by $1.5 billion during Fiscal Year 2008. This was caused by the continued growth in the state's average annual wage as calculated by the Washington State Employment Security Department. By law, cost-of-living adjustments for timeloss and pension benefits are tied to the annual changes in the calculated average wage.

Summary of Changes in Fund Equity (in millions)

	Fiscal Year 2008	Fiscal Year 2007
Operating Revenues:		
Premiums and assessments, net	$1,564	$1,689
Miscellaneous revenue	50	54
Nonoperating Revenues:		
Earnings on investments	467	966
Other revenues	8	7
Total Revenues	2,089	2,716
Operating Expenses:		
Salaries and wages	134	120
Employee benefits	41	38
Personal services	8	4
Goods and services	73	71
Travel	4	3
Claims	3,728	3,586
Depreciation	10	8
Miscellaneous expenses	63	9
Nonoperating Expenses:		
Interest expense	2	2
Total Expenses	4,063	3,841
Change in Fund Equity (Deficit)	(1,974)	(1,125)
Fund Deficit – Beginning of Year	(8,186)	(7,061)
Fund Deficit – End of Year	$(10,160)	$(8,186)

Total fund deficit increased $2.0 billion during Fiscal Year 2008. This overall deterioration in financial position is a result of many factors as highlighted below:

Premiums and assessments revenues, net, during Fiscal Year 2008 were $1.6 billion compared to $1.7 billion for Fiscal Year 2007, a decrease of $125 million. Factors contributing to the overall decrease were the rate holiday reducing revenue by $310 million and premium refunds totaling $36.5 million, as discussed below. Offsetting these decreases were higher rates charged by the Supplemental Pension Fund which pays for cost-of-living increases mandated by law. During July to December 2007, the Supplemental Pension Fund rate increased by 7%, and from January to July 2008, the rate increase by 17.1%, compared to the previous year. The increases are a result of changes to the Washington State's average annual wage as calculated by the Washington State Department of Employment Security. The Washington State average annual wage was $40,385 in 2005, $42,584 in 2006, and $44,721 in 2007.

Claims expenses increased by $142 million, or 4%, in Fiscal Year 2008 compared to Fiscal Year 2007. This was primarily due to an increase in claims payable (unpaid loss and loss adjustment expense liabilities) which is actuarially estimated.

Operating expenses for Fiscal Year 2008, other than claims expenses, were $333 million compared to $255 million in Fiscal Year 2007. This increase was due to recording additional bad debts expenses on receivables due to revised collection rates, and increases in salaries and benefits for represented staff required by the state's collective bargaining agreement.

Earnings on investments were $467 million during Fiscal Year 2008, compared to $966 million in the previous fiscal year. In February 2008, a new asset allocation policy was approved. Implementation of the new policy occurred in March 2008. The rebalancing required the sale of US equities and purchases of international equities and treasury inflation-protected securities (TIPS) within the fixed income portfolio. While the sale of equities resulted in a realized gain, the equity markets in general were negatively impacted by worldwide economic events and for the year had a significant unrealized loss. The addition of the TIPS and positive investment performance resulted in an 8.8% increase to the fixed income portfolio. Therefore, the reduction in earnings on investments is due to a reduction in unrealized gains during Fiscal Year 2008.

Rate holiday. Investment returns in prior years were higher than expected, and we had good success at controlling health-care costs. Therefore, we temporarily suspended the hourly rate employers and workers paid into the Medical Aid Fund for work performed from July 1 to December 31, 2007. Both employers and workers pay equally into the Medical Aid Fund. This fund pays for health care benefits for work-related injuries. The total reduction of premiums collected for Fiscal Year 2008 due to the rate holiday was $310 million.

Premium refunds. When we reviewed the result of the rate holiday, the Program determined that the members who enrolled in the retrospective premium rating plan received a higher benefit from the rate holiday. Under the retrospective premium rating plan, premiums are adjusted annually based on an individual employer's loss experience. The Workers' Compensation Program strives to be fair and equitable to all our customers, so the program declared a premium refund to all non-retrospective plan members. The refund checks were issued on June 30, 2008, and totaled approximately $36.5 million.

Capital Asset and Debt Administration

Capital assets. The investment in capital assets for fiduciary activities as of June 30, 2008, was $68 million, net of accumulated depreciation. This reflects a net decrease of $5 million over the previous year as a result of fewer capital assets acquired during Fiscal Year 2008 and the impact of depreciation expense. Additional information on capital assets can be found in Note 1.D.4 on page 24 of this report, and Note 6 on page 35 of this report.

Bonds payable. The bond proceeds provided funding for the acquisition and construction of the building and grounds for the Department of Labor and Industries headquarters in Tumwater. At the end of Fiscal Year 2008, the Workers' Compensation Program had $30 million in outstanding bonds payable, which represents a 10.7% decrease from the prior fiscal year end. The decrease is the result of scheduled semi-annual principal payments. Additional information on the Workers' Compensation Program bond debt obligations can be found in Note 7.A on pages 35-37 of this report.

Other Matters Impacting Next Fiscal Year

- The 2008 Legislature created the new Self-Insured Employer Overpayment Reimbursement Account for reimbursing the Pension Reserve Fund and 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. This account is part of the Workers' Compensation Program and will be effective beginning in Fiscal Year 2009.

Requests for Information

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

The Workers' Compensation Program Comprehensive Annual Financial Report is also available at the Department of Labor and Industries' website at http://www.lni.wa.gov/ClaimsIns/Insurance/Learn/StateFund/Reports/Default.asp.

This page is intentionally left blank.

Financial Statements

This page is intentionally left blank.

State of Washington Workers' Compensation Program
Combining Balance Sheet
June 30, 2008

	BASIC PLAN						
	Accident Fund	Medical Aid Fund	Pension Reserve Fund	Total Basic Plan	Supplemental Pension Fund	Second Injury Fund	Total
ASSETS							
Current Assets:							
Cash and pooled investments	$ -	$ 1,998,315	$ 551,596	$ 2,549,911	$ 252,902	$ 49,584,348	$ 52,387,161
Trust cash	-	-	751,554	751,554	-	-	751,554
Trust investments	-	-	6,671,330	6,671,330	-	-	6,671,330
Collateral held under securities lending agreements	836,319,826	866,277,063	432,862,270	2,135,459,159	16,634,557	-	2,152,093,716
Receivables, net of allowance	326,197,305	221,986,637	39,357,135	587,541,077	111,625,855	14,865,609	714,032,541
Due from Workers' Compensation Funds	1,789,310	31,689	2,676,174	4,497,173	777	-	4,497,950
Due from other state funds and agencies	1,157,559	1,128,996	-	2,286,555	4,905	-	2,291,460
Due from other governments	708,122	191,008	-	899,130	-	-	899,130
Inventories	70,608	70,608	-	141,216	-	-	141,216
Prepaid expenses	3,759	3,759	-	7,518	-	-	7,518
Total Current Assets	1,166,246,489	1,091,688,075	482,870,059	2,740,804,623	128,518,996	64,449,957	2,933,773,576
Noncurrent Assets:							
Receivables, net	51,383,000	49,068,000	4,788,000	105,239,000	26,303,000	-	131,542,000
Investments, noncurrent	4,274,790,394	3,843,843,372	2,818,709,123	10,937,342,889	81,864,439	-	11,019,207,328
Capital assets, net of accumulated depreciation	34,474,448	32,918,236	-	67,392,684	-	-	67,392,684
Total Noncurrent Assets	4,360,647,842	3,925,829,608	2,823,497,123	11,109,974,573	108,167,439	-	11,218,142,012
Total Assets	$ 5,526,894,331	$ 5,017,517,683	$ 3,306,367,182	$ 13,850,779,196	$ 236,686,435	$ 64,449,957	$ 14,151,915,588
LIABILITIES AND FUND EQUITY							
LIABILITIES							
Current Liabilities:							
Accounts payable	$ 2,620,963	$ 3,688,956	$ 476,144	$ 6,786,063	$ 23,085	$ -	$ 6,809,148
Deposits payable	648,280	1,962,738	-	2,611,018	-	-	2,611,018
Accrued liabilities	138,995,643	7,875,739	10,112,288	156,983,670	103,336	6,457	157,093,463
Obligations under securities lending agreements	836,319,826	866,277,063	432,862,270	2,135,459,159	16,634,557	-	2,152,093,716
Bonds payable - current	1,812,500	1,812,500	-	3,625,000	-	-	3,625,000
Due to Workers' Compensation Funds	30,888	4,689	1,785,398	1,820,975	801	2,676,174	4,497,950
Due to other state funds and agencies	33,811,653	4,191,370	-	38,003,023	-	-	38,003,023
Unearned revenues	4,692,477	3,367,440	9,227,057	17,286,974	3,051,347	-	20,338,321
Claims payable - current	750,120,000	448,845,000	295,378,000	1,494,343,000	396,199,000	-	1,890,542,000
Total Current Liabilities	1,769,052,230	1,338,025,495	749,841,157	3,856,918,882	416,012,126	2,682,631	4,275,613,639
Noncurrent Liabilities:							
Claims payable, net of current portion	2,945,863,000	2,868,543,000	2,572,370,000	8,386,776,000	11,609,830,000	-	19,996,606,000
Bonds payable, net of current portion	12,965,000	12,965,000	-	25,930,000	-	-	25,930,000
Other long-term liabilities	7,003,378	6,560,371	-	13,563,749	-	-	13,563,749
Total Noncurrent Liabilities	2,965,831,378	2,888,068,371	2,572,370,000	8,426,269,749	11,609,830,000	-	20,036,099,749
Total Liabilities	4,734,883,608	4,226,093,866	3,322,211,157	12,283,188,631	12,025,842,126	2,682,631	24,311,713,388
Fund Equity (Deficit):							
Invested in capital assets, net of related debt	19,696,948	18,140,736	-	37,837,684	-	-	37,837,684
Unrestricted	772,313,775	773,283,081	(15,843,975)	1,529,752,881	(11,789,155,691)	61,767,326	(10,197,635,484)
Total Fund Equity (Deficit)	792,010,723	791,423,817	(15,843,975)	1,567,590,565	(11,789,155,691)	61,767,326	(10,159,797,800)
Total Liabilities and Fund Equity	$ 5,526,894,331	$ 5,017,517,683	$ 3,306,367,182	$ 13,850,779,196	$ 236,686,435	$ 64,449,957	$ 14,151,915,588

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

State of Washington Workers' Compensation Program

Combining Statement of Revenues, Expenses, and Changes in Fund Equity

For the Year Ended June 30, 2008

	BASIC PLAN						
	Accident Fund	Medical Aid Fund	Pension Reserve Fund	Total Basic Plan	Supplemental Pension Fund	Second Injury Fund	Total
OPERATING REVENUES:							
Premiums and assessments, net of refunds	$ 819,868,350	$ 344,145,290	$ 14,889,251	$ 1,178,902,891	$ 336,262,124	$ 48,795,184	$ 1,563,960,199
Miscellaneous revenue	41,194,756	4,090,112	84,014	45,368,882	4,653,846	154	50,022,882
Total Operating Revenues	861,063,106	348,235,402	14,973,265	1,224,271,773	340,915,970	48,795,338	1,613,983,081
OPERATING EXPENSES:							
Salaries and wages	68,413,915	65,359,070	-	133,772,985	-	-	133,772,985
Employee benefits	21,200,394	20,097,884	-	41,298,278	-	-	41,298,278
Personal services	2,262,870	5,270,494	-	7,533,364	-	-	7,533,364
Goods and services	36,162,320	36,405,221	-	72,567,541	-	-	72,567,541
Travel	2,685,595	1,497,061	-	4,182,656	-	-	4,182,656
Claims	739,004,586	672,117,262	511,765,641	1,922,887,489	1,803,295,026	1,783,314	3,727,965,829
Depreciation	5,356,656	4,923,983	-	10,280,639	-	-	10,280,639
Miscellaneous expenses	46,379,119	10,235,783	262,973	56,877,875	6,564,416	204	63,442,495
Total Operating Expenses	921,465,455	815,906,758	512,028,614	2,249,400,827	1,809,859,442	1,783,518	4,061,043,787
Operating Income (Loss)	(60,402,349)	(467,671,356)	(497,055,349)	(1,025,129,054)	(1,468,943,472)	47,011,820	(2,447,060,706)
NONOPERATING REVENUES (EXPENSES):							
Earnings on investments	258,925,080	54,858,916	147,583,729	461,367,725	5,594,947	-	466,962,672
Other revenues	6,454,107	1,331,205	-	7,785,312	163	-	7,785,475
Interest expense	(971,019)	(971,018)	-	(1,942,037)	-	-	(1,942,037)
Total Nonoperating Revenues (Expenses)	264,408,168	55,219,103	147,583,729	467,211,000	5,595,110	-	472,806,110
Income (Loss) Before Transfers	204,005,819	(412,452,253)	(349,471,620)	(557,918,054)	(1,463,348,362)	47,011,820	(1,974,254,596)
Transfers in	-	-	388,055,751	388,055,751	-	42,488,430	430,544,181
Transfers out	(270,653,052)	(1,785,501)	(61,781,167)	(334,219,720)	-	(96,324,461)	(430,544,181)
Net Transfers	(270,653,052)	(1,785,501)	326,274,584	53,836,031	-	(53,836,031)	-
Changes in Fund Equity	(66,647,233)	(414,237,754)	(23,197,036)	(504,082,023)	(1,463,348,362)	(6,824,211)	(1,974,254,596)
Fund Equity (Deficit) - Beginning of Year, as restated	858,657,956	1,205,661,571	7,353,061	2,071,672,588	(10,325,807,329)	68,591,537	(8,185,543,204)
Fund Equity (Deficit) - End of Year	$ 792,010,723	$ 791,423,817	$ (15,843,975)	$ 1,567,590,565	$ (11,789,155,691)	$ 61,767,326	$ (10,159,797,800)

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

State of Washington Workers' Compensation Program

Combining Statement of Cash Flows

For the Year Ended June 30, 2008

	BASIC PLAN						
	Accident Fund	Medical Aid Fund	Pension Reserve Fund	Total Basic Plan	Supplemental Pension Fund	Second Injury Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES:							
Receipts from customers	$ 805,634,362	$ 315,460,951	$ 10,584,091	$ 1,131,679,404	$ 311,500,598	$ 54,765,959	$ 1,497,945,961
Payments to/for beneficiaries	(535,501,390)	(567,043,084)	(281,191,036)	(1,383,735,510)	(337,402,866)	(1,788,066)	(1,722,926,442)
Payments to employees	(86,785,798)	(82,221,343)	-	(169,007,141)	-	-	(169,007,141)
Payments to suppliers	(35,568,705)	(38,204,967)	-	(73,773,672)	-	-	(73,773,672)
Other	9,771,521	98,643	96,419	9,966,583	279,062	8	10,245,653
Net Cash Flows from Operating Activities	157,549,990	(371,909,800)	(270,510,526)	(484,870,336)	(25,623,206)	52,977,901	(457,515,641)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:							
Transfers in	-	-	328,584,799	328,584,799	-	42,488,430	371,073,229
Transfers out	(224,974,826)	(1,785,501)	(61,781,168)	(288,541,495)	-	(82,531,734)	(371,073,229)
Operating grants received	5,789,556	1,162,110	-	6,951,666	-	-	6,951,666
License fees collected	3,233	571	-	3,804	164	-	3,968
Net Cash Flows from Noncapital Financing Activities	(219,182,037)	(622,820)	266,803,631	46,998,774	164	(40,043,304)	6,955,634
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:							
Interest paid	(791,911)	(791,911)	-	(1,583,822)	-	-	(1,583,822)
Principal payments on bonds payable	(1,763,217)	(1,763,196)	-	(3,526,413)	-	-	(3,526,413)
Sales of capital assets	133,178	133,177	-	266,355	-	-	266,355
Acquisitions of capital assets	(2,740,035)	(2,249,686)	-	(4,989,721)	-	-	(4,989,721)
Net Cash Flows from Capital and Related Financing Activities	(5,161,985)	(4,671,616)	-	(9,833,601)	-	-	(9,833,601)
CASH FLOWS FROM INVESTING ACTIVITIES:							
Receipts of interest	219,376,944	159,388,061	143,058,863	521,823,868	4,843,090	-	526,666,958
Receipts of dividends	6,640,172	16,930,203	4,192,973	27,763,348	-	-	27,763,348
Net realized capital gains (losses)	125,162,908	141,061,375	80,919,037	347,143,320	497,265	-	347,640,585
Investment expenses	(890,827)	(885,657)	(579,288)	(2,355,772)	(22,360)	-	(2,378,132)
Proceeds from sale of investment securities	374,895,130	393,491,160	103,756,664	872,142,954	338,070,675	-	1,210,213,629
Purchases of investment securities	(664,984,787)	(332,753,944)	(328,187,016)	(1,325,925,747)	(318,012,605)	-	(1,643,938,352)
Net Cash Flows from Investing Activities	60,199,540	377,231,198	3,161,233	440,591,971	25,376,065	-	465,968,036
Net increase (decrease) in cash and pooled investments	(6,594,492)	26,962	(545,662)	(7,113,192)	(246,977)	12,934,597	5,574,428
Cash and pooled investments, Beginning of year	6,594,492	1,971,353	1,097,258	9,663,103	499,879	36,649,751	46,812,733
Cash and pooled investments, End of year	$ -	$ 1,998,315	$ 551,596	2,549,911	$ 252,902	$ 49,584,348	$ 52,387,161
Cash Flows from Operating Activities:							
Operating Income (Loss)	$ (60,402,349)	$ (467,671,356)	$ (497,055,349)	(1,025,129,054)	$ (1,468,943,472)	$ 47,011,820	(2,447,060,706)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Flows from Operating Activities:							
Depreciation	5,356,656	4,923,983	-	10,280,639	-	-	10,280,639
Change in Assets: Decrease (Increase)							
Receivables	8,960,775	(16,424,823)	(3,212,885)	(10,676,933)	(15,650,634)	5,966,940	(20,360,627)
Inventories	13,324	13,324	-	26,648	-	-	26,648
Prepaid expenses	11,348	11,348	-	22,696	-	-	22,696
Change in Liabilities: Increase (Decrease)							
Claims payable	206,756,000	105,425,000	230,933,000	543,114,000	1,466,000,000	-	2,009,114,000
Accrued liabilities	(3,145,764)	1,812,724	(1,175,292)	(2,508,332)	(7,029,100)	(859)	(9,538,291)
Net Cash Flows from Operating Activities	$ 157,549,990	$ (371,909,800)	$ (270,510,526)	$ (484,870,336)	$ (25,623,206)	$ 52,977,901	$ (457,515,641)
Noncash Investing, Capital, and Financing Activities:							
Increase (decrease) in fair value of investments	$ (85,264,934)	$ (260,374,962)	$ (77,694,194)	(423,334,090)	$ 715,428	$ -	$ (422,618,662)

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

Notes to the Combining Financial Statements

For the Fiscal Year ended June 30, 2008

Index to the Notes to the Combining Financial Statements

Note 1 - Summary of Significant Accounting Policies

The accompanying financial statements of the Workers' Compensation Program of the state of Washington have been prepared in conformity with generally accepted accounting principles. The Office of Financial Management (OFM) of the state of Washington 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. For enterprise fund reporting, the state follows only those private-sector standards issued on or before November 30, 1989, unless those pronouncements conflict with or contradict the pronouncements of the GASB. Following is a summary of the significant accounting policies:

1.A. Reporting Entity

Washington State, through Title 51 of the Revised Code of Washington (RCW), requires all employers, unless exempted, to secure coverage for job-related injuries and illnesses either by paying insurance premiums to the Industrial Insurance Fund 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 Program consists of five enterprise funds to account for activity related to providing time-loss, medical, disability, and pension payments to qualifying individuals sustaining work-related injuries or occupational diseases. The accompanying 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 the Washington State Department of Labor and Industries or the state of Washington. The Workers' Compensation Program Basic Plan is funded based on rates that will keep the plan solvent in accordance with recognized actuarial principles. The Supplemental Pension Fund provides for cost-of-living adjustments (COLA) granted for time-loss and disability payments. These costs, however, are funded on a pay-as-you-go basis. By statute, the Workers' Compensation Program is only allowed to collect enough revenue to fund the current COLA payments.

Premiums are based on individual employers' reported payroll hours, and insurance rates are based on each employer's risk classification(s) and past experience. In addition to its regular premium plans, the Workers' Compensation Program offers a retrospective premium rating plan under which premiums are adjusted annually for up to three years following the plan year based on individual employers' loss experience. Initial adjustments to the standard premiums are paid to or collected from the employers approximately ten months after the end of each plan year.

The Workers' Compensation Program establishes claims payable 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 benefit involved. Because actual claim costs depend on such complex factors as inflation, changes in doctrines of legal liabilities, claim adjudication, and judgments, the process used in computing claims payable liabilities does not necessarily result in an exact amount. Claims payable are recomputed periodically using a variety of actuarial and statistical techniques. These techniques are used to produce current estimates that reflect recent settlements, claim frequency, and other economic, legal, and social factors. A provision for inflation in the calculation of estimated future claim costs is implicit in the calculation because reliance is placed both on actual historical data that reflect past inflation and on other factors that are considered to be appropriate modifiers of past experience. Adjustments to claims payable are charged or credited to claims expense in the periods in which they are made.

1.B. Financial Statements

Balance Sheet – This statement presents assets and liabilities in order of liquidity. Fund equity is classified into two categories:

- Invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation and reduced by outstanding balances of bonds that relate to the acquisition, construction, or improvement of those assets.
- Unrestricted fund equity consists of the portion of fund equity that does not meet the definition of the preceding category.

Statement of Revenues, Expenses, and Changes in Fund Equity - This statement reports the changes in fund equity for the Workers' Compensation Program.

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 pooled investments during the fiscal year.

The Workers' Compensation Program consists of the following funds:

The Accident Fund pays compensation directly to injured workers for lost wages during temporary disability and for permanent partial disability awards. The Accident Fund also pays to the Pension Reserve Fund the present value of pensions awarded to survivors of fatally injured workers and to workers who are permanently and totally disabled. Accident Fund claims payable liabilities are discounted to the present value assuming a 2.5 percent annual interest rate, at June 30, 2008.

Revenues for this fund are from employer paid premiums, calculated on the basis of hours worked, and reported net of refunds. However, employers may elect to have their premiums retrospectively rated with an adjustment for actual losses incurred. This may result in either a rebate of premiums paid or an assessment of additional premiums due. All retrospective premium adjustments are financed entirely through the Accident Fund. The adjustment calculation considers both the Accident and Medical Aid Funds' experience and premiums together; however, no retrospective premium adjustments are made through the Medical Aid Fund.

The Medical Aid Fund pays for the cost of medical and vocational rehabilitation services to injured workers. Revenues for this fund usually arise from equal contributions from employers and employees. Employers are required to withhold half of the medical aid premium from their employees' wages. Medical Aid Fund claims payable liabilities are discounted to the present value assuming a 2.5 percent annual interest rate, at June 30, 2008.

The Pension Reserve Fund pays benefits to all permanently disabled pensioners including disabled employees of self-insured employers. These claims payable liabilities are discounted to the present value assuming a 6.5 percent annual interest rate, at June 30, 2008. Funding for pension payments is generated from transfers from the Accident Fund and reimbursement payments from self-insured employers that are invested in securities selected to cover payments for the expected life of the injured worker or survivor.

The three funds described above are maintained on an actuarially solvent basis, except that a cash-flow basis is used for the components of the Pension Reserve Fund when self-insured employers guarantee related benefits with a surety bond.

The Supplemental Pension Fund provides for supplemental COLA to injured employees receiving disability payments. However, legislation requires this fund to operate on a current payment basis. No assets are allowed to accumulate for the future servicing of current claims payable. Supplemental Pension Fund claims payable liabilities are discounted to the present value assuming a 2.5 percent annual interest rate, at June 30, 2008.

COLA and timeloss payment increases are based on the increase in the state 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 self-insured and state-insured employers; half of the assessment is deducted from employees' wages.

The Second Injury Fund is used to pay pension costs on claims where a permanent total disability is at least partially caused by a prior injury. It is also used to fund job modifications for some temporarily disabled workers. It is funded by amounts received from the Accident and Medical Aid Funds for state-insured claims and by self-insured assessments for self-insured claims. An allowance for future second injury benefit payments is contained within the Accident and Medical Aid Funds' claim liabilities for state-insured claims; therefore, this fund does not carry any claims payable liabilities.

Operating and Nonoperating Revenues and Expenses - Operating revenues for the Workers' Compensation Program consist mainly of premiums 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 nonoperating, including interest expense and earnings on investments.

1.C. Measurement Focus and Basis of Accounting

The Workers' Compensation Program's funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operations of the program are included on the Balance Sheet. The Statement of Revenues, Expenses, and Changes in Fund Equity presents increases (i.e., revenues) and decreases (i.e., expenses) in total fund equity.
The Workers' Compensation Program's funds are reported using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred.

1.D. Assets, Liabilities, and Fund Equity

1.D.1. Cash and Investments

Investments of surplus or pooled cash balances are reported in the accompanying financial statements as "Cash and Pooled Investments." The Office of the State Treasurer invests state treasury cash surpluses where funds can be disbursed at any time without prior notice or penalty. As a result, the cash balances of funds with surplus pooled balances are not reduced for these investments. For reporting purposes, pooled cash is stated at fair value or amortized cost, which approximates fair value. For the purposes of the Statement of Cash Flows, the Workers' Compensation Program considers cash and short-term, highly-liquid investments that are both readily convertible to cash and are so near their maturity dates that they present insignificant risk of changes in value because of changes in interest rates, to be cash and pooled investments.

At June 30, 2008, the Accident Fund overdrew its share of pooled cash. The $30 million overdrawn amount resulted from issuing $36.5 million in premium refund checks on June 30, 2008. Although the "book balance" for cash was reduced, the "bank's cash balance" was positive since none of the checks were paid by the bank by June 30. This situation occurred because short-term investments were not liquidated by June 30 to cover the amount of the premium refund checks issued. The overdrawn amount has been reclassified and included under the current liability 'Due to other state funds and agencies,' and the reported 'Pooled cash and investments' balance for the Accident Fund is zero.

Noncurrent investments are reported at fair value. Fair values are based on published market prices, quotations from national security exchanges, and security pricing services. Additional disclosure describing investments is provided in Note 3.

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 by the U.S. Department of Energy in advance to cover the pension liability determined by the Workers' Compensation Program are recorded as "Trust Cash" and "Trust Investments." As of June 30, 2008, Trust Cash amounted to $751,554 and is available to reimburse the Workers' Compensation Program for monthly pension payments. As of June 30, 2008, Trust Investments totaling $6,671,330 were invested in U.S. Treasury Notes, and is also available to reimburse the Workers' Compensation Program for future expenses.

1.D.2. Receivables (Current and Noncurrent)

The current portion of the Workers' Compensation Program receivables arose in the ordinary course of business. Current receivables consist of amounts due for workers' compensation premiums, amounts due for overpayment of benefits to injured workers and providers, investment interest receivable, and other miscellaneous receivables. Receivables due for workers' compensation premiums for the quarter ended June 30, 2008, are estimated. Receivables are recorded when either the asset or the revenue recognition criteria (refer to Note 1.C) have been met. All receivables are reported net of an allowance for accounts estimated to be uncollectible. 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 percentages calculated from a historical analysis of past accounts receivable and amounts found to be uncollectible. Interest accrues on overdue accounts receivable at the rate of one 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 noncurrent portion of Workers' Compensation Program receivables represents estimated recoveries from third parties on a certain portion of claim expenses that are recoded in noncurrent claims payable. As in the case of claims payable (see Note 1.A.), these recoveries are computed periodically using a variety of actuarial and statistical techniques and are discounted at assumed interest rates as described in Note 7.B. to arrive at a current settlement value.

1.D.3. Inventories

Consumable inventories consist of expendable materials and supplies held for consumption and are reported in the Balance Sheet at average cost. The Workers' Compensation Program expenses consumable inventories when used.

1.D.4. Capital Assets

Except as noted below, in accordance with OFM policy, it is the Workers' Compensation Program's policy to capitalize:

- All land.
- All capital assets with a unit cost of $5,000 or more.
- Capital assets acquired by capital leases with a net present value or fair market value, whichever is less, of $10,000 or more.

Purchased capital assets are valued at cost where historical records are available and at estimated historical cost where no historical records exist. Capital asset costs include the purchase price plus those costs necessary to place the asset in its intended location and condition for use. 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 that are related to the construction.

Depreciation is calculated using the straight-line method over the estimated useful lives of the assets. Generally, estimated useful lives are as follows:

- Buildings and building components 5-50 years
- Furnishings, equipment, and collections 3-50 years
- Other improvements 3-50 years

The cost and related accumulated depreciation of capital assets retired from service, or disposed of, are removed from the accounting records.

1.D.5. 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 30 days 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 60 days may redeem sick leave earned but not taken during the previous year at the rate of one day's pay in exchange for each four days of sick leave.

It is the Workers' Compensation Program's policy to liquidate unpaid compensated absences leave outstanding at June 30 with future resources rather than advance funding it with currently available expendable financial resources.

The Workers' Compensation Program recognizes the expense and accrues a liability for annual leave and estimated sick leave buyout, including related payroll taxes and benefits as applicable, as the leave is earned.

1.D.6. Retirement Plan

Workers' Compensation Program employees participate in the Washington State Public Employees' Retirement System (PERS) administered by the Department of Retirement Systems. 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. PERS participants who joined the system by September 30, 1977, are Plan 1 members. Those who joined on or after October 1, 1977, and by February 28, 2002, are Plan 2 members unless they exercise 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 PERS Plan 2 or PERS Plan 3.

Under PERS, the employee and employer contribute a percentage of the employee's compensation. The Workers' Compensation Program contributed $8,328,658 to this plan during the fiscal year ended June 30, 2008.

An actuarial valuation of the PERS plan for the Workers' Compensation Program as a stand-alone entity is not available. Pension note disclosures for PERS are 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 PO Box 43113, Olympia, Washington 98507-3113, or online at www.ofm.wa.gov/cafr.

1.D.7. Noncurrent Liabilities

Long-term obligations of the Workers' Compensation Program are reported as noncurrent liabilities on the Balance Sheet. Bonds payable are reported net of applicable original issuance premium or discount.

Note 2 – Prior Period Adjustment

A prior period adjustment was recorded to correct an error in the classification of previous fiscal years' premium revenue between the various Workers' Compensation Program funds. There was no change to the Workers' Compensation Program fund equity (deficit) in total. Fund equity (deficit) for the individual funds at June 30, 2007, has been restated as follows:

Fund Equity (Deficit)	Accident Fund	Medical Aid Fund	Pension Reserve Fund	Total Basic Plan	Supplemental Pension Fund	Second Injury Fund	Total
Fund Equity (Deficit) at June 30, 2007, as previously reported	$ 857,698,286	$ 1,204,719,474	$ 7,331,802	$ 2,069,749,562	$ (10,318,119,005)	$ 62,826,239	$ (8,185,543,204)
Prior Period Adjustment	959,670	942,097	21,259	1,923,026	(7,688,324)	5,765,298	-
Fund Equity (Deficit) as restated, June 30, 2007	$ 858,657,956	$ 1,205,661,571	$ 7,353,061	$ 2,071,672,588	$ (10,325,807,329)	$ 68,591,537	$ (8,185,543,204)

Note 3 – Deposits and Investments

3.A. Deposits

Custodial credit risk is the risk associated with the failure of a depository financial institution. In the event of a depository financial institution's failure, it is the risk that the Workers' Compensation Program would not be able to recover its deposits or collateralized securities that are in the possession of the outside parties.

The Workers' Compensation Program minimizes custodial credit risk by restrictions set forth in state law. Statutes restrict the State Treasurer to deposit funds in financial institutions that are physically located in Washington unless otherwise expressly permitted by statute and authorized by the Washington Public Deposit Protection Commission (PDPC). The PDPC (established under Chapter 39.58 of the Revised Code of Washington) constitutes a multiple financial institution collateral pool. Pledged securities under the PDPC collateral pool are held by the PDPC's agent in the name of the collateral pool.

The Federal Deposit Insurance Corporation (FDIC) covers the Workers' Compensation Program insured deposits and the PDPC provides collateral protection.

3.B. Investments

3.B.1. Summary of Investment Policies

Under RCW 43.33A.030, trusteeship over the Workers' Compensation Program's investments is vested in 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 must comply with other state laws, such as the Ethics in Public Service Act, RCW 42.52, as it makes investment decisions and seeks to meet its investment objectives.

In accordance with state laws, the Workers' Compensation Program's investments 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 order of the objectives is to:

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

Eligible Investments – Eligible investments include:

- U.S. Equities.
- International Equities.
- U.S. Treasuries and Government Agencies.
- Credit Bonds.
- Mortgage-Backed Securities rated BBB- or higher by Standard & Poor's and Baa3 or higher by Moody's Investor's Service (Moody's).
- Asset-Backed Securities rated BBB- or higher by Standard & Poor's and Baa3 or higher by Moody's.
- Commercial Mortgage-Backed Securities rated BBB- or higher by Standard & Poor's and Baa3 or higher by Moody's.
- 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:

- Asset allocation between equity and fixed income investments must fall within prescribed limits as shown below and are to be reviewed every three to four years or sooner if there are significant changes in funding levels or the liability durations.

Fund	Fixed Income Target	Equity Target	Equity Range
Accident	90%	10%	8% - 12%
Medical Aid	85%	15%	12% - 18%
Pension Reserve	90%	10%	8% - 12%

- No corporate fixed income issue cost shall exceed 3 percent of the fund's market value at the time of purchase, nor shall its market value exceed 6 percent of the fund's market value at any time.

- Equity investments are allocated 60% to U.S. and 40% to international equities. The benchmark and structure for U.S. equities is the broad U.S. stock market as defined by the Dow Jones-Wilshire 5000. The benchmark and structure for international equities is the Morgan Stanley Capital International All Country World Ex US Investable Market Index (MSCI ACW Ex US IMI). Both portfolios are 100 percent passively managed in commingled index funds. The commingled funds may use futures for hedging or establishing a long position.

- The fixed income portfolios' structure varies depending upon the required duration target. The duration targets are reviewed every three years, or sooner, if there are significant changes in the funding levels or the liability durations. The target durations and duration ranges by fund are:

Fund	Target Duration	Duration Range
Accident	7 Years	5.6 to 8.4
Medical Aid	6 Years	4.8 to 7.2
Pension Reserve	7 Years	5.6 to 8.4

- Sector allocation of fixed income investments must be managed within the 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 as soon as it is practical to the target allocations.

- Total holdings of below investment grade credit bonds (rated BB+ or below by Standard & Poor's or rated Ba1 or below by Moody's) should not exceed five percent of total fixed income holdings.

  The target allocations for fixed income sectors are as follows:

U.S. Treasuries and Government Agencies	5 - 25%
Credit Bonds	20 – 70%
Asset-Backed Securities	0 – 10%
Commercial Mortgage-Backed Securities	0 – 10%
Mortgage-Backed Securities	0 – 25%

3.B.2. Securities Lending

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 JPMorgan Chase Bank to act as agent for the WSIB in securities lending transactions. As JPMorgan Chase Bank is the custodian bank for the WSIB, it is counterparty to securities lending transactions.

The Securities Lending Collateral Balances included are from securities required to be listed under GASB 3 Category 3 – Uninsured and unregistered with securities held by the counterparty, or by its trust department or agent but not in the Workers' Compensation Program's name. (This includes the amount of any repurchase agreement that exceeds the market value of the underlying securities.)

In accordance with GASB Statement 28, the Workers' Compensation Program reports securities lent (the underlying securities) as assets in Balance Sheet. Cash received as collateral on securities lending transactions and investments made with that cash are reported as assets. Securities received as collateral are reported as assets if the Workers' Compensation Program has the ability to pledge or sell them without a borrower default. Liabilities resulting from these transactions are reported in the Combining Balance Sheet. Securities lending transactions collateralized by securities that the Workers' Compensation Program does not have the ability to pledge or sell unless the borrower defaults are not reported as assets and liabilities.

Fixed income securities were loaned and collateralized by the Workers' Compensation Program's agent with cash and U.S. government securities (exclusive of mortgage backed securities and letters of credit), and irrevocable letters of credit. When the loaned securities were denominated in United States dollars, were securities whose primary trading market was located in the United States or were sovereign debt issued by foreign governments, the collateral requirement was 102 percent of the market value of the securities loaned. When the loaned securities were not denominated in United States dollars or were securities whose primary trading market was not located in the United States, the collateral requirement was 105 percent of the market value of the loaned securities. The collateral held and market value of securities on loan at June 30, 2008, was $2.15 billion and $2.11 billion, respectively.

During Fiscal Year 2008, securities lending transactions could be terminated on demand by either the Workers' Compensation Program or the borrower. The average weighted maturity of overall loans was 21 days.

Cash collateral was invested by the Workers' Compensation Program's agents in securities issued or guaranteed by the U.S. government, the Workers' Compensation Program's short-term investment pool (average weighted maturity of 136 days) or term loans. 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. 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. JPMorgan Chase Bank 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. JPMorgan Chase Bank'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 2008, 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 2008 resulting from a default by either the borrowers or the securities lending.

3.B.3. Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The Workers' Compensation Program's fixed income investments are actively managed to exceed the return of the Comparable Market Index, with volatility as measured by duration to be similar to or less than the index. As of June 30, 2008, the durations of the various fixed income classes were within the duration targets of the Comparable Market Index.

The Workers' Compensation Program's investments include both U.S. agencies and corporate debt variable-rate securities, most of which reset periodically to the market interest rate. Because these securities frequently reprice to prevailing market rates, interest rate risk is substantially reduced at each periodic reset date.

The following schedule presents the Workers' Compensation Program's investments by type and provides information about the interest rate risks associated with the investments as of June 30, 2008. The schedule displays various asset classes held by maturity in years and credit ratings. Variable-rate securities are presented according to the length of time until the next reset date rather than the stated maturity.

(expressed in thousands)		Maturity				
Investment Type	Fair Value	Less than 1 year	1-5 years	6-10 years	More than 10 years	Credit Rating
Mortgages:						
Collateralized Mortgage Obligations	$ 1,751,792	$ 175	$ 226,682	$ 330,563	$ 1,194,372	Aaa
Pass Throughs	1,620	22	1,598	-	-	Aaa
Commercial Mortgage Backed Securities	619,962	25,976	234,718	358,214	1,054	Multiple
Corporate Bonds - Domestic	5,128,611	138,985	1,447,294	1,469,347	2,072,985	Multiple
Government Securities - Domestic:						
US Government Treasuries	422,431	61,506	360,925	-	-	Aaa
Treasury Inflation-Protected Securities	1,583,736	-	413,038	648,540	522,158	Aaa
	9,508,152	$ 226,664	$ 2,684,255	$ 2,806,664	$ 3,790,569	
Commingled Index Funds - Domestic	807,227					
Commingled Index Funds - Foreign	527,822					
Money Market Funds	176,006					
Securities Lending Collateral Balances	2,152,094					
Total	$ 13,171,301					
Current portion	$ 2,152,094					
Noncurrent portion	11,019,207					

Investments with multiple credit ratings are presented using the Moody's rating scale as follows:

(expressed in thousands)	Investment Type		
Moody's Equivalent Credit Rating	Corporate Bonds - Domestic	Commercial Mortgage Backed Securities	Total
Aaa	$ 564,147	$ 557,966	$ 1,122,113
Aa1	51,286	61,996	113,282
Aa2	256,431	-	256,431
Aa3	666,720	-	666,720
A1	615,433	-	615,433
A2	666,720	-	666,720
A3	615,433	-	615,433
Baa1	461,575	-	461,575
Baa2	820,578	-	820,578
Baa3	410,288	-	410,288
Total	$ 5,128,611	$ 619,962	$ 5,748,573

3.B.4. Credit Risk

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's investment policy mitigates credit risk by limiting holdings of below investment grade fixed income securities. The rated debt investments of the Workers' Compensation Program as of June 30, 2008, 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's policy states that the cost of no corporate fixed income issue shall exceed 3 percent of the fund's market value at the time of purchase, nor shall its market value exceed 6 percent of the fund's market value at any time. There was no concentration of credit risk as of June 30, 2008.

Custodial Credit Risk – Custodial credit risk is the risk that, in the event of failure of the custodian, the Workers' Compensation Program would not be able to recover its investment securities or collateral securities that are in the possession of the custodian. The Workers' Compensation Program has no formal policy regarding custodial credit risk. However, as all of the Workers' Compensation Program's assets are registered and held in the state of Washington's name, they are not subject to custodial credit risk.

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 Workers' Compensation Program had $527.8 million invested in an international commingled equity index fund at June 30, 2008. As such, no currency denomination is presented.

3.B.6. Derivatives

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

Consistent with the Workers' Compensation Program authority to invest in derivatives, international active equity managers may make limited investments in financial futures, forward contracts, or other derivative securities to manage exposure to currency rate risk and equitize excess cash holdings. No such derivative securities were held as of June 30, 2008. 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, 2008, the only derivative securities held directly by the Workers' Compensation Program were collateralized mortgage obligations (CMOs) of $1.8 billion.

3.B.7. Reverse Repurchase Agreements

State law permits the Workers' Compensation Program to enter into reverse repurchase agreements, that is, 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 market value of the securities underlying reverse repurchase agreements normally exceeds the cash received, providing the dealers margin against a decline in market value of the securities. If the dealers default on their obligations to resell these securities to the Workers' Compensation Program or provide securities or cash of equal value, the Workers' Compensation Program would suffer an economic loss equal to the difference between the market value plus accrued interest of the underlying securities and the agreement obligation, including accrued interest. There were no reverse repurchase agreements during Fiscal Year 2008 and there were no liabilities outstanding as of June 30, 2008.

Note 4 – Receivables

Receivables at June 30, 2008, consisted of the following:

Receivables	Accident Fund	Medical Aid Fund	Pension Reserve Fund	Total Basic Plan	Supplemental Pension Fund	Second Injury Fund	Total
Current Receivables:							
Premium receivables:							
Actual premium receivable	$ 78,345,397	$ 28,010,995	$ -	$ 106,356,392	$ 11,575,135	$ -	$ 117,931,527
Estimated premium receivable	240,177,000	175,132,000	-	415,309,000	66,852,000	-	482,161,000
Estimated Self-Insurance premium receivable	3,370,444	3,174,103	5,715,199	12,259,746	27,421,282	14,863,866	54,544,894
Total premium receivables	321,892,841	206,317,098	5,715,199	533,925,138	105,848,417	14,863,866	654,637,421
Other receivables:							
Receivable from overpayments	42,652,324	5,772,197	5,527,063	53,951,584	15,005,758	-	68,957,342
Investment interest receivable	39,335,883	30,978,226	27,861,876	98,175,985	691,666	-	98,867,651
Safety fines & penalties receivable	-	-	-	-	6,015,402	-	6,015,402
Miscellaneous receivable	13,110	189,919	1,807,029	2,010,058	1,267,312	3,872	3,281,242
Total Current Receivables, gross	403,894,158	243,257,440	40,911,167	688,062,765	128,828,555	14,867,738	831,759,058
Less: Allowance for uncollectible receivables	77,696,853	21,270,803	1,554,032	100,521,688	17,202,700	2,129	117,726,517
Total Current Receivables, net of allowance	326,197,305	221,986,637	39,357,135	587,541,077	111,625,855	14,865,609	714,032,541
Noncurrent Receivables:							
Receivables, net	51,383,000	49,068,000	4,788,000	105,239,000	26,303,000	-	131,542,000
Total Receivables, net of allowance	$ 377,580,305	$ 271,054,637	$ 44,145,135	$ 692,780,077	$ 137,928,855	$ 14,865,609	$ 845,574,541

Note 5 – Interfund/Interagency Balances

5.A. Due From and Due To Workers' Compensation Funds

The following balances at June 30, 2008, represent amounts due from and due to Workers' Compensation Funds:

Due From Workers' Compensation Funds	Accident Fund	Medical Aid Fund	Pension Reserve Fund	Total Basic Plan	Supplemental Pension Fund	Second Injury Fund	Total
Accident Fund	$ -	$ 30,888	$ -	$ 30,888	$ -	$ -	$ 30,888
Medical Aid Fund	3,912	-	-	3,912	777	-	4,689
Pension Reserve Fund	1,785,398	-	-	1,785,398	-	-	1,785,398
Supplemental Pension Fund	-	801	-	801	-	-	801
Second Injury Fund	-	-	2,676,174	2,676,174	-	-	2,676,174
Total Due From Workers' Compensation Funds	$ 1,789,310	$ 31,689	$ 2,676,174	$ 4,497,173	$ 777	$ -	$ 4,497,950

Due To Workers' Compensation Funds	Accident Fund	Medical Aid Fund	Pension Reserve Fund	Total Basic Plan	Supplemental Pension Fund	Second Injury Fund	Total
Accident Fund	$ -	$ 3,913	$ 1,785,398	$ 1,789,311	$ -	$ -	$ 1,789,311
Medical Aid Fund	30,888	-	-	30,888	801	-	31,689
Pension Reserve Fund	-	-	-	-	-	2,676,174	2,676,174
Supplemental Pension Fund	-	776	-	776	-	-	776
Second Injury Fund	-	-	-	-	-	-	-
Total Due To Workers' Compensation Funds	$ 30,888	$ 4,689	$ 1,785,398	$ 1,820,975	$ 801	$ 2,676,174	$ 4,497,950

5.B. Due From and Due To Other State Funds and Agencies

The following balances at June 30, 2008, represent amounts due from and due to other state funds and agencies:

Due From Other State Funds and Agencies	Accident Fund	Medical Aid Fund	Pension Reserve Fund	Total Basic Plan	Supplemental Pension Fund	Second Injury Fund	Total
General Fund	$ 2,477	$ 7	$ -	$ 2,484	$ -	$ -	$ 2,484
Special Revenue Funds	12,555	2,481	-	15,036	-	-	15,036
Agency Funds	-	28,701	-	28,701	4,905	-	33,606
Other State Agencies	1,142,527	1,097,807	-	2,240,334	-	-	2,240,334
Total Due From Other State Funds and Agencies	$ 1,157,559	$ 1,128,996	$ -	$ 2,286,555	$ 4,905	$ -	$ 2,291,460

Due To Other State Funds and Agencies	Accident Fund	Medical Aid Fund	Pension Reserve Fund	Total Basic Plan	Supplemental Pension Fund	Second Injury Fund	Total
General Fund	$ 247	$ (121)	$ -	$ 126	$ -	$ -	$ 126
Special Revenue Funds	1,103,380	1,064,883	-	2,168,263	-	-	2,168,263
Internal Service Funds	-	122	-	122	-	-	122
Other State Agencies	32,708,026	3,126,486	-	35,834,512	-	-	35,834,512
Total Due To Other State Funds and Agencies	$ 33,811,653	$ 4,191,370	$ -	$ 38,003,023	$ -	$ -	$ 38,003,023

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

Note 6 – Capital Assets

Capital asset activity for the fiscal year ended June 30, 2008, was as follows:

Capital Assets	Beginning Balance July 1, 2007	Increases	Decreases	Ending Balance June 30, 2008
Capital assets, not being depreciated:				
Land and collections	$ 3,239,748	$ -	$ -	$ 3,239,748
Software in development	-	4,187,869	-	4,187,869
Total capital assets not being depreciated	3,239,748			7,427,617
Capital assets, being depreciated:				
Buildings and building components	62,705,374	-	-	62,705,374
Accumulated depreciation	(19,868,492)	(1,256,373)	-	(21,124,865)
Net buildings and building components	42,836,882			41,580,509
Furnishings, equipment, and collections	63,894,716	429,465	(1,267,590)	63,056,591
Accumulated depreciation	(37,967,215)	(8,772,884)	982,030	(45,758,069)
Net furnishings, equipment, and collections	25,927,501			17,298,522
Other improvements	1,289,263	348,698	-	1,637,961
Accumulated depreciation	(300,543)	(251,382)	-	(551,925)
Net other improvements	988,720			1,086,036
Total capital assets, being depreciated, net	69,753,103			59,965,067
Total Capital Assets, net of depreciation	$ 72,992,851			$ 67,392,684

Note 7 – Noncurrent Liabilities

7.A. Bonds Payable

The Workers' Compensation Program is responsible for semi-annual payments on a certain portion of four 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 the Department of Labor and Industries headquarters in Tumwater, Washington, and refunding of general obligation bonds previously outstanding.

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 2015. The principal amount of these bonds outstanding was $17,025,000 at June 30, 2008. Bonds outstanding at June 30, 2008, have coupon interest rates between 5.375% and 5.70%. The original amount of this bond issue was $19,960,000 in 1993.

- **The General Obligation Bonds of Series R-2007A**
  The Workers' Compensation Program is required to make varying annual principal and interest payments, with the final payment due in 2011. The principal amount of these bonds outstanding was $5,975,000 at June 30, 2008. Bonds outstanding at June 30, 2008, have coupon interest rates of 5.00%. The original amount of this bond issue was $7,900,000 in 2007.

- **The General Obligation Bonds of Series R-2007C**
  The Workers' Compensation Program is required to make varying annual principal and interest payments, with the final payment due in 2015. The principal amount of these bonds outstanding was $6,555,000 at June 30, 2008. Bonds outstanding at June 30, 2008, have coupon interest rates of 5.0%. The original amount of this bond issue was $6,635,000 in 2007.

The annual debt service requirements to maturity for general obligation bonds for fiscal years ending June 30 are as follows:

General Obligation Bonds	Principal	Interest	Total
Accident Fund:			
By Fiscal Year			
2009	$ 1,812,500	$ 768,565	$ 2,581,065
2010	1,910,000	672,838	2,582,838
2011	2,015,000	571,319	2,586,319
2012	1,602,500	448,688	2,051,188
2013	1,700,000	358,740	2,058,740
2014-2015	5,737,500	581,841	6,319,341
Total Accident Fund	14,777,500	3,401,991	18,179,491
Current portion	1,812,500	768,565	2,581,065
Noncurrent portion	12,965,000	2,633,426	15,598,426
Medical Aid Fund:			
By Fiscal Year			
2009	1,812,500	768,565	2,581,065
2010	1,910,000	672,838	2,582,838
2011	2,015,000	571,319	2,586,319
2012	1,602,500	448,688	2,051,188
2013	1,700,000	358,740	2,058,740
2014-2015	5,737,500	581,841	6,319,341
Total Medical Aid Fund	14,777,500	3,401,991	18,179,491
Current portion	1,812,500	768,565	2,581,065
Noncurrent portion	12,965,000	2,633,426	15,598,426
Total Debt Service Requirements	$ 29,555,000	$ 6,803,982	$ 36,358,982

Total interest incurred on bonds payable for the year ended June 30, 2008, was $971,007 for the Accident Fund and $971,007 for the Medical Aid Fund. There are no covenants related to the Workers' Compensation Program's obligation for these bonds.

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 Balance Sheet.

Current Year Defeasances

There were no bonds refunded by the Workers' Compensation Program during the fiscal year that ended on June 30, 2008.

Prior Year Defeasances

In prior years, the Workers' Compensation Program defeased certain general obligation and other bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the prior bond. During Fiscal Year 2008, the last remaining outstanding defeased bonds were called on July 1, 2007. Therefore, at fiscal year end, June 30, 2008, no amounts remained in the trust account. Accordingly, the trust account assets, liabilities, or activity for the defeased bonds are not included in the Workers' Compensation Program's financial statements.

7.B. Claims Payable

The following schedule, expressed in thousands, presents the changes in claims payable liabilities (unpaid loss and loss adjustment expense liabilities) for the past two fiscal years for the Workers' Compensation Program's two benefit plans: the Basic Plan (representing the Accident Fund, Medical Aid Fund, and Pension Reserve Fund), and the Supplemental Pension Plan:

	Basic Plan		Supplemental Pension Plan		Grand Total	
Claims Payable	FY 2008	FY 2007	FY 2008	FY 2007	FY 2008	FY 2007
Unpaid loss and loss adjustment expenses at beginning of fiscal year	$ 9,232,766	$ 8,756,328	$ 10,513,726	$ 8,998,772	$ 19,746,492	$ 17,755,100
Incurred claims and claim adjustment expenses:						
Provision for insured events of the current fiscal year	1,720,944	1,646,531	552,772	491,866	2,273,716	2,138,397
Increase (decrease) in provision for insured events of prior fiscal years	471,483	258,175	1,277,672	1,324,454	1,749,155	1,582,629
Total incurred claims and claim adjustment expenses	2,192,427	1,904,706	1,830,444	1,816,320	4,022,871	3,721,026
Payments:						
Claims and claim adjustment expenses attributable to:						
Events of the current fiscal year	316,086	294,879	-	-	316,086	294,879
Insured events of prior fiscal years	1,227,988	1,133,389	338,141	301,366	1,566,129	1,434,755
Total payments	1,544,074	1,428,268	338,141	301,366	1,882,215	1,729,634
Total unpaid loss and loss adjustment expenses at fiscal year end	$ 9,881,119	$ 9,232,766	$ 12,006,029	$ 10,513,726	$ 21,887,148	$ 19,746,492
Current portion	$ 1,494,343		$ 396,199		$ 1,890,542	
Noncurrent portion	8,386,776		11,609,830		19,996,606	

A description of the risks to which the Workers' Compensation Program is exposed and the ways the risks are handled is presented in Note 1.A. At June 30, 2008, $36.0 billion of unpaid loss and loss adjustment expense liabilities are presented at their net present and settlement value of $21.9 billion. These claims are discounted at assumed interest rates of 2.5 percent (Accident Fund, Medical Aid Fund, and Supplemental Pension Fund) to 6.5 percent (Pension Reserve Fund).

The claims and claims adjustment liabilities of $21.9 billion, as of June 30, 2008, include $12.0 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 Basic Plan claim liabilities of $9.9 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 Long-Term Liabilities

Long-term liability activity for the fiscal year ended June 30, 2008, was as follows:

Long-Term Liabilities	Beginning Balance July 1, 2007	Additions	Reductions	Ending Balance June 30, 2008	Due Within One Year
Claims Payable, noncurrent & current	$ 19,746,491,998	$ 4,022,871,000	$ (1,882,214,998)	$ 21,887,148,000	$ 1,890,542,000
Bonds Payable:					
General Obligation bonds:					
Series R-93B	18,670,000	-	(1,645,000)	17,025,000	1,735,000
Series R-98A	10,000	-	(10,000)	-	-
Series R-2007A	7,765,000	-	(1,790,000)	5,975,000	1,890,000
Series R-2007C	6,635,000	-	(80,000)	6,555,000	-
Total Bonds Payable	33,080,000	-	(3,525,000)	29,555,000	3,625,000
Other Long-Term Liabilities:					
Compensated absences	13,533,557	13,597,783	(13,331,307)	13,800,033	236,284
Certificates of particpiation	1,413	-	(1,413)	-	-
Total Other Long-Term Liabilities	13,534,970	13,597,783	(13,332,720)	13,800,033	236,284
Total Long-Term Liabilities (including current portion)	$ 19,793,106,968	$ 4,036,468,783	$ (1,899,072,718)	$ 21,930,503,033	$ 1,894,403,284

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. If 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. In most cases, 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, 2008:

Operating Leases (by Fiscal Year)	Accident Fund	Medical Aid Fund	Total
2009	$ 3,748,826	$ 3,726,178	$ 7,475,004
2010	3,379,157	3,346,019	6,725,176
2011	2,874,829	2,850,464	5,725,293
2012	1,932,245	1,907,498	3,839,743
2013	705,439	687,813	1,393,252
2014-2018	733,363	685,505	1,418,868
Total Future Minimum Lease Payments	$ 13,373,859	$ 13,203,477	$ 26,577,336

The total operating lease rental expenses for Fiscal Year 2008 was $9,938,288.

Note 8 - Deficit Fund Equity

At June 30, 2008, the Workers' Compensation Program had deficit fund equity of $10.2 billion. The Supplemental Pension Fund provides COLA with deficit fund equity of $11.8 billion at June 30, 2008. 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. By statute, the Supplemental Pension Fund is only allowed to collect enough revenue to provide for current COLA payments.

Changes in total fund equity for the Workers' Compensation Program during the fiscal year ended June 30, 2008, were as follows:

Fund Equity (Deficit)	Accident Fund	Medical Aid Fund	Pension Reserve Fund	Total Basic Plan	Supplemental Pension Fund	Second Injury Fund	Fund Equity (Deficit)
Balance, July 1, 2007, as restated	$ 858,657,956	$ 1,205,661,571	$ 7,353,061	$ 2,071,672,588	$ (10,325,807,329)	$ 68,591,537	$ (8,185,543,204)
Fiscal Year 2008 Activity	(66,647,233)	(414,237,754)	(23,197,036)	(504,082,023)	(1,463,348,362)	(6,824,211)	(1,974,254,596)
Balance, June 30, 2008	$ 792,010,723	$ 791,423,817	$ (15,843,975)	$ 1,567,590,565	$ (11,789,155,691)	$ 61,767,326	$ (10,159,797,800)

Note 9 – Other Postemployment Benefits

In addition to pension benefits as described in Note 1.D.6, the state of Washington, through the Health Care Authority, administers an agent multiple-employer other postemployment benefit (OPEB) plan. Per RCW 41.05.065, the Public Employees Benefits Board (PEBB) created within the Health Care Authority, 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.

As a state government employer, the Workers' Compensation Program participates in the PEBB plan. Complete note disclosure for the 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 PO Box 43113, Olympia, Washington 98507-3113, or online at www.ofm.wa.gov/cafr.

Note 10 – Commitments and Contingencies

10.A. Summary of Significant Litigation

The Workers' Compensation Program is party to numerous routine legal proceedings that normally occur in operations. At any given point, there may be numerous lawsuits that could impact expenses. There is a recurring volume of tort and other claims for compensation and damages against the Workers' Compensation Program. The collective impact of these claims, however, is not likely to have a material impact on Workers' Compensation Program financial position, revenues, or expenses.

10.B. 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, including the expenditure of assistance for allowable purposes. 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 Program's overall financial condition.

10.C. Other Commitments and Contingencies

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 providing workers' compensation coverage under the United States Longshoreman and Harbor Workers' Act. 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. However, the Workers' Compensation Program has not made any payments to this risk pool since enactment of this indefinite commitment.

Note 11 – Subsequent Events

Subsequent to June 30, 2008, the Workers' Compensation Program's investment in Lehman Brothers Holdings, Inc. was sold in September 2008 resulting in a loss of $37,603,600. This realized loss is not reflected in the accompanying financial statements since the loss arose subsequent to June 30, 2008.

The Workers' Compensation Program also invests in a commingled index fund which held securities issued by American International Group, Inc., Washington Mutual, Inc., and Lehman Brothers Holdings, Inc. Management estimates that the Workers' Compensation Program's share of the commingled fund's losses arising subsequent to June 30, 2008, from American International Group, Inc., Washington Mutual, Inc., and Lehman Brothers Holdings, Inc. securities amount to $2,452,979, $194,203, and $622,945, respectively.

Also subsequent to June 30, 2008, the Workers' Compensation Program sustained other unrealized losses on investments due to turmoil within the capital markets. WSIB concluded that the decline in fair value is deemed to be temporary. Since the unrealized losses arose subsequent to June 30, 2008, they are not reflected in the accompanying financial statements.

Supplementary Information

State of Washington Workers' Compensation Program - Basic Plan
Schedule of Claims Development Information

Fiscal Years 1999 through 2008 (expressed in millions)

The table below illustrates how the Workers' Compensation Program Basic Plan earned revenues (net of reinsurance) and investment income compare to the related costs of losses (net of loss assumed by re-insurers) 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 policy year).
3. This section shows the cumulative amounts paid as of the end of successive years for each policy 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, reevaluation 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.

		1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
1.	Net earned required contribution and investment revenues	$ 927	$ 1,057	$ 1,449	$ 1,197	$ 2,111	$ 1,337	$ 2,452	$ 1,392	$ 2,406	$ 1,747
2.	Estimated incurred claims and expenses, end of policy year	1,732	1,902	1,925	2,124	2,284	2,505	2,308	2,141	2,196	2,256
3.	Paid (cumulative) as of:										
	End of policy year	205	218	230	226	233	244	260	278	295	310
	One year later	438	473	494	500	501	528	556	589	625	
	Two years later	564	608	646	653	650	681	715	754		
	Three years later	643	706	747	756	751	784	821			
	Four years later	707	777	825	834	824	860				
	Five years later	758	837	890	896	882					
	Six years later	800	889	943	949						
	Seven years later	840	933	989							
	Eight years later	876	974								
	Nine years later	908									
4.	Re-estimated incurred claims and expenses:										
	End of policy year	1,732	1,902	1,925	2,124	2,284	2,505	2,308	2,141	2,196	2,256
	One year later	1,690	1,838	1,963	2,158	2,277	2,203	1,989	2,053	2,234	
	Two years later	1,694	1,913	2,067	2,277	2,045	1,971	1,939	2,055		
	Three years later	1,770	1,977	2,226	2,079	1,853	1,864	1,954			
	Four years later	1,794	2,088	2,039	1,906	1,767	1,886				
	Five years later	1,839	1,881	1,864	1,859	1,788					
	Six years later	1,682	1,778	1,835	1,879						
	Seven years later	1,578	1,755	1,858							
	Eight years later	1,560	1,745								
	Nine years later	1,567									
5.	Increase (decrease) in estimated incurred claims and expenses from end of policy year	(165)	(157)	(67)	(245)	(496)	(619)	(354)	(86)	38	

Source: Washington State Department of Labor and Industries

State of Washington Workers' Compensation Program - Supplemental Pension Plan Schedule of Claims Development Information

Fiscal Years 1999 through 2008 (expressed in millions)

The table below illustrates how the Workers' Compensation Program Supplemental Pension Plan cost-of-living adjustments earned revenues (net of reinsurance) and investment income compare to the related costs of losses (net of loss assumed by re-insurers) 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, while the Basic Plan does not.
(2) This plan is not experienced 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 policy year).
3. This section shows the cumulative amounts paid as of the end of successive years for each policy 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, reevaluation 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.

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
1. Net earned required contribution and investment revenues	$ 193	$ 225	$ 267	$ 281	$ 293	$ 288	$ 326	$ 305	$ 283	$ 347
2. Estimated incurred claims and expenses, end of policy year	548	635	628	807	1,029	1,228	724	804	968	1,093
3. Paid (cumulative) as of:										
End of policy year	-	-	-	-	-	-	-	-	-	-
One year later	7	8	5	2	5	2	1	3	6	
Two years later	12	12	8	11	4	3	4	7		
Three years later	18	17	22	6	6	6	8			
Four years later	24	30	15	9	8	11				
Five years later	37	27	19	12	13					
Six years later	37	33	23	17						
Seven years later	43	38	29							
Eight years later	50	46								
Nine years later	58									
4. Re-estimated incurred claims and expenses:										
End of policy year	548	635	628	807	1,029	1,228	724	804	968	1,093
One year later	666	730	786	945	1,045	722	721	927	1,176	
Two years later	754	844	910	1,046	676	720	848	1,065		
Three years later	860	959	1,064	701	667	811	971			
Four years later	932	1,099	727	682	759	940				
Five years later	1,034	746	671	811	871					
Six years later	732	722	792	905						
Seven years later	678	834	883							
Eight years later	780	889								
Nine years later	851									
5. Increase (decrease) in estimated incurred claims and expenses from end of policy year	303	254	255	98	(158)	(288)	247	261	208	

Source: Washington State Department of Labor and Industries

This page is intentionally left blank.

To the State of Washington Workers' Compensation Program:

I, David F. Mohrman, am associated with Towers Perrin. I am a member of the American Academy of Actuaries and meet its qualification standards for signing statements of actuarial opinion regarding property and casualty insurance company statutory Annual Statements. I am a Fellow of the Casualty Actuarial Society. My firm has been retained to render an opinion on the reserves for unpaid loss and loss adjustment expense liabilities at June 30, 2008 recorded in the Combining Balance Sheet of the State of Washington Workers' Compensation Program (the "Program") and I have been assigned responsibility for that project.

I have examined the reserves for unpaid loss and loss adjustment expense liabilities at June 30, 2008 recorded in the Combining Balance Sheet of the Program. The reserves are as follows:

	Reserve as of June 30, 2008
Accident Fund	$3,695,983,000
Medical Aid Fund	3,317,388,000
Pension Reserve Fund	2,867,748,000
Subtotal	9,881,119,000
Supplemental Pension Fund	12,006,029,000
Total Program	$21,887,148,000

The Program does not cede or assume any reinsurance.

My examination included the performance of independent projections of the Program's loss and loss adjustment expenses on a gross basis and such other tests and procedures as I considered necessary in the circumstances. In making my examination, I relied upon Sharon Elias, Financial Services Program Manager, Washington Department of Labor and Industries and William Vasek, Chief Actuary, Washington Department of Labor and Industries, as to the accuracy and completeness of its loss and loss adjustment expense data and other related information provided to Towers Perrin.

Due to the inherent uncertainty associated with actuarial projections of future contingent events, it is possible that the actual future payments associated with the disposition of current loss and loss adjustment expense liabilities could prove to be materially different from the estimated amounts underlying the entries in the financial statements. I have assumed that historical loss emergence patterns will be predictive of the Program's future loss emergence. My estimates make no provision for the extraordinary future emergence of new classes of losses or types of loss not represented in the company's historical data base or which are not yet quantifiable. Nor have I examined whether the loss and loss adjustment expense reserves are backed by appropriate assets that have suitably scheduled maturities and/or adequate liquidity to meet the cash flow requirements of the liabilities.

My review was limited to the items listed above and did not include an analysis of any income statement items or other balance sheet items.

I evaluated the loss and loss adjustment expense reserves on a discounted basis with regard to the time value of money. The yields for discounting were 2.5% for the Accident Fund and the Medical Aid Fund, 6.5% for the Pension Reserve Fund, and 2.5% for the Supplemental Pension Fund. The average implied discount rate was 3.0%, which I consider reasonable. I evaluated the loss and loss adjustment expense reserves, net in regards to salvage and subrogation.

I believe that there are significant risks and uncertainties that could result in material adverse deviation in the loss and loss adjustment expense reserves. In consideration of the use of this opinion for purposes of monitoring the Fund Equity of the Program, I consider $2,200,000,000 to be material for this Program, calculated as approximately 10% of the Program's reserves. I have identified the major risks and uncertainties as reserve leverage, reserve discounting, medical inflation, and cost of living increases. The absence of other risks and uncertainties 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.

The Accident Fund, Medical Aid Fund and Pension Reserve Fund each have positive Fund Equity. The Supplemental Pension Fund is funded on a pay-as-you-go basis, and is in a deficit position using GAAP principles. In total, the Fund Equity is negative.

Changes to the interest rates for discounting could result in material changes to reserves and, therefore, the Fund Equity.

Future medical payments for workers compensation claims are subject to inflation. Small differences in the rate of medical inflation from expectations could result in the reserves being inadequate or redundant for covering future medical payments.

The Supplemental Pension Fund covers payments above the basic indemnity benefit for cost of living adjustments. Small differences between the cost of living adjustments assumed in the reserves and actual future cost of living adjustments could result in a material change in future costs and, therefore, the adequacy of the reserve.

In my opinion, the amounts recorded in the Combining Balance Sheet as reserves for estimated loss and loss adjustment expense liabilities:

- are consistent with amounts computed in accordance with the Casualty Actuarial Society Statement of Principles Regarding Property and Casualty Loss and Loss Adjustment Expense Reserves and relevant standards of practice promulgated by the Actuarial Standards Board; and

- make a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its contracts and agreements.

Date: December 3, 2008

David F. Mohrman, FCAS, MAAA
Principal
Towers Perrin
Forestal Centre
175 Powder Forest Drive
Weatogue, CT 06089
(860) 843-7041

This page is intentionally left blank.

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.

[12-2008]