Washington State Department of
Labor & Industries

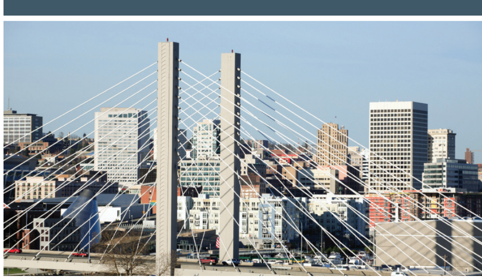
Workers' Compensation Program

An Enterprise Fund of the State of Washington

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2013

Olympia, Washington



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Prepared by:

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

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

Administrative Services
Chris Freed, Assistant Director

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

Insurance Services Division Personnel

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

Washington State Department of
Labor & Industries

Keep Washington Safe and Working

Table of Contents

Table of Contents

Continued

Page

STATISTICAL SECTION

Introductory Section

Washington State Department of
Labor & Industries

Keep Washington Safe and Working

STATE OF WASHINGTON
DEPARTMENT OF LABOR AND INDUSTRIES
P.O. Box 44000 • Olympia Washington 98504-4000

October 25, 2013

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

RE: Comprehensive Annual Financial Report

The Revised Code of Washington 51.44.115 requires the Department of Labor & Industries (L&I) to publish a Comprehensive Annual Financial Report (CAFR) for the Workers' Compensation Program within six months of the close of each fiscal year. This report is published to fulfill that requirement for the fiscal year ended June 30, 2013.

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

The State Auditor has issued an unmodified ("clean") opinion on the Workers' Compensation Program financial statements for the year ended June 30, 2013. The independent auditor's report is located at the front of the financial section of this report.

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

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

PROFILE OF WORKERS' COMPENSATION PROGRAM

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

The workers' compensation system has existed in Washington State for 102 years. Washington was one of the first states to enact workers' compensation laws. Our state's Workmen's Compensation Act, established on July 28, 1911, was designed to protect workers and employers from injustice and financial hardship arising from work-related injuries in extremely hazardous work. In 1923, Washington became one of only two states where workers pay a portion of the insurance premiums.

Washington's workers' compensation insurance was provided solely through the State Fund until 1971, when the system underwent a major overhaul. In 1971, the Legislature expanded the scope of coverage to virtually all workers and created an option for qualified employers to self-insure. The Self-Insurance Program allows employers with sufficient financial resources to self-insure, thus paying the cost of claims for their injured workers from their own funds and also assuming responsibility for their own claims administration. The workers of self-insured employers are entitled to the same rights and benefits as those workers insured by the State Fund managed by L&I. There are approximately 363 employers who are self-insured, covering approximately one-quarter of all workers in Washington. The state also has an optional financial incentive program, called the Retrospective Rating Program, to help qualifying employers insured with the State Fund to reduce their industrial insurance costs. Employers who join the Retrospective Rating Program receive partial refunds if their claim costs are lower than expected, but must pay additional premiums if their claim costs are higher than expected.

The State Fund Workers' Compensation Program covers 168,000 employers and approximately 2.49 million workers statewide. Total premiums assessed in Fiscal Year 2013, including both the employer and worker portions, in the State Fund were $1.74 billion. Over 84,000 claims were accepted in Fiscal Year 2013; about 80 percent of the accepted claims were for medical benefits only and received no compensation for time off work or disability-related benefits. Approximately 39,000 claims are active in any given month, of which about 19,000 are receiving time-loss benefits, many of which involve long-term disability and complex medical issues. In the same year, retraining plans were completed by 583 injured workers who were not able to return to their occupations after injury.

BUDGET CYCLE

The Workers' Compensation Program operates as an enterprise fund made up of seven accounts that are financed and operated in a manner similar to private business entities. The budget operates on a two-year cycle beginning on July 1 of each odd-numbered year. The biennial budget for administering the program is appropriated and allotted through Washington State's legislative process. The final 2011-2013 appropriated budget for administering the Workers' Compensation Program was $592,951,319, which included $530,520,000 that was appropriated to L&I. This budget includes $16,808,000 of federal funds dedicated to the Safety & Health Assessment & Research for Prevention (SHARP) Program and the Division of Occupational Safety and Health (DOSH). The allotted administering budget for Fiscal Year 2013 for the Worker's Compensation Program was $294,860,352, and the portion of the total Fiscal Year 2013 budget that was allotted for L&I was $263,392,000.

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

LOCAL ECONOMY AND IMPACT ON LABOR & INDUSTRIES

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

Workers' compensation insurance covers all industries in the state of Washington. The economy of Washington was once dominated by commercial airplane manufacturing (Boeing), logging, and agriculture. More recently, a vibrant high-tech industry has developed, including such worldwide companies as Microsoft and Amazon.com. Other Washington companies, such as Starbucks and Costco, also have national reputations. Most of these larger companies are self-insured, but the State Fund covers a diverse group of around 168,000 employers and 2.49 million workers in a broad range of industries.

CURRENT ECONOMIC ACTIVITY AND OUTLOOK

The recession, which ended in the summer of 2009, was followed by a slow and uneven recovery. As of the summer of 2013, the recovery appears to have gained some traction. Although growth remains modest, the pace of growth appears to be consistent. Positive signs include employment growth across many industry sectors, gross domestic product (GDP) growth led by gains in personal consumption, and positive gains in the stock market. Risks to the recovery are still mainly from outside the state. Risks include:

- the continued recession in the Euro area driven by the sovereign debt crisis that resists an easy resolution,
- a growth slowdown in Asia,
- political unrest in the Middle East,
- the current major budget cuts known as sequestration in the U.S.
- slow U.S. GDP growth

Washington has regained 172,000 of the 205,000 jobs it lost during the recession. Over the last 12 months, Washington had the fifth largest decline in jobless rate (from 8.4% to 6.8%) and the ninth largest job gain (an additional 57,500 jobs) in the nation. The Seattle area jobless rate remained at 4.7% in June 2013. In May, the jobless rate in Seattle was the fourth lowest among all of the 52 Metropolitan Statistical Areas with populations greater than one million.

Moody's and Fitch both upgraded Washington's credit outlook to *stable* from *negative* on July 22, 2013. The move comes after lawmakers balanced the state's books by passing a $33.5 billion budget in late June 2013. They now join Standard & Poor's in affirming the state's top-tier rating (Aa1/AA+/AA+) with a *stable* outlook.

Housing/construction

U.S. new home sales surged to a five-year high in June. This is up 38.1% over June 2012, which was the biggest year-over-year gain since January 1992. The National Association of Home Builders (NAHB) housing market index is a gauge of home sales and expectations for future home building. July's NAHB index rose to 57%, the highest since January 2006, as companies grew more upbeat about sales prospects. The NAHB index and homebuilder confidence resulted in a 13 point gain in the last two months, the biggest back-to-back advance since January-February 1992. In general, signs suggest the housing recovery will continue.

Large Employers

Despite challenges with the 787, Boeing's second-quarter profit ($1.09 billion, up 13% from the second quarter in Fiscal Year 2012) was better than expected. However, on July 19, 2013, Microsoft stock fell 11%, the greatest decrease in more than four years, after fourth-quarter profit missed analysts' projections by the biggest margin in at least a decade.

Financial markets

The 25 financial firms in the S&P 500 that have so far reported second-quarter results posted earnings totaling $31.6 billion, exceeding estimates of $29.1 billion. The 8.6% difference between actual earnings and estimated earnings is the widest margin of any sector. Finance is on track to surpass technology again as the most profitable industry in the country.

The run-up in S&P's stock index, which started a little more than four years ago, is the strongest bull market in modern history. The benchmark is up 154% since March 2009, beating all bull runs since 1949.

The average 30-year mortgage rates eased a bit to 4.31% in the week ending July 25, 2013 from a high of 4.51%. Rates were as low as 3.35% in the week ending May 2 of this year. The sudden jump in rates was driven by uncertainty over whether the Federal Reserve's quantitative easing policy to increase the money supply and stimulate the economy would continue.

Workers' Compensation Impacts

The positive economic news will likely mean increased workers' compensation premiums over the coming year as businesses increase hiring and worker hours. Although there has not yet been much evidence of wage inflation, labor shortages could emerge in some occupations, driving up wages. Medical inflation has remained relatively low since the recession. It is unclear how implementation of the Affordable Care Act may impact medical costs. Interest rates are still expected to rise slowly, limiting the rates of return that workers' compensation carriers are likely to earn on their investments. This puts increased pressure on premium rates to cover benefit costs.

LONG-TERM FINANCIAL PLANNING

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

MAJOR INITIATIVES

L&I is a leader in state government for using Lean process improvement techniques. Lean is helping L&I create and deliver the most value from the customer's perspective while consuming the fewest resources. As of June 30, 2013, L&I has completed 20 Lean projects, and 27 others are under way. One large-scale Lean project has cut 70 days out of the process to complete vocational assessments for injured workers. The Department refers over 7,000 workers for these assessments each year. Lean is an investment for the future, leading to fundamental changes in business processes that reduce delays, improve quality and lower costs. This holds down claim costs for L&I and required premiums for employers and workers.

During the 2011 Legislative Session, the Legislature passed historic worker's compensation reforms to improve outcomes for injured workers, reduce disability and cut costs for the state's Workers' Compensation Program. Included in these reforms were the Stay at Work and Structured Settlement Programs, which were implemented by L&I during Fiscal Year 2012. Fiscal Year 2013 was the first full year that the programs were in place. The Stay at Work Program provides a financial incentive for employers to bring their injured workers quickly and safely back to light-duty or transitional work and has helped 6,179 injured workers remain on the job. The Structured Settlement Program provides qualifying injured workers over the age of 55 a new option to resolve the non-medical portion of their industrial insurance claims with a financial settlement on a payment schedule. L&I has received 682 State Fund structured settlement applications, and 40 settlements have been approved.

The 2011 reforms also included the Medical Provider Network and expansion of the Centers of Occupational Health and Education (COHEs). These programs are expected to improve health outcomes for injured workers, reducing long-term disability costs to employers. The Medical Provider Network was established in January 2013 to deliver health care to injured workers in Washington State. Effective January 1, 2013, workers can see any provider for their first visit to a doctor's office or an emergency room for a job-related injury or illness but for ongoing treatment, they must get care from a doctor in the network. The network is intended to ensure that injured workers receive high-quality medical care. Network providers meet standards similar to those required by other large health insurers. L&I has begun designing another feature of the network, a top tier of providers who will be eligible for incentives for using occupational health "best practices."

The COHEs provide training and organizational support to medical providers to increase their use of best practices in treating injured workers. These best practices focus on safely returning workers to full function and full employment. Examples of best practices include talking with the employer about return-to-work options and regularly assessing a worker's ability to do work activities. A 2011 study by the University of Washington found that injured workers treated by COHE-affiliated healthcare providers miss 20 percent fewer days from work than other injured workers. COHE care also reduces disability and medical costs by $470 per claim during the first year and up to $1,200 in the first four years. There are now six COHEs throughout Washington State.

AWARDS AND ACKNOWLEDGEMENTS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to L&I for its CAFR for the fiscal year ended June 30, 2012. This was the third consecutive year that L&I received this prestigious award. In order to be awarded a Certificate of Achievement, a governmental unit must publish an easy-to-read and efficiently-organized CAFR. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

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

Sincerely,

Joel Sacks
Director

Randi Warick
Deputy Director for
Financial Management

Vickie Kennedy
Assistant Director,
Insurance Services

Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Washington State Department of Labor & Industries

For its Comprehensive Annual Financial Report for the Fiscal Year Ended

June 30, 2012

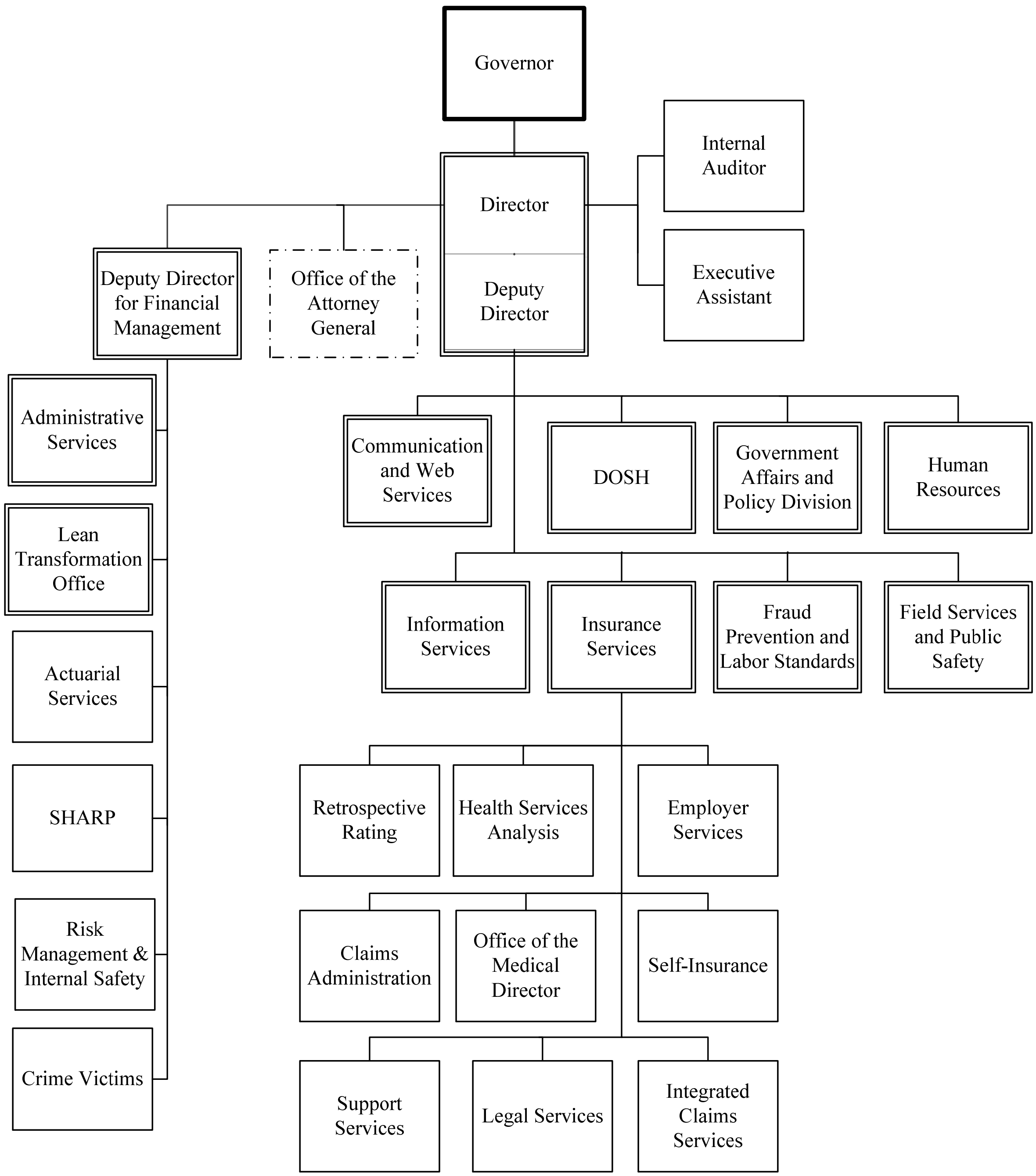
Executive Director/CEO

Washington State Department of
Labor & Industries

Keep Washington Safe and Working

Washington State Department of
Labor & Industries

Organization Chart
June 30, 2013



Washington State Department of
Labor & Industries

Keep Washington Safe and Working

Financial Section

Washington State Department of
Labor & Industries

Keep Washington Safe and Working

Washington State Auditor
Troy Kelley

INDEPENDENT AUDITOR'S REPORT

October 25, 2013

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

REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Workers' Compensation Program, an enterprise fund of the state of Washington, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Worker's Compensation Program's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Labor and Industries' Funds of the state of Washington as managed by the Washington State Investment Board, which include the Program's investments and related investment income as discussed in Note 2. These investments represent 95 percent, 100 percent and 9 percent, respectively, of the assets, net position, and total revenues of the Program. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Workers' Compensation Program of the state of Washington, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

Insurance Building, P.O. Box 40021 • Olympia, Washington 98504-0021 • (360) 902-0370 • TDD Relay (800) 833-6388

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

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

Opinion

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the Workers' Compensation Program, Washington, as of June 30, 2013, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 1 the financial statements present only the Workers' Compensation Program and do not purport to, and do not, present fairly the financial position of the state of Washington as of June 30, 2013, the changes in its financial position, or its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As described in Note 2, during the year ended June 30, 2013, the Workers' Compensation Program has implemented the Governmental Accounting Standards Board Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position and Statement No. 65, Items Previously Reported as Assets and Liabilities. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 19 through 27, schedules of claims development information on 69 through 70, reconciliation of claims liabilities by plan on 71 and information on postemployment benefits other than pensions on page 72 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We and the other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Workers' Compensation Program's basic financial statements. The accompanying information listed as combining financial statements and supplementary information on pages 75 through 83 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. This information has been subjected to auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us and other auditors. In our opinion, based on our audit, the procedures performed as described above, and the report of the other auditors, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we will also issue our report dated October 25, 2013, on our consideration of the Workers' Compensation Programs' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Worker's Compensation Program's internal control over financial reporting and compliance.

Sincerely,

Troy X. Kelley

TROY KELLEY
STATE AUDITOR

Washington State Department of
Labor & Industries

Keep Washington Safe and Working

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 ended June 30, 2013. This discussion should be read in conjunction with the accompanying basic financial statements. The basic financial statements, notes to the basic financial statements, and this discussion are the responsibility of the Workers' Compensation Program management.

Financial Highlights

Condensed Financial Snapshot
(in millions)

	As of and For the Fiscal Year Ended June 30, 2013	As of and For the Fiscal Year Ended June 30, 2012	$ Change	% Change
Total Assets	$ 14,249	$ 14,121	$ 128	0.9%
Total Liabilities	23,874	22,820	1,054	4.6%
Total Revenues Earned	2,404	3,081	(677)	(22.0%)
Total Expenses Incurred	3,340	1,919	1,421	74.0%
Total Net Position (Deficit)	(9,625)	(8,699)	(926)	(10.6%)

Total assets increased 0.9 percent from the prior fiscal year, mainly due to increases in securities lending collateral of $27.6 million, cash, cash equivalents and investments of $84.8 million, and receivables of $12.5 million. Both assets and liabilities from securities lending activities increased by $27.6 million as compared to last fiscal year-end. At the end of Fiscal Year 2012, the Washington State Investment Board (WSIB) changed the custodian bank acting as agent in securities lending transactions from JPMorgan to State Street and recalled all securities on loan. Thus, there were no assets on loan and no collateral held related to securities lending transactions on June 30, 2012. During Fiscal Year 2013, the WSIB began securities lending activities with the new custodian bank and had $26.4 million cash collateral held and reinvested as of June 30, 2013. Additional information on security lending collateral is included in Note 3.B.2. The cash, cash equivalents and investment balances grew by $84.8 million compared to the prior year-end due to prudent management by the WSIB and a strong stock market. Receivables increased $12.5 million mainly due to an increase in employer hours reported.

Total liabilities increased 4.6 percent from the prior year, mainly due to increases in claims payable of $1,031.2 million and securities lending collateral of $27.6 million. Claims payable increased $33.4 million in the Accident Account, $322.2 million in the Medical Aid Account, $240.7 million in the Pension Reserve Account, and $434.9 million in the Supplemental Pension Account. Accident Account claims payable increased mainly due to a reduction in the savings assumptions regarding structured settlements and because of a reduction in the non-pension discount rate. These increases were offset by a reduction in the number of future expected total permanent disability pensions granted for recent accident years. Medical Aid Account claims payable increased because of an increase in the expected number of claims receiving medical payments at older ages. Pension Reserve Account claims payable increased mainly due to the difference between actual pensioner mortality and expected mortality. The Supplemental Pension Account claims payable increased because the reserve for Fiscal Year 2013 injuries was added, the actual cost-of-living adjustment (COLA) rate of 3.4 percent was higher than the 2.1 percent assumed in Fiscal Year 2012, and the assumed payout pattern changed, and because of the decrease in the discount rate, and changes in estimates of the future COLA escalation assumption.

Total revenues earned decreased $677.2 million mainly due to unrealized losses on fixed income securities, partially offset by an increase in net premiums and assessments revenues.

Total expenses incurred increased 74.0 percent from the prior year primarily due to a $1,420.6 million increase in claims expense. Operating expenses incurred in the current year, excluding claims expense, remained about the same as the prior year.

Overview of the Basic Financial Statements

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

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

The Rainy Day Fund was created by the Legislature during the 2011 session to hold transfers from the Accident and Medical Aid Accounts when assets for those accounts combined are between 10 and 30 percent in excess of their funded liabilities. Primarily, balances in this account will be used to reduce future rate increases or aid businesses in recovering from or during economic recessions. There is no activity to report for this account during Fiscal Year 2013.

For the fiscal year ended on June 30, 2013, the basic financial statements show financial position and results of operations at the roll-up level. Detailed financial information for the individual accounts can be found in the Supplementary Information on pages 75-77 of this financial report.

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

> The Statement of Net Position provides information about the program's assets and liabilities and reflects the program's financial position as of June 30, 2013. It can be found on page 31 of this report.

The Statement of Revenues, Expenses, and Changes in Net Position reflects both operating and nonoperating revenues and expenses for the fiscal year. It can be found on page 32 of this report.

The Statement of Cash Flows reflects cash collections and cash payments to arrive at the net increase or decrease in cash and cash equivalents during the fiscal year. It can be found on page 33 of this report.

The Notes to the Basic Financial Statements are an integral part of the basic financial statements and are essential to a full understanding of the Workers' Compensation Program's financial position and results of operations presented in the basic financial statements. They can be found on pages 35-66 of this report.

Financial Analysis of the Workers' Compensation Program

Statement of Net Position
(in millions)

	June 30, 2013	June 30, 2012
Assets		
Current assets and noncurrent receivables	$ 796	$ 731
Investments, noncurrent	13,384	13,322
Capital assets, net	69	68
Total Assets	14,249	14,121
Liabilities		
Current liabilities	2,046	1,947
Noncurrent liabilities	21,828	20,873
Total Liabilities	23,874	22,820
Net Assets (Deficit)		
Net investment in capital assets	58	53
Unrestricted	(9,683)	(8,752)
Total Net Position (Deficit)	$ (9,625)	$ (8,699)

Current assets - Current assets increased during Fiscal Year 2013 by $64.6 million. This change largely resulted from increases in securities lending collateral of $27.6 million, cash and cash equivalents of $25.0 million, and receivables of $12.5 million. Cash and cash equivalents fluctuate depending on cash flow from operations and cash needs. Most of the receivables increase is from the estimated premiums due for the current quarter ending June 30, 2013. The estimated premium receivables have increased compared to June 30, 2012, as a result of an increase in hours reported.

Noncurrent investments - Noncurrent investments increased during Fiscal Year 2013 by $62.5 million. The most significant changes in the investment balances are from increases of $150.3 million in equities and $129.4 million in short-term investments, offset by decreases in Treasury Inflation-Protected Securities (TIPS) of $190.4 million and fixed income investments of $29.5 million.

- Equities increased due to strong stock markets. The equity portfolio returned 18.5 percent during Fiscal Year 2013, compared to a 3.6 percent decline during Fiscal Year 2012.
- Short-term investments fluctuate from year-to-year, depending on trading volumes, cash needs, and market conditions.
- TIPS rallied over the last three years due to expected inflation increases; however, during the current fiscal year, a correction occurred as expectations of high inflation were curbed. Also, $67.8 million in TIPS were sold and transferred to other fixed income securities in order to bring the investment allocations back in line with longer-term targets. The proceeds from these sales were mainly invested in fixed income investments.
- Fixed income investments experienced significant decline due to the market environment. This decline is attributable to an increase in fixed income yields over the prior fiscal year, which caused the bond markets to decline and valuations to decrease.

Current liabilities - Current liabilities, other than claims payable, increased during Fiscal Year 2013 by $23.3 million, mainly due to the increase of $27.6 million in securities lending collateral.

Claims payable - Total claims payable (included in current and noncurrent liabilities) was $23.6 billion at the end of Fiscal Year 2013, compared to $22.6 billion for the previous fiscal year, an increase of $1,031.2 million or 4.6 percent. This increase is primarily due to a net increase in benefit liabilities. Benefit liabilities increased $1,038.0 million as shown by the table below.

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

	June 30, 2013	June 30, 2012
Benefit liabilities, beginning of year	$ 22,060	$ 22,448
New liabilities incurred, current year	1,783	1,687
Development on prior years		
Discount accretion	566	666
Change in discount rate	(473)	(374)
Other development on prior liabilities	1,128	(430)
Claim payments	(1,966)	(1,937)
Change in benefit liabilities	1,038	(388)
Benefit liabilities, end of year	$ 23,098	$ 22,060

* Excludes loss adjustment expense liabilities.

New liabilities incurred for the current accident year, discount accretion, and claim payments are normal activities that occur every year. Unexpected changes in benefit liabilities resulted from the change in the discount rate and other development on prior liabilities.

Reducing the Supplemental Pension Account's long-term inflation rate assumption to reflect more recent lower inflation rates reduced benefit liabilities, but was partially offset when the interest rate used to discount future non-pension account payments for prior accident years was reduced from 2.0 to 1.5 percent. The net effect of changing the discount rate on prior years resulted in a $473.0 million decrease in benefit liabilities. Additional information on the discount rate and inflation rate changes can be found in Note 1.D.4 of this report.

The $1,128 million in other development on prior liabilities resulted mainly from expectations that there will be more claims receiving medical payments at older ages, the difference between actual pensioner mortality and expected mortality, that the actual COLA of 3.4 percent was higher than the 2.1 percent we assumed in 2012, a change in assumed payout pattern, and a reduction in the savings assumptions regarding structured settlements, offset by fewer future expected total permanent disability pensions granted for recent accident years.

Total net position (deficit) - The Workers' Compensation Program's deficit increased $935.5 million during Fiscal Year 2013, ending the year with a deficit balance of $9.6 billion. The total net position deficit increase is mainly due to the claims payable increase. This deficit consists of an $11.1 billion deficit in the Supplemental Pension Account, offset by net position balances in the Accident, Medical Aid, and Pension Reserve Accounts of $506.8 million, $662.5 million, and $204.9 million, respectively. The Second Injury Account and Self-Insured Overpayment Reimbursement Account have a combined net position balance of $70.8 million. Additional detail regarding the Supplemental Pension Account deficit can be found in Note 8 of this report.

Changes in Net Position
(in millions)

	Fiscal Year Ended June 30, 2013	Fiscal Year Ended June 30, 2012
Operating Revenues		
Premiums and assessments, net	$ 2,124	$ 2,015
Miscellaneous revenues	47	48
Total Operating Revenues	2,171	2,063
Nonoperating Revenues		
Earnings on investments	224	1,010
Other revenues	9	8
Total Revenues	2,404	3,081
Operating Expenses		
Salaries and wages	140	136
Employee benefits	54	54
Personal services	9	8
Goods and services	79	69
Travel	4	4
Claims	3,015	1,594
Depreciation	9	7
Miscellaneous expenses	29	46
Total Operating Expenses	3,339	1,918
Nonoperating Expenses		
Interest expense	1	1
Total Expenses	3,340	1,919
Income (Loss) before Transfers	(936)	1,162
Net Transfers	-	-
Change in Net Position (Deficit)	(936)	1,162
Net Position (Deficit) - Beginning of Year, as restated	(8,689)	(9,861)
Net Position (Deficit) - End of Year	$ (9,625)	$ (8,699)

Premiums and assessments, net - Net premium and assessment revenues during Fiscal Year 2013 were $2.1 billion compared to $2.0 billion for Fiscal Year 2012, an increase of $108.6 million, as a result of an increase in the number of hours reported by employers. In Fiscal Year 2012, employers reported 3,183 million hours worked; this figure increased to 3,270 million hours for Fiscal Year 2013.

Earnings on investments - The earnings on investments decreased $785.8 million from the prior fiscal year, mainly from decreases in fixed income and TIPS net realized and unrealized losses totaling $1,119.5 million, offset by increases in net realized and unrealized gains on equities of $352.9 million as described in the paragraphs below. Also contributing to the decline was a $19.2 million decline in dividends and interest earnings.

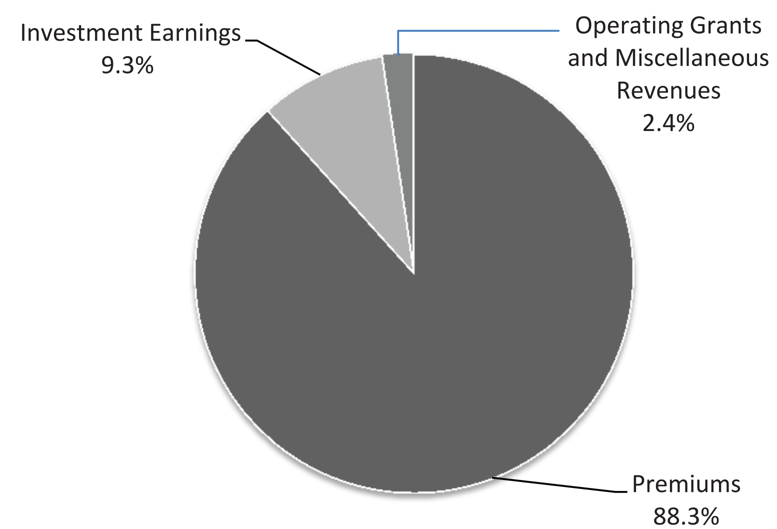
- The fair market value of fixed income securities moves in the opposite direction to changes in interest rates. Rising interest rates result in decreasing bond market prices, while falling rates cause bond prices to increase. During Fiscal Year 2012, interest rates declined, resulting in bond unrealized gains of $386.3 million, while in Fiscal Year 2013, interest rates increased, resulting in bond unrealized losses of $432.6 million. The total difference between Fiscal Year 2012 and 2013 is an $818.9 million decrease.

- In the last several years, as markets recovered from the financial crisis, investors purchased TIPS, fearing that stimulus programs would ignite inflation. All the buying pushed up TIPS prices, resulting in $176.5 million in unrealized gains for Fiscal Year 2012. During Fiscal Year 2013, a correction occurred as investors sold TIPS because of lower inflation expectations, resulting in Fiscal Year 2013 unrealized losses of $168.0 million. The total difference between the two years is a $344.5 million decrease.

- Fiscal Year 2013 equity net realized and unrealized gains equaled $285.8 million as opposed to Fiscal Year 2012 equity net realized and unrealized losses of $67.1 million. The total difference between the two years was a $352.9 million increase. Strong equity market performance was driven primarily by global macro considerations and unconventional monetary policies, which caused interest rates to remain at low levels through the third quarter of Fiscal Year 2013. Interest rates increased during the fourth quarter of Fiscal Year 2013 but still remain below historical averages. In such an environment, riskier assets, like equities, have shown strength.

The following chart provides additional detail on the distribution of revenues by source during Fiscal Year 2013.

Fiscal Year 2013 Revenues by Source



Claims expenses - Claims expenses for Fiscal Year 2013 increased $1,420.6 million, or 89.1 percent, in Fiscal Year 2013 as compared to Fiscal Year 2012. Claims expenses include two main components: payments to beneficiaries and the change in claims payable. Claim payments to beneficiaries increased $40.5 million, or 2.1 percent, when compared to the prior year. Claim payments to beneficiaries in the Medical Aid, Pension Reserve, and Supplemental Pension Accounts increased by $19.0 million, $15.2 million, and $17.9 million respectively, but were partially offset by decreases of $10.9 million in the Accident Account and $0.7 million in the Second Injury Account. The net increase of $40.5 million is explained by the following:

- The Accident Account's decrease in claim payments to beneficiaries resulted from lower time-loss payments because of fewer active time-loss claims being paid, fewer claims receiving permanent partial disability awards, and a continued decline in the size of the average permanent partial disability claim.

- The Medical Aid Account's increase in claim payments to beneficiaries is due to more medical payments to health care providers and more Stay at Work benefit payments. Health care benefits paid increased, because more claimants received benefits, but this increase was offset by slightly lower average payments. The Stay at Work claim payments to employers increased due to more claimants receiving benefits.

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

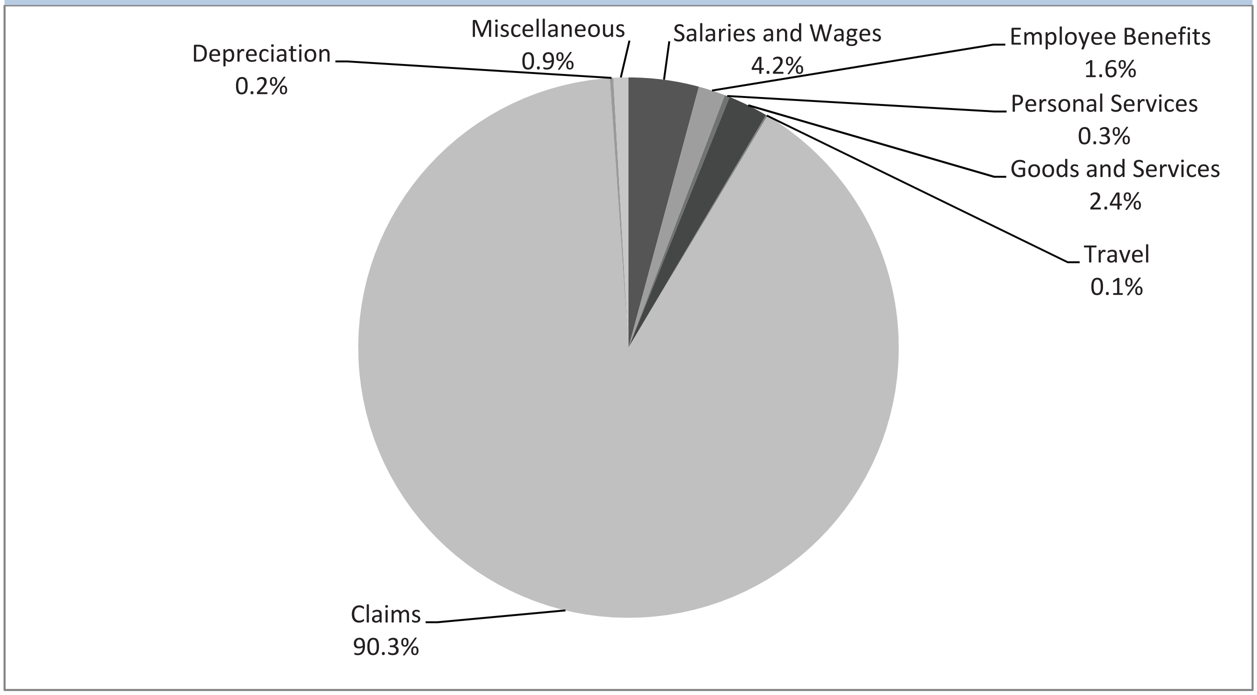
- The Supplemental Pension Account's increase in claim payments to beneficiaries is mainly because of a 3.41 percent COLA increase.

The other main component of claim expenses is the change in claims payable. In Fiscal Year 2012, the change in claims payable decreased $347.0 million, mainly due to the cost of living adjustment (COLA) savings from the rate freeze. In Fiscal Year 2013, the change in claims payable increased $1,031.2 million as discussed above. The total change between Fiscal Years 2012 and 2013 equals $1,378.2 million.

Operating expenses - Operating expenses for Fiscal Year 2013, other than claims expenses, were $323.8 million as compared to $324.4 million in Fiscal Year 2012, a $0.6 million decrease. Fiscal Year 2012 operating expenses were slightly higher due to initial start-up costs from implementing Workers' Compensation reforms passed during the 2011 Legislative Session.

The following chart provides additional detail on the distribution of operating expenses by type during Fiscal Year 2013.

Fiscal Year 2013 Operating Expenses by Type



Capital Asset and Debt Administration

Capital assets - Capital assets, net of accumulated depreciation, as of June 30, 2013, was $69.2 million. This reflects a net increase of $1.6 million from the previous year. This net increase is made up of $8.7 million increase in internally developed software primarily related to reform programs, and a $1.3 million increase in other capital asset additions, offset by an $8.4 million in current year depreciation expense. Additional information on capital assets can be found in Note 1.D.6 and Note 6 of this report.

Bonds payable - Bond proceeds provided funding for the acquisition and construction of the building and grounds for the Department of Labor & Industries' headquarters in Tumwater. As of June 30, 2013, the Workers' Compensation Program had $11.5 million in outstanding bonds payable. Scheduled principal payments in the amount of $3.4 million were paid during Fiscal Year 2013. Additional information on the bonds can be found in Note 7.A and Note 7.C of this report.

Potentially Significant Matters with Future Impacts

Expected slow economic growth will continue to have an impact on investment balances, as well as realized and unrealized earnings.

The Department of Labor and Industries (L&I) has a clear mission: Keep Washington Safe and Working. L&I began discussions with employers, workers and medical providers to set new goals to improve outcomes for injured workers while reducing overall costs. Our focus in 2014 will be to reduce costs by an additional $35-70 million. To do that, we aim to:

- Help injured workers return to work as soon as they are medically able.
- Improve L&I's workers' compensation claims processes.
- Improve workplace safety.
- Improve medical care and reduce long-term disability.
- Make it easier to do business with L&I.

Requests for Information

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

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

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

Washington State Department of
Labor & Industries

Keep Washington Safe and Working

Basic Financial Statements

Washington State Department of
Labor & Industries

Keep Washington Safe and Working

Statement of Net Position
June 30, 2013

ASSETS		
Current Assets		
Cash and cash equivalents	$	64,403,413
DOE trust cash and investments		736,433
Collateral held under securities lending agreements		27,591,643
Receivables, net of allowance		699,095,704
DOE trust receivable		2,868,602
Receivables from other state accounts and agencies		20,292
Receivables from other governments		1,097,584
Inventories		184,652
Prepaid expenses		3,200
Total Current Assets		796,001,523
Noncurrent Assets		
DOE trust cash and investments, noncurrent		2,780,994
Investments, noncurrent		13,381,565,528
Capital assets, net of accumulated depreciation		69,162,317
Total Noncurrent Assets		13,453,508,839
Total Assets	$	14,249,510,362
LIABILITIES AND NET POSITION (DEFICIT)		
LIABILITIES		
Current Liabilities		
Accounts payable	$	6,260,267
Deposits payable		6,706,059
Accrued liabilities		141,840,295
Obligations under securities lending agreements		27,591,643
Bonds payable, current		3,605,000
Payables to other state accounts and agencies		7,247,586
Due to other governments		4,896
Unearned revenues		181,300
DOE trust liabilities		736,433
Claims payable, current		1,851,660,000
Total Current Liabilities		2,045,833,479
Noncurrent Liabilities		
Claims payable, net of current portion		21,775,900,000
Bonds payable, net of current portion		7,870,000
Other long-term liabilities		13,185,784
DOE trust long-term liabilities		5,649,596
Other post-employment benefits		25,763,000
Total Noncurrent Liabilities		21,828,368,380
Total Liabilities		23,874,201,859
NET POSITION (DEFICIT)		
Net investment in capital assets		57,687,317
Unrestricted		(9,682,378,814)
Total Net Postion (Deficit)	$	(9,624,691,497)

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

Statement of Revenues, Expenses, and Changes in Net Position
For the Fiscal Year Ended June 30, 2013

OPERATING REVENUES	
Premiums and assessments, net of refunds	$ 2,123,483,356
Miscellaneous revenue	47,353,637
Total Operating Revenues	2,170,836,993
OPERATING EXPENSES	
Salaries and wages	140,202,640
Employee benefits	54,367,454
Personal services	8,894,789
Goods and services	79,315,517
Travel	4,068,364
Claims	3,014,795,601
Depreciation	8,427,620
Miscellaneous expenses	28,486,281
Total Operating Expenses	3,338,558,266
Operating Income (Loss)	(1,167,721,273)
NONOPERATING REVENUES (EXPENSES)	
Earnings on investments	223,874,987
Other revenues	8,998,108
Interest expense	(655,808)
Total Nonoperating Revenues (Expenses)	232,217,287
Income (Loss) Before Transfers	(935,503,986)
Transfers in	371,670,400
Transfers out	(371,670,400)
Net Transfers	-
Increase (Decrease) in Net Position	(935,503,986)
Net Position (Deficit) - July 1, as restated	(8,689,187,511)
Net Position (Deficit) - June 30	$ (9,624,691,497)

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

Statement of Cash Flows
For the Fiscal Year Ended June 30, 2013

CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	$	2,085,701,318
Payments to/for beneficiaries		(1,985,113,000)
Payments to employees		(186,817,950)
Payments to suppliers		(92,333,982)
Other		43,751,651
Net Cash Flows from Operating Activities		(134,811,963)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers in		417,136,232
Transfers out		(417,136,232)
Operating grants received		9,018,662
License fees collected		91,009
Net Cash Flows from Noncapital Financing Activities		9,109,671
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Interest paid		(717,480)
Principal payments on bonds payable		(3,400,000)
Acquisitions of capital assets		(10,071,361)
Net Cash Flows from Capital and Related Financing Activities		(14,188,841)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of trust investments		420,554
Receipt of interest and dividends		467,112,002
Investment expenses		(4,082,740)
Proceeds from sale of investment securities		5,320,352,890
Purchases of investment securities		(5,618,444,486)
Net Cash Flows from Investing Activities		165,358,220
Net increase in cash and cash equivalents		25,467,087
Cash & cash equivalents, July 1 (includes trust cash of $89,476), as restated		39,446,357
Cash & cash equivalents, June 30 (includes trust cash of $510,031)	$	64,913,444
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating income	$	(1,167,721,273)
Adjustments to Reconcile Operating Income to Net Cash Flows from Operating Activities		
Depreciation		8,427,620
Change in Assets: Decrease (Increase)		
Receivables		(16,463,435)
Inventories		35,012
Prepaid expenses		(3,200)
Change in Liabilities: Increase (Decrease)		
Claims and judgments payable		1,031,210,000
Accrued liabilities		9,703,313
Net Cash Flows from Operating Activities	$	(134,811,963)
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES		
Increase (Decrease) in fair value of investments	$	328,087,133

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

Washington State Department of
Labor & Industries

Keep Washington Safe and Working

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2013

Index

Page

Note 1 - Summary of Significant Accounting Policies

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

1.A. Reporting Entity

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

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

1.B. Basic Financial Statements

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

The Accident Account pays compensation directly to injured workers for lost wages during temporary disability and permanent partial disability awards. It also pays costs for vocational retraining and for structured settlements. The Structured Settlement Program was created by House Bill 2123 during the 2011 Legislative session and is a voluntary program in which those who are eligible can negotiate an agreement for the non-medical portion of a claim and receive settlement payment(s). The Accident Account also pays to the Pension Reserve Account the present value of pensions awarded to survivors of fatally injured workers and to workers who are permanently and totally disabled.

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

On behalf of injured workers, the Medical Aid Account pays for the cost of medical services, vocational rehabilitation services, and Stay at Work reimbursements. The Stay at Work Program was created by House Bill 2123 during the 2011 Legislative session and is a financial incentive program that encourages employers to bring employees recovering from on-the-job injuries back to light-duty or transitional work. Revenues for this account come mostly from equal contributions from employers and employees; employers are required to withhold half of their medical aid premium from their employees' wages.

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

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

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

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

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

The Self-Insured Employer Overpayment Reimbursement Account reimburses self-insured employers for benefits overpaid during the pendency of board or court appeals in which the self-insured employer prevails and has not recovered. The revenue for this account comes from self-insured employer overpayment assessments. Self-insured employers have not submitted any claims that qualify for overpayment reimbursement. Therefore, no overpayment assessment has been assessed since January 1, 2011.

The Industrial Insurance Rainy Day Fund Account receives transfers of funds from the Accident and Medical Aid Accounts; however, it did not have any activity during Fiscal Year 2013 or balance on June 30, 2013.

The Department of Labor & Industries presents the following basic financial statements: Statement of Net Position; Statement of Revenues, Expenses, and Changes in Net Position; and the Statement of Cash Flows.

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

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

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

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

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

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

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

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

1.C. Measurement Focus and Basis of Accounting

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

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

1.D. Assets, Liabilities, and Net Position

1.D.1. Cash and Cash Equivalents

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

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

1.D.2. DOE Trust Cash and Investments

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

As of June 30, 2013, Trust Cash and Trust Investments of $736,433, representing the estimated current liability to L&I for the reimbursement of pension payments to Hanford injured workers, are classified as current assets on the Statement of Net Position. The remaining balance of Trust Investments amounted to $2,780,994 and is classified under noncurrent assets. Trust Investments were invested in one-year U.S. Treasury Notes.

1.D.3. Investments

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

1.D.4. Receivables and Payables

Current receivables arose in the ordinary course of business and consist of amounts due for workers' compensation premiums, amounts due for overpayment of benefits to injured workers and providers, investment interest receivable, and other miscellaneous receivables. Receivables are recorded when they can be reasonably estimated and have been earned (i.e., overpayment has occurred, service has been performed, or the time period has passed). Receivables due for workers' compensation premiums for the quarter ended June 30, 2013, are estimated. All receivables are reported net of an allowance for accounts estimated to be uncollectible. Current accounts receivable are generally expected to be collected within one year following the end of the fiscal year.

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

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

Claims payable are recomputed quarterly using a variety of actuarial and statistical techniques. These techniques are used to produce current estimates that reflect recent settlements, claim frequency, expected inflation, and other economic, legal, and social factors. Adjustments to claims payable are charged or credited to claims expense in the periods in which they are made.

In the Accident Account, the incurred but not-yet-awarded pensions are discounted at a rate of 6.5 percent to the anticipated time of award, and 1.5 percent from the anticipated time of award to the present. All other Accident, Medical Aid and Supplemental Pension Account benefit and claim administration liabilities are discounted at 1.5 percent. The benefit liabilities in the Pension Reserve Account are discounted at 6.5 percent.

Discount Rate Change: The Workers' Compensation Program's non-pension discount rate is set two percentage points less than the five-year average of the twenty-year U.S. Treasury yield rounded to the nearest half percent. Since interest rates have decreased and have remained low, the non-pension discount rate dropped from 2.0% to 1.5% during Fiscal Year 2013. As a result of this non-pension discount rate change, claims benefit and claims administration expense liabilities increased.

However, in the reserving process, the actuaries also set the long-term inflation rate assumption equal to the discount rate, and this long-term inflation rate is the basis for their time-loss, pension, and medical inflation assumptions. This decrease in the long-term inflation rate lowered the long-term COLA and payout projections, which has the opposite effect of the change in discount rate and, in turn, reduces the time-loss, medical, and, more significantly, supplemental pension benefit claims payable.

The net effect of reducing both the non-pension discount rate and the long-term inflation assumption from 2.0% to 1.5% is a decrease of $502.4 million in claims payable as shown in the table below, and an increase of the same amount in net position.

Effects of Non-Pension Discount Rate Change on Benefit and Claims Administration Expense Liabilities
June 30, 2013
(dollars in thousands)

	Long-Term Inflation Rate & Non-Pension Discount Rate @ 2.0%	Effect of Reducing Non-Pension Discount Rate to 1.5%	Effect of Reducing Long-Term Inflation Rate to 1.5%	Long-Term Inflation Rate & Non-Pension Discount Rate @ 1.5%	Net Effect of Changing Long Term Inflation Rate and Non-Pension Discount Rate: Dollars	Percent
Accident Account	$ 4,407,027	$ 76,216	$ -	$ 4,483,243	$ 76,216	1.7%
Medical Aid Account	4,105,731	297,671	(290,495)	4,112,908	7,177	0.2%
Subtotal: Basic Plan	8,512,758	373,887	(290,495)	8,596,151	83,393	1.0%
Supplemental Pension Account	11,878,136	865,060	(1,450,873)	11,292,323	(585,813)	-5.2%
Total	$ 20,390,894	$ 1,238,948	$ (1,741,367)	$ 19,888,474	$ (502,420)	-2.5%

Not rounded

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

1.D.5. Inventories and Prepaid Expenses

Consumable inventories consisting of expendable materials and supplies held for consumption are valued and reported in the Statement of Net Position at weighted average cost if the fiscal year-end balance on hand is estimated to be $25,000 or more. The Workers' Compensation Program expenses consumable inventories when used.

Prepaid items are certain types of services that will benefit future accounting periods and are accounted for using the consumption method. The portion of services used during a period is recorded as an expense. The remaining balance is reported as an asset until consumed. As of June 30, 2013, prepaid expenses amounted to $3,200.

1.D.6. Capital Assets

In accordance with OFM policy, it is the Workers' Compensation Program's policy to capitalize:

- All land.
- Buildings, building improvements, and leasehold improvements with a cost of $100,000 or greater.
- Infrastructure with a cost of $100,000 or greater.
- Intangible assets, either purchased or internally developed, with a cost of $1,000,000 or greater and that are "identifiable" by meeting either of the following conditions:
    - The asset is capable of being separated or divided and sold, transferred, licensed, rented, or exchanged; or
    - The asset arises from contractual or other legal rights, regardless of whether those rights are transferable or separable.
- All capital assets acquired with a Certificate of Participation.
- All other capital assets with a unit cost (including ancillary costs) of $5,000 or greater, unless otherwise noted.

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

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

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

Generally, estimated useful lives are as follows:

- Buildings and building components 5-50 years
- Furnishings, equipment, and collections 3-50 years
- Other improvements 3-50 years
- Infrastructure 20-50 years
- Intangible assets with definite useful lives 3-50 years

1.D.7. Compensated Absences

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

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

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

1.E. Other Information

1.E.1. Risk Management

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

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

1.E.2. Interfund/Interagency Activities

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

Note 2 - Reporting and Accounting Changes

Reporting Changes

The Governmental Accounting Standards Board (GASB) has issued new standards effective for financial reporting periods beginning after December 15, 2011. The following standards are applicable to the Workers' Compensation Program:

GASB Statement No. 62 *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* incorporated into the GASB's authoritative literature certain FASB and AICPA pronouncements which do not conflict with or contradict GASB pronouncements. Paragraph 31 of this statement provides that restricted cash and investments normally are not properly classified as current assets because they cannot be used for current operations. However, restricted amounts held to be used for the payment of current liabilities within the year are, by virtue of that fact, properly classified as current assets.

The Workers' Compensation Program followed the guidance under this statement to classify restricted Trust Cash and Investment amounts that are held to be used to pay current liabilities at

June 30, 2013, as current assets in the Statement of Net Position. The remaining restricted amounts are reported under noncurrent assets. Implementing GASB Statement No. 62 has no impact on total net position.

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources*, *Deferred Inflows of Resources, and Net Position* provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related disclosures. Concepts Statement 4 identifies net position as the residual of all other elements presented in a statement of financial position. GASB Statement No. 63 amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

The Workers' Compensation Program complied with the guidance under this statement and renamed the Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets as the Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position, respectively, for the fiscal year ended June 30, 2013. The "invested in capital assets, net of related debt" component of net position is also renamed as "net investment in capital assets." The program does not currently have any deferred outflows of resources and deferred inflows of resources, and therefore, separate sections on the Statement of Net Position are not added to report these elements. Implementing GASB Statement No. 63 has no impact on total net position.

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* reclassifies certain items that were previously reported as assets and liabilities and recognizes these items as outflows of resources or inflows of resources. The statement also provides guidance related to the impact of the financial statement elements, such as changes in the determination of the major fund calculations and limiting the use of the term deferred in financial statement presentations. As the Workers' Compensation Program does not have any deferred outflows of resources and deferred inflows of resources, this statement has no impact on total net position.

Accounting Changes

GASB Statement No. 9 Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting requires that a statement of cash flows explains the change in cash and cash equivalents during the period regardless of whether there are restrictions on their use. In compliance with this provision, the Workers' Compensation Program has included Trust Cash as cash and cash equivalents on the Statement of Cash Flows for Fiscal Year 2013. The previously reported ending balance of $39,356,881 in cash and cash equivalents at June 30, 2012, was restated as $39,446,357 at July 1, 2012, on the Statement of Cash Flows by including $89,476 of Trust Cash.

In addition, changes of classification among items presented within the section of net cash flows from operating activities on the Statement of Cash Flows were made to be in line with the presentation in the Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position.

Prior Period Adjustment

OFM records the Net OPEB Obligation (NOO) for the Workers' Compensation Program. Prior to Fiscal Year 2013, OFM estimated the Workers' Compensation Program's portion of the state's NOO based on the current year's employee benefit expense. In Fiscal Year 2013, OFM adopted the specific NOO for the Workers' Compensation Program calculated by the Washington State Office of State Actuaries (OSA) to record the Workers' Compensation Program's NOO. A prior period adjustment of $9,769,132 was made to bring the Workers' Compensation Program's NOO in agreement with the amount calculated by OSA. See Note 10 – Other Postemployment Benefits for more details.

Net Position (Deficit) at July 1, 2012, has been restated as follows:

Other Postemployment Benefits		
Net Position (Deficit) at June 30, 2012, as previously reported	$	(8,698,956,643)
Prior Period Adjustment - Net OPEB Obligation		9,769,132
Net Position (Deficit) - July 1, 2012, as restated	$	(8,689,187,511)

Note 3 - Deposits and Investments

3.A. Deposits

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

The Workers' Compensation Program minimizes custodial credit risk by restrictions set forth in state law. Statutes require state agencies to deposit funds in financial institutions that are physically located in Washington unless otherwise expressly permitted by statute and authorized by the Washington Public Deposit Protection Commission (PDPC). The PDPC, established under Chapter 39.58 RCW, makes and enforces regulations and administers a collateral pool program to ensure that public funds are protected if a financial institution becomes insolvent. Securities pledged are held by a trustee agent for the benefit of the collateral pool.

The state of Washington's Office of the State Treasurer (OST) manages the deposits for the Workers' Compensation Program. At June 30, 2013, $64.9 million of the Workers' Compensation Program's deposits with financial institutions were either insured or collateralized, with the remaining $3.0 million uninsured/uncollateralized. The Federal Deposit

Insurance Corporation (FDIC) covers the Workers' Compensation Program's insured deposits, and the PDPC provides collateral protection.

3.B. Investments

3.B.1. Summary of Investment Policies

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

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

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

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

- U.S. equities
- International equities
- Treasury Inflation-Protected Securities (TIPS)
- U.S. Treasuries and government agencies
- Credit bonds
- Mortgage-backed securities rated investment grade as defined by Barclays Capital Global Family of Fixed Income Indices
- Asset-backed securities rated investment grade, as defined by Barclays Capital Global Family of Fixed Income Indices

- Commercial mortgage-backed securities rated investment grade, as defined by Barclays Capital Global Family of Fixed Income Indices

- Investment grade non-U.S. dollar bonds

Investment Restrictions - To meet stated objectives, investments of the Workers' Compensation Program are subject to the following constraints:

- All assets under the management of the WSIB are to be invested to maximize return at a prudent level of risk, in accordance with RCW 43.33A.110 and RCW 43.33A.140.

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

- Asset allocations are to be reviewed every three to four years, or sooner if there are significant changes in funding levels or the liability durations.

- Assets are to be rebalanced across asset classes when the fair value of the assets falls outside the policy ranges. The timing of any rebalancing will be based on market opportunities, cash flows, and the consideration of transaction costs; therefore, they need not occur immediately.

- Sector allocation for U.S. equities should be within a range of 55 percent to 65 percent. Allocation for international equities should be within a range of 35 percent to 45 percent.

- The benchmark and structure for U.S. equities will be the broad U.S. stock market as defined by the Morgan Stanley Capital International (MSCI) U.S. Investable Market Index passive mandate. The benchmark and structure for international equities will be the MSCI All Country World Ex U.S. Investable Market Index. Both portfolios will be 100 percent passively managed in commingled index funds. The commingled funds may use futures for hedging or establishing a long-term position.

- TIPS will be managed to plus or minus 20 percent of the duration of the Barclays Capital U.S. TIPS Index.

- Sector allocation of fixed income investments are to be managed within prescribed ranges. These targets are long-term in nature. Deviations may occur in the short-term as a result of interim market conditions; however, if a range is exceeded, the portfolios must be rebalanced to the target allocations as soon as it is practical. Target allocations for the Fixed Income Sectors:

U.S. Treasuries and government agencies	5 to 25 percent
Credit bonds	20 to 70 percent

Asset-backed securities	0 to 10 percent
Commercial mortgage-backed securities	0 to 10 percent
Mortgage-backed securities	0 to 25 percent

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

- Total holdings of below-investment-grade credit bonds (as defined by Barclays Capital Global Family of Fixed Income Indices) should not exceed 5 percent of total fixed income holdings.

3.B.2. Securities Lending

The Workers' Compensation Program participates in securities lending programs with the WSIB and the OST to increase investment income. At June 30, 2013, the Workers' Compensation Program had $26,381,220 of cash collateral received in the Accident and the Pension Reserve Accounts and invested through the WSIB. There was $1,210,423 of cash collateral received in the Medical Aid and the Supplemental Pension Accounts invested through the OST.

Securities Lending – WSIB

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

The fair value of the securities on loan at June 30, 2013, was approximately $26.2 million. The Workers' Compensation Program reports securities on loan on the Statement of Net Position in their respective categories. At June 30, 2013, cash collateral received totaling $26.4 million is reported as a securities lending obligation, and the fair value of the reinvested cash collateral totaling $26.4 million is reported as security lending collateral in the Statement of Net Position. Securities received as collateral for which the Workers' Compensation Program does not have the ability to pledge or sell unless the borrower defaults are not reported as assets or liabilities in the Statement of Net Position.

During Fiscal Year 2013, fixed income securities were loaned and collateralized by the Workers' Compensation Program's agent with cash and U.S. government or U.S. agency securities (exclusive of mortgage-backed securities and letters of credit). When the loaned securities had collateral denominated in the same currency, the collateral requirement was 102 percent of the fair value, including accrued interest, of the securities loaned. All other securities were required to be collateralized at 105 percent of the fair value, including accrued interest, of the loaned securities.

As of June 30, 2013, the Workers' Compensation Program held the following cash and securities as lending collateral:

Cash Collateral Held Under Securities Lending June 30, 2013 (in thousands)		
Cash and cash equivalents	$	6,068
Commercial paper		4,791
Repurchase agreements		14,773
Miscellaneous		749
Total Collateral Held	$	26,381

Securities lending transactions could be terminated on demand either by the Workers' Compensation Program or the borrower. As of June 30, 2013, the collateral held had an average duration of 22.42 days and an average weighted final maturity of 57.44 days. Because the securities lending agreements were terminable at will, their duration did not generally match the duration of the investments made with the cash collateral. Non-cash collateral could not be pledged or sold absent borrower default. No more than 20 percent of the total on loan value can be held by a specific borrower. There are no restrictions on the amount of securities that can be lent.

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

During Fiscal Year 2013, there were no significant violations of legal or contractual provisions, and no failures by any borrowers to return loaned securities or to pay distributions thereon. Further, the Workers' Compensation Program incurred no losses during Fiscal Year 2013 resulting from a default by either the borrowers or the securities lending agents.

Securities Lending – OST

State statutes permit the OST to lend its securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. The OST, which has contracted with Citibank as a lending agent to lend securities, receives earnings for this activity.

The OST's lending agent lends U.S. government and U.S. agency securities and receives collateral, which can be in the form of cash or other securities. The collateral, which must be valued at 102 percent of the fair value of the loaned securities, is priced daily and, if necessary, action is taken to maintain the collateralization level at 102 percent.

The cash is invested by the lending agent in accordance with investment guidelines approved by the OST. The securities held as collateral and the securities underlying the cash collateral are held by the custodian. One option available to the lending agent is to invest cash collateral into an OST account in the Local Government Investment Pool (LGIP). The LGIP portfolio is invested in a manner generally consistent with a Rule 2a-7 money market fund recognized by the Securities and Exchange Commission (17CFR.270.2a-7). Rule 2a-7 funds are limited to high quality obligations with limited maximum and average maturities, the effect of which is to minimize both market and credit risk. At June 30, 2013, the Workers' Compensation Programs' cash collateral totaled $1.2 million, all of which was invested in the LGIP.

The contract with the lending agent requires them to indemnify the OST if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or if the borrower fails to pay the OST for income distribution by the securities' issuers while the securities are on loan. The OST cannot pledge or sell collateral securities received unless the borrower defaults. At June 30, 2013, the fair value of securities on loan for the Workers' Compensation Program totaled about $1.2 million.

The OST investment policy requires that any securities on loan be made available by the lending agent for next day liquidity at the option of the OST. During Fiscal Year 2013, the OST had no credit risk exposure to borrowers, because the amounts owed to the borrowers exceeded the amounts the borrowers owed to the OST.

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

3.B.3. Interest Rate Risk

Interest rate risk is the risk that changes in interest rates over time will adversely affect the fair value of an investment. Increases in prevailing interest rates generally translate into decreases in fair values of those investments.

While the Workers' Compensation Program does not have a formal policy relating to interest rate risk, the risk is managed within the Workers' Compensation Program portfolio using effective duration which is the measure of a debt investment's exposure to fair value changes arising from changes in interest rates. Increases in prevailing interest rates generally translate into decreases in fair values of those investments. As of June 30, 2013, the Workers' Compensation Program portfolio durations were within the prescribed duration targets.

The schedule below provides information about the interest rate risks associated with the Workers' Compensation Program investments as of June 30, 2013. The schedule displays various asset classes held by both maturity in years and credit ratings. Residential mortgage-backed, commercial mortgage-backed and asset-backed securities are reported using the average life within the portfolio. The average life is a calculated estimate of the average time (in years) until maturity for these securities, taking into account possible prepayments of principal. All other securities on the schedule are reported using the stated maturity date.

Schedule of Maturities and Credit Ratings
(in thousands)

Investment Type	Fair Value	Maturity: Less than 1 year	Maturity: 1-5 years	Maturity: 6-10 years	Maturity: More than 10 years	Credit Rating	Effective Duration (years)
Residential mortgage-backed securities	$ 1,571,705	$ 23,168	$ 1,133,536	$ 384,248	$ 30,753	Aaa	4.59
Commercial mortgage-backed securities	388,249	13,785	339,825	34,639	-	Multiple	2.85
Corporate bonds - domestic	2,915,263	59,546	569,409	972,528	1,313,780	Multiple	8.46
Corporate bonds - foreign (USD)	2,510,029	51,555	671,293	889,082	898,099	Multiple	7.39
Foreign Government and Agencies (USD)	1,042,639	1,006	431,110	332,664	277,859	Multiple	6.57
Supranational (USD)	161,055	-	161,055	-	-	Aaa	2.70
Government securities - domestic:							
U.S. Government treasuries	1,113,738	205,133	614,574	294,031	-	Aaa	3.64
Treasury inflation-protected securities	1,726,900	27,864	600,201	418,228	680,607	Aaa	7.27
	11,429,578	$ 382,057	$ 4,521,003	$ 3,325,420	$ 3,201,098		
Commingled index funds - domestic	1,062,288						
Commingled index funds - foreign	668,182						
Money market funds	221,518						
Total investments not categorized	1,951,988						
Total	$ 13,381,566						

Investments with multiple credit ratings at June 30, 2013 are presented using the Moody's rating scale as follows:

Multiple Credit Rating Disclosure
(in thousands)

Moody's Equivalent Credit Rating	Investment Type: Commercial Mortgage-Backed Securities	Investment Type: Corporate Bonds - Domestic	Investment Type: Corporate Bonds-Foreign	Investment Type: Foreign Government and Agencies	Total
Aaa	$ 336,369	$ 5,580	$ 1,012	$ 139,846	$ 482,807
Aa2	-	32,539	-	51,791	84,330
Aa3	51,880	170,665	266,429	251,228	740,202
A1	-	145,241	176,194	205,971	527,406
A2	-	720,940	48,543	-	769,483
A3	-	374,226	302,844	-	677,070
Baa1	-	671,081	424,204	58,376	1,153,661
Baa2	-	619,912	594,511	123,235	1,337,658
Baa3	-	129,744	541,891	135,867	807,502
Ba1 or lower	-	45,335	154,401	76,325	276,061
Total Fair Value	$ 388,249	$ 2,915,263	$ 2,510,029	$ 1,042,639	$ 6,856,180

3.B.4. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Workers' Compensation Program's investment policies limit the fixed income securities to investment grade or higher at the time of purchase. Investment grade securities are those fixed income securities with a Moody's rating of Aaa to Baa or a Standard and Poor's rating of AAA to BBB. The rated debt investments of the Workers' Compensation Program as of June 30, 2013, 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 no corporate fixed income issue cost shall exceed 3 percent of the fund's fair value at the time of purchase, nor shall its fair value exceed 6 percent of the fund's fair value at any time. There was no concentration of credit risk as of June 30, 2013.

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

3.B.5. Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The Workers' Compensation Program does not have a formal policy to limit foreign currency risk. The only security held by the Workers' Compensation Program with foreign currency exposure at June 30, 2013, consisted of $668.2 million invested in an international commingled equity index fund.

3.B.6. Derivatives

The Workers' Compensation Program is authorized to utilize various derivative financial instruments, including collateralized mortgage obligations, financial futures, forward contracts, interest rate and equity swaps, and options, 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 that collateral in cash and investments be maintained equal to the securities positions outstanding, and thereby prohibiting the use of leverage or speculation. Credit risks arising from derivative transactions are mitigated by selecting and monitoring creditworthy counterparties and collateral issuers.

Domestic and foreign passive equity index fund managers may also utilize various derivative securities to manage exposure to risk and increase portfolio returns. Information on the extent of use and holdings of derivative securities by passive equity index fund managers is unavailable.

At June 30, 2013, the only derivative securities held directly by the Workers' Compensation Program were collateralized mortgage obligations (CMOs) of $1.57 billion.

3.B.7. Reverse Repurchase Agreements

State law permits the Workers' Compensation Program to enter into reverse repurchase agreements, i.e., a sale of securities with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest. The fair value of the securities underlying reverse repurchase agreements normally exceeds the cash received, providing the dealers a margin against a decline in fair value of the securities. If the dealers default on their obligations to resell these securities to the state or provide securities or cash of equal value, the Workers' Compensation Program would suffer an economic loss equal to the difference between the fair value plus accrued interest of the underlying securities and the agreement obligation, including accrued interest. There were no reverse repurchase agreements during Fiscal Year 2013, and there were no liabilities outstanding as of June 30, 2013.

Note 4 - Receivables

Receivables at June 30, 2013, consisted of the following:

Receivables June 30, 2013	
Current Receivables	
Premiums receivable	
Actual premiums receivable	$ 144,385,316
Estimated premiums receivable [1]	523,241,000
Estimated self-insurance premiums receivable [2]	58,701,278
Total premiums receivable	726,327,594
Other receivables	
Receivable from overpayments	1,503,759
Investment interest receivable	108,971,236
Safety fines & penalties receivable	9,096,314
Miscellaneous receivables	2,186,338
Total Current Receivables, gross	848,085,241
Less: Allowance for uncollectible receivables	148,989,537
Total Current Receivables, net of allowance	$ 699,095,704

[1]Estimated premiums receivable represents premiums due for the quarter ended June 30, 2013. Premium amounts were estimated by Labor & Industries actuaries, to be collected for the Accident, Medical Aid, and Supplemental Pension Accounts.

[2]Estimated self-insurance premiums receivable represents estimated assessment receivables accrued for the quarter ended June 30, 2013, based on prior employer quarterly reports. This amount also includes pension receivables, experting, and current receivable balances.

Note 5 - Interfund/Interagency Balances

The following table reflects the total balances in the Workers' Compensation Program at June 30, 2013, and the amounts of receivables from and payables to other state accounts and agencies:

Receivables From Other State Accounts and Agencies June 30, 2013		
General Fund	$	1,306
Agency Accounts		3,931
Other State Agencies		15,055
Total Receivables From Other State Accounts and Agencies	$	20,292

Payables To Other State Accounts and Agencies June 30, 2013		
General Fund	$	3,145
Agency Accounts		255,314
Other State Agencies		6,989,127
Total Payables To Other State Accounts and Agencies	$	7,247,586

All balances are expected to be paid within one year from the date of the basic financial statements. These balances resulted from goods and services provided prior to June 30, 2013, and paid after the fiscal year ended. Receivables or payables within the Workers' Compensation Program are not included in the above totals.

Note 6 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2013, was as follows:

Capital Asset Activity
Fiscal Year 2013

	Balance June 30, 2012	Increases	Decreases	Balance June 30, 2013
Capital assets not being depreciated:				
Land and collections	$ 3,239,748	$ -	$ -	$ 3,239,748
Construction in progress	2,976,110	8,748,398	(5,522,150)	6,202,358
Total capital assets not being depreciated	6,215,858	8,748,398	(5,522,150)	9,442,106
Capital assets being depreciated:				
Buildings and building components	65,133,602	-	-	65,133,602
Accumulated depreciation	(26,287,958)	(1,353,502)	-	(27,641,460)
Net buildings and building components	38,845,644	(1,353,502)	-	37,492,142
Furnishings, equipment, and collections	68,755,134	1,322,964	(1,942,969)	68,135,129
Accumulated depreciation	(63,524,561)	(3,341,543)	1,878,242	(64,987,862)
Net furnishings, equipment, and collections	5,230,573	(2,018,579)	(64,727)	3,147,267
Other improvements	1,289,262	-	-	1,289,262
Accumulated depreciation	(666,359)	(20,408)	-	(686,767)
Net other improvements	622,903	(20,408)	-	602,495
Total capital assets being depreciated, net	44,699,120	(3,392,489)	(64,727)	41,241,904
Intangible Assets - Definite Useful Lives	18,560,837	5,522,150	-	24,082,987
Accumulated amortization	(1,892,512)	(3,712,168)	-	(5,604,680)
Total capital assets being amortized, net	16,668,325	1,809,982	-	18,478,307
Total capital assets, net of depreciation and amortization	$ 67,583,303	$ 7,165,891	$ (5,586,877)	$ 69,162,317

For Fiscal Year 2013, the total depreciation expense was $8,427,620.

Note 7 - Noncurrent Liabilities

7.A. Bonds Payable

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

The terms of the bond payment obligations are as follows:

- **The General Obligation Bonds of Series R-93B**
  The Workers' Compensation Program is required to make varying annual principal and interest payments, with the final payment due in Fiscal Year 2016. The principal amount of these bonds outstanding was $7,305,000 at June 30, 2013. Bonds outstanding at June 30, 2013, have coupon interest rates of 5.7 percent. The original amount of this bond issue was $19,960,000 in Fiscal Year 1993.

- **The General Obligation Bonds of Series R-2007C**
  The Workers' Compensation Program is required to make annual interest payments. The next principal payment will be in Fiscal Year 2014, with the final payment due in Fiscal Year 2016. The principal amount of these bonds outstanding was $4,170,000 at June 30, 2013. Bonds outstanding at June 30, 2013, have coupon interest rates of 5 percent. The original amount of this bond issue was $6,635,000 in Fiscal Year 2007.

In Fiscal Year 2013, the Workers' Compensation Program paid $3,400,000 in principal and $717,480 in interest on these bonds. Since a portion of the interest paid was for the prior year, total Fiscal Year 2013 interest expense was $655,808.

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

General Obligation Bonds
Debt Service Requirements
by Fiscal Year

	Principal	Interest	Total
2014	$ 3,605,000	$ 526,710	$ 4,131,710
2015	3,820,000	324,530	4,144,530
2016	4,050,000	110,263	4,160,263
Total Debt Service Requirements	$ 11,475,000	$ 961,503	$ 12,436,503
Current portion	$ 3,605,000	$ 526,710	$ 4,131,710
Noncurrent portion	$ 7,870,000	$ 434,793	$ 8,304,793

Debt Refunding

When advantageous and permitted by statute and bond covenants, the State Finance Committee authorizes the refunding of outstanding bonds. When the state refunds outstanding bonds, the net proceeds of each refund issued are used to purchase U.S. Government securities. These securities are placed in irrevocable trusts with escrow agents to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered defeased, and the liability has been removed from the Statement of Net Position. There were no debt refundings in Fiscal Year 2013.

7.B. Claims Payable

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

Changes in Claim Liabilities
June 30, 2013 and 2012

Claims Payable	**June 30, 2013**	**June 30, 2012**
Unpaid claims and claim adjustment expenses at beginning of fiscal year	$ 22,596,350,000	$ 22,943,311,000
Incurred claims and claim adjustment expenses:		
Provision for insured events of the current fiscal year	1,924,011,000	1,823,525,000
Increase/(Decrease) in provision for insured events of prior fiscal years	1,226,506,000	(92,184,000)
Total incurred claims and claim adjustment expenses	3,150,517,000	1,731,341,000
Payments:		
Claims and claim adjustment expenses attributable to:		
Events of the current fiscal year	296,347,000	283,763,000
Insured events of prior fiscal years	1,822,960,000	1,794,539,000
Total payments	2,119,307,000	2,078,302,000
Total unpaid claims and claim adjustment expenses at fiscal year-end	$ 23,627,560,000	$ 22,596,350,000
Current portion	$ 1,851,660,000	$ 1,776,096,000
Noncurrent portion	$ 21,775,900,000	$ 20,820,254,000

At June 30, 2013, $34.7 billion of unpaid loss and loss adjustment expense liabilities are presented at their net present and settlement value of $23.6 billion.

The claims and claim adjustment liabilities of $23.6 billion, as of June 30, 2013, include $11.3 billion for supplemental pension COLAs that are funded on a current basis per RCW 51.32.073. Management believes the funding is in compliance with the statute. The remaining claim liabilities of $12.3 billion are fully funded by a diverse portfolio of fixed income instruments, equity index funds, and cash, managed by the WSIB.

7.C. Changes in Current and Noncurrent Liabilities

Current and noncurrent liability activity for the fiscal year ended June 30, 2013, was as follows:

Current and Noncurrent Liability Activity
Fiscal Year 2013

Current and Noncurrent Liabilities	Beginning Balance July 1, 2012	Additions	Reductions	Ending Balance June 30, 2013	Due Within One Year[2]	Noncurrent Balance June 30, 2013
Claims Payable, current & noncurrent	$ 22,596,350,000	$ 3,150,517,000	$ (2,119,307,000)	$ 23,627,560,000	$ 1,851,660,000	$ 21,775,900,000
Bonds Payable:						
General Obligation Bonds:						
Series R-93B	9,475,000	-	(2,170,000)	7,305,000	2,300,000	5,005,000
Series R-2007C	5,400,000	-	(1,230,000)	4,170,000	1,305,000	2,865,000
Total Bonds Payable	14,875,000	-	(3,400,000)	11,475,000	3,605,000	7,870,000
Other Current and Noncurrent Liabilities:						
Compensated absences[1]	13,527,582	11,735,500	(10,601,117)	14,661,965	1,476,181	13,185,784
DOE trust liabilities	-	6,386,029	-	6,386,029	736,433	5,649,596
Other Postemployment Benefits, as restated	19,237,000	8,451,000	(1,925,000)	25,763,000	-	25,763,000
Total Other Current and Noncurrent Liabilities	32,764,582	26,572,529	(12,526,117)	46,810,994	2,212,614	44,598,380
Total Current and Noncurrent Liabilities	$ 22,643,989,582	$ 3,177,089,529	$ (2,135,233,117)	$ 23,685,845,994	$ 1,857,477,614	$ 21,828,368,380

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

7.D. Operating Leases

The Workers' Compensation Program leases land, office facilities, office and computer equipment, and other assets under a variety of operating lease agreements. Although lease terms vary, most leases are subject to appropriation from the State Legislature to continue the obligation. 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. 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, 2013:

Future Minimum Payments June 30, 2013		
Operating Leases **(by Fiscal Year)**		
2014	$	7,426,291
2015		6,780,782
2016		5,731,291
2017		4,393,351
2018		1,044,324
Total Future Minimum Lease Payments	$	25,376,039

The total operating lease rental expense for Fiscal Year 2013 was $10,467,386.

Note 8 - Deficit

At June 30, 2013, the Workers' Compensation Program had a deficit of $9.6 billion. This is a result of a $11.1 billion deficit in the Supplemental Pension Account at June 30, 2013, offset by $1.4 billion net position in the total Basic Plan. The Workers' Compensation Program Basic Plan is funded based on rates that will keep the plan solvent in accordance with recognized actuarial principles. Supplemental COLA adjustments granted for time-loss and disability payments, however, are funded on a pay-as-you-go basis. According to RCW 51.32.073, the Supplemental Pension Account is allowed to collect only enough revenue to provide for current payments. At June 30, 2013, non-current claims payable in the Supplemental Pension Account was $10.9 billion.

The following table summarizes the change in deficit balance for the Supplemental Pension Account during Fiscal Year 2013.

Supplemental Pension Account Net Position (Deficit)	
Balance, July 1, 2012	$ (10,651,749,288)
Fiscal Year 2013 Activity	(417,904,276)
Balance, June 30, 2013	$ (11,069,653,564)

Note 9 - Retirement Plans

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

The 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 Plan 2 or Plan 3.

The PERS retirement benefit provisions are established in Chapters 41.34 and 41.40 RCW and may be amended only by the state Legislature. The annual benefit is two percent of the average final compensation (AFC) per year of service for Plan 1 and Plan 2, and one percent of the AFC per year of service for the defined benefit portion of Plan 3. An actuarial valuation of the retirement plan for the Workers' Compensation Program as a stand-alone entity is not available. A complete description of benefits and pension note disclosures for the PERS is included in the Comprehensive Annual Financial Report for the state of Washington. A copy of this report may be obtained by contacting the Accounting Division of the Office of Financial Management at P.O. Box 43113, Olympia, Washington 98504-3113, or online at http://www.ofm.wa.gov/cafr.

The Legislature provides for minimum contribution rates for the PERS. All employers are required to contribute at the level established by the Legislature. The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.40 and 41.45 RCW.

The State Actuary evaluates the plans each year. In odd-numbered years, the data is used to recommend contribution rate adjustments (if any) to the Pension Funding Council. Several factors go into the rate calculations, including the financial and demographic experience of the plans and the cost of any benefit increases. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates, Plan 2 employer and employee contribution rates, and Plan 3 employer contribution rates.

Employee contribution rates for Plan 1 are established by statute at 6 percent for state agencies. Contributions for Plan 2 members are determined by the aggregate method and may vary over time. The contribution rate for Plan 2 state agency employees at June 30, 2013, 2012, and 2011, were 4.64, 4.64, and 3.90 percent of the employee's annual covered salary, respectively. Under Plan 3, employer contributions finance the defined benefit portion of the plan, and member contributions finance the defined contribution portion. The Director of the DRS sets Plan 3 employee contribution rate options. Members can choose from six rate options ranging from 5 to 15 percent. Two of the options are graduated rates dependent on the employee's age.

The employer contribution rates for the Workers' Compensation Program at June 30, 2013, 2012, and 2011, for each of Plans 1, 2, and 3 were 7.21, 7.08, and 5.31 percent of the employee's annual covered salary, respectively. The Workers' Compensation Program contributed 100 percent of the required amounts, which were $10,147,452, $9,858,778, and $7,378,462, to PERS during Fiscal Years 2013, 2012, and 2011, respectively.

Note 10 - Other Postemployment Benefits

The Workers' Compensation Program participates fully in the Other Postemployment Benefit (OPEB) plan administered by the Washington State Health Care Authority (HCA) under the auspices of the Public Employees Benefits Board (PEBB), in addition to those pension benefits described in Note 9.

The following table shows components of the Workers' Compensation Program's OPEB costs for Fiscal Year 2013 and Fiscal Year 2012, the amount contributed to the plan, and changes in the Workers' Compensation Program's Net OPEB Obligation (NOO):

Net OPEB Obligation (NOO)

	Fiscal Year Ended June 30, 2013	Fiscal Year Ended June 30, 2012
NOO, beginning of year[1], as restated	$ 19,237,000	$ 13,562,000
Annual OPEB costs	8,451,000	7,796,000
Contributions made	(1,925,000)	(2,121,000)
NOO, end of year	$ 25,763,000	$ 19,237,000

[1]The beginning of year NOO balance at June 30, 2012, of $13,562,000 was a result of a prior period adjustment of $9,769,132 to reduce the $23,331,132 balance at June 30, 2012, as previously reported. See Note 2 – Accounting and Reporting Changes for the explanation of the prior period adjustment.

The above information was provided by OFM. The Workers' Compensation Program's OPEB plan represents 1.60 percent and 1.50 percent of the state of Washington's OPEB plan as of June 30, 2013 and 2012, respectively.

The information below fully discloses the state of Washington's information with regard to funding policy, annual OPEB costs and contributions made, the funded status and funding progress of the employer individual plan, as well as actuarial methods and assumptions used. As the Workers' Compensation Program participates in this agent multiple-employer plan, no stand-alone information for the Workers' Compensation Program is available. The state of Washington's OPEB plan does not issue a financial report.

Plan Description and Funding Policy

The state of Washington, through the HCA, administers an agent multiple-employer other OPEB plan per RCW 41.05.065. The HCA is authorized to design benefits and determine the terms and conditions of employee and retired employee participation and coverage, including establishment of eligibility criteria for both active and retired employees. PEBB programs include medical, dental, life, and long-term disability insurance.

Employers participating in the PEBB plan include the state (which includes general government agencies and higher education institutions), 54 of the state's K-12 schools and educational service districts (ESDs), and 207 political subdivisions and tribal governments. Additionally, the PEBB plan is available to the retirees of the remaining 243 K-12 schools and ESDs.

As of June 30, 2013, membership in the PEBB plan consisted of the following:

PEBB Plan Membership
June 30, 2013

	Active Employees	Retirees[1]	Total
State	107,003	28,633	135,636
K-12 schools and ESDs[2]	1,838	30,354	32,192
Political subdivisions	11,840	1,392	13,232
Total	120,681	60,379	181,060

[1]Retirees include retired employees, surviving spouses, and terminated members entitled to a benefit.

[2]In Fiscal Year 2013, there were 101,189 full-time equivalent active employees in the 243 K-12 schools and ESDs that elected to limit participation in PEBB only to their retirees.

For Fiscal Year 2013, the estimated monthly cost for PEBB benefits for active employees, averaged across all plans and tiers, was as follows:

PEBB Benefits
Estimated Monthly Cost
Fiscal Year 2013

Required Premium[1]		
Medical	$	913
Dental		82
Life		4
Long-term disability		2
Total	$	1,001
Employer contribution	$	865
Employee contribution		136
Total	$	1,001

[1] Per 2013 Index Rate Model 7.2.

The relationship between the PEBB OPEB plan and its member employers and their employees and retirees is not formalized in a contract or plan document. Rather, the benefits are provided in accordance with a substantive plan. A substantive plan is one in which the plan terms are understood by the employers and plan members. This understanding is based on communications between the HCA, employers and plan members, and the historical pattern of practice with regard to the sharing of benefit costs.

The PEBB retiree OPEB plan is available to employees who elect to continue coverage and pay the administratively established premiums at the time they retire under the provisions of the retirement system to which they belong. Retirees' access to PEBB plans depends on the retirement eligibility of their respective retirement system. PEBB members are covered in the following retirement systems: Public Employees' Retirement System, Public Safety Employees' Retirement System, Teachers' Retirement System, School Employees' Retirement System, Washington State Patrol Retirement System, and Higher Education.

Per RCW 41.05.022, retirees who are not yet eligible for Medicare benefits may continue participation in the state's non-Medicare community-rated health insurance risk pool on a self-pay basis. Retirees in the non-Medicare risk pool receive an implicit subsidy. The implicit subsidy exists because retired members pay a premium based on a claims experience for active employees and other non-Medicare retirees. The subsidy is valued using the difference between the age-based claims costs and the premium. In Calendar Year 2012, the average weighted implicit subsidy was valued at $330 per month per member, and in Calendar Year 2013, the average weighted implicit subsidy is projected to be $294 per month per member.

Retirees who are enrolled in both Parts A and B of Medicare may participate in the state's Medicare community-rated health insurance risk pool. Medicare retirees receive an explicit subsidy in the form of reduced premiums. Annually, the HCA administrator recommends an amount for the next calendar year's explicit subsidy for inclusion in the Governor's budget. In Calendar Year 2012, the explicit subsidy was $150 per month per member, and it remained $150 per month per member in Calendar Year 2013.

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

Contributions are set each biennium as part of the budget process. In Fiscal Year 2013, the cost of the subsidies was approximately 6.0 percent of the cost of benefits for active employees. The benefits are funded on a pay-as-you-go basis.

The PEBB OPEB plan is accounted for as an agency fund on an accrual basis. The plan has no investments or other assets. The PEBB OPEB plan does not issue a publicly available financial report. For information on the results of an actuarial valuation of the employer-provided subsidies associated with the PEBB plan, refer to:
http://osa.leg.wa.gov/Actuarial_services/OPEB/OPEB.htm.

Annual OPEB Cost and Net OPEB Obligation

The state's (general government agencies and higher education institutions) annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the state as the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45.

The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

The following table shows the components of the state's annual OPEB cost for Fiscal Year 2013, the amount contributed to the plan, and changes in the state's Net OPEB Obligation (NOO):

OPEB Cost Components
(in thousands)

		June 30, 2013
Annual required contribution	$	342,283
Interest on NOO		53,434
Amortization of NOO		(48,684)
Annual OPEB cost		347,033
2012 Adjustment		56,476
Contributions made		(69,115)
Increase in NOO		334,394
NOO, beginning of year		1,279,381
NOO, end of year	$	1,613,775

The state's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the Net OPEB Obligation for Fiscal Years 2011, 2012 and 2013 were as follows:

OPEB History
(dollars in thousands)

Fiscal Year Ended June 30		Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed		Net OPEB Obligation
2013	$	347,033	19.9%	$	1,613,775
2012	$	330,286	23.8%	$	1,279,381
2011	$	328,568	23.9%	$	1,027,767

Funded Status and Funding Progress

The funded status of the plan as of January 1, 2013, the latest date for which information is available, was as follows:

OPEB Funded Status
(dollars in thousands)

		January 1, 2013
Actuarial accrued liability (AAL)	$	3,706,856
Actuarial value of plan assets		-
Unfunded actuarial accrued liability (UAAL)	$	3,706,856
Funded ratio (actuarial value of plan assets/AAL)		0.00%
Covered payroll (active plan members)	$	5,786,960
UAAL as a percentage of covered payroll		64.06%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the terms of the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Significant methods and assumptions were as follows:

Significant Methods and Assumptions	
Actuarial valuation date	January 1, 2013
Actuarial cost method	Projected Unit Credit (PUC)
Amortization method	Closed, level percentage of projected payroll amortization method
Remaining amortization period	30 years
Asset valuation method	n/a - no assets
Actuarial assumptions:	
Investment rate of return	4.0%
Projected salary increases	3.75%
Healthcare inflation rate	8.0% initial rate, 5% ultimate rate in 2093
Inflation rate	3.0%

Note 11 - Commitments and Contingencies

11.A. Commitments

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.

11.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. Any disallowance resulting from a review or audit may become a liability of the Workers' Compensation Program. The Workers' Compensation Program does estimate and recognize a claims liability for disallowances when determined by the grantor agency or for probable disallowances based on experience pertaining to these grants; however, these recognized liabilities and any unrecognized disallowances are considered immaterial to the Workers' Compensation Program's overall financial condition. The total federal assistance for Fiscal Year 2013 was $8.7 million.

11.C. Contingencies

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 financially impact the Program. Although the outcome of these lawsuits is not currently determinable, the resolution of these matters is not likely to have a material impact on the Workers' Compensation Program's financial position, revenues or expenses.

Note 12 - Subsequent Events

12.A. Proposed Rate Announcement

Each year, the Director of the Department of Labor & Industries adopts new workers' compensation insurance premium rates for the next calendar year. On September 16, 2013, the Director announced a proposed 2.7 percent increase in the average premium rate for 2014. The following four principles were used to guide the rate-setting process:

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

The final rates will be adopted in early December 2013 and go into effect on January 1, 2014.

Required Supplementary Information

Washington State Department of
Labor & Industries

Keep Washington Safe and Working

State of Washington Workers' Compensation Program - Basic Plan
Schedule of Claims Development Information
Fiscal Years 2004 through 2013
(in millions)

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

The rows of the table are defined as follows:

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

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

		2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
1.	Net earned required contribution and investment revenues	$ 1,337	$ 2,452	$ 1,392	$ 2,406	$ 1,697	$ 1,692	$ 2,797	$ 2,525	$ 2,581	$ 1,928
2.	Estimated incurred claims and expenses, end of fiscal accident year	2,505	2,308	2,141	2,196	2,256	2,363	2,312	2,254	2,086	2,105
3.	Paid (cumulative) as of:										
	End of fiscal accident year	244	260	278	295	310	322	298	289	284	296
	One year later	528	556	589	625	679	667	604	584	580	
	Two years later	681	715	754	817	890	863	773	747		
	Three years later	784	821	873	953	1,042	1,000	890			
	Four years later	860	906	964	1,059	1,162	1,107				
	Five years later	925	977	1,038	1,144	1,258					
	Six years later	982	1,039	1,103	1,216						
	Seven years later	1,031	1,094	1,159							
	Eight years later	1,076	1,142								
	Nine years later	1,118									
4.	Re-estimated incurred claims and expenses:										
	End of fiscal accident year	2,505	2,308	2,141	2,196	2,256	2,363	2,312	2,254	2,086	2,105
	One year later	2,203	1,989	2,053	2,234	2,559	2,535	2,271	2,139	2,026	
	Two years later	1,971	1,939	2,055	2,390	2,647	2,538	2,261	2,066		
	Three years later	1,864	1,954	2,151	2,441	2,724	2,485	2,137			
	Four years later	1,886	2,025	2,196	2,526	2,662	2,411				
	Five years later	1,941	2,067	2,244	2,445	2,576					
	Six years later	1,966	2,111	2,198	2,388						
	Seven years later	2,016	2,056	2,186							
	Eight years later	1,965	2,058								
	Nine years later	1,941									
5.	Increase (decrease) in estimated incurred claims and expenses from end of policy year	(564)	(250)	45	192	320	48	(175)	(188)	(60)	

Source: Washington State Department of Labor & Industries Actuarial Services

State of Washington Workers' Compensation Program - Supplemental Pension Plan

Schedule of Claims Development Information

Fiscal Years 2004 through 2013

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

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

The rows of the table are defined as follows:

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

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

		2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
1.	Net earned required contribution and investment revenues	$ 288	$ 326	$ 305	$ 283	$ 334	$ 349	$ 372	$ 440	$ 444	$ 419
2.	Estimated incurred claims and expenses, end of fiscal accident year	1,228	724	804	968	1,093	966	1,082	843	519	441
3.	Paid (cumulative) as of:										
	End of fiscal accident year	-	-	-	-	-	-	-	-	-	-
	One year later	2	1	3	6	8	6	3	1	1	
	Two years later	3	4	7	12	14	10	4	3		
	Three years later	6	8	14	21	21	14	7			
	Four years later	11	15	22	30	28	20				
	Five years later	16	22	30	37	36					
	Six years later	24	30	38	46						
	Seven years later	31	38	46							
	Eight years later	38	46								
	Nine years later	47									
4.	Re-estimated incurred claims and expenses:										
	End of fiscal accident year	1,228	724	804	968	1,093	966	1,082	843	519	441
	One year later	722	721	927	1,176	1,121	1,174	843	577	490	
	Two years later	720	848	1,065	1,125	1,316	980	601	507		
	Three years later	811	971	998	1,272	1,152	718	607			
	Four years later	940	897	1,119	1,116	847	703				
	Five years later	858	990	958	831	739					
	Six years later	919	862	736	684						
	Seven years later	822	652	610							
	Eight years later	623	587								
	Nine years later	555									
5.	Increase (decrease) in estimated incurred claims and expenses from end of policy year	(673)	(137)	(194)	(284)	(354)	(263)	(475)	(336)	(29)	

Source: Washington State Department of Labor & Industries Actuarial Services

Reconciliation of Claims Liabilities by Plan
Fiscal Years 2013 and 2012
(in thousands)

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

	Basic Plan		Supplemental Pension Plan		Total	
Claims Payable	FY 2013	FY 2012	FY 2013	FY 2012	FY 2013	FY 2012
Unpaid loss and loss adjustment expenses at beginning of fiscal year	$ 11,738,930	$ 11,288,310	$ 10,857,420	$ 11,655,001	$ 22,596,350	$ 22,943,311
Incurred claims and claim adjustment expenses:						
Provision for insured events of the current fiscal year	1,631,274	1,524,878	292,737	298,647	1,924,011	1,823,525
Increase (decrease) in provision for insured events of prior fiscal years	677,906	614,321	548,600	(706,505)	1,226,506	(92,184)
Total incurred claims and claim adjustment expenses	2,309,180	2,139,199	841,337	(407,858)	3,150,517	1,731,341
Payments:						
Claims and claim adjustment expenses attributable to:						
Events of the current fiscal year	296,347	283,763	-	-	296,347	283,763
Insured events of prior fiscal years	1,416,526	1,404,816	406,434	389,723	1,822,960	1,794,539
Total payments	1,712,873	1,688,579	406,434	389,723	2,119,307	2,078,302
Total unpaid loss and loss adjustment expenses at fiscal year end	$ 12,335,237	$ 11,738,930	$ 11,292,323	$ 10,857,420	$ 23,627,560	$ 22,596,350
Current portion	$ 1,411,259		$ 440,401		$ 1,851,660	
Noncurrent portion	$ 10,923,978		$ 10,851,922		$ 21,775,900	

Source: Washington State Department of Labor & Industries Actuarial Services

State of Washington Schedule of Funding Progress for Other Postemployment Benefits

This schedule presents the results of the OPEB valuation for Fiscal Years 2013, 2011 and 2009:

Schedule of Funding Progress
Other Postemployment Benefits
Valuation Years 2013, 2011 and 2009
(dollars in millions)

	2013	2011	2009
Actuarial valuation date	1/1/2013	1/1/2011	1/1/2009
Actuarial value of plan assets	$ -	$ -	$ -
Actuarial accrued liability (AAL)*	$ 3,706	$ 3,492	$ 3,787
Unfunded actuarial accrued liability (UAAL)	$ 3,706	$ 3,492	$ 3,787
Funded ratio	0%	0%	0%
Covered payroll	$ 5,787	$ 5,937	$ 5,678
UAAL as a percentage of covered payroll	64%	59%	67%

* Based on projected unit credit actuarial cost method.

Source: Schedule provided by the Washington State Office of Financial Management with data from the Washington State Office of the State Actuary

Supplementary Information

Washington State Department of
Labor & Industries

Keep Washington Safe and Working

Combining Schedule of Net Position
June 30, 2013

	Accident Account	Medical Aid Account	Pension Reserve Account	Total Basic Plan	Supplemental Pension Account	Second Injury Account	Self-Insured Overpayment Reimbursement Account	Total
ASSETS								
Current Assets								
Cash and cash equivalents	$ 4,306,465	$ 2,337,149	$ 1,026,192	$ 7,669,806	$ 910,189	$ 54,814,509	$ 1,008,909	$ 64,403,413
DOE trust cash and investments	-	-	736,433	736,433	-	-	-	736,433
Collateral held under securities lending agreements	25,371,220	1,088,426	1,010,000	27,469,646	121,997	-	-	27,591,643
Receivables, net of allowance	335,686,542	199,626,023	37,003,794	572,316,358	109,693,922	17,085,422	1	699,095,704
DOE trust receivable	-	-	2,868,602	2,868,602	-	-	-	2,868,602
Receivables from workers' compensation accounts	8,139,183	710,980	2,103,259	10,953,422	136,411	-	-	11,089,833 *
Receivables from other state accounts and agencies	9,887	9,622	-	19,509	783	-	-	20,292
Receivables from other governments	865,771	231,813	-	1,097,584	-	-	-	1,097,584
Inventories	92,326	92,326	-	184,652	-	-	-	184,652
Prepaid expenses	1,600	1,600	-	3,200	-	-	-	3,200
Total Current Assets	374,472,994	204,097,939	44,748,280	623,319,212	110,863,302	71,899,931	1,008,910	807,091,356
Noncurrent Assets								
DOE trust cash and investments, noncurrent	-	-	2,780,994	2,780,994	-	-	-	2,780,994
Investments, noncurrent	4,778,200,108	4,575,911,700	3,914,708,145	13,268,819,953	112,745,575	-	-	13,381,565,528
Capital assets, net of accumulated depreciation	31,997,198	37,165,119	-	69,162,317	-	-	-	69,162,317
Total Noncurrent Assets	4,810,197,306	4,613,076,819	3,917,489,139	13,340,763,264	112,745,575	-	-	13,453,508,839
Total Assets	$ 5,184,670,300	$ 4,817,174,758	$ 3,962,237,419	$ 13,964,082,477	$ 223,608,877	$ 71,899,931	$ 1,008,910	$ 14,260,600,195
LIABILITIES AND NET POSITION (DEFICIT)								
LIABILITIES								
Current Liabilities:								
Accounts payable	$ 2,519,124	$ 3,692,340	$ 36,110	$ 6,247,574	$ 12,693	-	-	$ 6,260,267
Deposits payable	4,474,764	26,876	1,862,841	6,364,481	341,578	-	-	6,706,059
Accrued liabilities	131,486,189	9,123,280	913,978	141,523,447	311,444	5,404	-	141,840,295
Obligations under securities lending agreements	25,371,220	1,088,426	1,010,000	27,469,646	121,997	-	-	27,591,643
Bonds payable, current	1,802,500	1,802,500	-	3,605,000	-	-	-	3,605,000
Payables to workers' compensation accounts	612,957	183,271	8,064,196	8,860,424	126,150	2,103,259	-	11,089,833 *
Payables to other state accounts and agencies	4,342,910	2,902,372	-	7,245,282	2,304	-	-	7,247,586
Payables to other governments	2,448	2,448	-	4,896	-	-	-	4,896
Unearned revenues	109,789	48,236	-	158,025	23,275	-	-	181,300
DOE trust liabilities	-	-	736,433	736,433	-	-	-	736,433
Claims payable, current	539,467,000	478,673,000	393,119,000	1,411,259,000	440,401,000	-	-	1,851,660,000
Total Current Liabilities	710,188,901	497,542,749	405,742,558	1,613,474,208	441,340,441	2,108,663	-	2,056,923,312
Noncurrent Liabilities								
Claims payable, net of current portion	3,943,776,000	3,634,235,000	3,345,967,000	10,923,978,000	10,851,922,000	-	-	21,775,900,000
Bonds payable, net of current portion	3,935,000	3,935,000	-	7,870,000	-	-	-	7,870,000
Other long-term liabilities	6,791,631	6,394,153	-	13,185,784	-	-	-	13,185,784
DOE trust long-term liabilities	-	-	5,649,596	5,649,596	-	-	-	5,649,596
Other post-employment benefits	13,222,327	12,540,673	-	25,763,000	-	-	-	25,763,000
Total Noncurrent Liabilities	3,967,724,958	3,657,104,826	3,351,616,596	10,976,446,380	10,851,922,000	-	-	21,828,368,380
Total Liabilities	4,677,913,859	4,154,647,575	3,757,359,154	12,589,920,588	11,293,262,441	2,108,663	-	23,885,291,692
Net Position (Deficit)								
Net investment in capital assets	26,259,698	31,427,619	-	57,687,317	-	-	-	57,687,317
Unrestricted	480,496,743	631,099,564	204,878,265	1,316,474,572	(11,069,653,564)	69,791,268	1,008,910	(9,682,378,814)
Total Net Position (Deficit)	$ 506,756,441	$ 662,527,183	$ 204,878,265	$ 1,374,161,889	$ (11,069,653,564)	$ 69,791,268	$ 1,008,910	$ (9,624,691,497)

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

Combining Schedule of Revenues, Expenses, and Changes in Net Position
For the Fiscal Year Ended June 30, 2013

	Accident Account	Medical Aid Account	Pension Reserve Account	Total Basic Plan	Supplemental Pension Account	Second Injury Account	Self-Insured Overpayment Reimbursement Account	Total
OPERATING REVENUES								
Premiums and assessments, net of refunds	$ 983,207,147	$ 638,347,132	$ 15,829,979	$ 1,637,384,258	$ 418,881,502	$ 67,217,377	$ 219	$ 2,123,483,356
Miscellaneous revenue	37,163,842	2,666,761	68,282	39,898,885	7,454,439	313	-	47,353,637
Total Operating Revenues	1,020,370,989	641,013,893	15,898,261	1,677,283,143	426,335,941	67,217,690	219	2,170,836,993
OPERATING EXPENSES								
Salaries and wages	71,340,702	68,861,938	-	140,202,640	-	-	-	140,202,640
Employee benefits	27,817,747	26,549,707	-	54,367,454	-	-	-	54,367,454
Personal services	3,419,122	5,475,667	-	8,894,789	-	-	-	8,894,789
Goods and services	41,045,552	38,269,965	-	79,315,517	-	-	-	79,315,517
Travel	2,658,398	1,409,966	-	4,068,364	-	-	-	4,068,364
Claims	645,902,550	909,971,299	615,065,409	2,170,939,258	842,695,783	1,160,560	-	3,014,795,601
Depreciation	4,447,625	3,979,995	-	8,427,620	-	-	-	8,427,620
Miscellaneous expenses	23,519,805	2,919,420	17,406	26,456,631	2,043,675	(14,025)	-	28,486,281
Total Operating Expenses	820,151,501	1,057,437,957	615,082,815	2,492,672,273	844,739,458	1,146,535	-	3,338,558,266
Operating Income (Loss)	200,219,488	(416,424,064)	(599,184,554)	(815,389,130)	(418,403,517)	66,071,155	219	(1,167,721,273)
NONOPERATING REVENUES (EXPENSES)								
Earnings on investments	70,068,081	101,246,042	52,061,623	223,375,746	499,241	-	-	223,874,987
Other revenues	7,249,202	1,748,906	-	8,998,108	-	-	-	8,998,108
Interest expense	(327,904)	(327,904)	-	(655,808)	-	-	-	(655,808)
Total Nonoperating Revenues	76,989,379	102,667,044	52,061,623	231,718,046	499,241	-	-	232,217,287
Income (Loss) Before Transfers	277,208,867	(313,757,020)	(547,122,931)	(583,671,084)	(417,904,276)	66,071,155	219	(935,503,986)
Transfers in	8,064,196	-	362,475,224	370,539,420	-	1,130,980	-	371,670,400
Transfers out	(336,389,461)	(1,130,980)	(8,064,196)	(345,584,637)	-	(26,085,763)	-	(371,670,400)
Net Transfers	(328,325,265)	(1,130,980)	354,411,028	24,954,783	-	(24,954,783)	-	-
Changes in Net Position	(51,116,398)	(314,888,000)	(192,711,903)	(558,716,301)	(417,904,276)	41,116,372	219	(935,503,986)
Net Position (Deficit) - July 1, as restated	557,872,839	977,415,183	397,590,168	1,932,878,190	(10,651,749,288)	28,674,896	1,008,691	(8,689,187,511)
Net Position (Deficit) - June 30	$ 506,756,441	$ 662,527,183	$ 204,878,265	$ 1,374,161,889	$ (11,069,653,564)	$ 69,791,268	$ 1,008,910	$ (9,624,691,497)

Combining Schedule of Cash Flows
For the Fiscal Year Ended June 30, 2013

	Accident Account	Medical Aid Account	Pension Reserve Account	Total Basic Plan	Supplemental Pension Account	Second Injury Account	Self-Insured Overpayment Reimbursement Account	Total
CASH FLOWS FROM OPERATING ACTIVITIES								
Receipts from customers	$ 960,013,236	$ 633,721,904	$ 17,665,475	$ 1,611,400,615	$ 414,355,357	$ 59,945,127	$ 219	$ 2,085,701,318
Payments to/for beneficiaries	(612,012,949)	(589,797,155)	(374,526,256)	(1,576,336,360)	(407,620,217)	(1,156,423)	-	(1,985,113,000)
Payments to employees	(95,236,320)	(91,581,630)	-	(186,817,950)	-	-	-	(186,817,950)
Payments to suppliers	(47,542,204)	(44,802,543)	4,288	(92,340,459)	6,477	-	-	(92,333,982)
Other	36,849,228	(621,998)	68,284	36,295,514	7,455,824	313	-	43,751,651
Net Cash Flows from Operating Activities	242,070,991	(93,081,422)	(356,788,209)	(207,798,640)	14,197,441	58,789,017	219	(134,811,963)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES								
Transfers in	1,122,538	(29,023)	414,700,294	415,793,809	200,266	1,142,157	-	417,136,232
Transfers out	(379,234,504)	(1,100,706)	(953,802)	(381,289,012)	(254,621)	(35,592,599)	-	(417,136,232)
Operating grants received	7,259,439	1,759,223	-	9,018,662	-	-	-	9,018,662
License fees collected	77,916	13,093	-	91,009	-	-	-	91,009
Net Cash Flows from Noncapital Financing Activities	(370,774,611)	642,587	413,746,492	43,614,468	(54,355)	(34,450,442)	-	9,109,671
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES								
Interest paid	(358,740)	(358,740)	-	(717,480)	-	-	-	(717,480)
Principal payments on bonds payable	(1,700,000)	(1,700,000)	-	(3,400,000)	-	-	-	(3,400,000)
Acquisitions of capital assets	(2,613,769)	(7,457,592)	-	(10,071,361)	-	-	-	(10,071,361)
Net Cash Flows from Capital and Related Financing Activities	(4,672,509)	(9,516,332)	-	(14,188,841)	-	-	-	(14,188,841)
CASH FLOWS FROM INVESTING ACTIVITIES								
Proceeds from sale of trust investments	-	-	420,554	420,554	-	-	-	420,554
Receipt of interest and dividends	181,861,930	143,461,062	140,987,481	466,310,473	801,529	-	-	467,112,002
Investment expenses	(1,453,234)	(1,367,098)	(1,132,990)	(3,953,322)	(129,418)	-	-	(4,082,740)
Proceeds from sale of investment securities	1,761,026,148	1,708,755,217	1,395,264,086	4,865,045,451	455,307,439	-	-	5,320,352,890
Purchases of investment securities	(1,807,286,856)	(1,748,684,860)	(1,592,358,917)	(5,148,330,633)	(470,113,853)	-	-	(5,618,444,486)
Net Cash Flows from Investing Activities	134,147,988	102,164,321	(56,819,786)	179,492,523	(14,134,303)	-	-	165,358,220
Net Increase (Decrease) in cash and cash equivalents	771,859	209,154	138,497	1,119,510	8,783	24,338,575	219	25,467,087
Cash & cash equivalents, July 1 (includes trust cash of $89,476), as restated	3,534,606	2,127,995	1,397,725	7,060,326	901,406	30,475,934	1,008,691	39,446,357
Cash & cash equivalents, June 30 (includes trust cash of $510,031)	$ 4,306,465	$ 2,337,149	$ 1,536,222	$ 8,179,836	$ 910,189	$ 54,814,509	$ 1,008,910	$ 64,913,444
Cash Flows from Operating Activities								
Operating Income (Loss)	$ 200,219,488	$ (416,424,064)	$ (599,184,554)	$ (815,389,130)	$ (418,403,517)	$ 66,071,155	$ 219	$ (1,167,721,273)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Flows from Operating Activities								
Depreciation	4,447,625	3,979,995	-	8,427,620	-	-	-	8,427,620
Change in Assets: Decrease (Increase)								
Receivables	(3,430,492)	(4,951,076)	1,847,644	(6,533,924)	(2,643,234)	(7,286,277)	-	(16,463,435)
Inventories	17,506	17,506	-	35,012	-	-	-	35,012
Prepaid expenses	(1,600)	(1,600)	-	(3,200)	-	-	-	(3,200)
Change in Liabilities: Increase (Decrease)								
Claims and judgments payable	33,414,000	322,234,000	240,659,000	596,307,000	434,903,000	-	-	1,031,210,000
Accrued liabilities	7,404,464	2,063,817	(110,299)	9,357,982	341,192	4,139	-	9,703,313
Net Cash Flows from Operating Activities	$ 242,070,991	$ (93,081,422)	$ (356,788,209)	$ (207,798,640)	$ 14,197,441	$ 58,789,017	$ 219	$ (134,811,963)
Non Cash Investing, Capital and Financing Activities								
Increase (Decrease) in fair value of investments	$ 131,043,539	$ 66,523,026	$ 130,350,855	$ 327,917,420	$ 169,713	$ -	$ -	$ 328,087,133

Washington State Department of
Labor & Industries

Keep Washington Safe and Working

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

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

October 5, 2013

Statement of Actuarial Opinion
Regarding GAAP Reserves

State of Washington – Workers' Compensation Program

Identification

I, Rod Morris, am a Specialist Leader with the firm of Deloitte Consulting LLP. I am a Member of the American Academy of Actuaries and meet its qualification standards for rendering this Statement of Actuarial Opinion, and I am a Fellow of the Casualty Actuarial Society. I was appointed by the Washington State Auditor's Office to provide a Statement of Actuarial Opinion regarding the reasonableness of the State of Washington Workers' Compensation Program's ("the Program") carried GAAP loss and loss adjustment expense ("LAE") reserves as of June 30, 2013.

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

Scope

I have examined the reserves for the unpaid loss and LAE as shown in the Program's Comprehensive Annual Financial Report as of June 30, 2013.

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

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

Opinion

A summary of the Program's recorded loss and LAE reserves by account in its Comprehensive Annual Financial Report as of June 30, 2013 is as follows:

	Discounted
Accident Account	$4,483,243,000
Medical Aid Account	4,112,908,000
Pension Reserve Account	3,739,086,000
Total Basic Plan Loss and LAE Reserves	$12,335,237,000
Supplemental Pension Account	11,292,323,000
Total Program Loss and LAE Reserves	$23,627,560,000

In my opinion, the loss and LAE amounts listed above and displayed in the Program's Comprehensive Annual Financial Report as of June 30, 2013:

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

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

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

Relevant Comments

A. Major Risk Factors

I have identified the major risk factors of the loss and LAE reserves to be the lack of diversity of exposure by line of business and by state, future medical trend, the discounting of the reserves, future cost of living adjustments and the impact of the 2011 Reforms. The potential impact of these risk factors is described in the following paragraphs. The absence of other risk factors from this listing does not imply that additional factors will not be identified in the future as having been a significant influence on the Program's reserves.

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

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

The Department discounts the loss and loss adjustment expense reserves to reflect the time value of money using an average annual interest rate of 2.56%. The future payments of the Accident Account, Medical Aid Account, and Supplemental Pension Account are discounted using an annual interest rate of 1.5%. The future payments of the Pension Reserve Account are discounted using an annual interest rate of 6.5%. Changes to the interest rate used for discounting could result in material changes to the reserves.

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

During 2011, the State of Washington passed two bills (SSB 5801 and EHB 2123) that promote getting workers back on the job faster and made other changes that impact costs. These changes are expected to reduce the system's overall costs in the future and also have an impact on past claims. These reforms are considered in the Department's unpaid claim liability as of June 30, 2013. Key changes included in the reforms are:

- Claim Resolution Structured Settlement Agreements
- Deductions for Prior PPD Awards from TPD Benefits
- Elimination of Interest on Unpaid PPD Award Schedules
- One-Year Freeze in COLA, Delay in First COLAs
- Washington Stay-At-Work Program
- Statewide Provider Network
- COHE Expansion

There is uncertainty related to the impact of these changes on the unpaid claim liability. The amount of savings contemplated in the unpaid claim liability as of June 30, 2013 totals $975 million on a discounted basis. The contemplated savings related to the reforms has been significantly reduced this year. Specifically, the contemplated savings related to the structured settlement agreements has been reduced by 75%. The number of structure settlements agreed to and approved has been much less than expected. Therefore, the savings related to this provision of the reforms was reduced accordingly.

B. Other Disclosures

Underwriting Pools or Associations

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

Reinsurance

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

Discounting

The Department discounts the loss and LAE reserves to reflect the time value of money. The amount of discount is based on an actuarially derived projected payment pattern and the Department's two selected annual interest rates.

- For the Medical Aid Account, the Department's selected interest rate is 1.5%.
- For the Pension Reserve Account, the Department's selected interest rate is 6.5%.
- For the Accident Account, a combination of the two interest rates is used to discount the reserves. The future total permanent disability and fatal transfers made to the Pension Account assume interest discounts based on an annual rate of 6.5%. The actual transfer payments and all other payments are discounted using a Department selected rate of 1.5%.
- For the Supplemental Pension Account, the Department selected interest rate is 1.5%

The average combined interest rate for the Program in total is approximately 2.56%, which is consistent with a recent average of risk free interest rates assuming a similar duration as the loss and loss adjustment expense payments of the Program but slightly lower than current risk free interest rates. As such, I believe the average combined interest rate is not unreasonable.

The interest rate used to discount the Accident Account future total permanent disability and fatal transfers made to the Pension Account remained the same this year at 6.5%. The interest rate used for all other future payments was reduced this year from 2.0% to 1.5%. The effect of reducing this interest rate was an increase in the discounted unpaid claim liability of $1.24 billion including the current fiscal accident year.

Major Assumption Changes

The Department lowered its long term inflation rate assumptions by 0.5% this year. The combined effect of reducing the inflation rates was a decrease in the discounted unpaid claim liability of $1.74 billion. Specifically, the long term medical inflation rate was lowered from 5.0% to 4.5% which had the effect of decreasing the discounted unpaid claim liability by $290 million. The assumed future long term future cost of living adjustments for the Supplemental Pension Account was also lowered from 2.0% to 1.5% this year. The effect of reducing this assumption was a decrease in the discounted unpaid claim liability of $1.45 billion including the current fiscal accident year.

Over the past year, the Department has reduced its estimate of the number of total permanent disability claims for accident periods prior to June 30, 2012 by 1,051 claims. The reduction was the result of the closing of more of the active time loss claims than was expected over the past year. The effect of reducing this estimate was a decrease in the discounted unpaid claim liability of approximately $405 million.

C. General Uncertainty

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

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

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

Rod Morris

Rod Morris, FCAS, MAAA
Deloitte Consulting LLP
350 South Grand Avenue, Suite 200
Los Angeles, CA 90071
(213) 688-3374
rmorris@deloitte.com
October 5, 2013

Washington State Department of
Labor & Industries

Keep Washington Safe and Working

Statistical Section

Washington State Department of
Labor & Industries

Keep Washington Safe and Working

Statistical Section

Narrative and Index

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

Page

FINANCIAL TRENDS

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

REVENUE CAPACITY

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

DEBT CAPACITY

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

DEMOGRAPHIC INFORMATION

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

OPERATING INFORMATION

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

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

Washington State Department of
Labor & Industries

Keep Washington Safe and Working

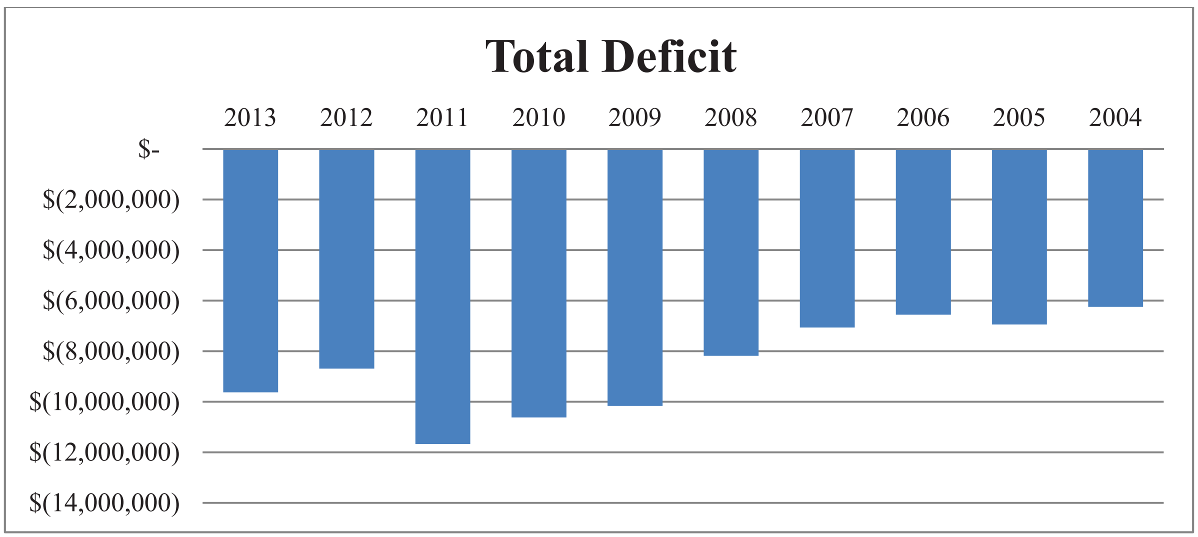
Schedule 1 – Net Position (Deficit) by Component
Last Ten Fiscal Years
(in thousands)

	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Net Investment in capital assets	$ 57,687	$ 52,708	$ 51,101	$ 41,251	$ 37,415	$ 37,838	$ 39,911	$ 33,011	$ 47,530	$ 37,359
Unrestricted	(9,682,379)	(8,741,896)	(9,911,590)	(11,708,411)	(10,654,926)	(10,203,709)	(8,225,454)	(7,093,780)	(6,605,610)	(6,979,379)
Total Net Position (Deficit) [1, 2,3]	$ (9,624,692)	$ (8,689,188)	$ (9,860,489)	$ (11,667,160)	$ (10,617,511)	$ (10,165,871)	$ (8,185,543)	$ (7,060,769)	$ (6,558,080)	$ (6,942,020)

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

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

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



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

	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Operating Revenues										
Premiums and assessments, net of refunds	$ 2,123,483	$ 2,014,841	$ 1,983,348	$ 1,727,722	$ 1,824,276	$ 1,563,960	$ 1,689,072	$ 1,729,501	$ 1,689,490	$ 1,453,380
Miscellaneous revenues	47,354	47,964	51,411	40,250	52,859	50,023	53,589	60,918	31,576	62,047
Total Operating Revenues	2,170,837	2,062,805	2,034,759	1,767,972	1,877,135	1,613,983	1,742,661	1,790,419	1,721,066	1,515,427
Operating Expenses										
Salaries and wages	140,203	136,406	135,979	137,085	134,295	133,773	120,244	116,951	111,995	108,557
Employee benefits	54,367	54,379	51,397	48,545	51,025	41,298	37,803	33,411	29,247	26,272
Personal services	8,895	8,013	6,366	4,521	6,449	7,533	3,800	2,945	4,586	2,641
Goods and services	79,315	69,194	72,443	67,817	73,594	72,568	70,814	64,227	66,145	60,248
Travel	4,068	3,779	3,401	3,339	3,314	4,183	3,482	3,477	3,180	2,796
Claims	3,014,796	1,594,192	888,159	3,971,059	2,180,781	3,727,966	3,585,725	1,998,393	2,165,729	2,172,545
Depreciation	8,428	6,634	8,037	7,991	10,003	10,281	8,220	25,551	3,202	6,261
Miscellaneous expenses	28,486	45,946	52,463	26,287	88,589	63,442	9,320	19,882	20,364	7,109
Total Operating Expenses	3,338,558	1,918,543	1,218,245	4,266,644	2,548,050	4,061,044	3,839,408	2,264,837	2,404,448	2,386,429
Operating Income (Loss)	(1,167,721)	144,262	816,514	(2,498,672)	(670,915)	(2,447,061)	(2,096,747)	(474,418)	(683,382)	(871,002)
Nonoperating Revenues (Expenses)										
Earnings on investments	223,875	1,009,688	981,927	1,441,576	216,035	466,963	966,548	(32,486)	1,065,226	171,169
Other revenues	8,998	8,421	9,294	7,878	7,477	7,785	6,978	7,600	5,449	7,480
Interest expense	(656)	(839)	(1,064)	(1,271)	(1,466)	(1,942)	(1,553)	(2,062)	(2,231)	(2,389)
Total Nonoperating Revenues (Expenses)	232,217	1,017,270	990,157	1,448,183	222,046	472,806	971,973	(26,948)	1,068,444	176,260
Income (Loss) Before Transfers	(935,504)	1,161,532	1,806,671	(1,050,489)	(448,869)	(1,974,255)	(1,124,774)	(501,366)	385,062	(694,742)
Transfers in	371,670	303,273	311,777	323,623	465,908	430,544	339,997	288,987	325,602	296,274
Transfers out	(371,670)	(303,273)	(311,777)	(322,783)	(468,679)	(430,544)	(339,997)	(290,310)	(326,724)	(297,539)
Net Transfers	-	-	-	840	(2,771)	-	-	(1,323)	(1,122)	(1,265)
Changes in Net Position	(935,504)	1,161,532	1,806,671	(1,049,649)	(451,640)	(1,974,255)	(1,124,774)	(502,689)	383,940	(696,007)
Net Position (Deficit), July 1 [1,2]	(8,689,188)	(9,860,489)	(11,667,160)	(10,617,511)	(10,165,871)	(8,185,543)	(7,060,769)	(6,558,080)	(6,942,020)	(6,246,013)
Net Position (Deficit), June 30	$ (9,624,692)	$ (8,698,957)	$ (9,860,489)	$ (11,667,160)	$ (10,617,511)	$ (10,159,798)	$ (8,185,543)	$ (7,060,769)	$ (6,558,080)	$ (6,942,020)

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

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

Schedule 3 – Revenues by Source
Last Ten Fiscal Years
(dollars in thousands)

	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Premiums and Assessments										
State Fund Premiums:										
Accident	$ 1,105,903	$ 1,060,670	$ 916,514	$ 767,915	$ 832,584	$ 939,558	$ 918,803	$ 869,177	$ 761,923	$ 669,232
Medical Aid	624,913	596,421	614,714	601,087	637,975	332,781	592,633	615,687	628,821	520,547
Supplemental Pension	302,915	318,328	318,835	264,934	250,211	248,827	206,583	226,508	232,733	203,686
Net retrospective rating refunds	(136,404)	(171,509)	(75,011)	(112,494)	(81,255)	(98,125)	(190,285)	(161,893)	(116,729)	(91,570)
Dividend refunds	-	-	-	-	-	(33,560)	-	-	-	-
Total State Fund Premiums	1,897,327	1,803,910	1,775,052	1,521,442	1,639,515	1,389,481	1,527,734	1,549,479	1,506,748	1,301,895
Self-insurance assessments	226,156	210,931	208,296	206,280	184,761	174,479	161,338	180,022	182,742	151,485
Total Premiums and Assessments	$ 2,123,483	$ 2,014,841	$ 1,983,348	$ 1,727,722	$ 1,824,276	$ 1,563,960	$ 1,689,072	$ 1,729,501	$ 1,689,490	$ 1,453,380
Average Standard Premium Rates [1] (per hour worked) - Effective from January 1 to December 31										
Accident	0.3435	0.3435	0.3368	0.2595	0.2483	0.2439	0.2554	0.2688	0.2411	0.2341
Medical Aid [2]	0.1844	0.1844	0.1837	0.2048	0.1889	0.1830	0.1656	0.1656	0.1852	0.1765
Supplemental Pension	0.0926	0.0930	0.1075	0.0967	0.0834	0.0779	0.0665	0.0621	0.0738	0.0717
Stay At Work [3]	0.0075	0.0071	NA	NA	NA	NA	NA	NA	NA	NA
Total Average Standard Premium Rates (composite rate)	0.6280	0.6280	0.6280	0.5610	0.5206	0.5048	0.4875	0.4965	0.5001	0.4823
Employer portion	0.4531	0.4506	0.4401	0.3725	0.3516	0.3407	0.3378	0.3433	0.3238	0.3163
Worker portion	0.1423	0.1423	0.1456	0.1508	0.1362	0.1305	0.1161	0.1139	0.1295	0.1241
State-Fund average hourly wage	$ 26.60	$ 26.10	$ 25.24	$ 24.37	$ 23.86	$ 23.40	$ 22.62	$ 21.54	$ 20.43	$ 19.75
Composite rate per $100 Payroll [4]	$ 2.24	$ 2.27	$ 2.32	$ 2.15	$ 2.04	$ 2.01	$ 2.01	$ 2.12	$ 2.22	$ 2.23
Investments [5]										
Investment income (interest and dividend)	$ 466,299	$ 488,831	$ 501,382	$ 501,143	$ 546,021	$ 601,649	$ 610,844	$ 559,732	$ 503,461	$ 473,157
Investment balances	$ 13,381,566	$ 13,321,822	$ 12,512,715	$ 11,894,375	$ 10,886,051	$ 11,019,207	$ 10,983,413	$ 10,170,473	$ 10,185,293	$ 9,161,021
Average rate of return	3.5%	3.7%	4.0%	4.2%	5.0%	5.5%	5.6%	5.5%	4.9%	5.2%

[1] These rates are for Washington State Fund firms. Past average standard premium rates change annually to reflect the current distribution of risk by class.
[2] Medical Aid premium rate was reduced to zero from 7/1/2007 to 12/31/07 as a result of the rate holiday.
[3] Stay at Work rate started in calendar 2012.
[4] This figure equals the composite rate divided by State Fund average hourly wage.
[5] These amounts reflect only investments managed by Washington State Investment Board.

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

Schedule 4 – Employer Accounts
Last Ten Fiscal Years

	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Employers insured	168,000	166,000	163,000	163,000	168,000	171,000	168,000	165,000	161,000	158,000
Workers covered	2,487,000	2,420,000	2,360,000	2,330,000	2,460,000	2,570,000	2,500,000	2,400,000	2,300,000	2,200,000
Hours reported	3,270,000,000	3,183,000,000	3,100,000,000	3,065,000,000	3,232,000,000	3,380,000,000	3,287,000,000	3,200,000,000	3,049,406,000	2,911,954,000
Self-insured employers	363	365	360	363	369	382	377	382	381	372
Workers covered under self-insured employers	845,654	845,085	821,000	826,000	830,000	870,000	830,000	841,000	830,000	799,000
Industry Classifications - NAICS Sector										
Construction	21,229	21,191	21,631	21,963	25,051	27,244	27,184	26,244	24,810	23,822
Prof., scientific, and technical services	20,035	19,960	19,278	17,839	18,428	18,677	18,144	17,506	16,626	15,796
Retail trade	16,219	16,627	16,385	15,779	16,892	17,616	17,844	18,158	18,374	18,638
Other services (except public administration)	16,353	16,613	16,391	15,660	16,115	16,347	16,088	15,992	15,900	15,607
Health care and social assistance	14,843	14,929	14,579	13,929	14,199	14,156	13,904	13,616	13,294	13,032
Accommodation and food services	14,538	14,754	14,642	13,807	14,367	14,641	14,477	14,141	13,777	13,445
Administrative and support services	10,458	10,459	10,018	9,447	9,928	10,261	10,083	9,832	9,491	9,166
Wholesale trade	10,189	10,450	10,218	9,163	9,328	9,431	9,337	9,066	8,799	8,572
Agriculture, forestry, fishing, and hunting	7,141	7,238	7,258	7,284	7,690	7,905	8,157	8,416	8,625	9,101
Manufacturing	6,670	6,717	6,694	6,615	6,993	7,229	7,261	7,290	7,226	7,175
Real estate, rental and leasing	6,642	6,627	6,719	6,563	7,117	7,372	7,099	7,004	6,830	6,609
Transportation and warehousing	5,753	5,569	4,095	3,833	4,013	4,211	4,103	4,019	3,884	3,831
Finance and insurance	5,003	5,073	5,110	4,998	5,437	5,701	5,694	5,496	5,226	4,998
Arts, entertainment, and recreation	2,624	2,655	2,568	2,418	2,508	2,585	2,512	2,485	2,407	2,361
Education services	2,653	2,618	2,487	2,177	2,161	2,126	2,062	1,952	1,879	1,819
Information	2,114	2,107	1,836	1,746	1,880	1,933	1,935	1,852	1,685	1,686
Public administration	1,026	1,030	1,040	1,042	1,063	1,058	1,051	1,043	1,046	1,040
Unclassified establishments	3,816	382	1,512	8,016	4,537	1,888	572	438	455	449
Utilities	355	352	344	338	345	351	342	352	355	354
Mining	177	180	178	176	200	210	209	208	214	223
Mgmt. of companies and enterprises	144	133	118	103	99	102	106	92	79	72
Total Employer Accounts	167,982	165,664	163,101	162,896	168,351	171,044	168,164	165,202	160,982	157,796

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

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

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

	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Outstanding Debt:										
General obligation bonds [1]	$ 11,475	$ 14,875	$ 18,080	$ 22,110	$ 25,930	$ 29,555	$ 33,080	$ 36,825	$ 39,870	$ 42,760
Debt Ratios:										
Principal paid on total debt	$ 3,400	$ 3,205	$ 4,030	$ 3,625	$ 3,625	$ 3,525	$ 3,370	$ 3,045	$ 2,890	$ 2,715
Ratio of principal paid to total debt	29.6%	21.5%	22.3%	16.4%	14.0%	11.9%	10.2%	8.3%	7.2%	6.3%
Interest paid on total debt	$ 717	$ 897	$ 1,143	$ 1,346	$ 1,537	$ 1,584	$ 1,733	$ 2,061	$ 2,231	$ 2,388
Ratio of interest paid to total debt	6.2%	6.0%	6.3%	6.1%	5.9%	5.4%	5.2%	5.6%	5.6%	5.6%
Premiums and assessments earned	$ 2,123,483	$ 2,014,841	$ 1,983,348	$ 1,727,722	$ 1,824,276	$ 1,563,960	$ 1,689,072	$ 1,729,501	$ 1,689,490	$ 1,453,380
Ratio of total debt to premiums and assessments earned	0.5%	0.7%	0.9%	1.3%	1.4%	1.9%	2.0%	2.1%	2.4%	2.9%

[1] In Fiscal Year 2007, bond balances were further reduced as a result of debt refunding in addition to principal payments.

Source: Washington State Agency Financial Reporting System

Schedule 6 – Schedule of Changes in Claims Payable
Last Ten Calendar Years
(in thousands)

	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Unpaid claims and claims adjustment expenses at beginning of fiscal year [1]	$ 22,596,350	$ 22,943,311	$ 24,025,832	$ 22,006,789	$ 21,887,148	$ 19,746,492	$ 17,755,100	$ 17,278,895	$ 16,591,098	$ 15,863,852
Incurred claims and claim adjustment expenses:										
Provision for insured events of the current fiscal year	1,924,011	1,823,525	1,950,485	2,204,709	2,225,312	2,273,716	2,138,397	2,449,650	3,315,505	1,772,548
Increase (decrease) in provision for insured events of prior fiscal years	1,226,506	(92,184)	(933,553)	1,895,787	109,437	1,749,155	1,582,629	(318,243)	(1,025,582)	494,958
Total incurred claims and claim adjustment expenses	3,150,517	1,731,341	1,016,932	4,100,496	2,334,749	4,022,871	3,721,026	2,131,407	2,289,923	2,267,506
Payments:										
Claims and claim adjustment expenses attributable to:										
Events of the current fiscal year	296,347	283,763	288,812	297,520	327,536	316,086	294,879	277,626	259,673	244,334
Insured events of prior fiscal years	1,822,960	1,794,539	1,810,641	1,783,933	1,730,293	1,566,129	1,434,755	1,377,576	1,342,453	1,295,926
Total payments	2,119,307	2,078,302	2,099,453	2,081,453	2,057,829	1,882,215	1,729,634	1,655,202	1,602,126	1,540,260
Total unpaid claims and claims adjustment expenses at fiscal year end	$ 23,627,560	$ 22,596,350	$ 22,943,311	$ 24,025,832	$ 22,164,068	$ 21,887,148	$ 19,746,492	$ 17,755,100	$ 17,278,895	$ 16,591,098

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

Source: Washington Department of Labor & Industries Actuarial Services

Schedule 7 – Washington State Population and Components of Change
Last Ten Calendar Years
(in thousands)

	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Population	6,882.4	6,817.8	6,767.9	6,724.5	6,672.2	6,608.3	6,525.1	6,420.3	6,298.8	6,208.5
Net Increase	64.6	49.9	43.4	52.4	63.9	83.2	104.8	121.4	90.3	81.6
Percent change	0.9%	0.7%	0.6%	0.8%	1.0%	1.3%	1.6%	1.9%	1.5%	1.3%
Components of change:										
Births	88.4	87.5	86.4	88.4	89.8	89.6	87.8	83.2	81.8	81.0
Deaths	50.5	49.7	48.8	47.7	48.1	47.9	46.2	45.3	45.6	46.0
Net migration	26.8	12.1	5.8	11.6	22.2	41.5	63.2	83.6	54.1	46.7

Note: Washington State population estimates are as of April 1 of each year. Population estimates for 2009 through 2004 have been revised to reflect intercensal estimates. Intercensal estimates are estimates of population between official census dates. Intercensal estimates are more accurate than postcensal estimates because they are bracketed on both sides by decennial or state-certified special census counts. Estimates for 2010 have been replaced with the 2010 U.S. Census Bureau count. Estimates for 2011 through 2013 are postcensal estimates developed by the Washington State Office of Financial Management. Some figures may not total due to rounding.

Source:
Washington State Office of Financial Management, Forecasting Division

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

	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Personal income	$ 313	$ 300	$ 283	$ 277	$ 289	$ 273	$ 252	$ 230	$ 222	$ 207
Percent change	4%	6%	2%	-4%	6%	8%	10%	4%	7%	4%
Per capita	$ 45,413	$ 43,878	$ 42,024	$ 41,504	$ 44,106	$ 42,192	$ 39,570	$ 36,766	$ 35,998	$ 33,909

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

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

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

	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Washington State Unemployment Rates										
Civilian labor force	3,482	3,482	3,515	3,535	3,479	3,393	3,319	3,259	3,200	3,146
Less Employed	3,198	3,162	3,167	3,206	3,286	3,237	3,155	3,080	3,000	2,913
Total unemployed	284	320	348	329	193	156	164	179	200	233
Unemployment percentage rate	8.2%	9.2%	9.9%	9.3%	5.5%	4.6%	5.0%	5.5%	6.3%	7.4%

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

Source: Washington State Economic and Revenue Forecast, September 2013

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

Industry [1]	2012 Annual Averages Number of Employees [2]	2012 Percent of Total	2012 Number of Employers	2003 Annual Averages Number of Employees [2]	2003 Percent of Total	2003 Number of Employers
Government	516,204	17.7%	2,088	495,281	18.9%	2,023
Health care and social assistance	330,491	11.3%	14,496	264,997	10.1%	12,997
Retail trade	314,440	10.9%	14,046	299,362	11.5%	15,364
Manufacturing	277,378	9.6%	6,735	262,211	10.1%	7,437
Accommodation and food services	228,446	7.9%	12,859	202,564	7.8%	11,521
Professional, scientific, and technical services	166,613	5.8%	18,681	129,250	5.0%	15,509
Administrative and support services [3]	139,014	4.8%	9,542	119,922	4.6%	8,476
Other services	132,105	4.6%	70,393	73,724	2.8%	10,559
Construction	129,802	4.5%	19,344	143,768	5.5%	22,991
Wholesale trade	121,721	4.2%	13,017	111,686	4.3%	12,582
Information	104,481	3.6%	2,557	91,108	3.5%	2,379
Agriculture, forestry, fishing, and hunting	95,589	3.3%	7,030	78,969	3.0%	8,853
Finance and insurance	87,631	3.0%	5,395	101,492	3.9%	5,435
Transportation and warehousing	82,657	2.9%	3,994	77,533	3.0%	3,999
Arts, entertainment, and recreation	45,357	1.6%	2,412	41,735	1.6%	2,314
Real estate, rental and leasing	43,561	1.5%	6,014	47,000	1.8%	6,366
Mgmt. of companies and enterprises	36,242	1.3%	639	32,200	1.2%	619
Education services	35,879	1.2%	2,600	27,556	1.1%	1,864
Utilities	4,863	0.2%	228	4,355	0.2%	233
Mining	1,938	0.1%	133	2,914	0.1%	166
Total average employment [4]	2,894,412	100%	212,203	2,607,627	100%	151,687

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

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

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

[4] Total employment is based on annual averages and may not include private firms or disclosure of individual employers.
Note: Because of rounding, some columns may not add up to 100%.

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

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

Industry [1]	Annual Average Wages [2]									
	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Information	$ 131,875	$ 119,968	$ 109,777	$ 105,715	$ 104,053	$ 96,240	$ 91,081	$ 82,647	$ 78,918	$ 104,042
Management of companies and enterprises	105,625	102,009	95,731	87,642	87,431	86,867	85,031	75,236	75,776	69,743
Utilities	84,042	82,058	77,591	84,410	76,945	73,736	70,404	65,615	63,915	59,570
Professional, scientific, and technical services	79,986	77,178	75,376	71,837	70,120	70,104	63,687	61,181	58,486	56,933
Finance and insurance	77,406	73,154	70,137	71,304	72,653	70,044	66,684	62,382	62,091	57,954
Manufacturing	69,304	68,065	64,925	62,931	61,260	59,568	58,196	54,953	51,788	50,546
Wholesale trade	68,494	65,831	63,348	61,569	61,041	59,345	56,572	53,458	52,027	49,070
Mining	58,817	58,871	55,654	52,981	54,718	58,056	54,924	52,592	51,454	49,517
Construction	53,038	52,304	51,127	51,043	49,443	46,783	43,746	41,482	40,171	39,468
Government	52,869	52,174	51,394	50,420	48,705	46,914	44,745	42,915	41,756	40,546
Transportation and warehousing	50,899	49,628	47,743	46,522	45,433	45,320	44,078	42,798	41,780	40,219
Health care and social assistance	47,077	45,852	44,673	43,561	41,424	39,474	37,654	36,162	34,919	33,444
Administrative and support services [3]	43,384	42,942	41,466	39,571	37,536	36,463	34,533	33,649	33,466	33,314
Real estate, rental and leasing	42,080	39,816	38,359	36,777	36,669	36,334	34,948	32,744	30,582	29,552
Education services	36,222	35,576	35,158	34,505	33,550	32,076	30,901	29,860	28,453	27,738
Retail trade	32,384	30,917	30,021	29,356	29,268	29,082	28,174	27,330	26,602	26,047
Agriculture, forestry, fishing, and hunting	26,273	25,097	24,034	23,675	24,491	23,413	22,239	21,122	20,495	20,152
Other services	25,651	24,549	24,227	24,881	25,637	24,385	23,009	22,010	26,467	25,692
Arts, entertainment, and recreation	25,293	25,023	25,121	25,527	26,949	27,643	27,139	25,724	24,331	22,622
Accommodation and food services	18,696	18,062	17,632	17,063	16,430	16,019	15,469	15,014	14,765	14,309

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

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

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

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

Schedule 12 – Demographics of Accepted Claims
Last Ten Fiscal Years

	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Male Injured Workers	67%	67%	66%	66%	68%	70%	70%	70%	71%	70%
Female Injured Workers	33%	33%	34%	34%	32%	30%	30%	30%	29%	30%
Average Age of Injured Workers	38	38	38	38	38	37	37	37	37	37
Workers Younger than 30	27%	27%	28%	29%	32%	34%	35%	34%	34%	33%
Workers 30 to 50	46%	46%	47%	48%	48%	47%	48%	50%	51%	52%
Workers Older than 50	24%	24%	23%	22%	21%	19%	17%	17%	16%	16%
Percent of Workers Age Unknown	2%	2%	2%	1%	0%	0%	0%	0%	0%	0%

Notes:

Because of rounding, some columns may not add up to 100%.

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

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

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

	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Regional Office 1	61	59	56	57	59	58	57	58	98	89
Regional Office 2	100	102	102	102	96	92	90	94	174	157
Regional Office 3	55	54	56	59	60	59	55	58	95	92
Regional Office 4	71	74	70	72	65	64	69	71	113	105
Regional Office 5	71	71	71	71	70	70	70	74	113	107
Regional Office 6	39	40	41	42	43	44	44	42	73	72
Administrative Services	122	121	169	172	171	176	174	171	187	218
DOSH	344	341	330	335	339	332	322	333	115	115
Director's Office	141	87	92	93	88	89	82	80	66	65
Insurance Services	955	990	945	944	954	977	980	994	994	989
Office of Human Resources	44	46	45	45	47	50	47	51	47	44
Fraud Prevention & Compliance	86	85	83	84	74	79	74	75	52	-
Information Services	175	173	171	178	189	194	194	175	190	172
Specialty Compliance Services	37	38	37	40	36	29	27	25	17	17
New legislation	93	58	NA	NA	NA	NA	NA	NA	NA	NA
Total	2,394	2,339	2,268	2,294	2,291	2,313	2,285	2,301	2,334	2,242

Note:
The above number of employees is based on Full-Time Equivalents. A Full-Time Equivalent (FTE) is one full calendar year of paid employment, or the equivalent of 2,088 hours (the number of available work hours in a year). It is not the number of employees on the payroll, nor is it the number of positions in the Department of Labor & Industries. It is a computed average number of employees based upon cumulative FTE staff months during one fiscal year or cumulative hours paid during one fiscal year.

Source: Washington State Agency Financial Reporting System

Department of Labor and Industries
Schedule 14 – Capital Asset Indicators – Business Locations
Last Ten Calendar Years

	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Tumwater headquarters	1	1	1	1	1	1	1	1	1	1
Number of other offices	2	2	1	1	1	1	1	0	0	0
Number of field offices*	18	18	19	19	19	19	19	19	21	21
Number of warehouses	1	1	1	1	1	1	1	1	1	1
Number of labs	1	1	1	1	1	1	1	1	1	1

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

Source: Washington State Department of Labor & Industries Facilities Services

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

	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Claim Statistics:										
Number of Claims Filed [1]	103,328	101,524	100,690	102,734	116,616	136,791	140,308	140,887	139,359	137,835
Number of Claims Accepted [1, 2]	84,064	84,863	81,274	86,184	102,440	119,788	121,769	124,391	121,217	121,201
Number of Claims Denied [1, 2]	14,077	13,857	12,762	12,703	14,964	15,748	15,171	15,210	15,977	16,050
Fatal Pensions Awarded	44	35	59	45	42	63	54	66	63	73
Total Permanent Disability Pensions Granted	1,614	925	1,036	937	1,612	1,109	1,557	840	952	967
Permanent Partial Disability Awards Granted	10,760	11,524	11,782	11,452	12,684	12,316	12,621	12,535	13,309	14,612
New Time-loss (Wage Replacement) Claims [3]	19,740	20,205	21,377	22,604	26,295	28,593	29,416	29,615	28,521	29,500
Medical-only Claims Accepted	67,171	67,539	63,308	66,885	80,171	95,052	96,505	97,964	96,289	94,003
Retraining Plans Completed	1,740	1,665	1,667	1,229	1,142	1,694	1,763	1,093	1,058	1,042
Total Days Paid for Lost Work	7,521,311	7,850,982	8,099,675	8,121,263	7,926,800	7,488,000	7,540,000	7,480,000	7,240,000	7,190,000
Five Most Frequent Injuries: [4]										
Back, spine, and spinal cord: Traumatic injuries to muscles, tendons, ligaments, and joints (includes sprains and strains)	10,247	10,829	10,227	12,026	13,486	16,192	15,236	N/A	N/A	N/A
Finger(s): Open wounds of finger(s), fingernails (includes cuts and lacerations, and amputation of fingertip or finger)	8,665	8,761	7,974	8,641	10,837	12,871	13,186	N/A	N/A	N/A
Face: Surface wounds and bruises (includes splinter or other foreign body in eye, and bruises or contusions of the forehead)	3,723	3,775	3,320	3,753	5,020	6,153	6,261	N/A	N/A	N/A
Leg(s): Traumatic injuries to muscles, tendons, ligaments, joints, etc., such as knee and thigh (excludes ankle and hip).	3,614	3,484	3,362	3,774	4,356	4,460	4,042	N/A	N/A	N/A
Multiple traumatic injuries and disorders of multiple body parts (includes bruises, sprains, or fractures affecting more than one body part)	-	-	3,314	-	-	-	4,456	N/A	N/A	N/A
Shoulder: Traumatic injuries to muscles, tendons, ligaments, joints, etc. including clavicle, scapula (injuries to muscles, tendons, and ligaments that are not specifically otherwise classified)	3,441	3,457	-	3,501	4,053	4,235	-	N/A	N/A	N/A

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

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

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

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

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

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

Schedule 16 – Risk Classes with Greatest Number of Ultimate Claims
Last Nine Fiscal Years

Risk Class	Risk Class Description	2013	2012	2011	2010	2009	2008	2007	2006	2005
3905	Restaurants and Taverns	7,021	6,746	6,467	6,707	7,143	8,476	8,810	8,936	8,975
4803	Orchards	2,903	2,669	2,160	2,056	2,226	1,952	2,229	2,053	2,202
6509	Boarding Homes and Retirement Centers	2,471	2,498	2,407	2,441	2,399	2,369	2,320	2,437	2,493
6108	Nursing Homes	2,151	2,092	2,194	2,275	2,415	2,665	2,696	2,721	2,780
6109	Physicians & Medical Clinics	2,081	2,179	2,267	2,222	2,250	2,393	2,355	2,357	2,332
4906	Colleges & Universities	1,654	1,816	1,775	1,844	1,874	1,903	1,934	1,920	2,040
3411	Automobile Dealers, Rentals and Service Shops	1,555	1,497	1,593	1,600	1,788	2,196	2,320	2,467	2,549
2104	Fruit & Vegetable Packing - Fresh	1,515	1,310	1,251	1,314	1,414	1,365	1,470	1,449	1,453
0510	Wood Frame Building Construction	1,354	1,137	1,201	1,317	2,003	3,144	4,018	4,451	4,016
6103	Schools, Churches and Day Care - Prof./Clerical Staff	1,333	1,396	1,436	1,345	1,491	1,480	1,419	1,475	1,377
3402	Machine Shops and Machinery Mfg., Not Otherwise Classified (N.O.C.)	1,254	1,330	1,225	1,133	1,563	2,066	1,925	2,033	2,240
4910	Property and Building Management Services	1,249	1,292	1,245	1,288	1,335	1,407	1,460	1,488	1,536
4905	Motels and Hotels	1,125	998	1,023	964	995	1,135	1,141	1,116	1,121
6309	Hardware, Auto Parts and Sporting Good Stores	1,085	1,084	1,034	1,083	1,228	1,498	1,517	1,564	1,546
1102	Trucking, N.O.C.	1,034	1,102	1,151	1,165	1,261	1,470	1,672	1,650	1,621
1101	Parcel and Package Delivery Service	959	965	956	893	1,021	1,329	1,404	1,394	1,370
0516	Carpentry, N.O.C.	959	874	758	897	1,187	1,637	1,656	1,501	1,340
4904	Clerical Office, N.O.C.	950	1,115	1,159	1,206	1,436	1,555	1,693	1,732	1,805
6602	Janitorial Service	933	991	938	848	962	1,000	1,085	1,120	1,055
6511	Chore Services	931	913	961	930	902	906	986	1,056	836
6107	Veterinary Services	927	838	759	701	754	804	776	737	670
6406	Retail Stores, N.O.C.	920	1,014	1,011	1,203	1,364	1,496	1,581	1,650	1,591
0601	Electrical Wiring: Buildings and Structures	918	868	937	984	1,528	1,808	1,811	1,735	1,715
5307	State Government - All Other Employees, N.O.C.	897	1,051	1,226	1,195	1,257	1,273	1,266	1,357	1,395
6402	Supermarkets	875	796	824	882	962	1,040	1,056	1,106	1,228
0307	HVAC Systems, Installation, Service and Repair	815	732	797	797	1,116	1,361	1,533	1,578	1,558
3404	Metal Goods Manufacturing, N.O.C. - Under 9 Gauge	785	784	679	688	924	1,248	1,297	1,356	1,564
0101	Excavation and Grading, N.O.C.	755	740	788	850	1,045	1,402	1,547	1,430	1,226
6303	Sales Personnel - Outside, N.O.C.	738	749	809	910	876	1,004	1,048	1,025	1,076
0306	Plumbing	734	765	758	789	1,201	1,458	1,487	1,466	1,389
2903	Wood Products Manufacturing, N.O.C.	733	733	679	713	820	1,389	1,620	1,692	1,578
0518	Non Wood Frame Building Construction	684	601	640	759	1,440	1,921	1,683	1,323	1,161

Notes:
These claim counts are estimated by fiscal-accident year from counts reported through June 30 of each fiscal year. Estimates are updated on this exhibit for periods up to 5 years. The claims are "allowed" State Fund Claims which have been accepted for benefits. Data is not readily available prior to 2005.

The Risk Class is that assigned to the claim.

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

Source: Washington State Department of Labor & Industries Actuarial Services

Washington State Department of
Labor & Industries

Keep Washington Safe and Working

Workers' Compensation Program Comprehensive Annual Financial Report

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