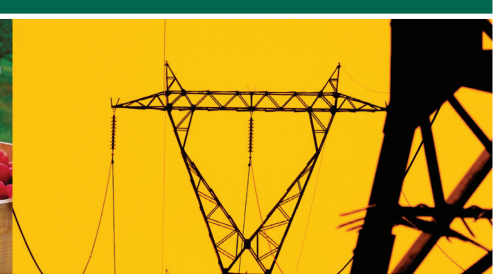
Workers' Compensation Program

An Enterprise Fund of the State of Washington

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2015

Olympia, Washington



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

Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2015

Olympia, Washington

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Keep Washington Safe and Working

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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 23, 2015

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, 2015.

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, 2015. 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.

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 enables us to respond to specific needs in different localities.

The workers' compensation system has existed in Washington State for 104 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 assuming significant responsibility for their own claims administration. The workers of self-insured employers are entitled to the same rights and benefits as those workers insured by the State Fund managed by L&I. There are approximately 355 employers who are self-insured, covering approximately one-quarter of all workers in Washington.

During the 2011 legislative session, the Legislature passed another historic workers' compensation reform designed to improve outcomes for injured workers, reduce disability and cut costs for the state's Workers' Compensation Program. Included in this reform were the creation of the Stay at Work and Structured Settlement Programs and the Medical Provider Network, and the expansion of the Centers of Occupational Health and Education (COHEs).

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

The State Fund Workers' Compensation Program covers approximately 174,000 employers and 2.69 million workers statewide. Total premiums assessed in the State Fund during fiscal year 2015, including both the employer and worker portions, were $2.33 billion. Over 82,000 claims were accepted in fiscal year 2015; about 80 percent of the accepted claims were for medical treatment only and received no compensation for time off work or disability-related benefits. Approximately 38,500 claims are active in any given month, of which about 17,700 are receiving time-loss benefits, many of which involve long-term disability and complex medical issues. In fiscal year 2015, retraining plans were completed by 474 injured workers who were not able to return to any type of work after injury.

BUDGET CYCLE

The Workers' Compensation Program operates as an enterprise fund made up of seven accounts that are financed and operated in a manner similar to private business entities. The budget operates on a two-year cycle beginning on July 1 of each odd-numbered year. The biennial budget for administering the program is appropriated and allotted through Washington State's legislative process. The final 2013-2015 appropriated budget for administering the Workers' Compensation Program was $614,964,326, which included $552,366,000 that was appropriated to L&I. This budget includes $16,812,000 of federal funds dedicated to the Safety & Health Assessment & Research for Prevention (SHARP) Program and the Division of Occupational Safety and Health (DOSH). The allotted administering budget for fiscal year 2015 for the Worker's Compensation Program was $305,116,558, and the portion of the total fiscal year 2015 budget that was allotted for L&I was $273,940,000.

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

LOCAL ECONOMY AND IMPACT ON LABOR & INDUSTRIES

Washington is comprised of ten major metropolitan areas and vast regions of wilderness and farmland. Of the ten metropolitan areas, six are west of the Cascade Mountains. The Seattle/Tacoma /Bellevue metropolitan area alone accounts for 60 percent of the state's non-farm employment and an even higher share of the state's real Gross Domestic Product (GDP).

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

CURRENT ECONOMIC ACTIVITY AND OUTLOOK

The recession, which ended in the summer of 2009, was followed by a slow and uneven recovery. However, in the last few years, the U.S. has had solid economic growth and has outperformed most, if not all, of its counterparts in the developed world. Despite a contracted GDP in the first three months of calendar year 2015, the outlook for the near future remains optimistic. Positive signs include robust job growth, low unemployment rates, active home sales and construction, and upbeat consumer confidence.

The downside risks to the U.S. economic growth include:

- A strong dollar that could suppress exports and low oil prices that could discourage investment in oil-related sectors.
- Concerns over when and how the Federal Reserve will increase interest rates and the impact on the equity market, housing market, business investments, consumer expenditures, and many other areas.
- A recent Greek debt crisis and its impact on the European economic recovery and financial stability.
- Slower growth in the world's second largest economy (China) and an unexpected recession of the world's third largest economy (Japan)[1].

In fiscal year 2015, U.S. employers added over 200,000 new jobs in 10 out of 12 months, and for the whole year, the economy added 2,935,000 new jobs, the best performance since 2000. The unemployment rate dropped to 5.3 percent in June 2015, the lowest rate since April 2008. In Washington, the state added a total of 109,600 new jobs in the first 11 months, an average of 9,964 jobs each month, outperforming the monthly average of 6,275 new jobs created in fiscal year 2014. The unemployment rate fell to 5.4 percent in May 2015, down from 6.1 percent in June 2014. The Seattle/Bellevue/Everett metropolitan area registered a 4.1 percent jobless rate in May 2015, the lowest since May 2008.

Washington's credit rating remains in good standing in fiscal year 2015 as a result of the state's healthy economy and strong financial management. The most current ratings by Moody's, Standard and Poor's (S&P), and Fitch all indicate the high quality of the state's General Obligation Bonds (Aa1/AA+/AA+) with a *stable* outlook.

Housing/construction[2]

In fiscal year 2015, overall home prices slowed after a rapid post-recession growth. However, home sales remained robust, thanks to low interest rates and decent job growth. Sales of new single-family houses in May 2015 were at a seasonally adjusted annual rate of 546,000, which was 19.5 percent above the May 2014 estimate of 457,000 and 35.5 percent above the pace of 403,000 recorded in July 2014. Existing home sales increased in May to a seasonally adjusted annual rate of 5.35 million, their highest pace in nearly 6 years. As of May 2015, the seasonally adjusted annual rate sales have exceeded 5 million in 8 out of the last 11 months. The National Association of Home Builders' (NAHB) housing market index, a gauge of home sales and expectations for future home building, stood above 50 in each month of fiscal year 2015, indicating builders' continued confidence in the housing market. In Washington State, the total housing units authorized by building permits have averaged 3,131 per month in the first 11 months of fiscal year 2015, a significantly faster pace than the monthly average of 2,623 in fiscal year 2014. Regional home prices continued to rise, but at a slower pace. In April 2015, the

[1] China's economy grew at a 6-year low pace of 7 percent in the period between January and March 2015. Japan fell into a recession after its economy contracted for two consecutive quarters between April and September 2014, but has slowly recovered since then.

[2] At the time this report was prepared, most housing data for June 2015 was not available. Therefore, the most recent monthly data was May 2015.

S&P/Case-Shiller Seattle home price index rose 7.5 percent from a year earlier, a solid increase, but below the recent 13.2 percent year-over-year gain registered in September 2013.

Large Employers

On July 17, 2014, Microsoft announced the biggest layoff in its 39-year history, cutting 18,000 jobs, which is about 14 percent of its workforce, over the next 12 months. At least 1,351 job losses were expected to occur in the Puget Sound region. Despite the challenges of a strong U.S. currency and sluggish PC market, the company managed a 6 percent increase in revenue in the 3rd quarter of fiscal year 2015 (ended March 31, 2015) over the same quarter last year. After posting a 3 percent increase in the previous quarter, Boeing reported that its revenue in the first quarter of calendar year 2015 increased 8 percent to $22.1 billion, reflecting higher demand by commercial airlines. At the June 2015 Paris Air Show, Boeing announced it won orders and commitments worth $50.2 billion for 331 aircraft, compared with $57 billion for 421 aircraft announced by Airbus. About $18.6 billion of Boeing's orders were firm orders, slightly higher than Airbus's firm orders of $16.3 billion.

Small Businesses

In the U.S., small business job creation has been solid during fiscal year 2015. The Advanced Data Processing, Inc., employment record showed an average of 110,000 new jobs per month for small businesses (1-49 employees) in fiscal year 2015, better than the average of 83,000 jobs each month in fiscal year 2014. The Paychex Information Handling Services' (IHS) Small Business Jobs Index also stayed above 100 in the past 12 months, indicating sustained job growth. According to the Paychex/IHS's June 2015 report, Washington regained the top spot among the 20 largest states, and Seattle moved up to fourth place among the 20 largest metro areas in index value which reflects small business employment growth over time.

Financial markets

Over the last 12 months, the U.S. stock market achieved smaller gains than in the prior year, with the S&P 500 up 7.5 percent and the Dow up 7 percent, compared with 22 percent and 12.9 percent, respectively, in the prior year. The NASDAQ had a better year with a 15 percent gain. Mortgage rates eased in recent months, as the 30-year average rate fell to as low as 3.67 percent and 3.71 percent in January and February 2015, down from 4.16 percent at the close of fiscal year 2014.

Workers' Compensation Impacts

The positive economic news, especially related to the labor market, will likely mean increased workers' compensation premiums in the coming year as businesses increase hiring and worker hours. On the other hand, workers' compensation exposure will also increase as a result of the employment growth and longer work hours.

The overall wage growth will also translate into increased time-loss and pension costs for most workers injured before July 1, 2014. These benefits are required to be recalculated each year to reflect the change in the state's average wage. In Washington, the average annual wage increased nearly 4.2 percent to $54,829 in 2014. This was the largest percentage increase since 2007. In light of this, L&I increased time-loss and pension benefit payments by 4.168 percent for eligible workers, effective July 1, 2015.

Legislation, which mandates a phased-in increase in minimum wage to $15 per hour in the city of Seattle, took effect on April 1, 2015. The new minimum wage law is expected to have the largest effect on the restaurant and retail industries, although the jury is still out as to the extent to which this may affect premiums and exposure in these industries. The implementation of the Affordable Care Act will also likely impact workers' compensation benefits and medical costs, although the exact effect is unknown.

Medical inflation (Consumer Price Index for medical care) remained moderate with an annual average growth rate of 2.4 percent (12-month percent change as of May 2015), slightly above last year's average of 2.3 percent. But over longer time horizons, the medical inflation rate in the last two years had declined significantly from a 10-year peak of 4.6 percent in 2008 and an average of 3.3 percent during the 5-year period 2009-2013. This downward trend will likely help hold down medical costs on workers' compensation claims.

It is widely anticipated that the Federal Reserve will raise interest rates in December 2015. Should this occur, it would be the first rate hike in almost a decade and would have a mixed impact on workers' compensation carriers' investment returns. As a result, the premium rates that insurance carriers charge might need to be readjusted to ensure sufficient financial assets to cover benefit costs.

LONG-TERM FINANCIAL PLANNING

In 2012, L&I adopted a 10-year plan to increase the contingency reserve from 13 to 15 percent of liabilities, while reducing the rate used to discount pension liabilities from 6.5 to 4.5 percent by 2023. The "contingency reserve" refers to any surplus remaining (similar to net position) on the statutory financial statements prepared in accordance with the National Association of Insurance Commissioners statutory accounting principles for the Industrial Insurance Fund. L&I took the first step to reduce the pension discount rate in April of 2015, moving from 6.5 to 6.4 percent. A rate increase of 0.8 percent for workers' compensation premiums was implemented in January 2015 to offset the increase in liabilities from the discount rate adjustment, to protect against wage inflation, and to help build the contingency reserve.

L&I's goal for fiscal year 2016 is to increase the contingency reserve balance from $1,225 million in the Industrial Insurance Fund to $1,293 million by increasing premium rates and reducing costs by $35 to $70 million. By the end of calendar year 2016, L&I plans to reduce the discount rate from 6.4 percent to between 6.25 and 6.4 percent.

RELEVANT FINANCIAL POLICIES

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

MAJOR INITIATIVES

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

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

L&I's efforts to make workplaces safe involve reducing the rate of injury and fostering a culture of safety in the workplace. Data shows that the agency is making a difference. A 10-year L&I study that started in 1999 shows that an agency safety inspection or consultation results in reductions in compensable workers' compensation claims ranging from 6.4 to 12.9 percent, depending on the type of business. Subsequent surveys conducted from 2012 to 2013 shows that those earlier numbers continue to hold up.

L&I is helping injured workers heal and return to work by creating a culture where employers, workers, medical providers, vocational experts, and L&I staff are all focused on maintaining the workers' connection to the workforce, along with their motivation to return to work. Using data to identify the most at-risk injured workers allows L&I's Early Return to Work staff in the field to quickly reach out to the worker and their employer to develop light-duty work options. We are working closely with private sector vocational professionals to identify services most likely to result in a return to work when opportunities with the worker's employer of injury appear to be exhausted. In addition, the agency has partnered with the Employment Security Department to work together to provide services to injured workers motivated to return to work, and to make sure the hand-off from workers' compensation to unemployment insurance is quick and simple.

In an effort to make it easier to do business with L&I, informational materials have become clearer, processes have been improved based on customer expectations, and new computer applications now allow employers to pay workers' compensation quarterly premiums and businesses to purchase licenses online. In addition, L&I has worked hard to ensure that Washington's businesses aren't faced with the challenge of wildly fluctuating workers' compensation rates. The agency has been able to do that, in part, thanks to efficiencies within the organization. L&I pledged to help rebuild reserves by saving up to $70 million through administrative efficiencies, and the agency exceeded that goal in fiscal year 2015 by actually saving $515 million – and this work continues.

L&I is cracking down on unscrupulous business practices by improving methods for identifying illegal activities. L&I created an Underground Economy Advisory Committee to develop strategies for improving the effectiveness of combatting the underground economy. The agency is also stepping up its efforts to publicize the state's prosecution of fraudulent workers, providers and employers. During plea bargain negotiations, some of the plaintiffs have actually indicated they would rather pay a higher fine than have a press release sent out about their business. The agency refuses to negotiate away the public's right to know about criminal proceedings, but the offer demonstrates that such publicity can be a powerful prevention tool.

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

L&I has recently launched a multi-year enterprise initiative - *Business Transformation*. The objective of the initiative is to engage staff to transform our business processes, culture, and technology so that we can successfully achieve our mission and continue to meet customer expectations in the future. We are currently in the first phase of the initiative which will establish the 10-year vision and develop a roadmap to help us achieve this vision.

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, 2014. A copy of the Certificate of Achievement is included in the introductory section of the CAFR. This was the fifth 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 (OFM), and the WSIB.

Sincerely,

Joel Sacks
Director

Randi Warick
Deputy Director for
Financial Management

Vickie Kennedy
Assistant Director for
Insurance Services

Washington State Department of
Labor & Industries

Keep Washington Safe and Working

Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Washington State

Department of Labor & Industries

For its Comprehensive Annual Financial Report for the Fiscal Year Ended

June 30, 2014

Executive Director/CEO

Washington State Department of
Labor & Industries

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Washington State Department of
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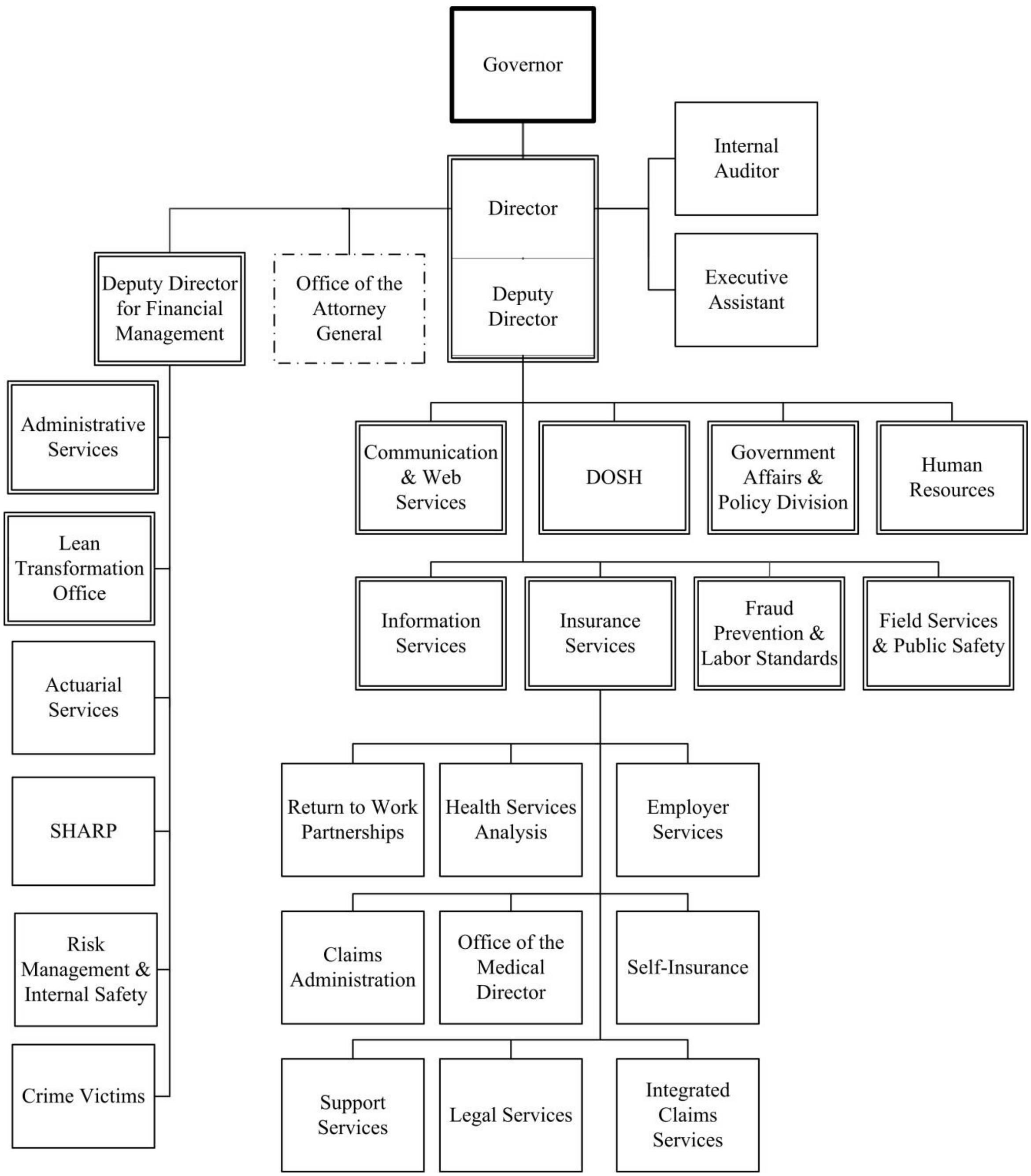
Organization Chart
June 30, 2015



Washington State Department of
Labor & Industries

Keep Washington Safe and Working

Financial Section

Washington State Department of
Labor & Industries

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Washington State Auditor's Office

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

October 23, 2015

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

REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of the Workers Compensation Program, an enterprise fund of the state of Washington, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Program's basic financial statements as listed on the table of contents

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Labor and Industries' Funds of the state of Washington as managed by the Washington State Investment Board, which include the Program's investments and related investment income as discussed in Note 3. These investments represent 94 percent, 100 percent and 8 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 solely 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.

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

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

Opinion

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the Workers Compensation Program, an enterprise fund of the state of Washington, as of June 30, 2015, 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 of the Workers Compensation Program, an enterprise fund of the state of Washington, are intended to present the financial position, and the changes in financial position, and where applicable, cash flows of only the respective portion of the activities of the state of Washington that is attributable to the transactions of the Program. They do not purport to, and do not, present fairly the financial position of the state of Washington as of June 30, 2015, the changes in its financial position, or where applicable, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, Reconciliation of Claims Liabilities by Plan, pension trust fund information 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 have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Program's basic financial statements. The accompanying information listed as combining financial statements and supplementary information 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. In our opinion, based on our audit, the procedures performed as described above, and the report of 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, Schedules of Undiscounted Claims Development Information, and Statistical Sections, is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Program. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2015 on our consideration of the Program's 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 Program's internal control over financial reporting and compliance.

Jan M Jutte

JAN M. JUTTE, CPA, CGFM

ACTING STATE AUDITOR

OLYMPIA, WA

Washington State Department of
Labor & Industries

Keep Washington Safe and Working

Management's Discussion and Analysis

Our management's discussion and analysis of the state of Washington Workers' Compensation Program's Comprehensive Annual Financial Report provides an overview of the Workers' Compensation Program's financial activities for the fiscal year ended June 30, 2015. The information included here should be considered along with the transmittal letter, which can be found on pages 3-11 of this report, and the accompanying basic financial statements and notes to the basic financial statements, which follow this narrative.

Financial Highlights

- Total assets and deferred outflows of resources increased $215 million from the prior fiscal year, mainly due to increases in investments of $131 million and an increase in securities lending collateral of $64 million.

- Total liabilities and deferred inflows of resources increased $751 million from the prior year, mostly due to increases in claims payable of $629 million and the initial recognition of the net state employee pension liability of $102 million in accordance with Governmental Accounting Standards Board Statement 68 *Accounting and Financial Reporting for Pensions*.

- Total revenues earned decreased $765 million from the prior year, mainly due to decreases in realized and unrealized gains on debt and equity securities, partially offset by an increase in net premiums and assessments.

- Total expenses incurred decreased $123 million from the prior year, primarily due to a $144 million decrease in claims expense, partially offset by an increase in operating expenses.

- Total net deficit increased $536 million from the prior year, mainly due to the recognition of the net state employee pension liability and an increase in the deficit of the Supplemental Pension Fund resulting from an increase in claims payable.

Overview of the Basic Financial Statements

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

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

The Rainy Day Fund was created by the Legislature during the 2011 session to hold transfers from the Accident and Medical Aid Accounts when assets for those accounts combined are between 10 and 30 percent in excess of their funded liabilities. There has been no activity since it was created in 2011.

For the fiscal year ended on June 30, 2015, 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 88-91 of this financial report.

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

> The <u>Statement of Net Position</u> presents information on the program's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. It reflects the program's financial position as of June 30, 2015. It can be found on page 35 of this report.
>
> The <u>Statement of Revenues, Expenses, and Changes in Net Position</u> shows how the program's net position changed during the fiscal year. It presents both operating and nonoperating revenues and expenses for the fiscal year. It can be found on page 36 of this report.
>
> The <u>Statement of Cash Flows</u> 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 37 of this report.
>
> The <u>Notes to the Basic Financial Statements</u> are an integral part of the basic financial statements and provide additional information that is essential to a full understanding of the information provided in the Workers' Compensation Program's financial statements. They can be found on pages 39-80 of this report.

Financial Analysis of the Workers' Compensation Program

Statement of Net Position
(dollars in millions)

	June 30, 2015	June 30, 2014	$ Change	% Change
Assets and Deferred Outflows of Resources				
Current assets	$ 936	$ 872	$ 64	7.3%
DOE assets, noncurrent	5	5	-	0.0%
Investments, noncurrent	14,634	14,503	131	0.9%
Capital assets, net	72	67	5	7.5%
Deferred outflows from pensions	15	-	15	100.0%
Total Assets and Deferred Outflows of Resources	15,662	15,447	215	1.4%
Liabilities and Deferred Inflows of Resources				
Current liabilities	2,272	2,249	23	1.0%
Noncurrent liabilities	23,266	22,582	684	3.0%
Deferred inflows from pensions	44	-	44	100.0%
Total Liabilities and Deferred Inflows of Resources	25,582	24,831	751	3.0%
Net Position (Deficit)				
Net investment in capital assets	67	59	8	13.6%
Unrestricted	(9,987)	(9,443)	(544)	(5.8%)
Total Net Position (Deficit)*	$ (9,920)	$ (9,384)	$ (536)	(5.7%)

***The June 30, 2014 net position in the MD&A has not been restated.**

Current assets - Current assets increased by $64 million during fiscal year 2015, largely due to an increase in securities lending collateral. Securities lending collateral increased because demand for borrowing securities increased from the previous year.

DOE assets - DOE assets consist of cash received and amounts due from the U.S. Department of Energy to pay pension benefits to Hanford nuclear production complex workers injured on the job. The asset amount stayed about the same from fiscal year 2014 to fiscal year 2015. Additional information can be found in Note 1 of this report.

Noncurrent investments - Noncurrent investments increased during fiscal year 2015 by $131 million. The most significant changes in the investment balances are from an increase of $294 million in debt securities, which was partially offset by a decrease of $171 million in short-term investments.

- Additional debt securities were purchased with the proceeds from rebalancing the short-term and equity portfolios. Also, cash collected from operations and net investment income received was reinvested within the fixed income portfolio. This increase was partially offset by decreases in the market value of debt securities resulting from global low interest rates due to central bank policies, slow economic growth, and low inflation. Fixed income performance was positive for the year, as interest earned from coupon payments was greater than the decline in market value of the bond holdings.

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

Current liabilities - Current liabilities, other than claims payable, decreased during fiscal year 2015 by $28 million, mainly due to the decrease in the payable for securities of $137 million, offset by an increase in obligations under securities lending collateral of $64 million. The payable for securities had a balance of $147 million of June 30, 2014, and only a $10 million balance as of June 30, 2015. The payable for securities represents the amount owed for the purchase of investment securities as of the end of the fiscal year that will not be paid until July. Securities lending collateral increased, because demand for borrowing securities increased from the previous year.

Claims payable - Claims payable liabilities include benefit and claim administration expense liabilities. Claims payable, included in current and noncurrent liabilities, was $25,066 million at the end of fiscal year 2015, an increase of $629 million, or 2.6 percent, when compared to the previous fiscal year. This increase is primarily due to a net increase in benefit liabilities. Benefit liabilities increased $594 million, as shown by the table below.

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

	June 30, 2015	June 30, 2014
Benefit liabilities, beginning of year	$ 23,898	$ 23,098
New liabilities incurred, current year	1,948	1,772
Development on prior years		
Change in reserve discount	301	490
Change in discount rate	37	-
Other development on prior liabilities	334	530
Claim payments	(2,026)	(1,992)
Change in benefit liabilities	594	800
Benefit liabilities, end of year	$ 24,492	$ 23,898

* Excludes claim administration expense liabilities

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

- L&I has a plan to reduce the pension discount rate from 6.5 percent to 4.5 percent by 2023. During fiscal year 2015, the pension discount rate was reduced from 6.5 to 6.4 percent, which increased liabilities by $37 million.

- The mortality assumptions underlying the calculation of pension liabilities were developed by the Office of the Insurance Commissioner and have been used since 1987, but these assumptions do not consider the gender of the recipient. The Department of Labor & Industries implemented updated mortality tables on April 1, 2015, that include separate tables by gender, which increased benefit liabilities by $163 million.

- When the Legislature passed the Workers' Compensation reforms in 2011, the Department of Labor & Industries (L&I) estimated the potential savings from the reforms and recognized the savings, reducing liabilities. Now that the reforms are operational and the savings are reflected in claims data, the benefit liabilities were increased $83 million to avoid double counting the 2011 reform savings. The final adjustment was made in fiscal year 2015.

In addition, the liabilities in the Supplemental Pension Account increased $127 million as a result of the decision in the *Crabb v. Department of Labor & Industries* case. As a part of the 2011 workers' compensation reforms, the Washington Legislature included a one-time cost-of-living adjustment (COLA) freeze to benefit payments for fiscal year 2014 and delayed first COLAs for all claims with injury dates after June 30, 2011, until the second July 1st after the injury. Until this change, injured workers received COLA on the first July 1st following the date of injury. The department applied these changes to all COLA recipients, including injured workers receiving compensation at the statutory maximum amount. When this was challenged, the trial court held that the COLA changes did not apply to workers receiving the maximum benefit rate, and the Court of Appeals agreed with the trial court.

The increases in benefit liabilities explained above were partially offset by decreases in benefit liabilities from new information on previously-estimated liabilities. Medical claims are closing faster, and there were significantly fewer active medical claims than expected, resulting in a $444 million decrease in liabilities.

Total net position (deficit) - The Workers' Compensation Program's deficit increased $536 million during fiscal year 2015, ending the year with a deficit balance of $9,920 million. This deficit consists of an $11,590 million deficit in the Supplemental Pension Account, offset by net position balances in the other Workers' Compensation Program Accounts. The total net position deficit increase is mainly due to the recognition of the net pension liability and an increase in the deficit of the Supplemental Pension Fund as the result of an increase in claims payable liabilities. Additional detail regarding the Supplemental Pension Account deficit can be found in Note 8 of this report.

Changes in Net Position (dollars in millions)	Fiscal Year Ended June 30, 2015	Fiscal Year Ended June 30, 2014	$ Change	% Change
Operating Revenues				
Premiums and assessments, net	$ 2,337	$ 2,200	$ 137	6.2%
Miscellaneous revenue	57	54	3	5.6%
Total Operating Revenues	2,394	2,254	140	6.2%
Nonoperating Revenues				
Earnings on investments	215	1,120	(905)	(80.8%)
Other revenues	8	8	-	0.0%
Total Revenues	2,617	3,382	(765)	(22.6%)
Operating Expenses				
Salaries and wages	150	145	5	3.4%
Employee benefits	55	58	(3)	(5.2%)
Personal services	11	5	6	120.0%
Goods and services	83	76	7	9.2%
Travel	4	4	-	0.0%
Claims	2,667	2,811	(144)	(5.1%)
Depreciation	7	7	-	0.0%
Miscellaneous expenses	41	34	7	20.6%
Total Operating Expenses	3,018	3,140	(122)	(3.9%)
Nonoperating Expenses				
Interest expense	-	1	(1)	(100.0%)
Total Expenses	3,018	3,141	(123)	(3.9%)
Income (Loss) before Transfers	(401)	241	(642)	(266.4%)
Net Transfers	-	-	-	0.0%
Change in Net Position (Deficit)	(401)	241	(642)	(266.4%)
Net Position (Deficit) - Beginning of Year, as restated	(9,519)	(9,625)	106	(1.1%)
Net Position (Deficit) - End of Year	$ (9,920)	$ (9,384)	$ (536)	(5.7%)

Premiums and assessments, net - Net premium and assessment revenues during fiscal year 2015 were $2,337 million compared to $2,200 million for fiscal year 2014, an increase of $137 million. This increase resulted from additional hours reported by employers, more hours reported by businesses in higher rate classes, and a premium rate increase in the Medical Aid Account, effective January 1, 2015. In fiscal year 2014, employers reported 3,388 million hours worked; this figure increased to 3,538 million hours for fiscal year 2015. There has been a steady growth of quarterly standard premiums for 18 quarters since December 31, 2010.

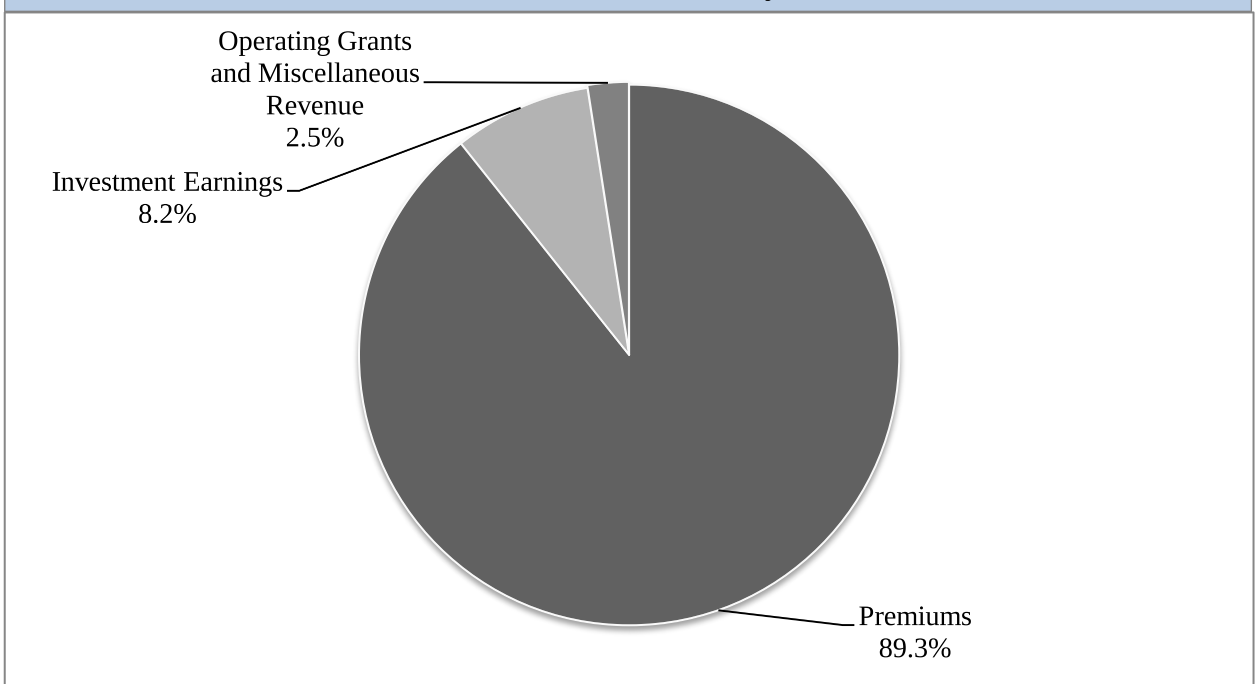
Earnings on investments - The earnings on investments decreased $905 million from the prior fiscal year. Decreased realized and unrealized gains and losses as described in the paragraphs below, partially offset by a $14 million increase in interest and dividends earnings, accounts for this change.

- Realized and unrealized gains and losses for debt securities decreased $591 million as compared to fiscal year 2014. Realized gains were higher in fiscal year 2014, mostly due to the sale of TIPS as a result of an asset allocation policy change. Unrealized gains decreased $371 million due to bond market prices that decreased as a result of the global low interest rate environment created by central bank policies, slow economic growth, and low inflation. The fair market value of debt securities moves in the opposite direction to changes in interest rates. Rising interest rates result in decreasing bond market prices, while falling rates cause bond prices to increase. There were unrealized losses of $364 million during fiscal year 2015 and unrealized gains of $7 million in fiscal year 2014.

- Equity realized and unrealized gains in fiscal year 2015 decreased $328 million as compared to the prior fiscal year. Unrealized gains were $29 million and realized gains were $18 million for equities in fiscal year 2015, while unrealized and realized gains were $334 million and $41 million, respectively, in fiscal year 2014. The Workers' Compensation Program's U.S. equity portfolio returned 7.4 percent and the international equity portfolio returned -4.8 percent during the current fiscal year. The U.S. equity market continued its strong relative performance in fiscal year 2015. The stronger economic environment and tighter monetary conditions relative to other developed countries contributed to U.S. market outperformance.

The following chart provides additional detail on the distribution of revenues by source during fiscal year 2015.

Fiscal Year 2015 Revenues by Source



Claims expense - Claims expense for fiscal year 2015 decreased $144 million, or 5.1 percent, as compared to fiscal year 2014. Claims expense include two main components: payments to beneficiaries and the change in claims payable.

Claim payments to beneficiaries increased by $48 million, or 2.4 percent, when compared to the prior year. The increase is explained by the following:

- The Accident Account's $4 million increase in claim payments to beneficiaries resulted from increasing exposure as a result of the increase in the number of hours worked and increased average payments per claim, partially offset by a decrease in the number of active claims.

- The Medical Aid Account's $11 million increase in claim payments to beneficiaries is due to increasing exposure as a result of the increase in the number of hours worked and an increase in medical inflation, which is the average medical costs per claim, offset by fewer active claims that are more than 13 years old.

- The Pension Account's claim payments to beneficiaries increased $27 million, mainly because of higher numbers of pensioners receiving benefits, together with higher average monthly benefits.

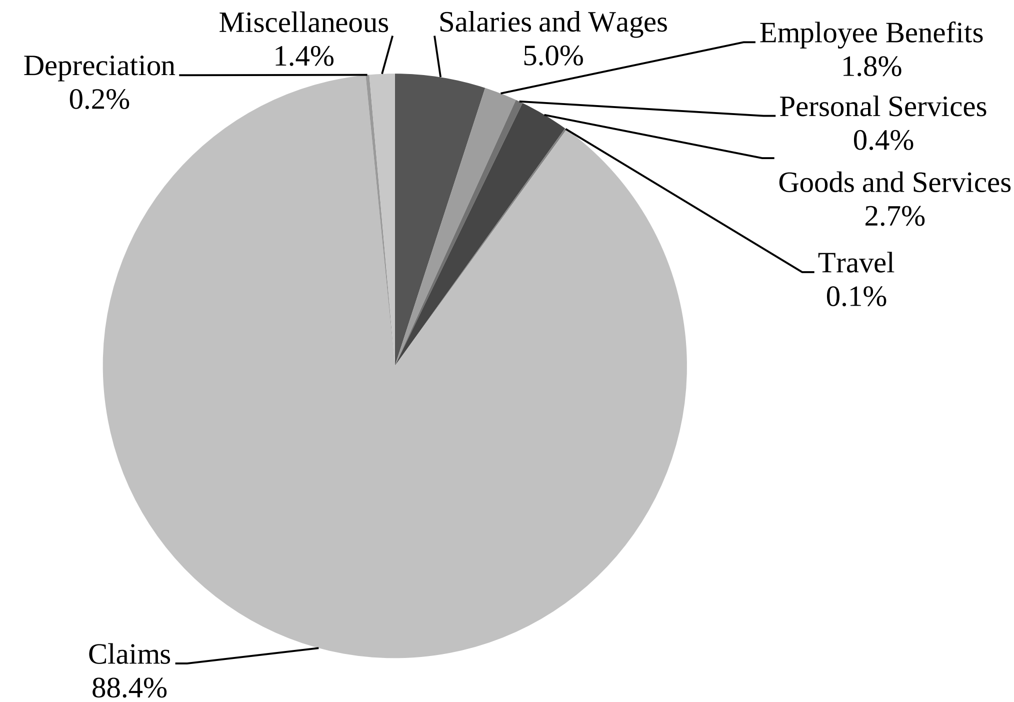
- The Supplemental Pension Account's $6 million increase in claim payments to beneficiaries is mainly due to changes in the state's average annual wage, which is the basis for the increase in the cost of living adjustments paid by the Supplemental Pension Account. The change to the average wages from 2012 to 2013 was 2.02 percent, which affected the cost of living adjustments paid during fiscal year 2015.

The other main component of claims expense is the change in claims payable. In fiscal year 2015, claims payable increased $629 million, as discussed in the claims payable explanation above.

Operating expenses - Operating expenses for fiscal year 2015, other than claims expense, were $351 million as compared to $329 million in fiscal year 2014, a $22 million, or 6.7 percent, increase. Higher operating expenses in fiscal year 2015 resulted from one-time information technology projects. There was an increase in miscellaneous expenses due to an increase in grants awarded by the Safety & Health Investment Program. This caused increases in expenses for personal services, goods and services, and salary and wages.

The following chart provides additional detail on the distribution of operating expenses by type during fiscal year 2015.

Fiscal Year 2015 Operating Expenses by Type



Capital Asset and Debt Administration

Capital assets - Capital assets, net of accumulated depreciation, as of June 30, 2015, was $72 million. This reflects a net increase of $5 million from the previous year. This net increase is mainly due to an increase in internally developed software to improve customer service. Additional information on capital assets can be found in Note 1.D.6 and Note 6 of this report.

Bonds payable - Bond proceeds provided funding for the acquisition and construction of the building and grounds for L&I's headquarters in Tumwater. As of June 30, 2015, the Workers' Compensation Program had $4 million in outstanding bonds payable. Scheduled principal payments in the amount of $4 million were paid during fiscal year 2015. Additional information on the bonds can be found in Note 7.A and Note 7.C of this report.

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/Reports/.

Basic Financial Statements

Washington State Department of
Labor & Industries

Keep Washington Safe and Working

Statement of Net Position
June 30, 2015

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
ASSETS		
Current Assets		
Cash and cash equivalents	$	74,517,932
DOE trust cash and investments		738,132
Collateral held under securities lending agreements		68,487,374
Receivables, net of allowance		788,643,400
Receivables from other state accounts and agencies		106,927
Receivables from other governments		1,084,830
Inventories		233,126
Prepaid expenses		2,071,027
Total Current Assets		935,882,748
Noncurrent Assets		
DOE trust cash and investments, noncurrent		1,938,370
DOE trust receivable		3,284,320
Investments, noncurrent		14,634,116,443
Capital assets, net of accumulated depreciation		71,645,196
Total Noncurrent Assets		14,710,984,329
Total Assets		15,646,867,077
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows from pensions		14,867,961
Total Assets and Deferred Outflows of Resources		15,661,735,038
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION (DEFICIT)		
LIABILITIES		
Current Liabilities		
Accounts payable		8,851,646
Deposits payable		9,376,808
Accrued liabilities		212,913,202
Obligations under securities lending agreements		68,487,374
Bonds payable, current		4,050,000
Payable to other state accounts and agencies		6,769,634
Due to other governments		4,120
Unearned revenues		1,061,230
DOE trust liabilities		738,132
Claims payable, current		1,959,663,000
Total Current Liabilities		2,271,915,146
Noncurrent Liabilities		
Claims payable, net of current portion		23,106,486,000
Bonds payable, net of current portion		-
Other long-term liabilities		9,460,027
DOE trust long-term liabilities		5,222,690
Other post-employment benefits		42,573,000
Net pension liability for employee retirement plans		102,263,881
Total Noncurrent Liabilities		23,266,005,598
Total Liabilities		25,537,920,744
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows from pensions		43,614,883
NET POSITION (DEFICIT)		
Net investment in capital assets		67,595,196
Unrestricted		(9,987,395,785)
Total Net Position (Deficit)	$	(9,919,800,589)

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, 2015

OPERATING REVENUES		
Premiums and assessments, net of refunds	$	2,337,482,699
Miscellaneous revenue		56,714,026
Total Operating Revenues		2,394,196,725
OPERATING EXPENSES		
Salaries and wages		150,277,872
Employee benefits		55,396,920
Personal services		11,303,684
Goods and services		82,416,116
Travel		4,145,181
Claims		2,666,452,126
Depreciation		7,184,192
Miscellaneous expenses		41,040,635
Total Operating Expenses		3,018,216,726
Operating Income (Loss)		(624,020,001)
NONOPERATING REVENUES (EXPENSES)		
Earnings on investments		215,556,771
Other revenues		7,840,473
Interest expense		(255,152)
Total Nonoperating Revenues (Expenses)		223,142,092
Change in Net Position		(400,877,909)
Net Position (Deficit) - July 1, as restated		(9,518,922,680)
Net Position (Deficit) - June 30	$	(9,919,800,589)

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, 2015

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	$ 2,301,098,822
Payments to/for beneficiaries	(2,043,975,565)
Payments to employees	(198,941,146)
Payments to suppliers	(93,779,621)
Other	53,995,019
Net Cash Flows from Operating Activities	18,397,509
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Operating grants received	7,834,218
License fees collected	103,932
Net Cash Flows from Noncapital Financing Activities	7,938,150
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Interest paid	(324,530)
Principal payments on bonds payable	(3,820,000)
Acquisitions of capital assets	(12,348,875)
Net Cash Flows from Capital and Related Financing Activities	(16,493,405)
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of trust investments	8,930
Receipt of interest and dividends	488,132,106
Investment expenses	(4,383,119)
Proceeds from sale of investment securities	5,269,572,057
Purchases of investment securities	(5,770,415,969)
Net Cash Flows from Investing Activities	(17,085,995)
Net change in cash and cash equivalents	(7,243,741)
Cash & cash equivalents, July 1 (includes trust cash of $194,012)	81,964,615
Cash & cash equivalents, June 30 (includes trust cash of $202,942)	$ 74,720,874
CASH FLOWS FROM OPERATING ACTIVITIES	
Operating income (loss)	$ (624,020,001)
Adjustments to Reconcile Operating Income to Net Cash Flows from Operating Activities	
Depreciation	7,184,192
Change in Assets: Decrease (Increase)	
Receivables	(42,573,903)
Inventories	71,184
Prepaid expenses	(1,835,724)
Change in Liabilities: Increase (Decrease)	
Claims and judgments payable	628,615,000
Accrued liabilities	50,956,761
Net Cash Flows from Operating Activities	$ 18,397,509
NON CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES	
Increase (Decrease) in fair value of investments	$ (334,994,116)

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, 2015

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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 nationwide. Following is a summary of the significant accounting policies:

1.A. Reporting Entity

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

The Workers' Compensation Fund is classified as an enterprise fund of the state of Washington. The accompanying basic financial statements present only the activity of the Workers' Compensation Program and do not present the financial position, results of operations, or cash flows of L&I or the state of Washington. L&I's financial report is included in the basic financial statements of the Comprehensive Annual Financial Report of the state of Washington. A copy of the report may be obtained from the Statewide Accounting Division of the Office of Financial Management at P.O. Box 43127, Olympia, WA 98504-3127. A copy can also be obtained from the OFM website at http://ofm.wa.gov/cafr.

1.B. Basic Financial Statements

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

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

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

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

The Pension Reserve Account pays benefits to the surviving spouse or dependent of fatally injured workers and to all permanently and totally disabled workers or their surviving spouse or dependents. This includes benefits for pensions awarded to employees of self-insured employers. Funding for pension payments is generated by transfers from the Accident and Second Injury Accounts and reimbursements from self-insured employers. The funds are invested in securities to cover payments for the expected life of the injured worker or survivor(s).

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

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

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

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

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

The Industrial Insurance Rainy Day Fund Account was created by the Legislature during the 2011 session to hold transfers from the Accident and Medical Aid Accounts when assets for those accounts combined are between 10 and 30 percent in excess of their funded liabilities. Primarily, balances in this account will be used to reduce future rate increases or aid businesses in recovering from or during economic recessions. The account did not have any activity during fiscal year 2015 or a balance on June 30, 2015.

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

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

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

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

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

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

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

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

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

1.C. Measurement Focus and Basis of Accounting

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

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

1.D. Assets, Liabilities, and Net Position

1.D.1. Cash and Cash Equivalents

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

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

1.D.2. DOE Trust Cash and Investments

Per RCW 51.04.130, 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, 2015, trust cash and investments of $738,132, representing the estimated current liability to L&I for the reimbursement of pension payments to Hanford injured workers, are classified as current assets on the Statement of Net Position. The remaining balance of trust cash and investments amounted to $1,938,370 and is classified under noncurrent assets. Trust investments were invested in one-year U.S. Treasury Notes.

1.D.3. Investments

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

1.D.4. Receivables and Payables

Current receivables arose in the ordinary course of business and consist of amounts due for workers' compensation premiums, investment interest receivable, and other miscellaneous receivables. Receivables are recorded when they can be reasonably estimated and have been earned (i.e., overpayment has occurred, service has been performed, or the time period has passed). Receivables due for workers' compensation premiums for the quarter ended June 30, 2015, are estimated. All receivables are reported net of an allowance for accounts estimated to be uncollectible. Current accounts receivable are generally expected to be collected within one year following the end of the fiscal year.

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

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

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

In the Accident Account, the incurred but not-yet-awarded pensions are discounted at a rate between 4.5 and 6.4 percent from the anticipated payment dates back to the anticipated time of award and 1.5 percent from the anticipated time of award to the evaluation date. All other

Accident, Medical Aid, and Supplemental Pension Account claim liabilities are discounted at 1.5 percent. The claim liabilities in the Pension Reserve Account are discounted at 6.4 percent.

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

1.D.5. Inventories and Prepaid Expenses

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

Prepaid expenses are certain types of services that will benefit future accounting periods and are accounted for using the consumption method. The portion of services used during a period is recorded as an expense. The remaining balance is reported as an asset until consumed. As of June 30, 2015, prepaid expenses amounted to $2,071,027.

1.D.6. Capital Assets

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

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

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

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

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

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

Generally, estimated useful lives are as follows:

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

1.D.7. Compensated Absences

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

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

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

1.E. Other Information

1.E.1. Risk Management

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

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

1.E.2. Interfund/Interagency Activities

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

Note 2 - Accounting and Reporting Changes

Reporting Changes

Effective for fiscal year 2015 reporting, the Workers' Compensation Program adopted the following new standards issued by the GASB:

Statement No. 68 *Accounting and Financial Reporting for Pensions.* GASB Statement No. 68 requires governmental employers with employees participating in defined benefit pension plans that are administered through trusts or equivalent arrangements to report their proportionate share of the net pension liability (or net assets, if the plan net position exceeds the total pension liability) on the face of their accrual-based financial statements.

Statement No. 71 *Pension Transition for Contributions Made subsequent to the Measurement Date*. GASB Statement No. 71 addresses an issue regarding application of the transition provisions of Statement No. 68. The issue relates to amounts associated with contributions, if any, made by a state or local government employer to a defined benefit pension plan after the measurement date of the government's beginning net pension liability.

Prior Period Adjustment

The Workers' Compensation Program recorded a reduction to the beginning net position balance as a result of implementing GASB Statement No. 68. Net Position (Deficit) at July 1, 2014, has been restated as follows:

Net Position (Deficit) at June 30, 2014, as previously reported	$	(9,384,401,234)
Prior Period Adjustment		(134,521,446)
Net Position (Deficit) at July 1, 2014, as restated	$	(9,518,922,680)

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.

OST manages the deposits for the Workers' Compensation Program. At June 30, 2015, $74.7 million of the Workers' Compensation Program's deposits with financial institutions were either insured or collateralized, with the remaining $2.5 million uninsured/uncollateralized. The Federal Deposit Insurance Corporation (FDIC) covers the Workers' Compensation Program's insured deposits, and the PDPC provides collateral protection.

3.B. Investments

3.B.1. Summary of Investment Policies

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- Total market value of below investment grade mortgage-backed, asset-backed, and commercial mortgage-backed securities should not exceed 5 percent of total market value of the funds.

3.B.2. Securities Lending

The Workers' Compensation Program participates in securities lending programs with the WSIB and the OST to increase investment income. At June 30, 2015, the Workers' Compensation Program had $68,151,292 of cash collateral received in the Accident and Pension Reserve Accounts invested through the WSIB. There was $336,082 of cash collateral received in the Medical Aid and the Supplemental Pension Accounts invested through 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, 2015, was approximately $102.6 million. The Workers' Compensation Program reports securities on loan on the Statement of Net Position in their respective categories. At June 30, 2015, cash collateral received totaling $68.2 million is reported as a securities lending obligation, and the fair value of the reinvested cash collateral totaling $68.2 million is reported as security lending collateral in the Statement of Net Position. Securities received as collateral for which the Workers' Compensation Program does not have the ability to pledge or sell unless the borrower defaults are not reported as assets or liabilities in the Statement of Net Position. Total securities received as collateral at June 30, 2015, was $38.3 million.

During fiscal year 2015, debt securities were loaned and collateralized by the Workers' Compensation Program's agent with cash and U.S. government or U.S. agency securities, including U.S. agency mortgage-backed securities (exclusive of letters of credit). When the loaned securities had collateral denominated in the same currency, the collateral requirement was 102 percent of the fair value, including accrued interest, of the securities loaned. All other securities were required to be collateralized at 105 percent of the fair value, including accrued interest, of the loaned securities.

As of June 30, 2015, the Workers' Compensation Program held the following securities from reinvestment of cash collateral and securities received as collateral:

Collateral Held Under Securities Lending
June 30, 2015
(in thousands)

	Cash Collateral	Non Cash Collateral	Total
Mortgage-backed	$ -	$ 38,305	$ 38,305
Repurchase agreements	23,703	-	23,703
Yankee CD	15,880	-	15,880
Cash equivalents and other	28,568	-	28,568
Total Collateral Held	$ 68,151	$ 38,305	$ 106,456

Securities lending transactions can be terminated on demand either by the Workers' Compensation Program or the borrower. As of June 30, 2015, the collateral held had an average duration of 22.5 days and an average weighted final maturity of 79.7 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 cannot be pledged or sold absent borrower default. No more than 20 percent of the total on-loan value can be held by a specific borrower. Collateral investment guidelines specifically prohibit European-domiciled holdings. There are no restrictions on the amount of securities that can be lent.

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

During fiscal year 2015, 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 2015 resulting from a default by either the borrowers or the securities lending agents.

Securities Lending – OST

State statutes permit 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. OST has contracted with Citibank, N.A. as a lending agent and receives a share of income earned from this activity. The lending agent lends securities and receives collateral, which can be in the form of cash or other securities. The collateral, which must be valued at 102 percent of the 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 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, as currently 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, 2015, the Workers' Compensation Programs' cash collateral totaled $336,082, all of which was invested in the LGIP.

Contracts require the lending agent to indemnify OST if the borrowers fail to return securities and if the collateral is inadequate to replace the securities lent, or if the borrower fails to pay OST for income distributed by the securities' issuers while the securities are on loan. OST cannot pledge or sell collateral securities received unless the borrower defaults. At June 30, 2015, the fair value of securities on loan for the Workers' Compensation Program totaled $328,051.

OST investment policy requires that any securities on loan be made available by the lending agent for next day liquidity at the option of OST. During fiscal year 2015, OST had no credit risk exposure to borrowers because the amounts owed to the borrowers exceeded the amounts the borrowers owed OST.

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

3.B.3. Interest Rate Risk

Interest rate risk is the risk that changes in interest rates over time will adversely affect the fair value of an investment. While the Workers' Compensation Program does not have a formal policy relating to interest rate risk, the risk is managed within the Workers' Compensation Program portfolio using effective duration, which is the measure of a debt investment's exposure to fair value changes arising from changes in interest rates. Increases in prevailing interest rates generally translate into decreases in fair values of fixed income investments. As of June 30, 2015, 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, 2015. The schedule displays various asset classes held by maturity in years, credit ratings, and effective duration. All debt securities are reported using average life within the portfolio. The average life is a calculated estimate of the average time (in years) until maturity for these securities, taking into account possible prepayments of principal.

Schedule of Maturities and Credit Ratings
June 30, 2015
(dollars in thousands)

		Maturity					Effective
Investment Type	**Fair Value**	**Less than 1 year**	**1-5 years**	**6-10 years**	**More than 10 years**	**Credit Rating**	**Duration (years)**
Mortgage and other asset-backed securities	$ 1,893,746	$ 295,992	$ 1,405,828	$ 117,915	$ 74,011	Multiple	3.02
Corporate bonds	8,969,474	468,390	3,350,231	1,885,623	3,265,230	Multiple	7.46
U.S. government and agency securities	1,210,817	7,005	891,546	25,133	287,133	Aaa	7.05
Foreign government and agencies	529,299	38,280	282,285	152,755	55,979	Multiple	4.91
	12,603,336	$ 809,667	$ 5,929,890	$ 2,181,426	$ 3,682,353		
Investments Not Required to be Categorized							
Commingled investment trusts	1,895,746						
Cash and cash equivalents	135,026						
Total investments not categorized	2,030,772						
Total*	$ 14,634,108						

*This total does not tie to Investments, noncurrent on the Statement of Net Position. This schedule includes only WSIB investments.

Investments with multiple credit ratings at June 30, 2015, are presented using the Moody's rating scale as follows:

Multiple Credit Rating Disclosure
June 30, 2015
(in thousands)

Moody's Equivalent Credit Rating	Investment Type: Mortgage and Other Asset-Backed Securities	Investment Type: Corporate Bonds	Investment Type: Foreign Government and Agency Securities	Total Fair Value
Aaa	$ 1,845,424	$ 480,823	$ 150,888	$ 2,477,135
Aa2	48,322	83,699	51,950	183,971
Aa3	-	1,240,437	197,778	1,438,215
A1	-	896,830	37,408	934,238
A2	-	1,276,296	-	1,276,296
A3	-	1,410,431	-	1,410,431
Baa1	-	1,274,530	14,453	1,288,983
Baa2	-	916,326	50,164	966,490
Ba1 or lower	-	1,390,102	26,658	1,416,760
Total Fair Value	$ 1,893,746	$ 8,969,474	$ 529,299	$ 11,392,519

3.B.4. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Workers' Compensation Program investment policies limit the fixed income securities to investment grade or higher at the time of purchase. Investment grade securities are those fixed income securities with a Moody's rating of Aaa to Baa or a Standard and Poor's rating of AAA to BBB. The rated debt investments of the Workers' Compensation Program as of June 30, 2015, were rated by Moody's and/or an equivalent national rating organization.

Concentration of Credit Risk - Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. The Workers' Compensation Program policy states that no corporate fixed income issue cost shall exceed 3 percent of the fund's fair value at the time of purchase, nor shall its fair value exceed 6 percent of the fund's fair value at any time. There was no concentration of credit risk as of June 30, 2015.

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

3.B.5. Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The Workers' Compensation Program does not have a formal policy to limit foreign currency risk. The only security held by the Workers' Compensation Program with foreign currency exposure at June 30, 2015, consisted of $695.0 million invested in an international commingled equity index fund.

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

Workers' Compensation Program
Foreign Currency Exposure by Country
June 30, 2015
(in thousands)

Foreign Currency Denomination	Equity Securities
Australia-Dollar	$ 33,301
Brazil-Real	10,714
Canada-Dollar	47,376
Denmark-Krone	8,477
E.M.U.-Euro	145,065
Hong Kong-Dollar	53,555
India-Rupee	12,703
Japan-Yen	119,409
Mexico-Peso	6,555
New Taiwan-Dollar	20,695
Singapore-Dollar	7,590
South Africa-Rand	11,765
South Korea-Won	23,356
Sweden-Krona	15,350
Switzerland-Franc	43,557
United Kingdom-Pound	102,342
Miscellaneous Foreign Currencies	33,158
Total	$ 694,968

3.B.6. Derivatives

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

Derivative transactions involve, to varying degrees, market and credit risk. The Workers' Compensation Program mitigates market risks arising from derivative transactions by requiring collateral in cash and investments to be maintained equal to the securities positions outstanding, and thereby prohibiting the use of leverage or speculation. Credit risks arising from derivative transactions are mitigated by selecting and monitoring creditworthy counterparties and collateral issuers.

Domestic and foreign passive equity index fund managers may also utilize various derivative securities to manage exposure to risk and increase portfolio returns. Information on the extent of use and holdings of derivative securities by passive equity index fund managers is unavailable.
At June 30, 2015, the only derivative securities held directly by the Workers' Compensation Program were collateralized mortgage obligations (CMOs) of $1.3 billion.

3.B.7. Reverse Repurchase Agreements

State law permits the Workers' Compensation Program to enter into reverse repurchase agreements, i.e., a sale of securities with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest. The fair value of the securities underlying reverse repurchase agreements normally exceeds the cash received, providing the dealers a margin against a decline in fair value of the securities. If the dealers default on their obligations to resell these securities to the state or provide securities or cash of equal value, the Workers' Compensation Program would suffer an economic loss equal to the difference between the fair value plus accrued interest of the underlying securities and the agreement obligation, including accrued interest. There were no reverse repurchase agreements entered into during fiscal year 2015, and there were no liabilities outstanding as of June 30, 2015.

Note 4 - Receivables

Receivables at June 30, 2015, consisted of the following:

Receivables June 30, 2015	
Current Receivables	
Premiums receivable	
Actual premiums receivable	$ 143,870,945
Estimated premiums receivable [1]	614,920,000
Estimated self-insurance premiums receivable [2]	52,637,552
Total Premiums Receivable	811,428,497
Other receivables	
Receivable from overpayments	1,899,079
Investment interest receivable	112,356,059
Safety fines and penalties receivable	12,185,111
Miscellaneous receivables	3,221,151
Total Current Receivables, Gross	941,089,897
Less: Allowance for uncollectible receivables	152,446,497
Total Current Receivables, Net of Allowance	$ 788,643,400

[1]Estimated premiums receivable represents premiums due for the quarter ended June 30, 2015. Premium amounts were estimated by L&I actuaries, to be collected for the Accident, Medical Aid, and Supplemental Pension Accounts.

[2]Estimated self-insurance premiums receivable represents estimated assessment receivables accrued for the quarter ended June 30, 2015, based on prior employer quarterly reports. This amount also includes pension receivables, experting, and accounts receivable balances.

Note 5 - Interfund/Interagency Balances

Receivables from other state accounts and agencies as of June 30, 2015, consisted of the following:

Receivables From Other State Accounts and Agencies June 30, 2015		
General Fund	$	1,104
L&I accounts*		5,985
Other state agencies		99,838
Total Receivables From Other State Accounts and Agencies	$	106,927

*Receivables or payables within the Workers' Compensation Program are not included in the above totals.

All balances are expected to be received within one year from the date of the basic financial statements. These balances resulted from goods and services provided prior to June 30, 2015.

Payables to other state accounts and agencies as of June 30, 2015, consisted of the following:

Payables To Other State Accounts and Agencies June 30, 2015		
General Fund	$	232,141
L&I accounts*		429,754
Other state agencies		6,107,739
Total Payables To Other State Accounts and Agencies	$	6,769,634

*Receivables or payables within the Workers' Compensation Program are not included in the above totals.

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 received prior to June 30, 2015, and paid after the fiscal year ended.

Note 6 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2015, was as follows:

Capital Assets Activity Fiscal Year 2015	Beginning Balance July 1, 2014	Increases	Decreases	Ending Balance June 30, 2015
Capital Assets Not Being Depreciated:				
Land and collections	$ 3,239,748	$ -	$ -	$ 3,239,748
Construction in progress	10,661,241	11,353,294	(10,831,897)	11,182,638
Total Capital Assets Not Being Depreciated	13,900,989	11,353,294	(10,831,897)	14,422,386
Capital Assets Being Depreciated:				
Buildings and building components	65,133,602	-	-	65,133,602
Accumulated depreciation	(28,994,962)	(1,353,501)	-	(30,348,463)
Net Buildings and Building Components	36,138,640	(1,353,501)	-	34,785,139
Furnishings, equipment, and collections	64,842,760	1,161,931	(1,829,569)	64,175,122
Accumulated depreciation	(62,474,765)	(993,661)	1,658,690	(61,809,736)
Net Furnishings, Equipment, and Collections	2,367,995	168,270	(170,879)	2,365,386
Other improvements	1,289,262	-	-	1,289,262
Accumulated depreciation	(707,175)	(20,408)	-	(727,583)
Net Other Improvements	582,087	(20,408)	-	561,679
Total Capital Assets Being Depreciated, Net	39,088,722	(1,205,639)	(170,879)	37,712,204
Intangible assets - definite useful lives	24,082,987	10,665,539	-	34,748,526
Accumulated amortization	(10,421,300)	(4,816,620)	-	(15,237,920)
Total Capital Assets Being Amortized, Net	13,661,687	5,848,919	-	19,510,606
Total Capital Assets, Net of Depreciation and Amortization	$ 66,651,398	$ 15,996,574	$ (11,002,776)	$ 71,645,196

For fiscal year 2015, the total depreciation expense was $7,184,192.

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 annual principal and semi-annual interest payments, with the final payment due in fiscal year 2016. The principal amount of these bonds outstanding was $2,575,000 at June 30, 2015, with 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 principal and semi-annual interest payments, with the final payment due in fiscal year 2016. The principal amount of these bonds outstanding was $1,475,000 at June 30, 2015, with coupon interest rates of 5 percent. The original amount of this bond issue was $6,635,000 in fiscal year 2007.

In fiscal year 2015, the Workers’ Compensation Program paid $3,820,000 in principal and $324,530 in interest on these bonds. Since a portion of the interest paid was for the prior year, total fiscal year 2015 interest expense was $255,152.

There are no covenants related to the Workers’ Compensation Program’s obligation for these bonds.

Debt Refunding

When advantageous and permitted by statute and bond covenants, the State Finance Committee authorizes the refunding of outstanding bonds. When the state refunds outstanding bonds, the net proceeds of each refund issued are used to purchase U.S. government securities. These securities are placed in irrevocable trusts with escrow agents to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered defeased, and the liability has been removed from the Statement of Net Position. There were no debt refundings in fiscal year 2015.

7.B. Claims Payable

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

Changes in Claims Liabilities
June 30, 2015 and 2014

Claims Payable	**June 30, 2015**	**June 30, 2014**
Unpaid claims and claim adjustment expenses at beginning of fiscal year	$ 24,437,534,000	$ 23,627,560,000
Incurred claims and claim adjustment expenses		
Provision for insured events of the current fiscal year	2,102,923,000	1,910,196,000
Increase in provision for insured events of prior fiscal years	711,211,000	1,043,312,000
Total Incurred Claims and Claim Adjustment Expenses	2,814,134,000	2,953,508,000
Payments		
Claims and claim adjustment expenses attributable to		
Events of the current fiscal year	300,862,000	296,885,000
Insured events of prior fiscal years	1,884,657,000	1,846,649,000
Total payments	2,185,519,000	2,143,534,000
Total Unpaid Claims and Claim Adjustment Expenses at Fiscal Year End	$ 25,066,149,000	$ 24,437,534,000
Current portion	$ 1,959,663,000	$ 1,907,912,000
Noncurrent portion	$ 23,106,486,000	$ 22,529,622,000

At June 30, 2015, $36.1 billion of unpaid loss and loss adjustment expense liabilities are presented at their net present and settlement value of $25.0 billion. These claims are discounted at an assumed interest rate of 1.5 percent (for time-loss and medical), and 4.5 to 6.4 percent (for pension) to arrive at a settlement value.

The claims and claim adjustment liabilities of $25.0 billion, as of June 30, 2015, include $11.8 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 $13.2 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, 2015, was as follows:

Current and Noncurrent Liability Activity
Fiscal Year 2015

Current and Noncurrent Liabilities	Beginning Balance July 1, 2014	Additions	Reductions	Ending Balance June 30, 2015	Due Within One Year[2]	Noncurrent Balance June 30, 2015
Claims payable, current & noncurrent	$ 24,437,534,000	$ 2,814,134,000	$ (2,185,519,000)	$ 25,066,149,000	$ 1,959,663,000	$ 23,106,486,000
Bonds payable						
General obligation bonds						
Series R-93B	5,005,000	-	(2,430,000)	2,575,000	2,575,000	-
Series R-2007C	2,865,000	-	(1,390,000)	1,475,000	1,475,000	-
Total Bonds Payable	7,870,000	-	(3,820,000)	4,050,000	4,050,000	-
Other current and noncurrent liabilities						
Compensated absences[1]	13,945,050	13,047,889	(13,302,789)	13,690,150	4,230,123	9,460,027
DOE trust liabilities	6,181,767	-	(220,945)	5,960,822	738,132	5,222,690
Other postemployment benefits	32,299,000	12,558,000	(2,284,000)	42,573,000	-	42,573,000
Net pension liability, as restated	147,718,950	11,357,318	(56,812,386)	102,263,881	-	102,263,881
Total Other Current and Noncurrent Liabilities	200,144,767	36,963,207	(72,620,120)	164,487,853	4,968,255	159,519,598
Total Current and Noncurrent Liabilities	$ 24,645,548,767	$ 2,851,097,207	$ (2,261,959,120)	$ 25,234,686,853	$ 1,968,681,255	$ 23,266,005,598

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

7.D. Operating Leases

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

The following schedule presents future minimum payments for operating leases as of June 30, 2015:

Future Minimum Payments June 30, 2015	
Operating Leases (by Fiscal Year)	
2016	8,554,761
2017	6,892,870
2018	4,258,546
2019	2,726,244
2020	2,212,250
Total Future Minimum Lease Payments	$ 24,644,671

The total operating lease rental expense for fiscal year 2015 was $ 10,748,463.

Note 8 - Deficit

At June 30, 2015, the Workers' Compensation Program had a deficit of $9.9 billion. This is a result of a $11.6 billion deficit in the Supplemental Pension Account at June 30, 2015, offset by a combined $1.7 billion net position in the total Basic Plan, Second Injury Account, and the Self-Insured Employer Overpayment Reimbursement Account. The Workers' Compensation Program Basic Plan is funded based on rates that will keep the plan solvent in accordance with recognized actuarial principles. Supplemental COLA adjustments granted for time-loss and disability payments, however, are funded on a pay-as-you-go basis. According to RCW 51.32.073, the Supplemental Pension Account is allowed to collect only enough revenue to provide for current payments. At June 30, 2015, non-current claims payable in the Supplemental Pension Account was $11.3 billion.

The following table summarizes the change in deficit balance for the Supplemental Pension Account during fiscal year 2015.

Supplemental Pension Account **Net Position (Deficit)**	
Balance, July 1, 2014	$ (11,293,376,590)
Fiscal year 2015 activity	(296,470,103)
Balance, June 30, 2015	$ (11,589,846,693)

Note 9 - Retirement Plans and Net Pension Liability

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

The table below shows the net pension liability, deferred outflows of resources, and deferred inflows of resources reported on June 30, 2015 for the Workers' Compensation Program's proportionate share of the liabilities for the PERS and TRS employee retirement plans. Additional detail is provided later in this note.

Workers' Compensation Program Proportionate Share
June 30, 2015

	Net Pension Liability	Deferred Outflows of Resources	Deferred Inflows of Resources
PERS 1	$ 69,146,130	$ 6,224,093	$ 8,646,339
PERS 2/3	32,912,727	8,593,023	34,887,789
TRS 1	183,885	15,411	32,245
TRS 2/3	21,139	35,434	48,510
Total	$ 102,263,881	$ 14,867,961	$ 43,614,883

Note: The Workers' Compensation Program implemented GASB Statements 68 and 71 in fiscal year 2015. See Note 2 for more information.

DRS prepares a stand-alone financial report of the retirement plans that is compliant with the requirements of GASB Statement 67. Copies of the report may be obtained by contacting the Washington State Department of Retirement Systems, P.O. Box 48380, Olympia, WA 98504-8380 or online at http://www.drs.wa.gov/administration/annual-report.

9.A. Public Employees' Retirement System

Plan Descriptions

The Legislature established the PERS in 1947. PERS retirement benefit provisions are established in chapters 41.34 and 41.40 RCW and may be amended only by the Legislature. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior Courts (other than judges currently in a judicial retirement system); employees of legislative committees; community college, technical college, 4-year college, and university employees not covered in national higher education retirement programs; judges of district and municipal courts; and employees of local governments.

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

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

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

Benefits Provided

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

PERS Plan 1 and Plan 2 members are vested after the completion of five years of eligible service. Effective June 7, 2006, PERS Plan 3 members are vested in the defined benefit portion of their plan after 10 years of service; or after five years of service, if 12 months of that service are earned after age 44; or after five service credit years earned in PERS Plan 2 by June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan.

Contributions

PERS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions.

Each biennium, the state Pension Funding Council adopts Plan 1 employer contributions rates, Plan 2 employer and employee contribution rates, and Plan 3 employer contribution rates. Contribution requirements are established and amended by state statute.

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

The employer contribution rate for the Workers' Compensation Program at the close of fiscal year 2015 for each of Plans 1, 2, and 3 was 9.21 percent.

The member contribution rate for Plan 1 is established by statute at 6 percent for employees of 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, 2015, was 4.92 percent of the employee's annual covered salary. 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.

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of June 30, 2013, with the results rolled forward to June 30, 2014, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00%
Salary increases	3.75%
Discount rate	7.50%
Investment rate of return	7.50%

Mortality rates were based on the RP-2000 Combined Healthy Table and Combined Disabled Table published by the Society of Actuaries. The Office of the State Actuary applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis, meaning members are assumed to receive additional mortality improvements in each future year, throughout their lifetime.

The actuarial assumptions used in the June 30, 2013, valuation were based on the results of the 2007-2012 Experience Studies.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which a best estimate of expected future rates of return (expected returns, net of pension plan investment expense but including inflation) are developed for each major asset class by the WSIB. Those expected returns make up one component of WSIB's Capital Market Assumptions (CMAs). The CMAs contain the following three pieces of information for each class of assets the WSIB currently invests in:

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

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

The long-term expected rate of return of 7.50 percent approximately equals the median of the simulated investment returns over a 50-year time horizon, increased slightly to remove WSIB's implicit and small short-term downward adjustment due to assumed mean reversion. WSIB's implicit short-term adjustment, while small and appropriate over a 10- to 15-year period, becomes amplified over a 50-year measurement period.

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2014, are summarized in the following table:

Rates of Return

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Fixed Income	20%	0.80%
Tangible Assets	5%	4.10%
Real Estate	15%	5.30%
Global Equity	37%	6.05%
Private Equity	23%	9.05%
Total	100%	

The inflation component used to create the above table is 2.70 percent and represents WSIB's most recent long-term estimate of broad economic inflation.

The discount rate of 7.50 percent was also used for the prior measurement date. To determine the discount rate, an asset sufficiency test was completed to test whether the pension plan's fiduciary net position was sufficient to make all projected future benefit payments of current plan members. Consistent with current law, the completed asset sufficiency test included an assumed 7.70 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. Consistent with the long-term expected rate of return, a 7.50 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue to be made at contractually-required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.50 percent on pension plan investments was applied to determine the total pension liability.

The following presents the net pension liability (asset) of the employers, calculated using the discount rate of 7.50 percent, as well as what the employers' net pension liability (asset) would be if it were calculated using a discount rate that is one percentage point lower (6.50 percent) or one percentage point higher (8.50 percent) than the current rate.

Employers Proportionate Share of Net Pension Liability (Asset)

	PERS 1	PERS 2/3
1% Decrease	$ 85,229,378	$ 137,286,076
Current Discount Rate	$ 69,146,130	$ 32,912,727
1% Increase	$ 55,340,257	$ (46,809,061)

Net Pension Liability

At June 30, 2015, the Workers' Compensation Program reported a liability of $69,146,130 for its proportionate share of the collective net pension liability for PERS 1 and $32,912,727 for PERS 2/3. Workers' Compensation Program proportion for PERS 1 was 1.37 percent, an increase of 0.01 percent since the prior reporting period, and 1.63 percent for PERS 2/3, an increase of 0.04 percent. The proportions are based on the Workers' Compensation Program contributions to the pension plan relative to the contributions of all participating employers.

Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources

For the year ended June 30, 2015, a reduction to pension expense of $1,986,711 was recognized for PERS 1, and a reduction to pension expense of $1,571,739 was recognized for PERS 2/3.

At June 30, 2015, PERS 1 and PERS 2/3 reported deferred outflows of resources related to pensions from the following sources:

Deferred Outflows of Resources
June 30, 2015

	PERS 1	PERS 2/3	Total
Difference between expected and actual experience	$ -	$ -	$ -
Changes of assumptions	-	-	-
Net difference between projected and actual earnings on pension plan investments	-	-	-
Change in proportionate share of contributions	-	1,353,353	1,353,353
Contributions subsequent to measurement date	6,224,093	7,239,670	13,463,763
Total	$ 6,224,093	$ 8,593,023	$ 14,817,116

At June 30, 2015, PERS 1 and PERS 2/3 reported deferred inflows of resources related to pensions from the following sources:

Deferred Inflows of Resources
June 30, 2015

	PERS 1	PERS 2/3	Total
Difference between expected and actual experience	$ -	$ -	$ -
Changes of assumptions	-	-	-
Net difference between projected and actual earnings on pension plan investments	8,646,339	34,887,789	43,534,128
Change in proportionate share of contributions	-	-	-
Total	$ 8,646,339	$ 34,887,789	$ 43,534,128

Pension contributions made subsequent to the measurement date in the amount of $6,224,093 and $7,239,670 for PERS 1 and PERS 2/3, respectively, were reported as deferred outflows of resources at June 30, 2015, and will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2016.

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Net Deferred Outflows and (Inflows) of Resources		
Fiscal Year ended June 30,	**PERS 1**	**PERS 2/3**
2016	$ (2,161,585)	$ (8,335,275)
2017	$ (2,161,585)	$ (8,335,275)
2018	$ (2,161,585)	$ (8,335,275)
2019	$ (2,161,584)	$ (8,528,611)
2020	$ -	$ -
Thereafter	$ -	$ -

9.B. Teachers' Retirement System

Plan Description

The Legislature established the TRS in 1938. TRS retirement benefit provisions are established in chapters 41.32 and 41.34 RCW and may be amended only by the Legislature. Eligibility for membership requires service as a certificated public school employee working in an instructional, administrative, or supervisory capacity. TRS is comprised principally of non-state agency employees. The University of Washington promotes health and minimizes occupational disease or injury through teaching, research, and service for the Workers' Compensation Program. The University of Washington employees paid from Workers' Compensation Program funds are members of TRS Plan 3.

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

TRS members who joined the system by September 30, 1977, are Plan 1 members. Plan 1 is closed to new entrants. Those who joined on or after October 1, 1977, and by June 30, 1996, are Plan 2 members, unless they exercised an option to transfer their membership to Plan 3. TRS members joining the system on or after July 1, 1996, are members of TRS Plan 3.

Legislation passed in 2007 gives TRS members hired on or after July 1, 2007, 90 days to make an irrevocable choice to become a member of TRS Plan 2 or Plan 3. At the end of 90 days, any member who has not made a choice becomes a member of Plan 3.

Benefits Provided

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

TRS Plan 1 and Plan 2 members are vested after the completion of five years of eligible service. TRS Plan 3 members are vested in the defined benefit portion of their plan after 10 years of service; or after five years of service, if 12 months of that service are earned after age 44; or after five service credit years earned in PERS Plan 2 by July 1, 1996. Plan 3 members are immediately vested in the defined contribution portion of their plan.

Contributions

TRS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions.

Each biennium, the state Pension Funding Council adopts Plan 1 employer contributions rates, Plan 2 employer and employee contribution rates, and Plan 3 employer contribution rates. Contribution requirements are established and amended by state statute.

All employers are required to contribute at the level established by the Legislature. The methods used to determine the contribution requirements are established under state statute in accordance with chapters 41.32 and 41.45 RCW.

The employer contribution rate for the Workers' Compensation Program at the close of fiscal year 2015 for each of Plans 1, 2, and 3 was 10.39 percent.

The member contribution rate for Plan 1 is established by statute at 6 percent for employees of state agencies and higher education employees. Contributions for Plan 2 members are determined by the aggregate method and may vary over time. The contribution rate for Plan 2 state agency and higher education employees at June 30, 2015, was 4.96 percent of the employee's annual covered salary. 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.

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of June 30, 2013, with the results rolled forward to June 30, 2014, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00%
Salary increases	3.75%
Discount rate	7.50%
Investment rate of return	7.50%

Mortality rates were based on the RP-2000 Combined Healthy Table and Combined Disabled Table published by the Society of Actuaries. The Office of the State Actuary applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis, meaning members are assumed to receive additional mortality improvements in each future year, throughout their lifetime.

The actuarial assumptions used in the June 30, 2013, valuation were based on the results of the 2007-2012 Experience Studies.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which a best estimate of expected future rates of return (expected returns, net of pension plan investment expense but including inflation) are developed for each major asset class by the WSIB. Those expected returns make up one component of WSIB's Capital Market Assumptions (CMAs). The CMAs contain the following three pieces of information for each class of assets the WSIB currently invests in:

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

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

The long-term expected rate of return of 7.50 percent approximately equals the median of the simulated investment returns over a 50-year time horizon, increased slightly to remove WSIB's implicit and small short-term downward adjustment due to assumed mean reversion. WSIB's implicit short-term adjustment, while small and appropriate over a 10- to 15-year period, becomes amplified over a 50-year measurement period.

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2014, are summarized in the following table:

Rates of Return		
Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Fixed Income	20%	0.80%
Tangible Assets	5%	4.10%
Real Estate	15%	5.30%
Global Equity	37%	6.05%
Private Equity	23%	9.05%
Total	100%	

The inflation component used to create the above table is 2.70 percent and represents WSIB's most recent long-term estimate of broad economic inflation.

The discount rate of 7.50 percent was also used for the prior measurement date. To determine the discount rate, an asset sufficiency test was completed to test whether the pension plan's fiduciary net position was sufficient to make all projected future benefit payments of current plan members. Consistent with current law, the completed asset sufficiency test included an assumed 7.70 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. Consistent with the long-term expected rate of return, a 7.50 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue to be made at contractually-required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.50 percent on pension plan investments was applied to determine the total pension liability.

The following presents the net pension liability (asset) of the employers, calculated using the discount rate of 7.50 percent, as well as what the employers' net pension liability (asset) would be if it were calculated using a discount rate that is one percentage point lower (6.50 percent) or one percentage point higher (8.50 percent) than the current rate.

Employers Proportionate Share of Net Pension Liability (Asset)		
	TRS 1	TRS 2/3
1% Decrease	$ 236,627	$ 183,776
Current Discount Rate	$ 183,885	$ 21,139
1% Increase	$ 138,604	$ (99,739)

Net Pension Liability

At June 30, 2015, the Workers' Compensation Program reported a liability of $183,885 for its proportionate share of the collective net pension liability for TRS 1 and $21,139 for TRS 2/3. Workers' Compensation Program proportion for TRS 1 was 0.006 percent, an increase of 0.001 percent since the prior reporting period, and 0.007 percent for TRS 2/3, an increase of 0.002 percent. The proportions are based on the Workers' Compensation Program contributions to the pension plan relative to the contributions of all participating employers.

Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources

For the year ended June 30, 2015, pension expense of $51,905 was recognized for TRS 1, and a reduction to pension expense of $4,099 was recognized for TRS 2/3.

At June 30, 2015, TRS 1 and TRS 2/3 reported deferred outflows of resources related to pensions from the following sources:

Deferred Outflows of Resources
June 30, 2015

	TRS 1	TRS 2/3	Total
Difference between expected and actual experience	$ -	$ -	$ -
Changes of assumptions	-	-	-
Net difference between projected and actual earnings on pension plan investments	-	-	-
Change in proportionate share of contributions	-	14,080	14,080
Contributions subsequent to measurement date	15,411	21,354	36,765
Total	$ 15,411	$ 35,434	$ 50,845

At June 30, 2015, TRS 1 and TRS 2/3 reported deferred inflows of resources related to pensions from the following sources:

Deferred Inflows of Resources June 30, 2015			
	TRS 1	TRS 2/3	Total
Difference between expected and actual experience	$ -	$ -	$ -
Changes of assumptions	-	-	-
Net difference between projected and actual earnings on pension plan investments	32,245	48,510	80,755
Change in proportionate share of contributions	-	-	-
Total	$ 32,245	$ 48,510	$ 80,755

Pension contributions made subsequent to the measurement date in the amount of $15,411 and $21,354 for TRS 1 and TRS 2/3, respectively, were reported as deferred outflows of resources at June 30, 2015, and will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2016.

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Net Deferred Outflows and (Inflows) of Resources		
Fiscal Year ended June 30,	TRS 1	TRS 2/3
2016	$ (8,061)	$ (9,067)
2017	$ (8,061)	$ (9,067)
2018	$ (8,061)	$ (9,067)
2019	$ (8,062)	$ (7,229)
2020	$ -	$ -
Thereafter	$ -	$ -

<u>Note 10 - Other Postemployment Benefits</u>

The Workers' Compensation Program is administered by L&I, an agency of the state of Washington and part of the primary government. Employees of the Workers' Compensation Program are eligible to participate in the state of Washington's defined benefit Other

Postemployment Benefit (OPEB) plan, an agent multiple-employer plan, as administered by the state through the Washington State Health Care Authority (HCA).

Plan Description and Funding Policy

Per RCW 41.05.065, the Public Employees Benefits Board (PEBB) created within the HCA is authorized to design benefits and determine the terms and conditions of employee and retired employee participation and coverage, including establishment of eligibility criteria for both active and retired employees. PEBB programs include medical, dental, life, and long-term disability insurance.

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

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

Per RCW 41.05.022, retirees who are not yet eligible for Medicare benefits may continue participation in the state's non-Medicare community-rated health insurance risk pool on a self-pay basis. Retirees in the non-Medicare risk pool receive an implicit subsidy. The implicit subsidy exists because retired members pay a premium based on a claims experience for active employees and other non-Medicare retirees. The subsidy is valued using the difference between the age-based claim costs and the premium. In calendar year 2014, the average weighted implicit subsidy was valued at $291 per member per month, and in calendar year 2015, the average weighted implicit subsidy is projected to be $308 per member per month.

Retirees who are enrolled in both Parts A and B of Medicare may participate in the state's Medicare community-rated health insurance risk pool. Medicare retirees receive an explicit subsidy in the form of reduced premiums. Annually, the HCA administrator recommends an amount for the next calendar year's explicit subsidy for inclusion in the Governor's budget. In calendar year 2014, the explicit subsidy was $150 per member per month, and it remained $150 per member per month in calendar year 2015.

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

Contributions are set each biennium as part of the budget process. In calendar year 2015, 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 plan has no investments or other assets. Accordingly, the PEBB OPEB plan is not reported in the financial statements of the state nor is a separate financial report publicly available. For information on the results of the most recent actuarial valuation for the OPEB refer to: http://osa.leg.wa.gov/Actuarial_Services/OPEB/OPEB.htm.

Annual OPEB Cost and Net OPEB Obligation

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

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

The following tables show components of the Workers' Compensation Program's allocated annual OPEB costs for fiscal year 2015 and changes in the Workers' Compensation Program's Net OPEB Obligation (NOO). All contributions required by the funding method were paid.

Components of Allocated Annual OPEB Cost

Fiscal Year 2015

Annual required contribution	$ 12,446,000
Allocated interest on net OPEB obligation	1,292,000
Allocated amortization of net OPEB obligation	(1,180,000)
Allocated annual OPEB cost	12,558,000
Allocated contributions made	(2,284,000)
Increase in net OPEB obligation	10,274,000
Net OPEB obligation, beginning of year	32,299,000
Net OPEB obligation, end of year	$ 42,573,000

The Workers' Compensation Program's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the NOO for fiscal years 2015, 2014, and 2013 were as follows:

Net OPEB Obligation by Fiscal Year	2015	2014	2013
Allocated annual OPEB cost	$ 12,558,000	$ 8,732,000	$ 8,451,000
Percentage of annual OPEB cost contributed	18.2%	25.1%	22.8%
Net OPEB obligation	$ 42,573,000	$ 32,299,000	$ 25,763,000

The Workers' Compensation Program's NOO represents 1.8, 1.7, and 1.6 percent of the state of Washington's NOO as of June 30, 2015, 2014, and 2013, respectively.

A complete description of the funded status and actuarial assumptions of the state of Washington's OPEB plan is included in the Comprehensive Annual Financial Report for the state of Washington. A copy of this report may be obtained by contacting the Statewide Accounting Division of the Office of Financial Management at P.O. Box 43127, Olympia, Washington 98504-3127, or online at http://www.ofm.wa.gov/cafr.

Note 11 - Commitments and Contingencies

11.A. Federal Assistance

The Workers' Compensation Program has received federal financial assistance for specific purposes that are generally subject to review or audit by the grantor agencies. Entitlement to this assistance is generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations. Any disallowance resulting from a review or audit may become a liability of the Workers' Compensation Program. The Workers' Compensation Program does estimate and recognize a claims liability for disallowances when determined by the grantor agency or for probable disallowances based on experience pertaining to these grants; however, these recognized liabilities and any unrecognized disallowances are considered immaterial to the Workers' Compensation Program's overall financial condition. The total federal assistance for fiscal year 2015 was $7.9 million.

11.B. Contingencies

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

11.C. Financial Guarantees

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

WARP was authorized to provide USL&H coverage to those unable to purchase it through the normal market. The rules governing the plan are contained in chapter 284-22 of the Washington Administrative Code. It is administered by a governing committee appointed by the Insurance Commissioner and made up of the Director of L&I and three members representing each of the following stakeholder groups: labor, maritime employers, and insurers and insurance producers. The plan has been operating profitably, and the Workers' Compensation Program has not made any payments to this risk pool since enactment of this indefinite commitment. It is unlikely that the Workers' Compensation Program will be required to make any payments in the near future. Therefore, there are no guarantees extended that are outstanding at the reporting date. No payment recovery arrangements were authorized from other parties under the law.

Note 12 - Subsequent Events

12.A. Proposed Rate Announcement

Each year, the Director of L&I adopts new workers' compensation insurance premium rates for the next calendar year. On September 23, 2015, the Director announced a proposed 2 percent increase in the average premium rate for 2016. 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 2015 and go into effect on January 1, 2016.

Required Supplementary Information

Washington State Department of
Labor & Industries

Keep Washington Safe and Working

Reconciliation of Claims Liabilities by Plan
Fiscal Years 2015 and 2014
(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:

Claims Payable	Basic Plan FY 2015	Basic Plan FY 2014	Supplemental Pension Plan FY 2015	Supplemental Pension Plan FY 2014	Total FY 2015	Total FY 2014
Unpaid loss and loss adjustment expenses at beginning of fiscal year	$ 12,912,537	$ 12,335,237	$ 11,524,997	$ 11,292,323	$ 24,437,534	$ 23,627,560
Incurred claims and claim adjustment expenses						
Provision for insured events of the current fiscal year	1,817,350	1,643,940	285,573	266,256	2,102,923	1,910,196
Increase (decrease) in provision for insured events of prior fiscal years	256,524	650,069	454,687	393,243	711,211	1,043,312
Total incurred claims and claim adjustment expenses	2,073,874	2,294,009	740,260	659,499	2,814,134	2,953,508
Payments						
Claims and claim adjustment expenses attributable to						
Events of the current fiscal year	300,862	296,885	-	-	300,862	296,885
Insured events of prior fiscal years	1,451,590	1,419,824	433,067	426,825	1,884,657	1,846,649
Total payments	1,752,452	1,716,709	433,067	426,825	2,185,519	2,143,534
Total Unpaid Loss and Loss Adjustment Expenses at Fiscal Year End	$ 13,233,959	$ 12,912,537	$ 11,832,190	$ 11,524,997	$ 25,066,149	$ 24,437,534
Current portion	$ 1,474,543	$ 1,458,437	$ 485,120	$ 449,475	$ 1,959,663	$ 1,907,912
Noncurrent portion	$ 11,759,416	$ 11,454,100	$ 11,347,070	$ 11,075,522	$ 23,106,486	$ 22,529,622

Source: Washington State Department of Labor & Industries Actuarial Services

Schedule of the Workers' Compensation Program's Share of the Net Pension Liability
Public Employees' Retirement System (PERS) Plan 1
Measurement Date of June 30

	2014
Workers' Compensation Program proportion of the net pension liability	1.37%
Workers' Compensation Program proportionate share of the net pension liability	$ 69,146,130
Workers' Compensation Program covered-employee payroll	$ 5,352,127
Workers' Compensation Program proportionate share of the net pension liability as a percentage of its covered-employee payroll	1,291.97%
Plan fiduciary net position as a percentage of the total pension liability	61.19%

Schedule of the Workers' Compensation Program's Share of the Net Pension Liability
Public Employees' Retirement System (PERS) Plan 2/3
Measurement Date of June 30

	2014
Workers' Compensation Program proportion of the net pension liability	1.63%
Workers' Compensation Program proportionate share of the net pension liability	$ 32,912,727
Workers' Compensation Program covered-employee payroll	$ 138,549,007
Workers' Compensation Program proportionate share of the net pension liability as a percentage of its covered-employee payroll	23.76%
Plan fiduciary net position as a percentage of the total pension liability	93.29%

Schedule of the Workers' Compensation Program's Share of the Net Pension Liability
Teachers' Retirement System (TRS) Plan 1
Measurement Date of June 30

	2014
Workers' Compensation Program proportion of the net pension liability	0.006%
Workers' Compensation Program proportionate share of the net pension liability	$ 183,886
Workers' Compensation Program covered-employee payroll	$ 0
Workers' Compensation Program proportionate share of the net pension liability as a percentage of its covered-employee payroll	0.00%
Plan fiduciary net position as a percentage of the total pension liability	68.77%

Schedule of the Workers' Compensation Program's Share of the Net Pension Liability
Teachers' Retirement System (TRS) Plan 2/3
Measurement Date of June 30

	2014
Workers' Compensation Program proportion of the net pension liability	0.007%
Workers' Compensation Program proportionate share of the net pension liability	$ 21,139
Workers' Compensation Program covered-employee payroll	$ 16,278
Workers' Compensation Program proportionate share of the net pension liability as a percentage of its covered-employee payroll	129.86%
Plan fiduciary net position as a percentage of the total pension liability	96.81%

Washington State Department of
Labor & Industries

Keep Washington Safe and Working

Supplementary and Other Information

Combining Schedule of Net Position
June 30, 2015

Continued

	Accident Account	Medical Aid Account	Pension Reserve Account	Total Basic Plan	Supplemental Pension Account	Second Injury Account	Self-Insured Overpayment Reimbursement Account	Total
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES								
ASSETS								
Current Assets								
Cash and cash equivalents	$ 7,307,950	$ 2,599,326	$ 1,477,634	$ 11,384,910	$ 1,548,796	$ 60,847,775	$ 736,451	$ 74,517,932
DOE trust cash and investments	-	-	738,132	738,132	-	-	-	738,132
Collateral held under securities lending agreements	26,176,194	255,396	41,975,098	68,406,688	80,686	-	-	68,487,374
Receivables, net of allowance	377,944,458	245,943,999	41,222,093	665,110,550	115,855,442	7,574,995	102,413	788,643,400
Receivables from workers' compensation accounts	15,699	293,633	167,454,457	167,763,789	730	-	-	167,764,519 *
Receivables from other state accounts and agencies	6,183	99,443	-	105,626	1,301	-	-	106,927
Receivables from other governments	843,043	241,787	-	1,084,830	-	-	-	1,084,830
Inventories	116,563	116,563	-	233,126	-	-	-	233,126
Prepaid expenses	883,281	1,187,746	-	2,071,027	-	-	-	2,071,027
Total Current Assets	413,293,371	250,737,893	252,867,414	916,898,678	117,486,955	68,422,770	838,864	1,103,647,267
Noncurrent Assets								
DOE trust cash and investments, noncurrent	-	-	1,938,370	1,938,370	-	-	-	1,938,370
DOE trust receivable	-	-	3,284,320	3,284,320	-	-	-	3,284,320
Investments, noncurrent	5,352,748,281	5,003,053,289	4,151,246,885	14,507,048,455	127,067,988	-	-	14,634,116,443
Capital assets, net of accumulated depreciation	29,622,548	42,022,648	-	71,645,196	-	-	-	71,645,196
Total Noncurrent Assets	5,382,370,829	5,045,075,937	4,156,469,575	14,583,916,341	127,067,988	-	-	14,710,984,329
Deferred Outflows of Resources								
Deferred outflows from pensions	7,560,374	7,307,587	-	14,867,961	-	-	-	14,867,961
Total Assets	$ 5,803,224,574	$ 5,303,121,417	$ 4,409,336,989	$ 15,515,682,980	$ 244,554,943	$ 68,422,770	$ 838,864	$ 15,829,499,557

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

Combining Schedule of Net Position
June 30, 2015

Concluded

	Accident Account	Medical Aid Account	Pension Reserve Account	Total Basic Plan	Supplemental Pension Account	Second Injury Account	Self-Insured Overpayment Reimbursement Account	Total
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION (DEFICIT)								
LIABILITIES								
Current Liabilities								
Accounts payable	$ 3,400,676	$ 5,419,635	$ 23,838	$ 8,844,149	$ 7,497	$ -	$ -	$ 8,851,646
Deposits payable	6,762,023	463,543	1,857,162	9,082,728	294,080	-	-	9,376,808
Accrued liabilities	192,794,971	7,571,855	11,299,620	211,666,446	1,243,227	3,529	-	212,913,202
Obligations under securities lending agreements	26,176,194	255,396	41,975,098	68,406,688	80,686	-	-	68,487,374
Bonds payable, current	2,025,000	2,025,000	-	4,050,000	-	-	-	4,050,000
Payables to workers' compensation accounts	134,255,410	21,151	-	134,276,561	17,570	33,470,388	-	167,764,519 *
Payables to other state agencies and accounts	2,926,770	3,842,847	-	6,769,617	17	-	-	6,769,634
Payables to other governments	2,060	2,060	-	4,120	-	-	-	4,120
Unearned revenues	304,868	187,803	-	492,671	568,559	-	-	1,061,230
DOE trust liabilities	-	-	738,132	738,132	-	-	-	738,132
Claims payable, current	590,187,000	472,712,000	411,644,000	1,474,543,000	485,120,000	-	-	1,959,663,000
Total Current Liabilities	958,834,972	492,501,290	467,537,850	1,918,874,112	487,331,636	33,473,917	-	2,439,679,665
Noncurrent Liabilities								
Claims payable, net of current portion	4,303,300,000	3,690,010,000	3,766,106,000	11,759,416,000	11,347,070,000	-	-	23,106,486,000
Bonds payable, net of current portion	-	-	-	-	-	-	-	-
Other long-term liabilities	4,920,977	4,539,050	-	9,460,027	-	-	-	9,460,027
DOE trust long-term liabilities	-	-	5,222,690	5,222,690	-	-	-	5,222,690
Other post-employment benefits	21,700,848	20,872,152	-	42,573,000	-	-	-	42,573,000
Net pension liability for employee retirement plans	52,001,291	50,262,590	-	102,263,881	-	-	-	102,263,881
Total Noncurrent Liabilities	4,381,923,116	3,765,683,792	3,771,328,690	11,918,935,598	11,347,070,000	-	-	23,266,005,598
Total Liabilities	5,340,758,088	4,258,185,082	4,238,866,540	13,837,809,710	11,834,401,636	33,473,917	-	25,705,685,263
Deferred Inflows of Resources								
Deferred inflows from pensions	22,178,214	21,436,669	-	43,614,883	-	-	-	43,614,883
Net Position (Deficit)								
Net investments in capital assets	27,597,548	39,997,648	-	67,595,196	-	-	-	67,595,196
Unrestricted	412,690,724	983,502,018	170,470,449	1,566,663,191	(11,589,846,693)	34,948,853	838,864	(9,987,395,785)
Total Net Position (Deficit)	$ 440,288,272	$ 1,023,499,666	$ 170,470,449	$ 1,634,258,387	$(11,589,846,693)	$ 34,948,853	$ 838,864	$ (9,919,800,589)

*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, 2015

	Accident Account	Medical Aid Account	Pension Reserve Account	Total Basic Plan	Supplemental Pension Account	Second Injury Account	Overpayment Reimbursement Account	Total
OPERATING REVENUES								
Premiums and assessments, net of refunds	$ 1,055,033,387	$ 791,316,759	$ 21,881,573	$ 1,868,231,719	$ 439,292,624	$ 29,758,303	$ 200,053	$ 2,337,482,699
Miscellaneous revenue	43,401,105	3,380,149	64,671	46,845,925	9,868,088	13	-	56,714,026
Total Operating Revenues	1,098,434,492	794,696,908	21,946,244	1,915,077,644	449,160,712	29,758,316	200,053	2,394,196,725
OPERATING EXPENSES								
Salaries and wages	75,690,742	74,587,130	-	150,277,872	-	-	-	150,277,872
Employee benefits	28,051,529	27,345,391	-	55,396,920	-	-	-	55,396,920
Personal services	3,562,928	7,740,756	-	11,303,684	-	-	-	11,303,684
Goods and services	39,954,558	42,461,558	-	82,416,116	-	-	-	82,416,116
Travel	2,669,395	1,475,786	-	4,145,181	-	-	-	4,145,181
Claims	733,863,352	516,450,374	674,231,622	1,924,545,348	741,072,996	737,148	96,634	2,666,452,126
Depreciation	3,597,732	3,586,460	-	7,184,192	-	-	-	7,184,192
Miscellaneous expenses	25,340,480	10,188,529	-	35,529,009	5,511,626	-	-	41,040,635
Total Operating Expenses	912,730,716	683,835,984	674,231,622	2,270,798,322	746,584,622	737,148	96,634	3,018,216,726
Operating Income (Loss)	185,703,776	110,860,924	(652,285,378)	(355,720,678)	(297,423,910)	29,021,168	103,419	(624,020,001)
NONOPERATING REVENUES (EXPENSES)								
Earnings on investments	75,674,201	68,980,075	69,948,688	214,602,964	953,807	-	-	215,556,771
Other revenues	6,378,958	1,461,515	-	7,840,473	-	-	-	7,840,473
Interest expense	(127,576)	(127,576)	-	(255,152)	-	-	-	(255,152)
Total Nonoperating Revenues (Expenses)	81,925,583	70,314,014	69,948,688	222,188,285	953,807	-	-	223,142,092
Income (Loss) Before Transfers	267,629,359	181,174,938	(582,336,690)	(133,532,393)	(296,470,103)	29,021,168	103,419	(400,877,909)
Transfers in	6,917,227	-	489,439,192	496,356,419	-	6,188,863	-	502,545,282
Transfers out	(413,711,412)	(735,520)	(10,475,632)	(424,922,564)	-	(77,622,718)	-	(502,545,282)
Net Transfers	(406,794,185)	(735,520)	478,963,560	71,433,855	-	(71,433,855)	-	-
Changes in Net Position	(139,164,826)	180,439,418	(103,373,130)	(62,098,538)	(296,470,103)	(42,412,687)	103,419	(400,877,909)
Net Position (Deficit) - July 1, as restated	579,453,098	843,060,248	273,843,579	1,696,356,925	(11,293,376,590)	77,361,540	735,445	(9,518,922,680)
Net Position (Deficit) - June 30	$ 440,288,272	$ 1,023,499,666	$ 170,470,449	$ 1,634,258,387	$ (11,589,846,693)	$ 34,948,853	$ 838,864	$ (9,919,800,589)

Combining Schedule of Cash Flows
For the Fiscal Year Ended June 30, 2015

	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	$ 1,052,545,888	$ 766,538,969	$ 17,485,781	$ 1,836,570,638	$ 430,866,887	$ 33,563,657	$ 97,640	$ 2,301,098,822
Payments to/for beneficiaries	(597,950,388)	(587,999,973)	(424,225,500)	(1,610,175,861)	(432,962,862)	(740,208)	(96,634)	(2,043,975,565)
Payments to employees	(100,391,950)	(98,549,196)	-	(198,941,146)	-	-	-	(198,941,146)
Payments to suppliers	(45,927,465)	(47,850,547)	318	(93,777,694)	(1,927)	-	-	(93,779,621)
Other	44,258,604	(195,531)	64,671	44,127,744	9,867,261	14	-	53,995,019
Net Cash Flows from Operating Activities	352,534,689	31,943,722	(406,674,730)	(22,196,319)	7,769,359	32,823,463	1,006	18,397,509
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES								
Transfers in	13,853,755	47,598	325,543,140	339,444,493	776	6,188,863	-	345,634,132
Transfers out	(279,781,926)	(749,328)	(17,394,366)	(297,925,620)	2,224	(47,710,736)	-	(345,634,132)
Operating grants received	6,417,186	1,417,032	-	7,834,218	-	-	-	7,834,218
License fees collected	88,343	15,589	-	103,932	-	-	-	103,932
Net Cash Flows from Noncapital Financing Activities	(259,422,642)	730,891	308,148,774	49,457,023	3,000	(41,521,873)	-	7,938,150
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES								
Interest paid	(162,265)	(162,265)	-	(324,530)	-	-	-	(324,530)
Principal payments on bonds payable	(1,910,000)	(1,910,000)	-	(3,820,000)	-	-	-	(3,820,000)
Acquisitions of capital assets	(3,908,792)	(8,440,083)	-	(12,348,875)	-	-	-	(12,348,875)
Net Cash Flows from Capital and Related Financing Activities	(5,981,057)	(10,512,348)	-	(16,493,405)	-	-	-	(16,493,405)
CASH FLOWS FROM INVESTING ACTIVITIES								
Purchases of trust investments	-	-	8,930	8,930	-	-	-	8,930
Receipt of interest and dividends	193,449,790	149,064,377	144,624,408	487,138,575	993,531	-	-	488,132,106
Investment expenses	(1,591,132)	(1,459,518)	(1,206,885)	(4,257,535)	(125,584)	-	-	(4,383,119)
Proceeds from sale of investment securities	2,037,221,793	1,542,129,142	1,219,256,702	4,798,607,637	470,964,420	-	-	5,269,572,057
Purchases of investment securities	(2,315,724,456)	(1,711,555,821)	(1,263,890,885)	(5,291,171,162)	(479,244,807)	-	-	(5,770,415,969)
Net Cash Flows from Investing Activities	(86,644,005)	(21,821,820)	98,792,270	(9,673,555)	(7,412,440)	-	-	(17,085,995)
Net increase (decrease) in cash and cash equivalents	486,985	340,445	266,314	1,093,744	359,919	(8,698,410)	1,006	(7,243,741)
Cash & cash equivalents, July 1 (includes trust cash of $194,012)	6,820,965	2,258,881	1,414,262	10,494,108	1,188,877	69,546,185	735,445	81,964,615
Cash & cash equivalents, June 30 (includes trust cash of $202,942)	$ 7,307,950	$ 2,599,326	$ 1,680,576	$ 11,587,852	$ 1,548,796	$ 60,847,775	$ 736,451	$ 74,720,874
Cash Flows from Operating Activities								
Operating income (loss)	$ 185,703,776	$ 110,860,924	$ (652,285,378)	$ (355,720,678)	$ (297,423,910)	$ 29,021,168	$ 103,419	$ (624,020,001)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Flows from Operating Activities								
Depreciation	3,597,732	3,586,460	-	7,184,192	-	-	-	7,184,192
Change in Assets: Decrease (Increase)								
Receivables	(19,385,034)	(19,462,660)	(4,366,439)	(43,214,133)	(3,062,711)	3,805,354	(102,413)	(42,573,903)
Inventories	35,592	35,592	-	71,184	-	-	-	71,184
Prepaid expenses	(765,630)	(1,070,094)	-	(1,835,724)	-	-	-	(1,835,724)
Change in Liabilities: Increase (Decrease)								
Claims and judgments payable	136,366,000	(67,395,000)	252,451,000	321,422,000	307,193,000	-	-	628,615,000
Accrued liabilities	46,982,253	5,388,500	(2,473,913)	49,896,840	1,062,980	(3,059)	-	50,956,761
Net Cash Flows from Operating Activities	$ 352,534,689	$ 31,943,722	$ (406,674,730)	$ (22,196,319)	$ 7,769,359	$ 32,823,463	$ 1,006	$ 18,397,509
Non Cash Investing, Capital and Financing Activities								
Increase (Decrease) in fair value of investments	$ (135,295,109)	$ (92,067,663)	$ (107,590,726)	$ (334,953,498)	$ (40,618)	$ -	$ -	$ (334,994,116)

State of Washington Workers' Compensation Program - Basic Plan
Schedule of Undiscounted Claims Development Information
Fiscal Years 2006 through 2015
(in millions)

The table below illustrates how the Workers' Compensation Program Basic Plan earned revenues (net of reinsurance) and investment revenue 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 columns of the table show data for successive fiscal years.

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Net earned required contribution and investment revenues	$ 1,392	$ 2,406	$ 1,697	$ 1,692	$ 2,797	$ 2,525	$ 2,581	$ 1,928	$ 2,888	$ 2,113
Estimated incurred claims and expenses, end of fiscal accident year	2,141	2,196	2,256	2,363	2,312	2,254	2,086	2,105	2,061	2,303
Paid (cumulative) as of:										
End of fiscal accident year	278	295	310	322	298	289	284	296	297	301
One year later	589	625	679	667	604	584	580	593	613	
Two years later	754	817	890	863	773	747	734	755		
Three years later	873	953	1,042	1,000	890	857	840			
Four years later	964	1,059	1,162	1,107	981	940				
Five years later	1,038	1,144	1,258	1,192	1,054					
Six years later	1,103	1,216	1,337	1,262						
Seven years later	1,159	1,281	1,406							
Eight years later	1,210	1,340								
Nine years later	1,256									
Re-estimated incurred claims and expenses: *										
End of fiscal accident year	2,141	2,196	2,256	2,363	2,312	2,254	2,086	2,105	2,061	2,303
One year later	2,053	2,234	2,559	2,535	2,271	2,139	2,026	2,001	2,174	
Two years later	2,055	2,390	2,647	2,538	2,261	2,066	1,967	2,035		
Three years later	2,151	2,441	2,724	2,485	2,137	2,012	1,877			
Four years later	2,196	2,526	2,662	2,411	2,147	1,985				
Five years later	2,244	2,445	2,576	2,439	2,136					
Six years later	2,198	2,388	2,621	2,438						
Seven years later	2,186	2,419	2,624							
Eight years later	2,183	2,420								
Nine years later	2,163									
Increase (decrease) in estimated incurred claims and expenses from end of policy year **	22	224	368	75	(176)	(269)	(209)	(70)	113	
Percentage change in estimated incurred claims and expenses	1%	10%	16%	3%	-8%	-12%	-10%	-3%	5%	

Source: Washington State Department of Labor & Industries Actuarial Services

* Re-estimated claims and expenses result from new information received on known claims, re-evaluation of existing information on known claims, and emergence of new claims not previously known.

** This line compares the latest re-estimated incurred claims amount to the amount originally established 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 more recent fiscal accident years.

State of Washington Workers' Compensation Program - Supplemental Pension Plan
Schedule of Undiscounted Claims Development Information
Fiscal Years 2006 through 2015
(in millions)

The table below illustrates how the Workers' Compensation Program Supplemental Pension Plan earned revenues (net of reinsurance) and investment revenue 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 columns of the table show data for successive fiscal years.

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Net earned required contribution and investment revenues	$ 305	$ 283	$ 334	$ 349	$ 372	$ 440	$ 444	$ 419	$ 432	$ 440
Estimated incurred claims and expenses, end of fiscal accident year	804	968	1,093	966	1,082	843	519	441	407	433
Paid (cumulative) as of:										
End of fiscal accident year	-	-	-	-	-	-	-	-	-	-
One year later	3	6	8	6	3	1	1	1	-	
Two years later	7	12	14	10	4	3	2	2		
Three years later	14	21	21	14	7	6	5			
Four years later	22	30	28	20	12	9				
Five years later	30	37	36	26	16					
Six years later	38	46	44	33						
Seven years later	46	56	53							
Eight years later	56	66								
Nine years later	66									
Re-estimated incurred claims and expenses:*										
End of fiscal accident year	804	968	1,093	966	1,082	843	519	441	407	433
One year later	927	1,176	1,121	1,174	843	577	490	407	450	
Two years later	1,065	1,125	1,316	980	601	507	420	437		
Three years later	998	1,272	1,152	718	607	463	404			
Four years later	1,119	1,116	847	703	511	461				
Five years later	958	831	739	625	511					
Six years later	736	684	749	620						
Seven years later	610	773	742							
Eight years later	699	762								
Nine years later	690									
Increase (decrease) in estimated incurred claims and expenses from end of policy year**	(114)	(206)	(351)	(346)	(571)	(382)	(115)	(4)	43	
Percentage change in estimated incurred claims and expenses	-14%	-21%	-32%	-36%	-53%	-45%	-22%	-1%	11%	

Source: Washington State Department of Labor & Industries Actuarial Services

* Re-estimated claims and expenses result from new information received on known claims, re-evaluation of existing information on known claims, and the emergence of new claims not previously known.

** This section compares the latest re-estimation of incurred claims amount to the amount originally established, illustrating the change in whether the 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 more recent policy years.

Washington State Department of
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October 2, 2015

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, 2015.

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, 2015.

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, 2015 is as follows:

	Discounted
Accident Account	$4,893,487,000
Medical Aid Account	4,162,722,000
Pension Reserve Account	4,177,750,000
Total Basic Plan Loss and LAE Reserves	$13,233,959,000
Supplemental Pension Account	11,832,190,000
Total Program Loss and LAE Reserves	$25,066,149,000

In my opinion, the loss and LAE amounts listed above and displayed in the Program's Comprehensive Annual Financial Report as of June 30, 2015:

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

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

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

Relevant Comments

A. Major Risk Factors

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

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

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

The Department discounts the loss and LAE reserves to reflect the time value of money using an average annual interest rate of 2.48%. Changes to the interest rate used for discounting could result in material changes to the reserves.

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

B. Other Disclosures

Pension Liabilities for State Employees

Statutory Accounting Principles ("SAP") do not require the Program to record a separate liability for the unfunded State employee pensions. However, the Program under SAP recognizes a portion of the unfunded state employee pension in the claims administrative expense ("CAE") liability for the portion pertaining to its claims administration.

Due to a new Governmental Accounting Standard, Generally Accepted Accounting Principles ("GAAP") now require the Program to record a liability for the total unfunded state employee pensions in its Comprehensive Annual Financial Report ("CAFR") as of June 30, 2015. The CAE liability in the CAFR does not include any of the unfunded State employee pensions so as to not double count the liability. This difference in accounting results in a GAAP CAE liability that is approximately $7.0 million less than the SAP CAE liability.

Therefore, the GAAP unpaid claim liabilities shown above upon which I am expressing an opinion exclude the liabilities for the unfunded State employee pensions for staff administering claims. The amounts excluded total $6,963,000 ($2,381,000 for the Accident Account and $4,582,000 for the Medical Aid Account).

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 selected annual interest rates as follows.

- For the Medical Aid Account, the Department's selected interest rate is 1.5%.
- For the Pension Reserve Account, the Department's selected interest rate is 6.4%.
- For the Accident Account, combinations of interest rates are 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 6.4% for the remaining months of calendar year 2015. This rate is reduced to 6.25% for calendar year 2016 and then is gradually reduced each additional calendar year by 0.25% for the following seven calendar years until settling on a long term annual rate of 4.5%. 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 interest rate used to discount the Pension Reserve Account changed from 6.5% last year to 6.4% this year. The interest rate used to discount the Accident Account future fatal transfers made to the Pension Account changed from 6.5% last year to the interest rates that gradually decrease to 4.5% discussed above. The effect of reducing these interest rate assumptions this year was an increase in the discounted unpaid claim liability of $36.9 million.

We note that the interest rate used to discount the Accident Account future total permanent disability transfers made to the Pension Account remains unchanged this year. Although, the rate at which the interest rates gradually decrease to 4.5% changed this year causing the discounted unpaid claim liability to decrease $18.5 million. The interest rate used for all other future payments remained the same this year at 1.5%.

The net effect of all the interest rate assumption changes combined this year was an increase in the discounted unpaid claim liability of $18.4 million including the current fiscal accident year.

Major Assumption Changes and Other Comments

Over the past year, the Department has reduced its estimate of the number of total permanent disability claims for accident periods prior to June 30, 2014. The reduction was the result of the closing of more of the active time loss claims than was expected over the past year and using more recent averages in the selection of claim development factors to reflect more recent history. The effect of reducing this estimate was a decrease in the discounted unpaid claim liability of approximately $135.3 million. We note that this decrease only accounts for the change in estimate of the number of total permanent disability claims for accident periods prior to June 30, 2014 and does not account other favorable development related to this exposure over the past year.

This year, the Department changed mortality assumptions used to estimate the unpaid claim liabilities. In the prior year mortality assumptions relied on annuity factors, developed in 1987, based on the 1980 decennial mortality tables published by the US census. In 2014, the Department performed a study to update the mortality tables and annuity factors. Deloitte Consulting performed a review of these new mortality assumptions and concluded that that they were reasonable in a June 10, 2014 report provided to the State Auditor's Office. These updated mortality assumptions are used in the current year estimate of the unpaid claim liabilities. The updated mortality tables and annuity factors caused the discounted reserves to increase as follows:

Effect of change in Mortality Tables and Annuity Factors:

Accident Account:	$ 48.0 Million
Medical Aid Account:	$ 47.1 Million
Pension Reserve Account:	$ 70.2 Million
Supplemental Pension Account:	($ 2.0) Million
Total:	$ 163.3 Million

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

In considering the reasonableness of the Funds on a combined basis (i.e. the combined Accident Account, Medical Aid Account, Pension Reserve Account, and the Supplemental Pension

Account), we also considered that the current risk free interest rates that match the duration of these reserves is higher than the 2.48% that the Department uses to discount these reserves. We believe that if the Department increased the future COLA adjustment to a more reasonable rate, the increase could be offset by an increase in the annual interest rate used to discount the reserves. Therefore, we believe that the overall reserve balance is still reasonable.

C. General Uncertainty

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

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

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

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October 2, 2015

Statistical Section

Washington State Department of
Labor & Industries

Keep Washington Safe and Working

Statistical Section

Narrative and Index

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

Page

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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

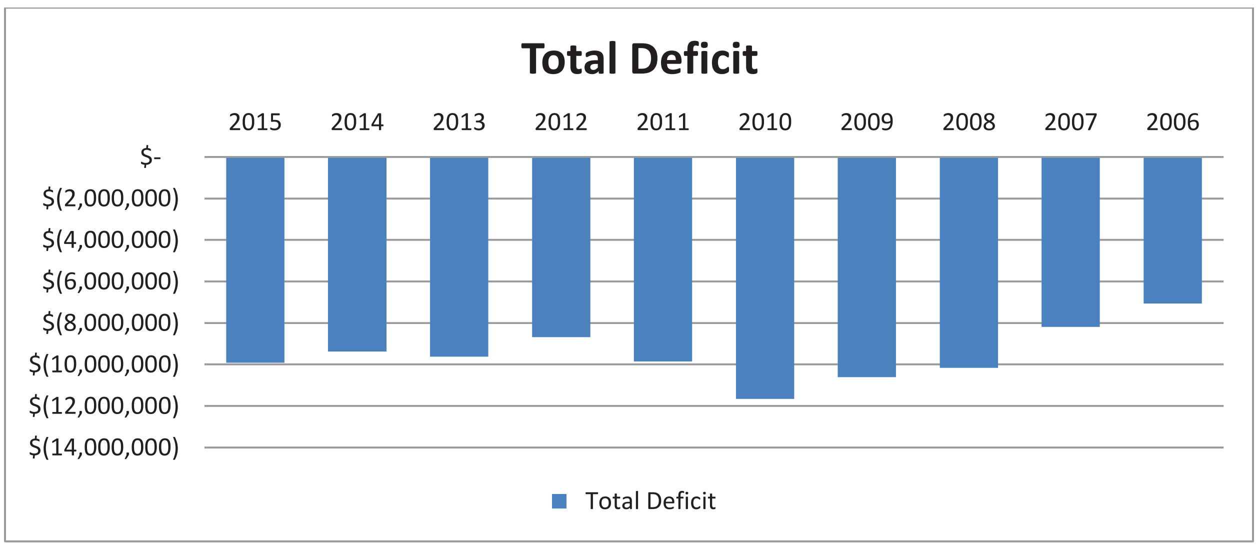
Keep Washington Safe and Working

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

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Net Investment in capital assets	$ 67,595	$ 58,781	$ 57,687	$ 52,708	$ 51,101	$ 41,251	$ 37,415	$ 37,838	$ 39,911	$ 33,011
Unrestricted [2]	(9,987,396)	(9,577,704)	(9,682,379)	(8,741,896)	(9,911,590)	(11,708,411)	(10,654,926)	(10,203,709)	(8,225,454)	(7,093,780)
Total Net Position (Deficit) [1, 2]	$ (9,919,801)	$ (9,518,923)	$ (9,624,692)	$ (8,689,188)	$ (9,860,489)	$ (11,667,160)	$ (10,617,511)	$ (10,165,871)	$ (8,185,543)	$ (7,060,769)

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

[2] Fiscal years 2008, 2012, and 2014 are restated amounts.



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

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Operating Revenues										
Premiums and assessments, net of refunds	$ 2,337,483	$ 2,200,410	$ 2,123,483	$ 2,014,841	$ 1,983,348	$ 1,727,722	$ 1,824,276	$ 1,563,960	$ 1,689,072	$ 1,729,501
Miscellaneous revenues	56,714	53,986	47,354	47,964	51,411	40,250	52,859	50,023	53,589	60,918
Total Operating Revenues	2,394,197	2,254,396	2,170,837	2,062,805	2,034,759	1,767,972	1,877,135	1,613,983	1,742,661	1,790,419
Operating Expenses										
Salaries and wages	150,278	145,431	140,203	136,406	135,979	137,085	134,295	133,773	120,244	116,951
Employee benefits	55,397	58,367	54,367	54,379	51,397	48,545	51,025	41,298	37,803	33,411
Personal services	11,304	5,661	8,895	8,013	6,366	4,521	6,449	7,533	3,800	2,945
Goods and services	82,416	76,389	79,315	69,194	72,443	67,817	73,594	72,568	70,814	64,227
Travel	4,145	4,047	4,068	3,779	3,401	3,339	3,314	4,183	3,482	3,477
Claims	2,666,452	2,810,658	3,014,796	1,594,192	888,159	3,971,059	2,180,781	3,727,966	3,585,725	1,998,393
Depreciation	7,184	7,228	8,428	6,634	8,037	7,991	10,003	10,281	8,220	25,551
Miscellaneous expenses	41,041	33,954	28,486	45,946	52,463	26,287	88,589	63,442	9,320	19,882
Total Operating Expenses	3,018,217	3,141,735	3,338,558	1,918,543	1,218,245	4,266,644	2,548,050	4,061,044	3,839,408	2,264,837
Operating Income (Loss)	(624,020)	(887,339)	(1,167,721)	144,262	816,514	(2,498,672)	(670,915)	(2,447,061)	(2,096,747)	(474,418)
Nonoperating Revenues (Expenses)										
Earnings on investments	215,557	1,119,761	223,875	1,009,688	981,927	1,441,576	216,035	466,963	966,548	(32,486)
Other revenues	7,840	8,329	8,998	8,421	9,294	7,878	7,477	7,785	6,978	7,600
Interest expense	(255)	(461)	(656)	(839)	(1,064)	(1,271)	(1,466)	(1,942)	(1,553)	(2,062)
Total Nonoperating Revenues (Expenses)	223,142	1,127,629	232,217	1,017,270	990,157	1,448,183	222,046	472,806	971,973	(26,948)
Income (Loss) Before Transfers		240,290	(935,504)	1,161,532	1,806,671	(1,050,489)	(448,869)	(1,974,255)	(1,124,774)	(501,366)
Transfers in		325,015	371,670	303,273	311,777	323,623	465,908	430,544	339,997	288,987
Transfers out		(325,015)	(371,670)	(303,273)	(311,777)	(322,783)	(468,679)	(430,544)	(339,997)	(290,310)
Net Transfers		-	-	-	-	840	(2,771)	-	-	(1,323)
Changes in Net Position	(400,878)	240,290	(935,504)	1,161,532	1,806,671	(1,049,649)	(451,640)	(1,974,255)	(1,124,774)	(502,689)
Net Position (Deficit), July 1 [1]	(9,518,923)	(9,624,691)	(8,689,188)	(9,860,489)	(11,667,160)	(10,617,511)	(10,165,871)	(8,185,543)	(7,060,769)	(6,558,080)
Net Position (Deficit), June 30	$ (9,919,801)	$ (9,384,401)	$ (9,624,692)	$ (8,698,957)	$ (9,860,489)	$ (11,667,160)	$ (10,617,511)	$ (10,159,798)	$ (8,185,543)	$ (7,060,769)

[1] Fiscal years 2009, 2013, and 2015 deficits at beginning of year are restated amounts.

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

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Premiums and Assessments										
State Fund Premiums										
Accident	$ 1,231,128	$ 1,165,138	$ 1,105,903	$ 1,060,670	$ 916,514	$ 767,915	$ 832,584	$ 939,558	$ 918,803	$ 869,177
Medical Aid [1]	779,315	695,460	624,913	596,421	614,714	601,087	637,975	332,781	592,633	615,687
Supplemental Pension	321,967	316,448	302,915	318,328	318,835	264,934	250,211	248,827	206,583	226,508
Net retrospective rating refunds	(188,302)	(174,854)	(136,404)	(171,509)	(75,011)	(112,494)	(81,255)	(98,125)	(190,285)	(161,893)
Dividend refunds	-	-	-	-	-	-	-	(33,560)	-	-
Total State Fund Premiums	2,144,108	2,002,192	1,897,327	1,803,910	1,775,052	1,521,442	1,639,515	1,389,481	1,527,734	1,549,479
Self-insurance assessments	193,375	198,218	226,156	210,931	208,296	206,280	184,761	174,479	161,338	180,022
Total Premiums and Assessments	$ 2,337,483	$ 2,200,410	$ 2,123,483	$ 2,014,841	$ 1,983,348	$ 1,727,722	$ 1,824,276	$ 1,563,960	$ 1,689,072	$ 1,729,501
Average Standard Premium Rates[2] (per hour worked) - Effective from January 1 to December 31										
Accident	0.3528	0.3435	0.3435	0.3435	0.3368	0.2595	0.2483	0.2439	0.2554	0.2688
Medical Aid	0.2152	0.2039	0.1844	0.1844	0.1837	0.2048	0.1889	0.1830	0.1656	0.1656
Supplemental Pension	0.0894	0.0907	0.0926	0.0930	0.1075	0.0967	0.0834	0.0779	0.0665	0.0621
Stay At Work [3]	0.0071	0.0069	0.0075	0.0071	N/A	N/A	N/A	N/A	N/A	N/A
Total Average Standard Premium Rates (composite rate)	0.6645	0.6450	0.6280	0.6280	0.6280	0.5610	0.5206	0.5048	0.4875	0.4965
Employer portion	0.4655	0.4604	0.4531	0.4506	0.4401	0.3725	0.3516	0.3407	0.3378	0.3433
Worker portion	0.1559	0.1508	0.1423	0.1423	0.1456	0.1508	0.1362	0.1305	0.1161	0.1139
State Fund average hourly wage	$ 28.30	$ 27.37	$ 26.60	$ 26.10	$ 25.24	$ 24.37	$ 23.86	$ 23.40	$ 22.62	$ 21.54
Composite net rate per $100 Payroll [4]	$ 2.20	$ 2.23	$ 2.24	$ 2.27	$ 2.32	$ 2.15	$ 2.04	$ 2.01	$ 2.01	$ 2.12
Investments [5]										
Investment income (interest and dividend)	$ 493,679	$ 479,457	$ 466,299	$ 488,831	$ 501,382	$ 501,143	$ 546,021	$ 601,649	$ 610,844	$ 559,732
Investment balances	$14,634,116	$14,502,551	$13,381,566	$13,321,822	$12,512,715	$11,894,375	$10,886,051	$11,019,207	$10,983,413	$10,170,473
Average rate of return	3.4%	3.3%	3.5%	3.7%	4.0%	4.2%	5.0%	5.5%	5.6%	5.5%

[1] Medical Aid premium rate was reduced to zero from 7/1/2007 to 12/31/2007 as a result of a rate holiday.
[2] These rates are for State Fund firms. Past average standard premium rates change annually to reflect the current distribution of risk by class.
[3] Stay at Work program started in calendar year 2012.
[4] This figure equals the composite net of Retro 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 State Department of Labor & Industries Actuarial Services

Schedule 4 - Employer Accounts
Last Ten Fiscal Years

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Employers insured	174,000	169,000	168,000	166,000	163,000	163,000	168,000	171,000	168,000	165,000
Workers covered	2,690,000	2,577,000	2,487,000	2,420,000	2,360,000	2,330,000	2,460,000	2,570,000	2,500,000	2,400,000
Hours reported	3,538,000,000	3,388,000,000	3,270,000,000	3,183,000,000	3,100,000,000	3,065,000,000	3,232,000,000	3,380,000,000	3,287,000,000	3,200,000,000
Self-insured employers	355	355	363	365	360	363	369	382	377	382
Workers covered under self-insured employers	865,000	884,000	845,654	845,085	821,000	826,000	830,000	870,000	830,000	841,000
Industry Classifications - NAICS Sector										
Construction	22,460	21,998	21,229	21,191	21,631	21,963	25,051	27,244	27,184	26,244
Prof., scientific, and technical services	22,074	21,474	20,035	19,960	19,278	17,839	18,428	18,677	18,144	17,506
Other services (except public administration)	16,541	16,511	16,353	16,613	16,391	15,660	16,115	16,347	16,088	15,992
Retail trade	15,796	16,146	16,219	16,627	16,385	15,779	16,892	17,616	17,844	18,158
Health care and social assistance	15,007	15,013	14,843	14,929	14,579	13,929	14,199	14,156	13,904	13,616
Accommodation and food services	14,672	14,611	14,538	14,754	14,642	13,807	14,367	14,641	14,477	14,141
Administrative and support services	11,399	11,138	10,458	10,459	10,018	9,447	9,928	10,261	10,083	9,832
Wholesale trade	10,832	10,652	10,189	10,450	10,218	9,163	9,328	9,431	9,337	9,066
Agriculture, forestry, fishing, and hunting	7,069	6,980	7,141	7,238	7,258	7,284	7,690	7,905	8,157	8,416
Real estate, rental and leasing	6,765	6,721	6,642	6,627	6,719	6,563	7,117	7,372	7,099	7,004
Manufacturing	6,603	6,604	6,670	6,717	6,694	6,615	6,993	7,229	7,261	7,290
Transportation and warehousing	6,130	6,106	5,753	5,569	4,095	3,833	4,013	4,211	4,103	4,019
Finance and insurance	4,997	5,017	5,003	5,073	5,110	4,998	5,437	5,701	5,694	5,496
Education services	2,907	2,769	2,653	2,618	2,487	2,177	2,161	2,126	2,062	1,952
Arts, entertainment, and recreation	2,742	2,715	2,624	2,655	2,568	2,418	2,508	2,585	2,512	2,485
Unclassified establishments	2,265	985	3,816	382	1,512	8,016	4,537	1,888	572	438
Information	2,144	2,147	2,114	2,107	1,836	1,746	1,880	1,933	1,935	1,852
Public administration	1,027	1,028	1,026	1,030	1,040	1,042	1,063	1,058	1,051	1,043
Utilities	359	357	355	352	344	338	345	351	342	352
Mining	167	172	177	180	178	176	200	210	209	208
Mgmt. of companies and enterprises	158	150	144	133	118	103	99	102	106	92
Total Employer Accounts	172,114	169,294	167,982	165,664	163,101	162,896	168,351	171,044	168,164	165,202

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, except per covered worker)

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Outstanding Debt:										
General obligation bonds [1]	$ 4,050	$ 7,870	$ 11,475	$ 14,875	$ 18,080	$ 22,110	$ 25,930	$ 29,555	$ 33,080	$ 36,825
Debt Ratios:										
Principal paid on total debt	$ 3,820	$ 3,605	$ 3,400	$ 3,205	$ 4,030	$ 3,820	$ 3,625	$ 3,525	$ 3,370	$ 3,045
Ratio of principal paid to total debt	94.3%	45.8%	29.6%	21.5%	22.3%	17.3%	14.0%	11.9%	10.2%	8.3%
Interest paid on total debt	$ 325	$ 527	$ 717	$ 897	$ 1,143	$ 1,346	$ 1,537	$ 1,584	$ 1,733	$ 2,061
Ratio of interest paid to total debt	8.0%	6.7%	6.2%	6.0%	6.3%	6.1%	5.9%	5.4%	5.2%	5.6%
Premiums and assessments earned	$ 2,337,483	$ 2,200,410	$ 2,123,483	$ 2,014,841	$ 1,983,348	$ 1,727,722	$ 1,824,276	$ 1,563,960	$ 1,689,072	$ 1,729,501
Ratio of total debt to premium and assessments earned	0.2%	0.4%	0.5%	0.7%	0.9%	1.3%	1.4%	1.9%	2.0%	2.1%
Total debt per covered worker [2]	$ 1.51	$ 3.05	$ 4.61	$ 6.15	$ 7.66	$ 9.49	$ 10.54	$ 11.50	$ 13.23	$ 15.34

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

[2] Covered worker data can be found in Schedule 4.

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

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Unpaid loss and loss adjustment expenses at beginning of fiscal year [1]	$ 24,437,534	$ 23,627,560	$ 22,596,350	$ 22,943,311	$ 24,025,832	$ 22,006,789	$ 21,887,148	$ 19,746,492	$ 17,755,100	$ 17,278,895
Incurred claims and claim adjustment expenses										
Provision for insured events of the current fiscal year	2,102,923	1,910,196	1,924,011	1,823,525	1,950,485	2,204,709	2,225,312	2,273,716	2,138,397	2,449,650
Increase (decrease) in provision for insured events of prior fiscal years	711,211	1,043,312	1,226,506	(92,184)	(933,553)	1,895,787	109,437	1,749,155	1,582,629	(318,243)
Total incurred claims and claim adjustment expenses	2,814,134	2,953,508	3,150,517	1,731,341	1,016,932	4,100,496	2,334,749	4,022,871	3,721,026	2,131,407
Payments										
Claims and claim adjustment expenses attributable to										
Events of the current fiscal year	300,862	296,885	296,347	283,763	288,812	297,520	327,536	316,086	294,879	277,626
Insured events of prior fiscal years	1,884,657	1,846,649	1,822,960	1,794,539	1,810,641	1,783,933	1,730,293	1,566,129	1,434,755	1,377,576
Total payments	2,185,519	2,143,534	2,119,307	2,078,302	2,099,453	2,081,453	2,057,829	1,882,215	1,729,634	1,655,202
Total unpaid loss and loss adjustment expenses at fiscal year end	$ 25,066,149	$ 24,437,534	$ 23,627,560	$ 22,596,350	$ 22,943,311	$ 24,025,832	$ 22,164,068	$ 21,887,148	$ 19,746,492	$ 17,755,100

[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 State Department of Labor & Industries Actuarial Services

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

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Population	7,061.4	6,968.2	6,882.4	6,817.8	6,767.9	6,724.5	6,672.2	6,608.3	6,525.1	6,420.3
Net Increase	93.2	85.8	64.6	49.9	43.4	52.4	63.9	83.2	104.8	121.4
Percent change	1.3%	1.2%	0.9%	0.7%	0.6%	0.8%	1.0%	1.3%	1.6%	1.9%
Components of change										
Births	88.4	87.0	87.3	87.1	86.4	88.4	89.8	89.6	87.8	83.2
Deaths	52.5	50.7	50.8	49.2	48.8	47.7	48.1	47.9	46.2	45.3
Net migration	57.4	49.5	28.2	12.0	5.8	11.6	22.2	41.5	63.2	83.5

Note: Washington State population estimates are as of April 1 of each year. Population estimates for 2009 through 2006 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 2015 are postcensal estimates developed by the Washington State Office of Financial Management. Some figures may not total due to rounding.

Sources: Washington State Office of Financial Management Forecasting Division

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

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Personal income	$ 350	$ 333	$ 324	$ 304	$ 287	$ 281	$ 290	$ 277	$ 256	$ 236
Percent change	5%	3%	7%	6%	2%	-3%	5%	8%	9%	5%
Per capita	$ 49,583	$ 47,717	$ 47,055	$ 44,565	$ 42,547	$ 42,137	$ 44,143	$ 42,829	$ 40,127	$ 37,638

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 Rate
Last Ten Calendar Years
(in thousands)

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Civilian labor force	3,487	3,457	3,463	3,482	3,515	3,535	3,479	3,393	3,319	3,259
Less Employed	3,269	3,217	3,185	3,162	3,167	3,206	3,286	3,237	3,155	3,080
Total unemployed	218	240	278	320	348	329	193	156	164	179
Unemployment rate	6.3%	6.9%	8.0%	9.2%	9.9%	9.3%	5.5%	4.6%	5.0%	5.5%

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, June 2015

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

	2014 Annual Averages			2005 Annual Averages		
Industry [1]	Number of Employees [2]	Percent of Total	Number of Employers	Number of Employees [2]	Percent of Total	Number of Employers
Government	523,874	17.2%	2,128	501,953	18.2%	2,035
Health care and social assistance [3]	392,480	12.9%	61,628	279,804	10.1%	13,089
Retail trade	337,138	11.1%	14,948	310,299	11.2%	14,398
Manufacturing	285,469	9.4%	6,963	267,703	9.7%	7,142
Accommodation and food services	246,772	8.1%	13,739	215,078	7.8%	11,744
Professional, scientific, and technical services	177,261	5.8%	21,718	135,425	4.9%	15,407
Construction	150,100	4.9%	22,079	165,070	6.0%	22,717
Administrative and support services [4]	148,363	4.9%	10,856	138,082	5.0%	8,367
Wholesale trade	127,901	4.2%	13,646	118,698	4.3%	12,310
Information	108,888	3.6%	3,073	94,427	3.4%	2,327
Agriculture, forestry, fishing, and hunting	99,738	3.3%	7,298	83,155	3.0%	8,143
Finance and insurance	90,876	3.0%	5,650	102,587	3.7%	5,610
Other services [3]	89,494	2.9%	17,416	111,572	4.0%	49,638
Transportation and warehousing	87,248	2.9%	4,414	80,950	2.9%	3,872
Arts, entertainment, and recreation	46,675	1.5%	2,625	44,056	1.6%	2,307
Real estate, rental and leasing	46,072	1.5%	6,482	47,847	1.7%	6,522
Mgmt. of companies and enterprises	39,917	1.3%	650	33,313	1.2%	619
Education services	38,480	1.3%	2,975	29,023	1.0%	1,903
Utilities	4,770	0.1%	233	4,386	0.2%	230
Mining	2,192	0.1%	156	3,301	0.1%	158
Total average employment [5]	3,043,708	100%	218,677	2,766,729	100%	188,538

[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] A number of state-funded programs that provide nonmedical, home-based services for the elderly and persons with disabilities were incorrectly classified as other services. Effective January 2014, these are now classified correctly as health care and social assistance.

[4] Employment classified under administrative and support services includes waste management and remediation services.

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

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

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

Industry [2]	Annual Average Wages [1] 2014 [3]	2013	2012	2011	2010	2009	2008	2007	2006	2005
Information	$ 148,429	$ 135,304	$ 131,872	$ 119,968	$ 109,777	$ 105,715	$ 104,053	$ 96,240	$ 91,081	$ 82,647
Management of companies and enterprises	106,518	105,501	105,535	102,009	95,731	87,642	87,431	86,867	85,031	75,236
Utilities	87,212	86,373	84,024	82,058	77,591	84,410	76,945	73,736	70,404	65,615
Professional, scientific, and technical services	84,882	81,893	79,972	77,178	75,376	71,837	70,120	70,104	63,687	61,181
Finance and insurance	82,103	79,587	77,455	73,154	70,137	71,304	72,653	70,044	66,684	62,382
Manufacturing	74,304	70,798	69,306	68,065	64,925	62,931	61,260	59,568	58,196	54,953
Wholesale trade	70,167	68,230	68,481	65,831	63,348	61,569	61,041	59,345	56,572	53,458
Mining	63,404	62,444	60,231	58,871	55,654	52,981	54,718	58,056	54,924	52,592
Government	55,603	53,733	52,871	52,174	51,394	50,420	48,705	46,914	44,745	42,915
Construction	55,038	53,735	53,056	52,304	51,127	51,043	49,443	46,783	43,746	41,482
Transportation and warehousing	52,293	51,967	50,876	49,628	47,743	46,522	45,433	45,320	44,078	42,798
Real estate, rental and leasing	45,179	43,426	42,040	39,816	38,359	36,777	36,669	36,334	34,948	32,744
Administrative and support services [4]	44,382	43,261	43,381	42,942	41,466	39,571	37,536	36,463	34,533	33,649
Health care and social assistance [5]	44,246	47,733	47,067	45,852	44,673	43,561	41,424	39,474	37,654	36,162
Education services	36,918	36,775	36,226	35,576	35,158	34,505	33,550	32,076	30,901	29,860
Retail trade	36,127	34,084	32,364	30,917	30,021	29,356	29,268	29,082	28,174	27,330
Other services [5]	35,570	26,717	25,651	24,549	24,227	24,881	25,637	24,385	23,009	22,010
Arts, entertainment, and recreation	29,725	27,771	25,276	25,023	25,121	25,527	26,949	27,643	27,139	25,724
Agriculture, forestry, fishing, and hunting	27,758	26,880	26,295	25,097	24,034	23,675	24,491	23,413	22,239	21,122
Accommodation and food services	19,561	19,136	18,698	18,062	17,632	17,063	16,430	16,019	15,469	15,014

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

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

[3] 2014 data is preliminary.

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

[5] A number of state-funded programs that provide nonmedical, home-based services for the elderly and persons with disabilities were incorrectly classified as other services. Effective January 2014, these are now classified correctly as health care and social assistance.

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

Schedule 12 - Demographics of Accepted Claims
Last Ten Fiscal Years

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Male injured workers	67%	67%	67%	67%	66%	66%	68%	70%	70%	70%
Female injured workers	33%	33%	33%	33%	34%	34%	32%	30%	30%	30%
Average age of injured workers	38	38	38	38	38	38	38	37	37	37
Injured workers younger than 30	29%	28%	27%	27%	28%	29%	32%	34%	35%	34%
Injured workers 30 to 50	45%	46%	46%	46%	47%	48%	48%	47%	48%	50%
Injured workers older than 50	24%	24%	24%	24%	23%	22%	21%	19%	17%	17%
Injured workers age unkonwn	2%	2%	2%	2%	2%	1%	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

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Administrative Services	132	127	122	121	169	172	171	176	174	171
Communications & Web Services	51	47	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Director's Office	31	31	141	87	92	93	88	89	82	80
Division of Financial Management	53	50	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
DOSH	355	356	344	341	330	335	339	332	322	333
Field Services & Public Safety	4	4	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Fraud Prevention & Labor Standards	131	122	86	85	83	84	74	79	74	75
Human Resources	54	46	44	46	45	45	47	50	47	51
Information Services	201	194	175	173	171	178	189	194	194	175
Insurance Services	1,076	1,048	955	990	945	944	954	977	980	994
New legislation	12	6	93	58	N/A	N/A	N/A	N/A	N/A	N/A
Region 1	60	60	61	59	56	57	59	58	57	58
Region 2	102	101	100	102	102	102	96	92	90	94
Region 3	54	55	55	54	56	59	60	59	55	58
Region 4	70	70	71	74	70	72	65	64	69	71
Region 5	72	68	71	71	71	71	70	70	70	74
Region 6	39	38	39	40	41	42	43	44	44	42
Specialty Compliance Services	N/A	N/A	37	38	37	40	36	29	27	25
Total	2,497	2,423	2,394	2,339	2,268	2,294	2,291	2,313	2,285	2,301

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

In fiscal year 2014, the Department of Labor & Industries reorganized some divisions. Communications & Web Services and Financial Management were separated from the Director's Office Division, and Specialty Compliance Services was split and merged into Fraud Prevention & Labor Standards and Field Services & Public Safety.

Source: Fiscal Interactive Reporting System

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

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Tumwater headquarters	1	1	1	1	1	1	1	1	1	1
Field offices*	18	18	18	18	19	19	19	19	19	19
Warehouses	1	1	1	1	1	1	1	1	1	1
Labs	1	1	1	1	1	1	1	1	1	1
Other offices	2	2	2	2	1	1	1	1	1	0

*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

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Claim Statistics:										
Number of Claims Filed [1]	109,359	106,903	103,328	101,524	100,690	102,734	116,616	136,791	140,308	140,887
Number of Claims Accepted [1, 2]	82,707	86,968	84,064	84,863	81,274	86,184	102,440	119,788	121,769	124,391
Number of Claims Denied [1, 2]	14,098	14,593	14,077	13,857	12,762	12,703	14,964	15,748	15,171	15,210
Fatal Pensions Awarded	61	51	44	35	59	45	42	63	54	66
Total Permanent Disability Pensions Granted	1,063	1,085	1,614	925	1,036	937	1,612	1,109	1,557	840
Permanent Partial Disability Awards Granted	10,769	10,431	10,760	11,524	11,782	11,452	12,684	12,316	12,621	12,535
New Time-loss (Wage Replacement) Claims [3]	19,509	20,049	19,740	20,205	21,377	22,604	26,295	28,593	29,416	29,615
Medical-only Claims Accepted	66,411	69,752	67,171	67,539	63,308	66,885	80,171	95,052	96,505	97,964
Retraining Plans Completed [4]	474	501	1,740	1,665	1,667	1,229	1,142	1,694	1,763	1,093
Total Days Paid for Lost Work	6,841,091	7,054,849	7,521,311	7,850,982	8,099,675	8,121,263	7,926,800	7,488,000	7,540,000	7,480,000
Five Most Frequent Injuries: [5]										
Back, spine, and spinal cord: Traumatic injuries to muscles, tendons, ligaments, and joints (includes sprains and strains)	10,624	10,466	10,247	10,829	10,227	12,026	13,486	16,192	15,236	N/A
Finger(s): Open wounds of finger(s), fingernails (includes cuts and lacerations, and amputation of fingertip or finger)	9,429	9,459	8,665	8,761	7,974	8,641	10,837	12,871	13,186	N/A
Shoulder(s): Traumatic injuries to muscles, tendons, ligaments, joints, etc., including clavicle, scapula (includes injuries to muscles, tendons, and ligaments that are not specifically otherwise classified)	3,728	3,646	3,441	3,457	-	3,501	4,053	4,235	-	N/A
Leg(s): Traumatic injuries to muscles, tendons, ligaments, joints, etc., such as knee and thigh (excludes ankle and hip)	3,696	3,802	3,614	3,484	3,362	3,774	4,356	4,460	4,042	N/A
Face: Surface wounds and bruises (includes splinter or other foreign body in eye, and bruises or contusions of the forehead)	3,473	3,611	3,723	3,775	3,320	3,753	5,020	6,153	6,261	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

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

[1] Provisional Claims: Number of Claims Accepted plus Number of Claims Denied do not equal Number of Claims Filed as there are claims in "provisional" status where the decision to accept or deny has yet to be made.
[2] Counts of accepted and denied claims reflect actions in that year regardless of when claim was filed.
[3] Counts of new time-loss (wage replacement) claims reflect actions in that year regardless of when claim was filed.
[4] Beginning in fiscal year 2014, the statistics reported are for retraining plans successfully completed. The previous years include all training plans whether completed successfully or not.
[5] L&I adopted the national coding system for injury categories starting in fiscal year 2007. Data for these injury categories is not available in prior years.

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

Risk Class	Risk Class Description	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
3905	Restaurants and Taverns	6,884	7,179	6,921	6,703	6,433	6,689	7,130	8,460	8,742	8,874
4803	Orchards	3,121	3,072	2,864	2,653	2,151	2,050	2,221	1,949	2,216	2,041
6509	Boarding Homes and Retirement Centers	2,202	2,499	2,404	2,481	2,398	2,435	2,393	2,362	2,300	2,421
6109	Physicians & Medical Clinics	1,864	2,203	2,134	2,173	2,263	2,218	2,246	2,391	2,344	2,341
6108	Nursing Homes	1,766	2,035	2,076	2,079	2,186	2,271	2,409	2,660	2,675	2,702
2104	Fruit & Vegetable Packing - Fresh	1,612	1,559	1,480	1,304	1,246	1,310	1,411	1,364	1,459	1,441
4906	Colleges & Universities	1,530	1,748	1,701	1,813	1,769	1,840	1,873	1,903	1,926	1,909
3411	Automobile Dealers, Rentals and Service Shops	1,436	1,529	1,554	1,487	1,587	1,600	1,788	2,195	2,308	2,454
0510	Wood Frame Building Construction	1,402	1,325	1,269	1,133	1,202	1,316	2,005	3,142	3,987	4,422
6103	Schools, Churches and Day Care - Prof./Clerica	1,189	1,331	1,344	1,389	1,432	1,342	1,490	1,477	1,412	1,454
3402	Machine Shops and Machinery Mfg., N.O.C.	1,182	1,311	1,244	1,320	1,222	1,134	1,562	2,064	1,916	2,028
4910	Property and Building Management Services	1,163	1,231	1,274	1,289	1,240	1,285	1,332	1,405	1,448	1,481
0516	Carpentry, N.O.C.	1,102	1,053	950	860	759	898	1,187	1,635	1,649	1,491
4905	Motels and Hotels	1,026	1,138	1,119	994	1,020	962	994	1,134	1,134	1,108
0601	Electrical Wiring: Buildings and Structures	948	919	917	868	933	984	1,526	1,806	1,800	1,734
6309	Hardware, Auto Parts and Sporting Good Stores	947	1,058	1,089	1,079	1,034	1,080	1,223	1,495	1,508	1,555
1102	Trucking, N.O.C.	945	1,014	1,032	1,100	1,145	1,166	1,260	1,468	1,663	1,638
6602	Janitorial Service	915	975	935	991	945	849	961	999	1,081	1,111
6402	Supermarkets	912	1,009	884	793	823	881	961	1,038	1,049	1,097
6406	Retail Stores, N.O.C.	911	1,017	930	1,011	1,009	1,201	1,360	1,491	1,568	1,637
1101	Parcel and Package Delivery Service	899	963	953	961	953	888	1,018	1,321	1,391	1,383
0518	Non Wood Frame Building Construction	811	748	684	605	642	760	1,444	1,920	1,679	1,318
0306	Plumbing	805	748	724	765	759	790	1,199	1,457	1,479	1,459
6511	Chore Services	790	965	920	921	961	935	908	917	979	1,050
0307	HVAC Systems, Installation, Service and Repair	765	853	779	730	797	799	1,116	1,361	1,523	1,567
4904	Clerical Office, N.O.C.	758	1,011	1,010	1,114	1,162	1,205	1,434	1,546	1,682	1,708
2903	Wood Products Manufacturing, N.O.C.	758	814	722	732	678	711	820	1,387	1,611	1,679
0507	Roofing Work - Construction and Repair	749	685	685	642	698	686	832	1,065	1,259	1,112
5307	State Government - All Other Employees, N.O.C	738	912	927	1,074	1,228	1,194	1,256	1,273	1,261	1,353
3404	Metal Goods Manufacturing, N.O.C. - Under 9	683	784	764	781	675	688	922	1,246	1,290	1,350
0101	Excavation and Grading, N.O.C.	611	666	591	595	662	740	925	1,248	1,392	1,286
6303	Sales Personnel - Outside, N.O.C.	577	738	748	736	798	897	865	987	1,010	966

Notes:
These claim counts are estimated by fiscal accident year from counts reported through June 30 of each fiscal year. The claims are "allowed" State Fund claims which have been accepted for benefits. Data is as of September 14, 2015.

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

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."

Sources: Washington State Department of Labor & Industries Actuarial Services

Washington State Department of
Labor & Industries

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