Washington State Department of
Labor & Industries

Workers' Compensation Program

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2009

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Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2009

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Washington State Department of
Labor & Industries

L&I Mission Statement:

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

Areas of Focus

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

Our Principles

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

STATE OF WASHINGTON
DEPARTMENT OF LABOR AND INDUSTRIES
PO Box 44000 • Olympia, Washington 98504-4000

December 17, 2009

The Honorable Christine Gregoire, Governor
Honorable Members of the Legislature
Director of Office of Financial Management
Olympia, Washington 98504

RE: **Comprehensive Annual Financial Report**

In accordance with the Revised Code of Washington 51.44.115, the Department of Labor & Industries has prepared a Comprehensive Annual Financial Report (CAFR) for the Workers' Compensation Program for the fiscal year that ended June 30, 2009. The Department is fully responsible for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal controls that has been established for this purpose. Because the cost of internal control 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 independent Certified Public Accounting firm of Peterson Sullivan, LLP has issued an unqualified (clean) opinion on the Workers' Compensation financial statements for the year ended June 30, 2009. 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 this letter of transmittal and should be read in conjunction with it.

Following the MD&A are the basic financial statements and notes to the financial statements. The required schedules and an independent actuarial opinion complete the CAFR.

This past year has been a time of economic challenge and intense analysis. We managed investments carefully to preserve income, used new strategies to manage medical costs, expanded online services, and increased the use of occupational medicine best practices. We will continue our cost-cutting measures by re-engineering the claim filing process, involving employers earlier, and fighting fraud.

Washington's Workers' Compensation Program has many advantages. Our benefits protect injured workers and their families at premium rates that are lower than half the other states.

December 17, 2009
Page 2

We're the only state where employees pay a significant portion of the premium, about 28%, which cuts employer costs while maintaining these benefits. We give a claim-free discount to 70% of employers.

These advantages along with ongoing improvements and further changes in 2010 reinforce our commitment to provide workers and employers with a premier Workers' Compensation Program.

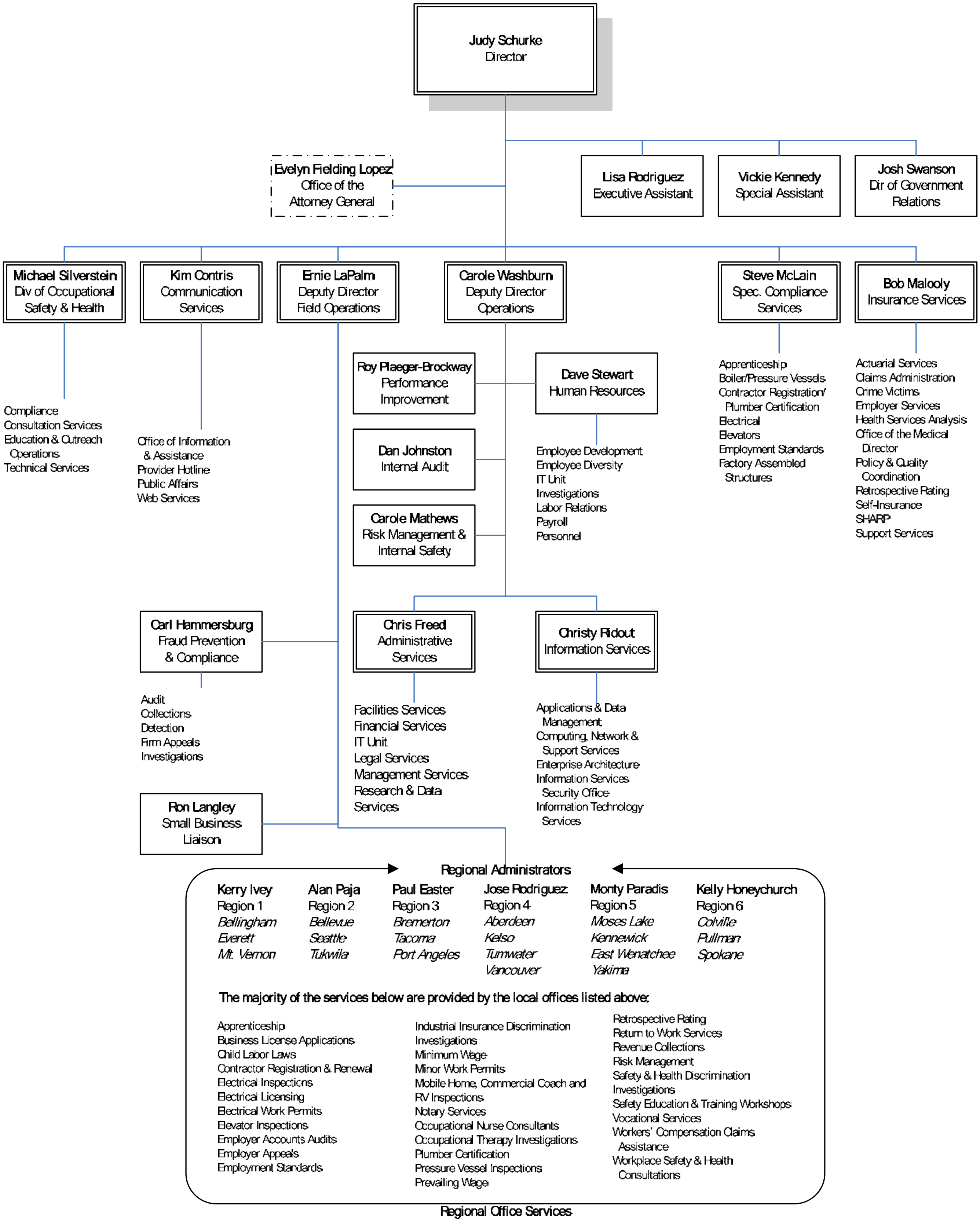
The preparation of this report could not have been accomplished without the professionalism and dedication demonstrated by the financial and management personnel of the Department of Labor & Industries, the Office of Financial Management, and the Washington State Investment Board. This CAFR represents our commitment to maintain financial statements in conformance with the highest standards of financial accountability.

Sincerely,

Judy Schurke
Director

Robert J. Malooly
Assistant Director, Insurance Services

Washington State Department of Labor & Industries Organization Chart



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Financial Section

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PETERSON SULLIVAN LLP

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying combining financial statements (including the individual fund financial statements) of the Workers' Compensation Program of the State of Washington as of and for the year ended June 30, 2009. The Workers' Compensation Program of the State of Washington is a part of the State of Washington's primary government. These combining financial statements are the responsibility of the management of the Workers' Compensation Program of the State of Washington. Our responsibility is to express an opinion on these combining financial statements based on our audit.

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

In our opinion, the combining financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Workers' Compensation Program of the State of Washington as of June 30, 2009, and the changes in its fund equity and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States. Also, in our opinion, the combining financial statements present fairly, in all material respects, the financial position of each of the individual funds of the Workers' Compensation Program of the State of Washington as of June 30, 2009, and the changes in the fund equity and the cash flows of such funds for the year then ended in conformity with accounting principles generally accepted in the United States.

As discussed in Note 2 of the combining financial statements, certain errors in previously reported accounts receivable and payable accounts as of June 30, 2008, were discovered during the current year. Accordingly, adjustments have been made to fund equity (deficit) as of July 1, 2008, to correct the errors. These adjustments increased the Workers' Compensation Program fund deficit by $6,073,331 as of July 1, 2008.

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

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

/S/ PETERSON SULLIVAN LLP

December 4, 2009

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Management's Discussion and Analysis

This section of the state of Washington Workers' Compensation Program Comprehensive Annual Financial Report presents management's discussion and analysis of the financial performance of the Workers' Compensation Program for the fiscal year that ended June 30, 2009. This discussion should be read in conjunction with the accompanying financial statements and notes to the financial statements. The financial statements, notes to the financial statements, and this discussion are the responsibility of the Workers' Compensation Program management.

General Information on the State of Washington Workers' Compensation Program

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

Washington State, through Title 51 of the Revised Code of Washington, requires all employers, unless exempted, to secure coverage for job-related injuries and illnesses either by paying insurance premiums to the Workers' Compensation Program or by self-insuring. Direct private insurance is not authorized, although self-insurers are permitted to reinsure up to 80 percent of their obligations.

Financial Highlights

(dollars in millions)	Fiscal Year Ended June 30, 2009 (Audited)	Fiscal Year Ended June 30, 2008* (Audited)	$ Change	% Change
Total Assets	$ 13,681	$ 14,140	$ (459)	(3.25%)
Total Liabilities	24,299	24,306	(7)	(0.03%)
Total Revenues Earned	1,877	1,608	269	16.73%
Total Expenses Incurred	2,549	4,063	(1,514)	(37.26%)
Total Fund Deficit	$ (10,618)	$ (10,166)	$ (452)	(4.45%)

*As restated.

Overview of the Financial Statements

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

These financial statements report the financial condition and results of operations of six accounts, or funds, including the Accident, Medical Aid, Pension Reserve, Supplemental Pension, Second Injury, and Self-Insured Employer Overpayment Reimbursement Funds, known collectively as the Workers' Compensation Program. The Accident, Medical Aid, and Pension Reserve Funds represent the Workers' Compensation Program Basic Plan.

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

The Combining Balance Sheet provides information about the Program's assets and liabilities and reflects the Program's financial position as of June 30, 2009.

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

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

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

Financial Analysis of the Workers' Compensation Program

Assets, Liabilities and Fund Equity

(dollars in millions)

		June 30,2009		June 30, 2008*
Assets				
Current assets and noncurrent receivables	$	2,732	$	3,053
Investments, noncurrent		10,886		11,019
Capital assets, net		63		68
Total Assets	$	13,681	$	14,140
Liabilities				
Current Lliabilities	$	4,142	$	4,270
Noncurrent liabilities		20,157		20,036
Total Liabilities		24,299		24,306
Fund Equity (Deficit)				
Invested in capital assets, net of related debt		37		38
Unrestricted		(10,655)		(10,204)
Total Fund Deficit		(10,618)		(10,166)
Total Liabilities and Fund Equity (Deficit)	$	13,681	$	14,140

* As restated

Current assets. Current assets decreased during Fiscal Year 2009 by $323 million. This change largely resulted from a decrease of $346 million in collateral held under securities lending agreements due to a decrease in overall securities lending activity.

Noncurrent receivables. Noncurrent receivables decreased during Fiscal Year 2009 by $10 million due to the reduction of actuarially-estimated future third-party recoveries.

Noncurrent investments. Noncurrent investments decreased during Fiscal Year 2009 by $133 million. The decrease is primarily due to unrealized losses in connection with the ongoing volatility within capital markets during the recent economic downturn. While the capital market recovery continues, the investment portfolio remains broadly diversified, reducing the impact of market fluctuations.

Current liabilities. Current liabilities other than claims payable decreased during Fiscal Year 2009 by $295 million. This change is a result of a $346 million decrease in securities lending activities, which is partially offset by an increase in interfund payable activities due to "experting" the Pension Fund as required by Washington State law. RCW 51.44.080 requires any surplus or deficit in the Pension Fund greater or less than the annuity value of the established pension reserves to be transferred (experted) to or from the Accident Fund.

Total **claims payable** (included in current and noncurrent liabilities above) was $22.2 billion at the end of Fiscal Year 2009 compared to $21.9 billion for the previous year, representing a 1.4% increase. The main factors that contributed to this increase include:

- The increase in the Accident Fund was driven largely by the increase in the duration of time-loss claims.

- The Medical Aid Fund increase is due to higher-than-expected inflation on medical benefits, additional payment cycles in Fiscal Year 2009, and an increase in the number of active older claims receiving medical benefits.

- The Pension Reserve Fund increase is due to granting new pensions at a higher frequency rate for long-term time-loss claims than in the past.

- Supplemental Pension Fund liabilities decreased due to lower mandated future cost-of-living adjustments of $590 million at the end of Fiscal Year 2009 because of reductions in the forecast of future wage inflation.

Schedule of Changes in Benefit Liabilities (included in claims payable) *

(dollars in millions)

	Fiscal Year Ended June 30, 2009	Fiscal Year Ended June 30, 2008
Benefit liabilities, Beginning of Year	$ 21,468	$ 19,332
New liabilities incurred, Current Year	2,085	2,139
Development on prior years		
Discount accretion	617	559
Other development on prior liabilities	(592)	1,142
Claim payments	(1,923)	(1,757)
Establishing self insurance second injury pension awards	45	53
Change in benefit liabilities	232	2,136
Benefit liabilities, End of Year	$ 21,700	$ 21,468

* Excludes loss adjustment expense liabilities

Summary of Changes in Fund Equity

(dollars in millions)

	Fiscal Year Ended June 30, 2009	Fiscal Year Ended June 30, 2008 *
Operating Revenues		
Premiums and assessments, net	$ 1,824	$ 1,564
Miscellaneous revenue	53	44
Nonoperating Revenues		
Earnings on investments	216	467
Other revenues	7	8
Total Revenues	2,100	2,083
Operating Expenses		
Salaries and wages	134	134
Employee benefits	51	41
Personal services	6	8
Goods and Services	74	73
Travel	3	4
Claims	2,181	3,728
Depreciation	10	10
Miscellaneous expenses	89	63
Nonoperating Expenses		
Interest expense	1	2
Total Expenses	2,549	4,063
Net Transfers	(3)	-
Change in Fund Equity (Deficit)	(452)	(1,980)
Fund Deficit - Beginning of Year	(10,166)	(8,186)
Fund Deficit - End of Year	$ (10,618)	$ (10,166)

* As restated

The Workers' Compensation Program's fund deficit increased $452 million during Fiscal Year 2009, ending the year with a deficit balance of $10.6 billion. The main factors that contributed to the larger deficit include a decrease in fixed income and equity investments related to a decline in the value of holdings, realized investment losses, and increased expenses to pay benefits for the lifetime of claims. Also, the Program's benefit liabilities increased mostly due to inflation on medical benefits and more complex claims.

Premiums and assessments revenues, net. Premiums and assessments revenues, net, during Fiscal Year 2009 were $1.8 billion compared to $1.6 billion for Fiscal Year 2008, an increase of $260 million. The premiums increase in Fiscal Year 2009 was a result of a rate holiday and premium refunds issued in Fiscal Year 2008. Current economic conditions decreased the number of reported hours worked in Fiscal Year 2009 by approximately 7%. Since premiums are based on hours worked, the reduction in the number of hours reported has impacted Fiscal Year 2009's premium revenues. Excluding the impact of the rate holiday and premium refunds in Fiscal Year 2008, the premium revenues in Fiscal Year 2009 would have decreased by $86 million from the prior fiscal year.

Workers' Compensation Program claims expenses decreased by $1.5 billion, or 41.5%, in Fiscal Year 2009 compared to Fiscal Year 2008. Claims expenses for the funds in the Workers' Compensation Program Basic Plan increased by $466 million largely due to time-loss claims staying in the system longer, higher than projected medical costs, and more claims converting to pensions. The increase in these funds is offset by a decrease in claims expenses in the Supplemental Pension Fund of $2 billion due to changes in the forecast of future wage inflation.

Operating expenses. Operating expenses for Fiscal Year 2009, other than claims expenses, were $367 million, compared to $333 million in Fiscal Year 2008. This increase was due to recording additional bad debt expense on receivables caused by revised collection rates (approximately $21 million) and the recording of post-employment benefits (OPEB) per Governmental Accounting Standard (approximately $11 million).

As a result of lower average balances in investment holdings and a decline in interest rates in connection with the economic downturn occurring in Fiscal Year 2009, **earnings on investments** were $216 million during Fiscal Year 2009, compared to $467 million in the previous fiscal year.

Capital Asset and Debt Administration

Capital assets. Investment in capital assets, net of accumulated depreciation, as of June 30, 2009, was $63 million. This reflects a net decrease of $4 million from the previous year as a result of fewer capital assets acquired during Fiscal Year 2009 and the impact of depreciation expense. Additional information on capital assets can be found in Note 1.D.4 and Note 6 of this report.

Bonds payable. Bond proceeds provided funding for the acquisition and construction of the building and grounds for the Department of Labor and Industries headquarters in Tumwater. At the end of Fiscal Year 2009, the Workers' Compensation Program had $26 million in outstanding bonds payable, which represents a 12.2% decrease from the prior fiscal year. The decrease is the result of scheduled principal payments. Additional information on the bonds can be found in Note 7.A of this report.

Other Matters Impacting this Fiscal Year

- Slower economic growth is forecasted as the impact of the financial crisis and recessionary national and international economics influences the Workers' Compensation Program. The slow economy is expected to have a negative impact on Workers' Compensation Program investment earnings and premium revenues earned.

  Since June 30, 2008, the financial markets have declined significantly in response to the credit crisis that began with the sub-prime mortgage collapse. The market turmoil has had a negative impact on the value of the state's investment portfolios. The Workers' Compensation Program has long-term prudent investment strategies that incorporate high-quality, well-diversified investments. Historically, Workers' Compensation Program investment portfolios have performed well over time, weathering market ups and downs.

- New Financial Reporting Requirements – The Workers' Compensation Program implemented the provisions of the Governmental Accounting Standards Board's Statement No. 45, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, for Fiscal Year 2009. The amount of the liability was not material at June 30, 2008.

  The Workers' Compensation Program is legally or contractually required to provide Other Postemployment Benefits (OPEB) and is funding them on a pay-as-you-go basis. The OPEB costs for Fiscal Year 2009 and Fiscal Year 2008 were $7,382,463 and $7,168,475, respectively. OPEB contributions were $1,941,381 and $1,555,182 for Fiscal Year 2009 and Fiscal Year 2008, respectively. As long as the Workers' Compensation Program continues to offer OPEB and retains the pay-as-you-go funding strategy, the obligation liability is expected to increase each year.

- The 2008 Legislature created the new Self-Insured Employer Overpayment Reimbursement Account for reimbursing the self-insured employers for benefits overpaid during the pendency of board or court appeals in which the self-insured employer prevails and has not recovered. This account is part of the Workers' Compensation Program and is included in the financial statements beginning in Fiscal Year 2009.

- The Workers' Compensation Program has adopted an average premium rate increase of 7.6% for the calendar year 2010.

Requests for Information

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

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

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State of Washington Workers' Compensation Program
Combining Balance Sheet
June 30, 2009

	BASIC PLAN			
	Accident Fund	Medical Aid Fund	Pension Reserve Fund	Total Basic Plan
ASSETS				
Current Assets:				
Cash and pooled investments	$ 4,854,887	$ 5,742,609	$ 1,592,576	$ 12,190,072
Trust cash	-	-	525,707	525,707
Trust investments	-	-	6,003,765	6,003,765
Collateral held under securities lending agreements	684,230,783	783,714,700	333,005,265	1,800,950,748
Receivables, net of allowance	273,436,470	193,454,608	41,243,954	508,135,032
Due from Workers' Compensation Funds	443	1,200,000	104,801,725	106,002,168
Due from other state funds and agencies	1,848,796	1,834,973	-	3,683,769
Due from other governments	813,160	192,675	-	1,005,835
Inventories	70,886	70,886	-	141,772
Prepaid expenses	18,820	18,820	-	37,640
Total Current Assets	965,274,245	986,229,271	487,172,992	2,438,676,508
Noncurrent Assets:				
Receivables, net	54,060,000	41,761,000	4,489,000	100,310,000
Investments, noncurrent	4,162,234,361	3,739,996,858	2,930,888,297	10,833,119,516
Capital assets, net of accumulated depreciation	32,411,291	30,933,719	-	63,345,010
Total Noncurrent Assets	4,248,705,652	3,812,691,577	2,935,377,297	10,996,774,526
Total Assets	$ 5,213,979,897	$ 4,798,920,848	$ 3,422,550,289	$ 13,435,451,034
LIABILITIES AND FUND EQUITY				
LIABILITIES				
Current Liabilities:				
Accounts payable	$ 3,009,521	$ 3,639,537	$ 41,312	$ 6,690,370
Deposits payable	4,990,443	353,301	1,907,769	7,251,513
Accrued liabilities	126,098,987	13,117,838	3,938,066	143,154,891
Obligations under securities lending agreements	684,230,783	783,714,700	333,005,265	1,800,950,748
Bonds payable - current	1,910,000	1,910,000	-	3,820,000
Due to Workers' Compensation Funds	76,525,272	443	-	76,525,715
Due to other state funds and agencies	2,854,641	3,773,850	-	6,628,491
Unearned revenues	264,610	174,310	8,506,541	8,945,461
Claims payable - current	828,040,000	486,963,000	314,840,000	1,629,843,000
Total Current Liabilities	1,727,924,257	1,293,646,979	662,238,953	3,683,810,189
Noncurrent Liabilities:				
Claims payable, net of current portion	3,367,001,000	3,009,125,000	2,741,863,000	9,117,989,000
Bonds payable, net of current portion	11,055,000	11,055,000	-	22,110,000
Other long-term liabilities	6,275,345	5,995,438	-	12,270,783
Other Post-Employment Benefits	5,662,647	5,391,728	-	11,054,375
Total Noncurrent Liabilities	3,389,993,992	3,031,567,166	2,741,863,000	9,163,424,158
Total Liabilities	5,117,918,249	4,325,214,145	3,404,101,953	12,847,234,347
Fund Equity (Deficit):				
Invested in capital assets, net of related debt	19,446,292	17,968,720	-	37,415,012
Unrestricted	76,615,356	455,737,983	18,448,336	550,801,675
Total Fund Equity (Deficit)	96,061,648	473,706,703	18,448,336	588,216,687
Total Liabilities and Fund Equity	$ 5,213,979,897	$ 4,798,920,848	$ 3,422,550,289	$ 13,435,451,034

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

Supplemental Pension Fund	Second Injury Fund	Self-Insured Overpayment Reimbursement Fund	Total
$ 1,715,466	$ 50,158,505	$ 122,959	$ 64,187,002
-	-	-	525,707
-	-	-	6,003,765
5,178,862	-	-	1,806,129,610
102,946,086	12,229,423	127,057	623,437,598
-	-	-	106,002,168
2,555	-	-	3,686,324
-	-	-	1,005,835
-	-	-	141,772
-	-	-	37,640
109,842,969	62,387,928	250,016	2,611,157,421
20,795,000	-	-	121,105,000
52,931,953	-	-	10,886,051,469
-	-	-	63,345,010
73,726,953	-	-	11,070,501,479
$ 183,569,922	$ 62,387,928	$ 250,016	$ 13,681,658,900
$ 5,746	$ -	$ -	$ 6,696,116
-	-	-	7,251,513
529,257	4,279	-	143,688,427
5,178,862	-	-	1,806,129,610
-	-	-	3,820,000
-	29,476,453	-	106,002,168
-	-	-	6,628,491
504,723	-	-	9,450,184
422,401,000	-	-	2,052,244,000
428,619,588	29,480,732	-	4,141,910,509
10,993,835,000	-	-	20,111,824,000
-	-	-	22,110,000
-	-	-	12,270,783
-	-	-	11,054,375
10,993,835,000	-	-	20,157,259,158
11,422,454,588	29,480,732	-	24,299,169,667
-	-	-	37,415,012
(11,238,884,666)	32,907,196	250,016	(10,654,925,779)
(11,238,884,666)	32,907,196	250,016	(10,617,510,767)
$ 183,569,922	$ 62,387,928	$ 250,016	$ 13,681,658,900

State of Washington Workers' Compensation Program
Combining Statement of Revenues, Expenses, and Changes in Fund Equity
For the Fiscal Year Ended June 30, 2009

	BASIC PLAN			
	Accident Fund	Medical Aid Fund	Pension Reserve Fund	Total Basic Plan
OPERATING REVENUES:				
Premiums and assessments, net of refunds	$ 763,296,526	$ 649,665,923	$ 17,109,359	$ 1,430,071,808
Miscellaneous revenue	38,613,923	8,338,475	332,036	47,284,434
Total Operating Revenues	801,910,449	658,004,398	17,441,395	1,477,356,242
OPERATING EXPENSES:				
Salaries and wages	68,771,922	65,523,535	-	134,295,457
Employee benefits	26,253,764	24,771,360	-	51,025,124
Personal services	2,089,915	4,359,710	-	6,449,625
Goods and services	37,673,362	35,920,949	-	73,594,311
Travel	2,124,071	1,189,529	-	3,313,600
Claims	1,076,416,244	823,462,310	489,062,151	2,388,940,705
Depreciation	5,231,789	4,771,268	-	10,003,057
Miscellaneous expenses	50,838,997	30,025,302	32,509	80,896,808
Total Operating Expenses	1,269,400,064	990,023,963	489,094,660	2,748,518,687
Operating Income (Loss)	(467,489,615)	(332,019,565)	(471,653,265)	(1,271,162,445)
NONOPERATING REVENUES (EXPENSES):				
Earnings on investments	118,875,537	15,684,975	78,662,539	213,223,051
Other revenues	6,206,761	1,270,518	-	7,477,279
Interest expense	(733,282)	(733,282)	-	(1,466,564)
Total Nonoperating Revenues (Expenses)	124,349,016	16,222,211	78,662,539	219,233,766
Income (Loss) Before Transfers	(343,140,599)	(315,797,354)	(392,990,726)	(1,051,928,679)
Transfers in	-	-	435,235,591	435,235,591
Transfers out	(357,964,826)	(3,172,175)	(4,461,572)	(365,598,573)
Net Transfers	(357,964,826)	(3,172,175)	430,774,019	69,637,018
Changes in Fund Equity	(701,105,425)	(318,969,529)	37,783,293	(982,291,661)
Fund Equity (Deficit) - Beginning of Year, as restated	797,167,073	792,676,232	(19,334,957)	1,570,508,348
Fund Equity (Deficit) - End of Year	$ 96,061,648	$ 473,706,703	$ 18,448,336	$ 588,216,687

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

Supplemental Pension Fund	Second Injury Fund	Self-Insured Overpayment Reimbursement Fund	Total
$ 345,851,481	$ 48,102,520	$ 250,016	$ 1,824,275,825
5,361,625	213,414	-	52,859,473
351,213,106	48,315,934	250,016	1,877,135,298
-	-	-	134,295,457
-	-	-	51,025,124
-	-	-	6,449,625
-	-	-	73,594,311
-	-	-	3,313,600
(209,963,919)	1,803,310	-	2,180,780,096
-	-	-	10,003,057
7,691,954	(123)	-	88,588,639
(202,271,965)	1,803,187	-	2,548,049,909
553,485,071	46,512,747	250,016	(670,914,611)
2,811,776	-	-	216,034,827
(10)	-	-	7,477,269
-	-	-	(1,466,564)
2,811,766	-	-	222,045,532
556,296,837	46,512,747	250,016	(448,869,079)
-	30,671,919	-	465,907,510
-	(103,079,494)	-	(468,678,067)
-	(72,407,575)	-	(2,770,557)
556,296,837	(25,894,828)	250,016	(451,639,636)
(11,795,181,503)	58,802,024	-	(10,165,871,131)
$ (11,238,884,666)	$ 32,907,196	$ 250,016	$ (10,617,510,767)

State of Washington Workers' Compensation Program
Combining Statement of Cash Flows
For the Fiscal Year Ended June 30, 2009

	BASIC PLAN			
	Accident Fund	Medical Aid Fund	Pension Reserve Fund	Total Basic Plan
CASH FLOWS FROM OPERATING ACTIVITIES:				
Receipts from customers	$ 770,723,402	$ 657,360,708	$ 16,391,524	$ 1,444,475,634
Payments to/for beneficiaries	(588,162,419)	(642,240,121)	(299,953,205)	(1,530,355,745)
Payments to employees	(90,408,468)	(85,475,272)	-	(175,883,740)
Payments to suppliers	(37,616,031)	(39,654,005)	-	(77,270,036)
Other	6,709,607	51,875	14,830	6,776,312
Net Cash Flows from Operating Activities	61,246,091	(109,956,815)	(283,546,851)	(332,257,575)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Transfers in	-	-	328,648,468	328,648,468
Transfers out	(282,666,970)	(4,960,008)	(1,785,398)	(289,412,376)
Operating grants received	6,039,484	1,272,689	-	7,312,173
License fees collected	80,309	14,233	-	94,542
Net Cash Flows from Noncapital Financing Activities	(276,547,177)	(3,673,086)	326,863,070	46,642,807
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Interest paid	(768,565)	(768,565)	-	(1,537,130)
Principal payments on bonds payable	(1,812,500)	(1,812,500)	-	(3,625,000)
Acquisitions of capital assets	(3,186,703)	(2,804,821)	-	(5,991,524)
Net Cash Flows from Capital and Related Financing Activities	(5,767,768)	(5,385,886)	-	(11,153,654)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Receipts of interest	211,771,487	159,143,005	139,934,422	510,848,914
Receipts of dividends	4,508,546	5,906,033	2,932,086	13,346,665
Investment expenses	(1,066,579)	(941,636)	(702,991)	(2,711,206)
Proceeds from sale of investment securities	1,368,605,818	1,423,161,668	510,122,340	3,301,889,826
Purchases of investment securities	(1,357,895,531)	(1,464,508,989)	(694,561,096)	(3,516,965,616)
Net Cash Flows from Investing Activities	225,923,741	122,760,081	(42,275,239)	306,408,583
Net increase (decrease) in cash and pooled investments	4,854,887	3,744,294	1,040,980	9,640,161
Cash and pooled investments, Beginning of year	-	1,998,315	551,596	2,549,911
Cash and pooled investments, End of year	$ 4,854,887	$ 5,742,609	$ 1,592,576	$ 12,190,072
Cash Flows from Operating Activities:				
Operating Income (Loss)	$ (467,489,615)	$ (332,019,565)	$ (471,653,265)	$ (1,271,162,445)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Flows from Operating Activities:				
Depreciation	5,231,789	4,771,268	-	10,003,057
Change in Assets: Decrease (Increase)				
Receivables	54,194,158	26,197,199	580,439	80,971,796
Inventories	(281)	(278)	-	(559)
Prepaid expenses	(15,060)	(15,060)	-	(30,120)
Change in Liabilities: Increase (Decrease)				
Claims payable	496,381,000	186,007,000	189,254,000	871,642,000
Accrued liabilities	(27,055,900)	5,102,621	(1,728,025)	(23,681,304)
Net Cash Flows from Operating Activities	$ 61,246,091	$ (109,956,815)	$ (283,546,851)	$ (332,257,575)
Noncash Investing, Capital, and Financing Activities:				
Increase (decrease) in fair value of investments	$ (90,582,721)	$ (130,984,946)	$ (41,606,207)	$ (263,173,874)

Supplemental Pension Fund	Second Injury Fund	Self-Insured Overpayment Reimbursement Fund	Total
$ 343,052,957	$ 47,983,097	$ 122,959	$ 1,835,634,647
(374,936,767)	(1,801,660)	-	(1,907,094,172)
-	-	-	(175,883,740)
-	-	-	(77,270,036)
147,537	16	-	6,923,865
(31,736,273)	46,181,453	122,959	(317,689,436)
-	27,995,745	-	356,644,213
-	(73,603,041)	-	(363,015,417)
-	-	-	7,312,173
-	-	-	94,542
-	(45,607,296)	-	1,035,511
-	-	-	(1,537,130)
-	-	-	(3,625,000)
-	-	-	(5,991,524)
-	-	-	(11,153,654)
2,999,464	-	-	513,848,378
-	-	-	13,346,665
(23,331)	-	-	(2,734,537)
398,687,654	-	-	3,700,577,480
(368,464,950)	-	-	(3,885,430,566)
33,198,837	-	-	339,607,420
1,462,564	574,157	122,959	11,799,841
252,902	49,584,348	-	52,387,161
$ 1,715,466	$ 50,158,505	$ 122,959	$ 64,187,002
$ 553,485,071	$ 46,512,747	$ 250,016	$ (670,914,611)
-	-	-	10,003,057
5,200,691	2,347,058	(127,057)	88,392,488
-	-	-	(559)
-	-	-	(30,120)
(584,285,000)	-	-	287,357,000
(6,137,035)	(2,678,352)	-	(32,496,691)
$ (31,736,273)	$ 46,181,453	$ 122,959	$ (317,689,436)
$ 826,221	$ -	$ -	$ (262,347,653)

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Notes to the Combining Financial Statements

For the Fiscal Year Ended June 30, 2009

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Note 1 - Summary of Significant Accounting Policies

The accompanying combining financial statements of the Workers' Compensation Program of the state of Washington have been prepared in conformity with generally accepted accounting principles. The Office of Financial Management (OFM) of the state of Washington is the primary authority for the Workers' Compensation Program accounting and reporting requirements. OFM has adopted the pronouncements of the Governmental Accounting Standards Board (GASB), which is the accepted standard-setting body for establishing governmental accounting and financial reporting principles nationally. For enterprise fund reporting, the state follows only those private-sector standards issued on or before November 30, 1989, unless those pronouncements conflict with or contradict the pronouncements of the GASB. Following is a summary of the significant accounting policies:

1.A. Reporting Entity

Washington State, through Title 51 of the Revised Code of Washington (RCW), requires all employers, unless exempted, to secure coverage for job-related injuries and illnesses either by paying insurance premiums to the 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 Program consists of six enterprise funds to account for activity related to providing time-loss, medical, disability, and pension payments to qualifying individuals sustaining work-related injuries or occupational diseases. The accompanying combining financial statements present only the activity of the Workers' Compensation Program and do not present the financial position, results of operations, or cash flows of the Washington State Department of Labor and Industries or the state of Washington. The Workers' Compensation Program Basic Plan is funded based on rates that will keep the plan solvent in accordance with recognized actuarial principles. The Supplemental Pension Fund provides for cost-of-living adjustments (COLA) granted for time-loss and disability payments. These costs, however, are funded on a pay-as-you-go basis. By statute, the Workers' Compensation Program is only allowed to collect enough revenue to fund the current COLA payments. The Second Injury Fund is a pass-through fund in order to share the job modification costs and distribution of accident costs with employers.

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

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

1.B. Combining Financial Statements

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

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

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

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

The Workers' Compensation Program consists of the following funds:

The Accident Fund pays compensation directly to injured workers for lost wages during temporary disability and for permanent partial disability awards. The Accident Fund also pays to the Pension Reserve Fund the present value of pensions awarded to survivors of fatally injured workers and to workers who are permanently and totally disabled. Accident Fund claims payable liabilities are discounted to the present value.

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

The Medical Aid Fund pays for the cost of medical and vocational rehabilitation services to injured workers. Revenues for this fund usually arise from equal contributions from employers and employees; employers are required to withhold half of the medical aid premium from their employees' wages. Medical Aid Fund claims payable liabilities are discounted to the present value.

The Pension Reserve Fund pays benefits to all permanently disabled pensioners, including disabled employees of self-insured employers, their dependents, and surviving dependents of fatalities. These claims payable liabilities are discounted to the present value. Funding for pension payments is generated from transfers from the Accident Fund and reimbursement payments from self-insured employers that are invested in securities selected to cover payments for the expected life of the injured worker or survivor.

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

The Supplemental Pension Fund provides for supplemental COLA to injured workers and their dependents receiving disability payments. However, legislation requires this fund to operate on a current payment basis. No assets are allowed to accumulate for the future servicing of current claims payable. Supplemental Pension Fund claims payable liabilities are discounted to the present value.

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

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

The Self-Insured Employer Overpayment Reimbursement Fund was created during the 2008 legislative session with the adoption of RCW 51.44.142 for reimbursing the self-insured employers for benefits overpaid during the pendency of board or court of appeals in which the self-insured employer prevails and has not recovered.

Operating and Nonoperating Revenues and Expenses. Operating revenues for the Workers' Compensation Program consist mainly of premiums collected net of refunds. Operating expenses consist of claims paid to covered individuals, claims adjustment expenses, and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating, including interest expense and earnings on investments.

1.C. Measurement Focus and Basis of Accounting

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

1.D. Assets, Liabilities, and Fund Equity

1.D.1. Cash and Investments

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

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

The U.S. Department of Energy has contracted with the Workers' Compensation

Program to pay benefits to Hanford nuclear production complex workers injured on the job. Funds provided by the U.S. Department of Energy in advance to cover the pension liability determined by the Workers' Compensation Program are recorded as "Trust Cash" and "Trust Investments." As of June 30, 2009, Trust Cash amounted to $525,707 and is available to reimburse the Workers' Compensation Program for monthly pension payments. As of June 30, 2009, Trust Investments totaling $6,003,765 were invested in U.S. Treasury Notes and are also available to reimburse the Workers' Compensation Program for future expenses.

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

The current portion of the Workers' Compensation Program receivables arose in the ordinary course of business. Current receivables consist of amounts due for workers' compensation premiums, amounts due for overpayment of benefits to injured workers and providers, investment interest receivable, and other miscellaneous receivables. Receivables due for workers' compensation premiums for the quarter ended June 30, 2009, are estimated. Receivables are recorded when either the asset or the revenue recognition criteria (refer to Note 1.C) have been met. All receivables are reported net of an allowance for accounts estimated to be uncollectible. Current accounts receivable are generally expected to be collected within one year following the end of the fiscal year.

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

The noncurrent portion of Workers' Compensation Program receivables represents estimated recoveries from third parties on a certain portion of claim expenses that are recorded in noncurrent claims payable. As in the case of claims payable (see Note 1.A.), these recoveries are computed periodically using a variety of actuarial and statistical techniques and are discounted at assumed interest rates as described in Note 7.B. to arrive at a current settlement value.

1.D.3. Inventories

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

1.D.4. Capital Assets

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

- All land.
- All capital assets with a unit cost of $5,000 or more and an estimated useful life of more than one year.
- Capital assets acquired by capital leases with a net present value or fair market value, whichever is less, of $10,000 or more.

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 that are related to the construction.

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

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

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

1.D.5. Compensated Absences

Workers' Compensation Program employees accrue vested annual leave at a variable rate based on years of service. In general, accrued annual leave cannot exceed 30 days at the employee's anniversary date.

Employees accrue sick leave at the rate of one day per month without limitation on the amount that can be accumulated. Sick leave is not vested; i.e., the Workers' Compensation Program does not pay employees for unused sick leave upon termination except upon employee death or retirement. At death or retirement, the Workers' Compensation Program is liable for 25 percent of the employee's accumulated sick leave. In addition, the Workers' Compensation Program has a "sick leave buyout option" in which each January, employees who accumulate sick leave in excess of 60 days may redeem sick leave earned but not taken during the previous year at the rate of one day's pay in exchange for each four days of sick leave.

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

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

1.D.6. Noncurrent Liabilities

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

Note 2 – Prior Period Adjustments

A prior period adjustment was recorded to correct errors in the balances of accounts receivable and payable accounts as of June 30, 2008, in each of the Workers' Compensation Program funds. Accounts receivable account balances were overstated by $12,173,495, and accounts payable balances were overstated by $6,100,164 at June 30, 2008. Fund equity (deficit) for the individual funds at June 30, 2008, has been restated as follows:

Fund Equity (Deficit)	Accident Fund	Medical Aid Fund	Pension Reserve Fund	Total Basic Plan	Supplemental Pension Fund	Second Injury Fund	Total
Fund Equity (Deficit) at June 30, 2008, as previously reported	$ 792,010,723	$ 791,423,817	$ (15,843,975)	$ 1,567,590,565	$ (11,789,155,691)	$ 61,767,326	$ (10,159,797,800)
Prior Period Adjustment	5,156,350	1,252,415	(3,490,982)	2,917,783	(6,025,812)	(2,965,302)	(6,073,331)
Fund Equity (Deficit) as restated, June 30, 2008	$ 797,167,073	$ 792,676,232	$ (19,334,957)	$ 1,570,508,348	$ (11,795,181,503)	$ 58,802,024	$ (10,165,871,131)

Note 3 – Deposits and Investments

3.A. Deposits

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

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

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

3.B. Investments

3.B.1. Summary of Investment Policies

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

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

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

Eligible Investments - Eligible investments are securities and deposits that are in accordance with the WSIB's investment policy and RCW 43.33A.110. 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.
- Asset allocation will be reviewed every three to four years or sooner if there are significant changes in funding levels or the liability durations. Assets will 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.
- 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.
- The benchmark and structure for U.S. equities will be the broad U.S. stock market as defined by the Dow Jones U.S. Total Stock Market Index. The benchmark and structure for international equities will be the Morgan Stanley Capital All Country World Ex US Investable Market Index (MSCI ACW Ex US IMI). 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.
- The fixed income portfolios' structure varies depending upon the required duration target. The duration targets are reviewed every three years or sooner if there are significant changes in the funding levels or the liability durations.
- Sector allocation of fixed income investments must be managed within the following prescribed ranges: U.S. Treasuries and government agencies – 5 percent to 25 percent, credit bonds – 20 percent to 70 percent, asset-backed securities – 0 percent to 10 percent, commercial mortgage-backed securities – 0 percent to 10 percent, and mortgage-backed securities – 0 percent to 25 percent. These targets are long-term in nature. Deviations may occur in the short-term as

a result of interim market conditions; however, if a range is exceeded, the portfolios must be rebalanced as soon as it is practical to the target allocations.

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

3.B.2. Securities Lending

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 JP Morgan to act as agent for the WSIB in securities lending transactions. As JP Morgan is the custodian bank for the WSIB, it is counterparty to securities lending transactions.

In accordance with GASB Statement No. 28, the Workers' Compensation Program reports securities lent (the underlying securities) as assets in the statement of net assets. Cash received as collateral on securities lending transactions and investments made with that cash are reported as assets. Securities received as collateral are also reported as assets if the Workers' Compensation Program has the ability to pledge or sell them without a borrower default. Liabilities resulting from these transactions are also reported on the combining balance sheet. Securities lending transactions collateralized by securities that the Workers' Compensation Program does not have the ability to pledge or sell unless the borrower defaults are not reported as assets and liabilities.

Fixed income securities were loaned and collateralized by the Workers' Compensation Program's agent with cash and U.S. government securities (exclusive of mortgage-backed securities and letters of credit), and irrevocable letters of credit. When the loaned securities had collateral denominated in the same currency, the collateral requirement was 102 percent of the fair value, including accrued interest, of the securities loaned. All other securities were required to be collateralized at 105 percent of the fair value, including accrued interest, of the loaned securities. The collateral held and fair value of securities on loan at June 30, 2009, was $2.03 billion and $1.99 billion respectively. At June 30, 2009, the amounts the Workers' Compensation Program owed the borrowers exceeded the amounts the borrowers owed the Workers' Compensation Program, resulting in no credit risk exposure to the Workers' Compensation Program.

As of June 30, 2009, the Workers' Compensation Program held the following securities as collateral:

(dollars in thousands)		
Asset-Backed Securities	$	99,823
Cash and Cash Equivalents		1,150,048
U.S. Treasuries and Agencies		243,830
Commercial Paper		100,239
Miscellaneous		118,574
Medium Term Notes		176,144
Repurchase Agreements		143,951
Total Collateral Held	$	2,032,609

During Fiscal Year 2009, securities lending transactions could be terminated on demand by either the WSIB or the borrower. All loans held at June 30, 2009, matured overnight. Cash collateral was invested by the Workers' Compensation Program's agents in securities issued or guaranteed by the U.S. government, a short-term investment pool (average final maturity of 60 days) or term loans. Because the securities lending agreements were terminable at will, their duration did not generally match the duration of the investments made with the cash collateral. Non-cash collateral could not be pledged or sold absent borrower default. Accordingly, non-cash collateral held under securities lending contracts with a value of $226 million have not been included in the statement of net assets. 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. JP Morgan 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. JP Morgan'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 2009, 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 2009 resulting from a default by either the borrowers or the securities lending agents.

3.B.3. Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. Effective duration is the measure of a debt investment's exposure to fair value changes arising from changes in interest rates. Effective duration uses the present value of cash flows, weighted for those flows as a percentage of the investment's full price. Increases in prevailing interest rates generally translate into decreases in fair values of those investments. The Workers' Compensation Program does not have a formal policy specifically for interest rate risk. The Workers' Compensation Program's fixed income investments are actively managed to exceed the return of the Comparable Market Index, with volatility as measured by duration to be similar to or less than the index. As of June 30, 2009, the durations of the various fixed income classes were within the duration targets of the Comparable Market Index.

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

The following schedule presents the Workers' Compensation Program's investments by type and provides information about the interest rate risks associated with the investments as of June 30, 2009. The schedule displays various asset classes held by maturity in years, credit ratings and effective durations. Residential mortgage-backed, commercial mortgage-backed, and asset-backed securities are reported using the average life within the portfolio. The average life is a calculated estimate of the average time (in years) until maturity for these securities, taking into account possible prepayments of principal. All other securities on this schedule are reported using the stated maturity date.

(dollars in thousands)		Maturity					
		Less than			More than	Credit	Effective
Investment Type	**Fair Value**	**1 year**	**1-5 years**	**6-10 years**	**10 years**	**Rating**	**Duration**
Mortgages:							
Collateralized Mortgage Obligations	$ 1,713,023	$ 10,477	$ 253,097	$ 776,786	$ 672,663	Multiple	6.89
Pass Throughs	521,755	2,077	229,372	289,490	816	Aaa	3.85
Commercial Mortgage-Backed Securities	2,838,052	83,157	607,230	911,037	1,236,628	Multiple	7.96
Corporate Bonds - Domestic	2,255,943	83,033	702,602	819,569	650,739	Multiple	6.43
Government Securities - Domestic:							
US Government Treasuries	424,484	424,484	-	-	-	Aaa	0.89
Treasury Inflation-Protected Securities	1,541,920	315,562	207,788	503,647	514,923	Aaa	4.09
	$ 9,295,177	$ 918,790	$ 2,000,089	$ 3,300,529	$ 3,075,769		
Commingled Index Funds - Domestic	667,631						
Commingled Index Funds - Foreign	491,291						
Money Market Funds	429,911						
Other Investments	2,042						
Total	$ 10,886,052						

Investments with multiple credit ratings are presented using the Moody's rating scale as follows at June 30, 2009:

(dollars in thousands)

	Investment Type			
Moody's Equivalent Credit Rating	**Residential Mortgage-Backed Securities**	**Corporate Bonds - Domestic**	**Corporate Bonds-Foreign**	**Total**
Aaa	$ 1,698,890	$ 4,723	$ 372,212	$ 2,075,825
Aa1	-	-	73,323	73,323
Aa2	-	-	173,076	173,076
Aa3	-	267,072	215,238	482,310
A1	14,133	305,894	246,979	567,006
A2	-	790,097	93,397	883,494
A3	-	297,208	250,056	547,264
Baa1	-	423,033	201,955	624,988
Baa2	-	553,624	382,916	936,540
Baa3	-	196,401	246,791	443,192
Total	$ 1,713,023	$ 2,838,052	$ 2,255,943	$ 6,807,018

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 rated debt investments of the workers' compensation funds as of June 30, 2009, 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 WSIB policy states that no corporate fixed income issue's 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, 2009.

Custodial Credit Risk. Custodial credit risk is the risk that, in the event of a failure of the counterparty to a transaction, the Workers' Compensation Program would not be able to recover the value of investments that are in the possession of an outside party. The Workers' Compensation Program does not have a policy specifically for custodial credit risk. The securities lending collateral balances are from securities required to be disclosed per GASB Statement No. 3 Category 3 as investments that are neither insured nor registered, with securities that are held by the other party or its trust department or agent but not in the WSIB's name. This includes the amount of any repurchase agreement that exceeds the fair value of the underlying securities.

3.B.5. Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The Workers' Compensation Program does not have a formal policy to limit foreign currency risk. The Workers' Compensation Program had $491.3 million invested in an international commingled equity index fund. As such, no currency denomination risk is presented at June 30, 2009.

3.B.6. Derivatives

The Workers' Compensation Program is authorized to utilize various derivative financial instruments, including mortgage-backed securities, financial futures, forward contracts, interest rate and equity swaps, and options to manage its exposure to fluctuations in interest and currency rates while increasing portfolio returns. Derivative transactions involve, to varying degrees, market and credit risk. The Workers' Compensation Program mitigates market risks arising from derivative transactions by requiring collateral in cash and investments to be maintained equal to the securities positions outstanding, thereby prohibiting the use of leverage or speculation. Credit risks arising from derivative transactions are mitigated by selecting and monitoring creditworthy counterparties and collateral issuers.

Consistent with the Workers' Compensation Program's authority to invest in derivatives, international active equity managers may make limited investments in financial futures, forward contracts or other derivative securities to manage exposure to currency rate risk and equitize excess cash holdings. No such derivative securities were held as of June 30, 2009. 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, 2009, the only derivative securities held directly by the Workers' Compensation Program were collateralized mortgage obligations (CMOs) of $1.7 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. The amount outstanding under reverse purchase agreements at June 30, 2009, is not material.

Note 4 – Receivables

Receivables at June 30, 2009, consisted of the following:

Receivables	Accident Fund	Medical Aid Fund	Pension Reserve Fund	Total Basic Plan	Supplemental Pension Fund	Second Injury Fund	Self-Insured Overpayment Reimbursement Fund	Total
Current Receivables								
Premiums receivable								
Actual premiums receivable	$ 76,673,887	$ 36,104,074	$ -	$ 112,777,961	$ 11,810,400	$ -	$ -	$ 124,588,361
Estimated premiums receivable	205,855,000	153,057,000	-	358,912,000	63,337,000	-	-	422,249,000
Estimated Self-Insurance premiums receivable	3,017,646	2,918,993	6,465,857	12,402,496	25,945,096	12,229,173	126,038	50,702,803
Total premiums receivable	285,546,533	192,080,067	6,465,857	484,092,457	101,092,496	12,229,173	126,038	597,540,164
Other receivables								
Receivable from overpayments	45,795,460	6,698,985	4,605,726	57,100,171	16,276,499	-	1,019	73,377,689
Investment interest receivable	38,274,695	31,859,779	29,186,944	99,321,418	414,149	-	-	99,735,567
Safety fines & penalties receivable	-	-	-	-	5,955,265	-	-	5,955,265
Miscellaneous receivables	19,736	191,553	1,978,631	2,189,920	657,603	555	-	2,848,078
Total Current Receivables, gross	369,636,424	230,830,384	42,237,158	642,703,966	124,396,012	12,229,728	127,057	779,456,763
Less: Allowance for uncollectible receivables	96,199,954	37,375,776	993,204	134,568,934	21,449,926	305	-	156,019,165
Total Current Receivables, net of allowance	273,436,470	193,454,608	41,243,954	508,135,032	102,946,086	12,229,423	127,057	623,437,598
Noncurrent Receivables								
Receivables	54,060,000	41,761,000	4,489,000	100,310,000	20,795,000	-	-	121,105,000
Total Receivables, net of allowance	$ 327,496,470	$ 235,215,608	$ 45,732,954	$ 608,445,032	$ 123,741,086	$ 12,229,423	$ 127,057	$ 744,542,598

Note 5 - Interfund/Interagency Balances

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

The following reflects funds with balances at June 30, 2009. This represents amounts due from and due to the Workers' Compensation Program:

Due From Workers' Compensation Funds	Accident Fund	Medical Aid Fund	Pension Reserve Fund	Total Basic Plan	Second Injury Fund	Total
Accident Fund	$ -	$ 1,200,000	$ 75,325,272	$ 76,525,272	$ -	$ 76,525,272
Medical Aid Fund	443	-	-	443	-	443
Pension Reserve Fund	-	-	-	-	-	-
Second Injury Fund	-	-	29,476,453	29,476,453	-	29,476,453
Total Due From Workers' Compensation Funds	$ 443	$ 1,200,000	$ 104,801,725	$ 106,002,168	$ -	$ 106,002,168

Due To Workers' Compensation Funds	Accident Fund	Medical Aid Fund	Pension Reserve Fund	Total Basic Plan	Second Injury Fund	Total
Accident Fund	$ -	$ 443	$ -	$ 443	$ -	$ 443
Medical Aid Fund	1,200,000	-	-	1,200,000	-	1,200,000
Pension Reserve Fund	75,325,272	-	-	75,325,272	29,476,453	104,801,725
Total Due To Workers' Compensation Funds	$ 76,525,272	$ 443	$ -	$ 76,525,715	$ 29,476,453	$ 106,002,168

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

The following reflects funds with balances at June 30, 2009. This represents amounts due from and due to other state funds and agencies:

Due From Other State Funds and Agencies	Accident Fund	Medical Aid Fund	Total Basic Plan	Second Injury Fund	Total
General Fund	$ 206	$ 30	$ 236	$ -	$ 236
Agency Funds	-	23,682	23,682	2,555	26,237
Other State Agencies	1,848,590	1,811,261	3,659,851	-	3,659,851
Total Due From Other State Funds and Agencies	$ 1,848,796	$ 1,834,973	$ 3,683,769	$ 2,555	$ 3,686,324

Due To Other State Funds and Agencies	Accident Fund	Medical Aid Fund	Total Basic Plan	Second Injury Fund	Total
General Fund	$ 264	$ 219	$ 483	$ -	$ 483
Agency Funds	1,919	65,700	67,619	-	67,619
Other State Agencies	2,852,458	3,707,931	6,560,389	-	6,560,389
Total Due To Other State Funds Funds and Agencies	$ 2,854,641	$ 3,773,850	$ 6,628,491	$ -	$ 6,628,491

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

Note 6 – Capital Assets

Capital asset activity for the fiscal year ended June 30, 2009, was as follows:

Capital Assets	Beginning Balance July 1, 2008	Increases	Decreases	Ending Balance June 30, 2009
Capital assets, not being depreciated:				
Land and collections	$ 3,239,748	$ -	$ -	$ 3,239,748
Software in development	4,187,869	5,160,748	(8,848,916)	499,701
Total capital assets, not being depreciated	7,427,617	5,160,748	(8,848,916)	3,739,449
Capital assets, being depreciated:				
Buildings and building components	62,705,374	-	-	62,705,374
Accumulated depreciation	(21,124,865)	(1,256,373)	-	(22,381,238)
Net buildings and building components	41,580,509	(1,256,373)	-	40,324,136
Furnishings, equipment, and collections	63,056,591	9,656,119	(1,577,388)	71,135,322
Accumulated depreciation	(45,758,069)	(8,600,296)	1,541,249	(52,817,116)
Net furnishings, equipment, and collections	17,298,522	1,055,823	(36,139)	18,318,206
Other improvements	1,637,961	23,571	-	1,661,532
Accumulated depreciation	(551,925)	(146,388)	-	(698,313)
Net other improvements	1,086,036	(122,817)	-	963,219
Total capital assets, being depreciated, net	59,965,067	(323,367)	(36,139)	59,605,561
Total Capital Assets, net of depreciation	$ 67,392,684	$ 4,837,381	$ (8,885,055)	$ 63,345,010

Note 7 – Noncurrent Liabilities

7.A. Bonds Payable

The Workers' Compensation Program is responsible for semi-annual payments on a certain portion of three series of general obligation bonds issued by the state of Washington between 1993 and 2007. The bond proceeds provided funding for the acquisition and construction of the building and grounds known as the Department of Labor and Industries headquarters in Tumwater, Washington, and refunding of general obligation bonds previously outstanding.

The terms of the bond payment obligations are as follows:

- **The General Obligation Bonds of Series R-93B**
  The Workers' Compensation Program is required to make varying annual principal and interest payments, with the final payment due in Fiscal Year 2016. The principal amount of these bonds outstanding was $15,290,000 at June 30, 2009. Bonds outstanding at June 30, 2009, have coupon interest rates between 5.50% and 5.70%. The original amount of this bond issue was $19,960,000 in Fiscal Year 1993.

- **The General Obligation Bonds of Series R-2007A**
  The Workers' Compensation Program is required to make varying annual principal and interest payments, with the final payment due in Fiscal Year 2011. The principal amount of these bonds outstanding was $4,085,000 at June 30, 2009. Bonds outstanding at June 30, 2009, have coupon interest rates of 5.00%. The original amount of this bond issue was $7,900,000 in Fiscal Year 2007.

- **The General Obligation Bonds of Series R-2007C**
  The Workers' Compensation Program is required to make varying annual principal and interest payments, with the final payment due in Fiscal Year 2016. The principal amount of these bonds outstanding was $6,555,000 at June 30, 2009. Bonds outstanding at June 30, 2009, have coupon interest rates of 5.00%. The original amount of this bond issue was $6,635,000 in Fiscal Year 2007.

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

General Obligation Bonds	Principal	Interest	Total
Accident Fund:			
By Fiscal Year			
2010	$ 1,910,000	$ 672,838	$ 2,582,838
2011	2,015,000	571,319	2,586,319
2012	1,602,500	448,688	2,051,188
2013	1,700,000	358,740	2,058,740
2014	1,802,500	263,355	2,065,855
2015-2016	3,935,000	217,396	4,152,396
Total Accident Fund	12,965,000	2,532,336	15,497,336
Current portion	1,910,000	672,838	2,582,838
Noncurrent portion	11,055,000	1,859,498	12,914,498
Medical Aid Fund:			
By Fiscal Year			
2010	1,910,000	672,838	2,582,838
2011	2,015,000	571,319	2,586,319
2012	1,602,500	448,688	2,051,188
2013	1,700,000	358,740	2,058,740
2014	1,802,500	263,355	2,065,855
2015-2016	3,935,000	217,396	4,152,396
Total Medical Aid Fund	12,965,000	2,532,336	15,497,336
Current portion	1,910,000	672,838	2,582,838
Noncurrent portion	11,055,000	1,859,498	12,914,498
Total Debt Service Requirements	$ 25,930,000	$ 5,064,672	$ 30,994,672

Total interest incurred on bonds payable for the year ended June 30, 2009, was $768,565 for the Accident Fund and $768,565 for the Medical Aid Fund. There are no covenants related to the Workers' Compensation Program's obligation for these bonds.

Debt Refunding

When advantageous and permitted by statute and bond covenants, the State Finance Committee authorizes the refunding of outstanding bonds. When the state refunds outstanding bonds, the net proceeds of each refund issued are used to purchase U.S. government securities. These securities are placed in irrevocable trusts with escrow agents to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered defeased, and the liability has been removed from the Balance Sheet.

7.B. Claims Payable

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

(dollars in thousands)	Basic Plan		Supplemental Pension Plan		Grand Total	
Claims Payable	FY 2009	FY 2008	FY 2009	FY 2008	FY 2009	FY 2008
Unpaid loss and loss adjustment expenses at beginning of fiscal year	$ 9,881,119	$ 9,232,766	$ 12,006,029	$ 10,513,726	$ 21,887,148	$ 19,746,492
Incurred claims and claim adjustment expenses:						
Provision for insured events of the current fiscal year	1,752,767	1,720,944	472,545	552,772	2,225,312	2,273,716
Increase (decrease) in provision for insured events of prior fiscal years	795,945	471,483	(686,508)	1,277,672	109,437	1,749,155
Total incurred claims and claim adjustment expenses	2,548,712	2,192,427	(213,963)	1,830,444	2,334,749	4,022,871
Payments:						
Claims and claim adjustment expenses attributable to:						
Events of the current fiscal year	327,536	316,086	-	-	327,536	316,086
Insured events of prior fiscal years	1,354,463	1,227,988	375,830	338,141	1,730,293	1,566,129
Total payments	1,681,999	1,544,074	375,830	338,141	2,057,829	1,882,215
Total unpaid loss and loss adjustment expenses at fiscal year end	$ 10,747,832	$ 9,881,119	$ 11,416,236	$ 12,006,029	$ 22,164,068	$ 21,887,148
Current portion	$ 1,629,843		$ 422,401		$ 2,052,244	
Noncurrent portion	$ 9,117,989		$ 10,993,835		$ 20,111,824	

A description of the risks to which the Workers' Compensation Program is exposed and the ways the risks are handled is presented in Note 1.A. At June 30, 2009, $36.7 billion of unpaid loss and loss adjustment expense liabilities are presented at their net present and settlement value of $22.2 billion.

The claims and claims adjustment liabilities of $22.2 billion, as of June 30, 2009, include $11.4 billion for supplemental pension COLAs that are funded on a current basis per RCW 51.32.073. Management believes the funding is in compliance with the statute. The Basic Plan claim liabilities of $10.8 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 Noncurrent Liabilities

Noncurrent liability activity for the fiscal year ended June 30, 2009, was as follows:

Noncurrent Liabilities	Beginning Balance July 1, 2008	Additions	Reductions	Ending Balance June 30, 2009	Due Within One Year
Claims Payable, current & noncurrent	$ 21,887,148,000	$ 2,334,749,000	$ (2,057,829,000)	$ 22,164,068,000	$ 2,052,244,000
Bonds Payable:					
General Obligation Bonds:					
Series R-93B	17,025,000	-	(1,735,000)	15,290,000	1,830,000
Series R-2007A	5,975,000	-	(1,890,000)	4,085,000	1,990,000
Series R-2007C	6,555,000	-	-	6,555,000	-
Total Bonds Payable	29,555,000	-	(3,625,000)	25,930,000	3,820,000
Other Noncurrent Liabilities:					
Compensated absences	13,800,033	12,902,671	(14,431,921)	12,270,783	-
Post-Employment Benefits	-	11,054,375	-	11,054,375	-
Total Other Noncurrent Liabilities	13,800,033	23,957,046	(14,431,921)	23,325,158	-
Total Noncurrent Liabilities (including current portion)	$ 21,930,503,033	$ 2,358,706,046	$ (2,075,885,921)	$ 22,213,323,158	$ 2,056,064,000

7.D. Operating Leases

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

The following schedule presents future minimum payments for operating leases as of June 30, 2009:

Operating Leases (by Fiscal Year)	Accident Fund	Medical Aid Fund	Total
2010	$ 3,766,907	$ 3,552,912	$ 7,319,819
2011	3,273,518	3,067,043	6,340,561
2012	2,302,248	2,093,842	4,396,090
2013	1,032,796	876,562	1,909,358
2014	379,615	364,190	743,805
2015-2019	840,433	792,221	1,632,654
Total Future Minimum Lease Payments	$ 11,595,517	$ 10,746,770	$ 22,342,287

The total operating lease rental expenses for Fiscal Year 2009 was $10,408,417 including $5,311,666 for the Accident Fund and $5,096,751 for the Medical Aid Fund.

Note 8 - Deficit Fund Equity

At June 30, 2009, the Workers' Compensation Program had deficit fund equity of $10.6 billion. This deficit is mainly a result of the Supplemental Pension Fund which had deficit fund equity of $11.2 billion at June 30, 2009. The Workers' Compensation Program Basic Plan is funded based on rates that will keep the plan solvent in accordance with recognized actuarial principles. Supplemental COLA adjustments granted for time-loss and disability payments, however, are funded on a pay-as-you-go basis. By statute, the Supplemental Pension Fund is only allowed to collect enough revenue to provide for current COLA payments.

Changes in total fund equity for the Workers' Compensation Program during the fiscal year ended June 30, 2009, were as follows:

Fund Equity (Deficit)	Accident Fund	Medical Aid Fund	Pension Reserve Fund	Total Basic Plan	Supplemental Pension Fund	Second Injury Fund	SI Overpayment Reimb Fund	Fund Equity (Deficit)
Balance, July 1, 2008 (as restated)	$ 797,167,073	$ 792,676,232	$ (19,334,957)	$ 1,570,508,348	$ (11,795,181,503)	$ 58,802,024	$ -	$ (10,165,871,131)
Fiscal Year 2009 Activity	(701,105,425)	(318,969,529)	37,783,293	(982,291,661)	556,296,837	(25,894,828)	250,016	(451,639,636)
Balance, June 30, 2009	$ 96,061,648	$ 473,706,703	$ 18,448,336	$ 588,216,687	$ (11,238,884,666)	$ 32,907,196	$ 250,016	$ (10,617,510,767)

Note 9 - Retirement Plans

Workers' Compensation Program employees participate in the Washington State Public Employees' Retirement System (PERS) administered by the Department of Retirement Systems. PERS is a cost-sharing multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans, and Plan 3 is a combination defined benefit/defined contribution plan. PERS participants who joined the system by September 30, 1977, are Plan 1 members. Those who joined on or after October 1, 1977, and by February 28, 2002, are Plan 2 members unless they exercise an option to transfer their membership to Plan 3. PERS participants joining the system on or after March 1, 2002, have the irrevocable option of choosing membership in either PERS Plan 2 or PERS Plan 3. An actuarial valuation of the retirement plan for the Workers' Compensation Program as a stand-alone entity is not available. Pension note disclosures for PERS are included in the Comprehensive Annual Financial Report for the State of Washington. A copy of this report may be obtained by contacting the Accounting Division of the Office of Financial Management at PO Box 43113, Olympia, Washington 98507-3113, or online at www.ofm.wa.gov/cafr.

The Office of the State Actuary, using funding methods prescribed by statute, determines actuarially-required contribution rates for PERS. Plan 1 members are required to contribute 6% of their annual covered salary. Contributions for Plan 2 members are determined by the aggregate method and may vary over time. The contribution rate for Plan 2 employees at June 30, 2009 and 2008 were 5.45% and 4.15%, respectively. Plan 3 members can choose contributions ranging from 5% to 15% of salary, based on the age of the member. The defined contribution benefit for Plan 3 will depend on the member's contributions, the investment earnings on those contributions, and if an annuity is taken, the age at which the member receives payment. The contribution rate for the Workers' Compensation Program at June 30, 2009 and 2008, for each of PERS Plans 1, 2, and 3 was 8.31% and 6.13% for the respective years. The Workers' Compensation Program contributed $11,214,837, $8,328,658 and $5,589,871 to PERS during Fiscal Years 2009, 2008, and 2007, respectively.

Note 10 – Other Postemployment Benefits

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

The following table shows components of the Workers' Compensation Program's OPEB costs for Fiscal Year 2009 and Fiscal Year 2008, the amount actually contributed to the plan, and changes in the Workers' Compensation Program's net OPEB obligation (NOO):

	Fiscal Year Ended June 30, 2009	Fiscal Year Ended June 30, 2008
NOO, Beginning of Year	$ 5,613,293	$ -
Annual OPEB costs	7,382,463	7,168,475
Contribution made	(1,941,381)	(1,555,182)
NOO, End of year	$ 11,054,375	$ 5,613,293

The above information was provided by the Office of Financial Management. The Workers' Compensation Program's OPEB plan represents 2.24% and 2.28% of the state of Washington's OPEB plan, as of June 30, 2009 and 2008, respectively.

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

Plan Description and Funding Policy

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

As of June 2009, membership in the PEBB plan consisted of the following:

	Active Employees	Retirees[1]	Total
State	112,043	25,458	137,501
K-12 schools and ESDs[2]	2,222	26,715	28,937
Political subdivisions	11,586	1,017	12,603
Total	125,851	53,190	179,041

[1]Retirees include retired employees, surviving spouses, and terminated members entitled to a benefit.
[2]In Fiscal Year 2009, there were 101,295 full-time equivalent active employees in the 245 K-12 schools and ESDs that elected to limit participation in PEBB only to their retirees.

For Fiscal Year 2009, the estimated monthly cost for PEBB benefits for each active employee (average across all plans and tiers) is as follows:

Required Premium[3]		
Medical	$	730
Dental		73
Life		5
Long-term disability		2
Total	$	810
Employer contribution	$	728
Employee contribution		82
Total	$	810

[3] Per Index Rate Model 4.3.

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: PERS, PSERS, TRS, SERS, WSPRS, and Higher Education.

Per RCW 41.05.022, retirees who are not yet eligible for Medicare benefits may continue participation in the state's non-Medicare community-rated health insurance risk pool on a self-pay basis. Retirees in the non-Medicare risk pool receive an implicit subsidy. The implicit subsidy exists because retired members pay a premium based on a claims experience for active employees and other non-Medicare retirees. The subsidy is valued using the difference between the age-based claims costs and the premium. In Calendar Year 2008, the average weighted implicit subsidy was valued at $253 per member per month, and in Calendar Year 2009, the average weighted implicit subsidy is projected to be $272 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 Health Care Authority administrator recommends an amount for the next calendar year's explicit subsidy for inclusion in the Governor's budget. In Calendar Year 2008, the explicit subsidy was $164 per member per month, and in Calendar Year 2009, the explicit subsidy is $183 per member per month.

Retirees participating in the PEBB life insurance program received an explicit subsidy of $5 per member per month in Calendar Year 2008. The explicit subsidy is also $5 per member per month in Calendar Year 2009.

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

Contributions are set each biennium as part of the budget process. In Fiscal Year 2009, the cost of the subsidies was approximately 6.6 percent of the cost of benefits for active employees. The benefits are funded on a pay-as-you-go basis.

The PEBB OPEB plan is accounted for as an agency fund on an accrual basis. The plan has no investments or other assets. The PEBB OPEB plan does not issue a publicly available financial report.

For information on the results of an actuarial valuation of the employer provided subsidies associated with the PEBB plan, refer to: http://osa.leg.wa.gov/Actuarial_services/OPEB/OPEB.htm.

Annual OPEB Cost and Net OPEB Obligation

The state's 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 normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

The following table shows the components of the state's annual OPEB cost for Fiscal Year 2009, the amount actually contributed to the plan, and changes in the state's net OPEB obligation (NOO):

(dollars in thousands)		
Annual required contribution	$	331,688
Interest on NOO		11,063
Amortization of NOO		(8,377)
Annual OPEB cost		334,374
Contributions made		(86,678)
Increase in NOO		247,696
NOO beginning of year		245,855
NOO end of year	$	493,551

The state's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation was as follows:

(dollars in thousands)

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2009	$ 334,374	25.92%	$ 493,551
6/30/2008	$ 313,970	21.69%	$ 245,855

Funded Status and Funding Progress

The funded status of the plan as of June 30, 2009, based on the actuarial valuation date, January 1, 2008, was as follows:

(dollars in thousands)		
Actuarially-accrued liability (AAL)	$	4,014,270
Actuarial value of plan assets		-
Unfunded actuarially-accrued liability (UAAL)	$	4,014,270
Funded ratio (actuarial value of plan assets/AAL)		0.00%
Covered payroll (active plan members)	$	5,170,126
UAAL as a percentage of covered payroll		77.64%

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

Actuarial Methods and Assumptions

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

Significant methods and assumptions were as follows:

Actuarial valuation date	January 1, 2008
Actuarial cost method	Projected Unit Credit
Amortization method	Closed, level percentage of projected payroll amortization method
Remaining amortization period	30 years
Asset valuation method	n/a - no assets
Actuarial assumptions:	
Investment rate of return	4.50%
Projected salary increases	4.50%
Health care inflation rate	8.5% initial rate, 5% ultimate rate in 2016
Inflation rate	3.50%

The Schedule of Funding Progress, following the notes to the financial statements, presents the results of the OPEB valuation for Fiscal Years 2006 through 2008. Looking forward, the schedule will provide additional multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarially-accrued liabilities for benefits.

Note 11 – Commitments and Contingencies

11.A. Summary of Significant Litigation

Tobin v. Department of Labor and Industries (including the Workers' Compensation Program)

This case is primary about distribution of money recovered from the third party. RCW 51.24 allows workers injured by non-employer third parties to file personal injury claims against those responsible parties. "Any recovery" in such an action is subject to distribution under a complex statutory formula. The current distribution formula includes third party damages for pain and suffering. The plaintiff of this case argues that pain and suffering damages must be excluded from distribution. The Department's position was not upheld by the Court of Appeals, but the Supreme Court has accepted review of this case and heard oral argument on November 16, 2009. A decision in this case is not anticipated until sometime in 2010. In the meantime, the plaintiff has created a class action lawsuit and numerous Board of Industrial Insurance Appeal cases, and many more are expected to follow. At the time of this report, the ultimate outcome of this litigation cannot be determined and the Department intends to vigorously defend its position. However, if the plaintiff's argument prevails, the Department estimates that there would be an initial loss of expected reimbursement revenue to the Workers' Compensation Program in the amount of $41.2 million, and thereafter, the Department would expect a loss of future anticipated revenue in the amount of $11 million per year. As the potential negative outcome of these cases only impacts the Workers' Compensation Program's future revenues, no adjustments have been reflected in the combining financial statements.

Puget Sound Energy v. Department of Labor and Industries (including the Workers' Compensation Program)

This case is primarily about when employers can receive relief from the Second Injury Fund. RCW 51.16.120 authorizes second injury fund relief to an employer if a worker's "previous…. disability" combines with the disability proximately caused by an industrial injury or occupational disease to make the worker permanently totally disabled. The employer in this case argues that the worker had a condition that could have been rated as a permanent impairment, and that establishes the previous disability; the injured worker agrees with the employer. The Court of Appeals approved a basis for establishing pre-existing disability and entitlement for second injury fund relief in such a way that it will be much easier for employers to obtain second injury fund relief.

The Department has petitioned for Supreme Court review, but does not anticipate a decision on the petition before February 2010. At the time of this report, the ultimate outcome of this litigation cannot be determined and the Department intends to vigorously defend its position. If the employer's argument prevails, the Department anticipates that there will be a significant increase in requests for second injury fund relief, and that will impact the second injury funding in the future. The exact amount of this impact cannot be estimated at this time. As the potential negative outcome of this case only impacts the funding of the Second Injury Fund within the Workers' Compensation Program in the future, no adjustments have been reflected in the combining financial statements.

Other Contingencies

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

11.B. Federal Assistance

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

11.C. Other Commitments and Contingencies

Effective July 1, 1992, the Washington State Legislature required the Workers' Compensation Program under RCW 48.22.070 to participate in an assigned risk pool providing workers' compensation coverage under the United States Longshoreman and Harbor Workers' Act. The Workers' Compensation Program is obligated to participate 50 percent in the underwriting losses or surpluses of the assigned risk pool. This participation is scheduled to continue indefinitely due to amending legislation passed in 1997. However, the Workers' Compensation Program has not made any payments to this risk pool since enactment of this indefinite commitment.

Note 12 – Subsequent Events

Each year the Director of the Department of Labor and Industries adopts new workers' compensation insurance premium rates for the next calendar year. For 2010, the actuarial indication was a 19.4% premium rate increase. The Director has adopted an average premium rate increase of 7.6%.

Schedules

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

Fiscal Years 2000 through 2009 (dollars in millions)

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

The rows of the table are defined as follows:

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

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

		2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
1.	Net earned required contribution and investment revenues	$ 1,057	$ 1,449	$ 1,197	$ 2,111	$ 1,337	$ 2,452	$ 1,392	$ 2,406	$ 1,697	$ 1,692
2.	Estimated incurred claims and expenses, end of policy year	1,902	1,925	2,124	2,284	2,505	2,308	2,141	2,196	2,256	2,363
3.	Paid (cumulative) as of:										
	End of policy year	218	230	226	233	244	260	278	295	310	322
	One year later	473	494	500	501	528	556	589	625	679	
	Two years later	608	646	653	650	681	715	754	817		
	Three years later	706	747	756	751	784	821	873			
	Four years later	777	825	834	824	860	906				
	Five years later	837	890	896	882	925					
	Six years later	889	943	949	934						
	Seven years later	933	989	999							
	Eight years later	974	1,032								
	Nine years later	1,014									
4.	Re-estimated incurred claims and expenses:										
	End of policy year	1,902	1,925	2,124	2,284	2,505	2,308	2,141	2,196	2,256	2,363
	One year later	1,838	1,963	2,158	2,277	2,203	1,989	2,053	2,234	2,559	
	Two years later	1,913	2,067	2,277	2,045	1,971	1,939	2,055	2,390		
	Three years later	1,977	2,226	2,079	1,853	1,864	1,954	2,151			
	Four years later	2,088	2,039	1,906	1,767	1,886	2,025				
	Five years later	1,881	1,864	1,859	1,788	1,941					
	Six years later	1,778	1,835	1,879	1,829						
	Seven years later	1,755	1,858	1,926							
	Eight years later	1,745	1,870								
	Nine years later	1,788									
5.	Increase (decrease) in estimated incurred claims and expenses from end of policy year	(114)	(55)	(198)	(455)	(564)	(283)	10	194	303	

Source: Washington State Department of Labor and Industries

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

Fiscal Years 2000 through 2009 (dollars in millions)

The table below illustrates how the Workers' Compensation Program Supplemental Pension Plan cost-of-living adjustments earned revenues (net of reinsurance) and investment income compare to the related costs of losses (net of loss assumed by 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, while the Basic Plan does not.
(2) This plan is not experience rated, while the Basic Plan is.
(3) Statutes restrict the funding of this plan to expected payments of the current year.

The rows of the table are defined as follows:

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

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

		2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
1.	Net earned required contribution and investment revenues	$ 225	$ 267	$ 281	$ 293	$ 288	$ 326	$ 305	$ 283	$ 334	$ 349
2.	Estimated incurred claims and expenses, end of policy year	635	628	807	1,029	1,228	724	804	968	1,093	354
3.	Paid (cumulative) as of:										
	End of policy year	-	-	-	-	-	-	-	-	-	-
	One year later	8	5	2	5	2	1	3	6	8	
	Two years later	12	8	11	4	3	4	7	12		
	Three years later	17	22	6	6	6	8	14			
	Four years later	30	15	9	8	11	15				
	Five years later	27	19	12	13	16					
	Six years later	33	23	17	19						
	Seven years later	38	29	24							
	Eight years later	46	37								
	Nine years later	55									
4.	Re-estimated incurred claims and expenses:										
	End of policy year	635	628	807	1,029	1,228	724	804	968	1,093	966
	One year later	730	786	945	1,045	722	721	927	1,176	1,121	
	Two years later	844	910	1,046	676	720	848	1,065	1,125		
	Three years later	959	1,064	701	667	811	971	998			
	Four years later	1,099	727	682	759	940	897				
	Five years later	746	671	811	871	858					
	Six years later	722	792	905	780						
	Seven years later	834	883	821							
	Eight years later	889	768								
	Nine years later	819									
5.	Increase (decrease) in estimated incurred claims and expenses from end of policy year	184	140	14	(249)	(370)	173	194	157	28	

Source: Washington State Department of Labor and Industries

State of Washington Schedule of Funding Progress for Other Postemployment Benefits

This schedule presents the results of the OPEB valuation for Fiscal Years 2006 through 2008:

Schedule of Funding Progress
Other Postemployment Benefits
Valuation Years 2006 through 2008
(dollars in millions)

	2008	2007	2006
Actuarial valuation date	1/1/2008	1/1/2007	N/A
Actuarial value of plan assets	$ -	$ -	N/A
Actuarial accrued liability (AAL)*	4,014	3,800	N/A
Unfunded actuarial accrued liability (UAAL)	4,014	3,800	N/A
Funded ratio	0%	0%	N/A
Covered payroll	5,170	5,427	N/A
UAAL as a percentage of covered payroll	77.64%	70.01%	N/A

* Based on projected unit credit actuarial cost method.

N/A indicates data not available.

Source: Washington State Office of the State Actuary

Source: Office of Financial Management
State of Washington

Independent Actuarial Opinion

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GAAP RESERVE OPINION – June 30, 2009

To the State of Washington Workers' Compensation Program:

I, David F. Mohrman, am associated with Towers Perrin. I am a member of the American Academy of Actuaries and meet its qualification standards for signing statements of actuarial opinion regarding property and casualty insurance company statutory Annual Statements. I am a Fellow of the Casualty Actuarial Society. My firm has been retained to render an opinion on the reserves for unpaid loss and loss adjustment expense liabilities at June 30, 2009 recorded in the Combining Balance Sheet of the State of Washington Workers' Compensation Program (the "Program") and I have been assigned responsibility for that project.

I have examined the reserves for unpaid loss and loss adjustment expense liabilities at June 30, 2009 recorded in the Combining Balance Sheet of the Program. The reserves are as follows:

	Reserve as of June 30, 2009
Accident Fund	$4,195,041,000
Medical Aid Fund	3,496,088,000
Pension Reserve Fund	3,056,703,000
Subtotal	10,747,832,000
Supplemental Pension Fund	11,416,236,000
Total Program	$22,164,068,000

The Program does not cede or assume any reinsurance.

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

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

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

I evaluated the loss and loss adjustment expense reserves on a discounted basis with regard to the time value of money. The yields for discounting were 2.5% for the Accident Fund and the Medical Aid Fund, 6.5% for the Pension Reserve Fund, and 2.5% for the Supplemental Pension Fund. The average implied discount rate was approximately 3.3%, which I consider reasonable. I evaluated the loss and loss adjustment expense reserves, net in regards to salvage and subrogation.

I believe that there are significant risks and uncertainties that could result in material adverse deviation in the loss and loss adjustment expense reserves. In consideration of the use of this opinion for purposes of monitoring the Fund Equity of the Program, I consider $1,100,000,000 to be material for this Program, calculated as approximately 5% of the Program's reserves. I have identified the major risks and uncertainties as reserve leverage, reserve discounting, medical inflation, and cost of living increases. The absence of other risks and uncertainties from this listing does not imply that additional factors will not be identified in the future as having been a significant influence on the Program's reserves.

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

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

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

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

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

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

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

Date: December 2, 2009

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

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Workers' Compensation Program Comprehensive Annual Financial Report

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[12-2009]