Washington State Department of
Labor & Industries

Workers' Compensation Program

An Enterprise Fund of the State of Washington

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2010

Olympia, Washington

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Olympia, Washington

Prepared By:

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Washington State Office of Financial Management
Washington State Investment Board

Washington State Department of
Labor & Industries

Keep Washington Safe and Working.

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Washington State Department of
Labor & Industries

Keep Washington Safe and Working.

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

November 12, 2010

The Honorable Christine Gregoire, Governor
Honorable Members of the Legislature
Director of Office of Financial Management
Washington State Citizens
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 ended June 30, 2010. 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 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 basic financial statements are free of any material misstatements.

The State Auditor has issued an unqualified (clean) opinion on the Workers' Compensation Program basic financial statements for the year ended June 30, 2010. The independent auditor's report is located at the front of the financial section of this report.

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

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

PROFILE OF WORKERS' COMPENSATION PROGRAM

The Department of Labor & Industries (L&I), an agency of Washington State, is responsible for managing the State's Workers' Compensation system; enforcing the Washington Industrial Safety and Health Act; providing safety and health consultations and information; enforcing wage-and-hour, child labor, and family leave requirements; managing the state's Crime Victims' Compensation Program; registering contractors and apprentices; inspecting electrical work, elevators, boilers and factory-assembled structures; and issuing licenses for certain skilled trades.

In our 99th year of service, L&I is proud to support approximately 2.3 million workers and over 163,000 employers statewide. L&I's headquarters is located at 7273 Linderson Way SW in Tumwater, Washington.

There are 20 additional L&I offices across Washington State. The additional field offices enable us to respond to specific needs in different localities.

The focus of the following report is the Workers' Compensation Program. Washington State's "Workmen's Compensation Act," established in 1911, was designed to protect workers and employers from injustice and financial hardship arising from work-related injuries in extremely hazardous work. In 1923, Washington became 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. In 1971, the Legislature expanded the scope of coverage to virtually all workers and created "self insurance." The Self Insurance Program allows employers with sufficient financial resources to "self insure," thus paying the cost of claims for their injured workers from their own funds and also assuming responsibility for their own claims administration. The workers of self-insured employers are entitled to the same rights and benefits as those workers insured by the State Fund managed by L&I. There are approximately 360 employers who are self-insured, covering approximately one-third of all workers in Washington.

BUDGET CYCLE

The Workers' Compensation Program is an enterprise fund made up of six accounts that are financed and operated in a manner similar to private business entities. The budget operates on a two-year cycle beginning on July 1 of each odd-numbered year. The biennial budget for administering the program is appropriated and allotted through Washington State's legislative process. The 2009-2011 appropriated budgets for administering the Accident and Medical Aid accounts of the program is $516,415,889. These accounts include federal funds of $8,402,000. The allotted administering budget for Fiscal Year 2010 was $254,184,984.

The benefit portions of the accounts that make up the program are non-appropriated and non-allotted. The cost of providing medical, time-loss, and disability benefit payments to qualifying individuals sustaining work-related injuries and illnesses is financed primarily through premiums collected from employers and workers.

L&I prepared this report based on a fiscal year beginning July 1 and ending June 30.

LOCAL ECONOMY AND IMPACT ON LABOR & INDUSTRIES

Workers' Compensation covers all industries in the state of Washington. The western part of the State is known for its industrial and commercial industries. The ports of Seattle and Tacoma facilitate import and export trade with Asia, as well as load and unload passengers from commuting ferries or traveling cruise ships. Microsoft Corporation, located in Redmond, is a world-renowned leader of the software industry. Aircraft manufacturer, Boeing Company, is located in Everett. East of the Cascades, the Yakima and Wenatchee valleys are used for farming and lead the country in the production of apples, sweet cherries, and pears. Washington State is a major producer of wheat and world-class wine.

Washington's water resources, such as bays, inlets, rivers, lakes, and coastline, provide abundant fishing and hydroelectric power. Our Cascade mountain range is a beautiful site for hiking, camping and fishing. The early development of our State relied on the lumber and wood-products industry, which has remained a sustainable industry for Washington. Low-cost power attracts data centers, producers of solar-grade silicon products, and others to eastern Washington.

EFFECTS OF THE ECONOMIC RECESSION

The labor market in Washington State lost 186,260 jobs during the recession from December 2007 through December 2009 – the largest decline in comparison to other recessions, dating back to December 1969. In addition, employers cut hours or hired temporary employees rather than replacing lost positions with permanent employees. The unemployment rate for Washington State peaked at 9.7 percent, with little improvement expected for the rest of the year.

Resources available for the Workers' Compensation Program are impacted by conditions of the labor market, in that premiums that fund workers' compensation are calculated based on payroll hours reported by employers. Based on data collected by L&I's actuaries, as of March 31, 2010, an estimated 5 percent decrease is expected in hours reported between December 31, 2009 and December 31, 2010.

Of the 186,260 jobs lost in Washington, the construction industry was hit the hardest by the downturn. There was significant reduction in the demand for construction, with Washington's population growth well below trend and the housing crisis preventing people from moving out of their existing homes. Growth in residential construction was stimulated briefly by homebuyer tax credits, but tapered off when credits expired in April 2010. In reviewing claim activity for 2009, L&I received fewer new claims for the construction industry; however, a larger percentage of those claims are receiving wage replacement benefits and have increased in duration.

The number of electrical permits issued by L&I has declined as well; approximately 17,000 electrical permits were issued in 2006, but that number declined to 12,400 in 2009. A rise in electrical permits issued may indicate that the construction industry is beginning to recover.

Investment transactions made on behalf of L&I remained stable and reported gains throughout Fiscal Year 2010. Real gross domestic product grew consecutively over three quarters in Fiscal Year 2010, and industrial production remained strong, good indicators the economy is recovering. In addition, private spending appears to be recovering, especially in the business sector.

Fluctuations and uncertainties hit the financial markets in the third quarter of Fiscal Year 2010, as a reaction from fear that Greece may default on its debt and the economic crises will spread to Spain, Portugal, Ireland, Italy, and possibly the United Kingdom. The strengthening of the dollar will slow U.S. exports, but Washington's export-dependent economy is expected to remain strong. In addition, Washington's export contracts and prices are negotiated in advance, and hedges are put in place to guard against exchange-rate risk. Ninety percent of the State's commodity exports are to Asia, and the dollar has remained stable against Asian currency.

ECONOMIC OUTLOOK

The Economic and Revenue Forecast Council of Washington State reports that personal income is growing moderately after sharp declines in the first quarter of 2009. Personal disposable income rose nearly 3 percent during fourth quarter 2009, thanks to tax cuts and increased transfer payments in the federal stimulus package. This means that Washington residents have more to put back into the economy now than a year ago. Boeing has plans to increase production of the 777 in 2011, the 737 in early 2012, and will start up production of the new 787 and 747-8. The software industry added 900 jobs between December 2009 and May 2010, and continued growth is expected.

Investment income, managed by the Washington State Investment Board, performed incredibly well over the past fiscal year, considering the instability of the market. Investments are expected to continue to perform well as the financial markets recover. However, investment yields are expected to decline over the long term. We will manage investments carefully to preserve income, remain innovative in developing new strategies to deliver benefits and services of the Workers' Compensation Program, and continue to work with our stakeholders to ensure the needs of the business community and workforce are met.

VOTER INITIATIVE

L&I has been the sole provider of workers' compensation insurance since established in 1911. Voter Initiative 1082 was proposed to permit employers to purchase private industrial insurance beginning July 1, 2012, from entities other than L&I. The initiative would have directed the Legislature to enact conforming legislation by March 1, 2012. The worker-paid share of medical-benefit premiums would have been eliminated and the premium basis would have changed from hours worked to a rate per $100 payroll. As of November 2, 2010, the early election results indicated that this initiative was failing.

ACKNOWLEDGEMENTS

The management and staff of Washington's Workers' Compensation Program are dedicated to the excellence of our program. Our benefits protect injured workers and their families at premium rates that are lower than half of the other states. We are the only state where employees pay a significant portion of the premium, about 28 percent, which cuts employer costs while maintaining benefits. We give a claim-free discount to 85 percent of employers. In the past year our claims adjudicators implemented process improvements that do a better job of bringing resources such as nurses, claims managers, pension adjudicators and other experts to work as a team, ensuring decisions are made on a claim in a timely and accurate manner. The Washington State Investment Board has done an outstanding job in managing our investments and keeping a watchful eye on the financial markets. The agency finds value in training both new and existing staff to achieve a consistent level of high quality service and empowering staff to succeed in providing outstanding service to our customers and stakeholders.

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

The economic information discussed above was based on the June 4, 2010, Economic Review and the June 17, 2010, Revenue Review, published by the Economic and Revenue Forecast Council of Washington State.

Sincerely,

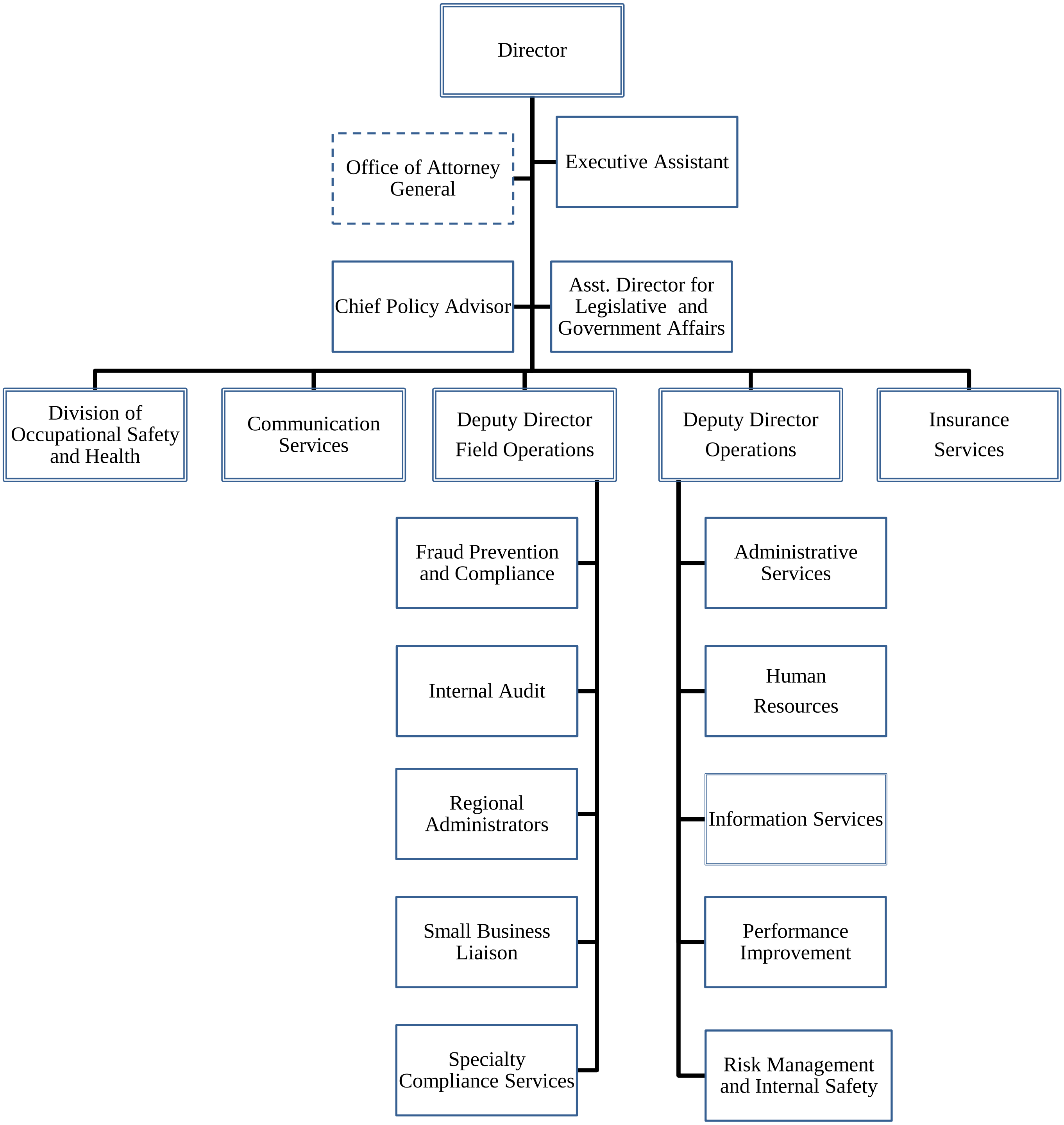
Judy Schurke
Director

Robert J. Malooly
Assistant Director, Insurance Services

Carole Washburn
Deputy Director for Operations Services

Washington State Department of
Labor & Industries

Organization Chart
2009 – 2010



June 30, 2010

Washington State Department of
Labor & Industries

Keep Washington Safe and Working.

Financial Section

Washington State Department of
Labor & Industries

Keep Washington Safe and Working.

Washington State Auditor
Brian Sonntag

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

November 12, 2010

Judy Schurke, Director
Department of Labor and Industries
Olympia, Washington

We have audited the accompanying basic financial statements of the Workers' Compensation Program, an enterprise fund of the State of Washington, as of and for the year ended June 30, 2010, as listed in the table of contents. These financial statements are the responsibility of the management of the Washington State Department of Labor and Industries. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Labor and Industries' Funds of the State of Washington as managed by the Washington State Investment Board, which include the Program's investments and related investment income as discussed in Note 3. These investments represent 96 percent, 100 percent and 45 percent, respectively, of the assets, net assets, and total revenues of the Program. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Workers' Compensation Program of the State of Washington, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Labor and Industries' Funds of the State of Washington as managed by the Washington State Investment Board were not audited in accordance with *Government Auditing Standards.* An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditors provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Workers' Compensation Program and do not purport to, and do not, present fairly the financial position of the state of Washington as of June 30, 2010, the changes in its financial position, or its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to previously present fairly, in all material respects, the financial position of the Workers' Compensation Program of the State of Washington, as of June 30, 2010, and the changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Insurance Building, P.O. Box 40021 • Olympia, Washington 98504-0021 • (360) 902-0370 • TDD Relay (800) 833-6388
FAX (360) 753-0646 • http://www.sao.wa.gov

As described in Note 2, during the year ended June 30, 2010, the Agency has implemented the Governmental Accounting Standards Board Statement No. 51 - Accounting and Financial Reporting for Intangible Assets and Statement No. 53 - Accounting and Financial Reporting for Derivative Instruments.

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

The management's discussion and analysis on pages 13 through 19, schedules of claims development information on pages 55 through 56 and reconciliation of claims liabilties by plan on page 57 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We and the other auditors 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.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements. The accompanying supplementary information listed as combining and individual fund financial statements and independent actuarial opinion on pages 61 through 68 are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has been subjected to auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the report of the other auditors, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The information identified in the table of contents as the introductory and statistical sections is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Sincerely,

BRIAN SONNTAG, CGFM
STATE AUDITOR

Management's Discussion and Analysis

This section of the state of Washington Workers' Compensation Program Comprehensive Annual Financial Report presents management's discussion and analysis of the financial performance of the Workers' Compensation Program for the fiscal year ended June 30, 2010. This discussion should be read in conjunction with the accompanying basic financial statements. The basic financial statements, notes to the basic financial statements, and this discussion are the responsibility of the Workers' Compensation Program management.

Financial Highlights

Condensed Financial Snapshot
(in millions)

	As of and For The Fiscal Year Ended June 30, 2010	As of and For The Fiscal Year Ended June 30, 2009	$ Change	% Change
Total Assets	$ 14,973	$ 13,681	$ 1,292	9.4%
Total Liabilities	26,640	24,299	2,341	9.6%
Total Revenues Earned	3,217	2,100	1,117	53.2%
Total Expenses Incurred	4,267	2,549	1,718	67.4%
Total Net Assets (Deficit)	$ (11,667)	$ (10,618)	$ (1,049)	(9.9%)

Overview of the Basic Financial Statements

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

These basic financial statements report the financial condition and results of operations for six accounts including the Accident, Medical Aid, Pension Reserve, Supplemental Pension, Second Injury, and Self-Insured Employer Overpayment Reimbursement Accounts, known collectively as the Workers' Compensation Program. The Accident, Medical Aid, and Pension Reserve Accounts represent the Workers' Compensation Program Basic Plan. For the fiscal year ended 2010, the basic financial statements show results of operations at the roll-up level. Detailed financial information for the individual accounts can be found in the Supplementary Information on pages 61-63 of this financial report.

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

The Statement of Net Assets provides information about the Program's assets and liabilities and reflects the Program's financial position as of June 30, 2010. It can be found on page 23 of this report.

The Statement of Revenues, Expenses, and Changes in Net Assets reflects both operating and nonoperating revenues and expenses for the fiscal year. It can be found on page 24 of this report.

The Statement of Cash Flows reflects cash collections and cash payments to arrive at the net increase or decrease in cash and pooled investments during the fiscal year. It can be found on page 25 of this report.

The Notes to the Basic Financial Statements are an integral part of the basic financial statements and are essential to a full understanding of the Workers' Compensation Program's financial position and results of operations presented in the basic financial statements. They can be found on pages 28-51 of this report.

Financial Analysis of the Workers' Compensation Program

Assets, Liabilities and Net Assets
(in millions)

	June 30, 2010	June 30, 2009
Assets		
Current assets and noncurrent receivables	$ 3,015	$ 2,732
Investments, noncurrent	11,895	10,886
Capital assets, net	63	63
Total Assets	$ 14,973	$ 13,681
Liabilities		
Current liabilities	$ 4,698	$ 4,142
Noncurrent liabilities	21,942	20,157
Total Liabilities	26,640	24,299
Net Assets (Deficit)		
Invested in capital assets, net of related debt	41	37
Unrestricted	(11,708)	(10,655)
Total Net Assets (Deficit)	(11,667)	(10,618)
Total Liabilities and Net Assets (Deficit)	$ 14,973	$ 13,681

The Workers' Compensation Program's deficit increased $1.0 billion during Fiscal Year 2010, ending the year with a deficit balance of $11.7 billion. The main factor that contributed to the larger deficit was increased claims payable liabilities due to longer time-loss durations, increases in the forecast of future wage inflation, and more claims becoming pensions.

Current assets. Current assets increased during Fiscal Year 2010 by $404.0 million. This change largely resulted from an increase of $571.6 million in collateral held under securities lending agreements due to an increase in overall securities lending activity, offset mainly by a decrease of $140.0 million in receivables. Of the total decrease in receivables, $106.0 million is due to the receivables from other accounts within the Workers' Compensation Program being removed at the roll-up level starting in Fiscal Year 2010.

Noncurrent receivables. Noncurrent receivables were eliminated during Fiscal Year 2010, thus resulting in a $121.1 million decrease overall, due to a change in accounting practices. See Note 2 - Accounting and Reporting Changes for more details.

Noncurrent investments. Noncurrent investments increased during Fiscal Year 2010 by $1.0 billion. The increase is mainly due to unrealized gains of $934.7 million resulting from favorable market conditions. Interest rates dropped during the fiscal year, and the price of fixed income securities rose, which resulted in substantial increases to fixed income invested balances. 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, increased during Fiscal Year 2010 by $476.6 million. This change is a result of a $571.6 million increase in securities lending activities, offset by a decrease of $106.0 million in payables to other accounts within the Workers' Compensation Program being removed at the roll-up level starting in Fiscal Year 2010.

Total deficit. The overall negative net assets balance of the Workers' Compensation Program is $11.7 billion. This deficit is attributable to a $12.7 billion deficit in the Supplemental Pension Account, offset by a $974.7 million net assets balance in the Workers' Compensation Program Basic Plan. The Supplemental Pension Account's negative balance is due to cost-of-living adjustments (COLAs) granted for time-loss and disability payments being funded on a pay-as-you-go basis. By statute, the State is only allowed to collect enough revenue to fund the current COLA payments.

Schedule of Changes in Benefit Liabilities (Included in Claims Payable) * (in millions)	June 30, 2010	June 30, 2009
Benefit liabilities, beginning of year	$ 21,543 **	$ 21,468
New liabilities incurred, current year	2,072	2,085
Development on prior years		
Discount accretion	630	617
Other development on prior liabilities	1,210	(592)
Claim payments	(1,944)	(1,923)
Establishing self insurance second injury pension awards	40	45
Change in benefit liabilities	2,008	232
Benefit liabilities, end of year	$ 23,551	$ 21,700

* Excludes loss adjustment expense liabilities.
** Change in beginning balance due to changes in accounting practices. Refer to Note 2 for more information.

Claims payable. The Workers' Compensation Program implemented an accounting change in accordance with Governmental Accounting Standards Board (GASB) Statement No. 10, which changed the way Labor & Industries reports claims payable liabilities. In prior fiscal years, claims payable liabilities were grossed up to include recoveries; however, starting in Fiscal Year 2010, claims payable liabilities are reported net of recoveries. The table below shows gross figures for Fiscal Year 2009 and net figures for Fiscal Year 2010. Thus, the ending balance for Fiscal Year 2009 differs from the beginning balance for Fiscal Year 2010. For detailed information about the effects of this change, see Note 2 - Accounting and Reporting Changes.

Total claims payable (included in current and noncurrent liabilities above) was $24.0 billion at the end of Fiscal Year 2010 compared to $22.2 billion for the previous fiscal year, representing an 8.1 percent increase. The main factors that contributed to this increase include:

- Increases in the duration of time-loss claims affecting both the current year and prior years' claims payable liabilities.
- Increased number of pensions and estimated pension liabilities.
- Granting new pensions at a higher frequency rate for long-term time-loss.
- Increases in the forecast of future wage inflation.
- Jim A. Tobin v. Department of Labor & Industries Supreme Court case resolution in favor of the plaintiff, which will result in a reduction of recoveries from third parties.

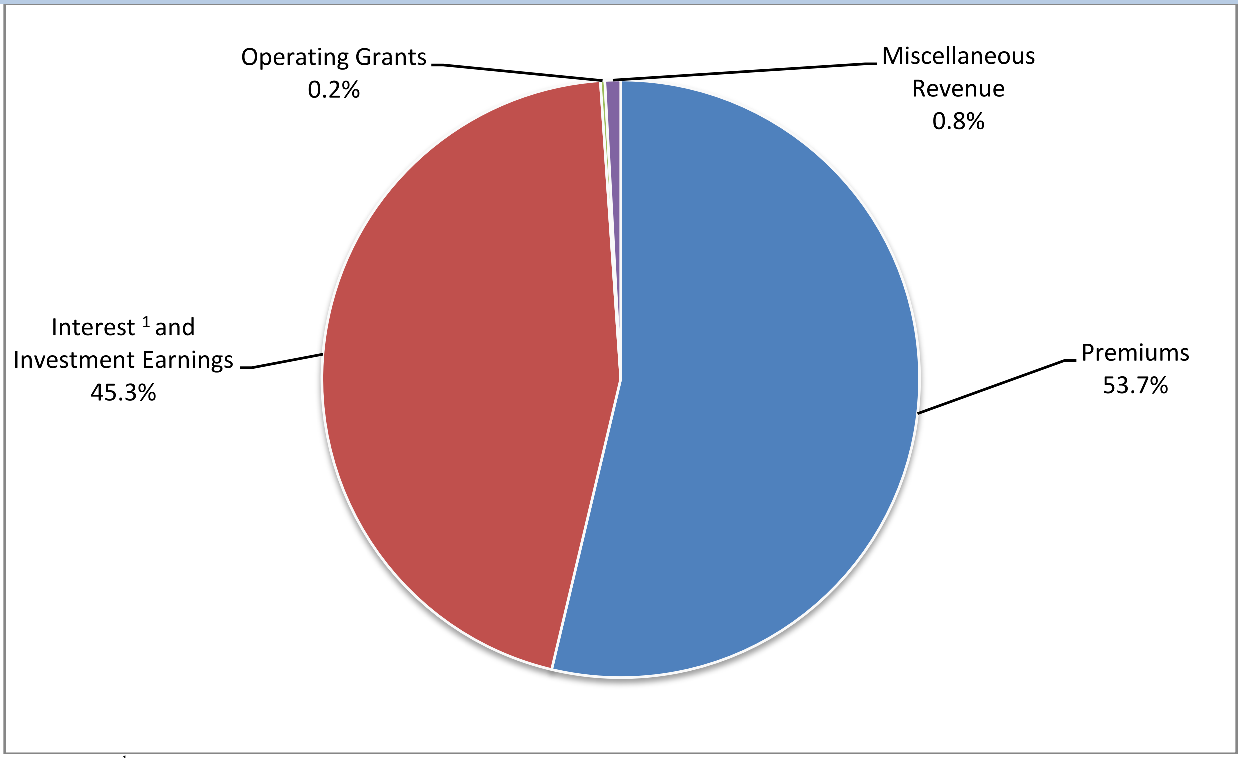
Summary of Changes in Net Assets (in millions)				
	Fiscal Year Ended June 30, 2010		Fiscal Year Ended June 30, 2009	
Operating Revenues				
Premiums and assessments, net	$	1,728	$	1,824
Miscellaneous revenue		40		53
Total Operating Revenues		1,768		1,877
Nonoperating Revenues				
Earnings on investments		1,441		216
Other revenues		8		7
Total Revenues		3,217		2,100
Operating Expenses				
Salaries and wages		137		134
Employee benefits		48		51
Personal services		5		6
Goods and services		68		74
Travel		3		3
Claims		3,971		2,181
Depreciation		8		10
Miscellaneous expenses		26		89
Nonoperating Expenses				
Interest expense		1		1
Total Expenses		4,267		2,549
Income (Loss) before Transfers		(1,050)		(449)
Net Transfers		1		(3)
Change in Net Assets (Deficit)		(1,049)		(452)
Net Assets (Deficit) - Beginning of Year		(10,618)		(10,166)
Net Assets (Deficit) - End of Year	$	(11,667)	$	(10,618)

Premiums and assessments revenues, net. Premiums and assessments revenues, net, during Fiscal Year 2010 were $1.7 billion compared to $1.8 billion for Fiscal Year 2009, a decrease of $96.6 million. Current economic conditions decreased the number of reported hours worked in Fiscal Year 2010 by approximately 5.2 percent. Since premiums are based on hours worked, the reduction in the number of hours reported has impacted Fiscal Year 2010 premium revenues.

Operating expenses. Operating expenses for Fiscal Year 2010, other than claims expenses, were $295.6 million, compared to $367.3 million in Fiscal Year 2009. This decrease was due to several cost savings measures mandated by the Legislature and agency cutbacks in response to declining revenues. For example, employee benefits expense experienced a decline due to an increase in the employee portion of insurance premiums.

Claims expenses. Claims expenses for Fiscal Year 2010 increased $1.8 billion, or 82.1 percent, in Fiscal Year 2010 compared to Fiscal Year 2009. This increase is mostly a result of future estimated claim liabilities and, to a lesser extent, increases in actual claim payments. Pension liabilities and the forecast of future wage inflation increased, but were partially offset by the medical provider fee schedule having no increase in Fiscal Year 2010 and by several cost reduction implementations during the fiscal year. Additionally, economic uncertainty is resulting in increased time-loss claim duration and pensions being granted at a higher frequency for long-term claims.

Fiscal Year 2010 Revenues by Source



[1]The above chart groups interest earnings with investment earnings; however, interest earnings are categorized with miscellaneous revenue on the Statement of Revenues, Expenses, and Changes in Net Assets.

Capital Asset and Debt Administration

Capital assets. Investment in capital assets, net of accumulated depreciation, as of June 30, 2010, was $63.4 million. This reflects a net increase of $15.6 thousand from the previous year as a result of increases in construction in progress, offset by an increase in accumulated depreciation for furnishings, equipment and collections. Additional information on capital assets can be found in Note 1.D.6 and Note 6 of this report.

Bonds payable. Bond proceeds provided funding for the acquisition and construction of the building and grounds for the Department of Labor & Industries' headquarters in Tumwater. At the end of Fiscal Year 2010, the Workers' Compensation Program had $22.1 million in outstanding bonds payable, which represents a 14.7 percent 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

- Slow economic growth and recovery impacted by the national and international financial crisis continues to influence the Workers' Compensation Program. The fiscal year ended June 30, 2010 fared better than the previous fiscal year largely due to the effects of the federal stimulus. Investment balances have been able to make a full recovery and even increase since the end of the last 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 premium revenues earned.

- The Workers' Compensation Program adopted an average premium rate increase of 7.6 percent for Calendar Year 2010. The proposed rate for Calendar Year 2011 is scheduled to be announced in November 2010.

Requests for Information

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

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

Washington State Department of
Labor & Industries

Keep Washington Safe and Working.

Basic Financial Statements

Washington State Department of
Labor & Industries

Keep Washington Safe and Working.

Statement of Net Assets
June 30, 2010

ASSETS		
Current Assets:		
Cash and cash equivalents	$	41,329,095
Trust cash		697,899
Trust investments		4,980,412
Collateral held under securities lending agreements		2,377,679,109
Receivables, net of allowance		588,630,745
Receivables from other state accounts and agencies		537,006
Receivables from other governments		1,206,668
Inventories		120,096
Total Current Assets		3,015,181,030
Noncurrent Assets:		
Investments, noncurrent		11,894,375,194
Capital assets, net of accumulated depreciation		63,360,579
Total Noncurrent Assets		11,957,735,773
Total Assets	$	14,972,916,803
LIABILITIES AND NET ASSETS (DEFICIT)		
LIABILITIES		
Current Liabilities:		
Accounts payable	$	2,882,495
Deposits payable		7,305,731
Accrued liabilities		161,013,800
Obligations under securities lending agreements		2,377,679,109
Bonds payable, current		4,030,000
Payables to other state accounts and agencies		5,343,347
Unearned revenues		7,995,743
Claims payable, current		2,132,081,000
Total Current Liabilities		4,698,331,225
Noncurrent Liabilities:		
Claims payable, net of current portion		21,893,751,000
Bonds payable, net of current portion		18,080,000
Other long-term liabilities		12,444,958
Other postemployment benefits		17,469,300
Total Noncurrent Liabilities		21,941,745,258
Total Liabilities		26,640,076,483
Net Assets (Deficit):		
Invested in capital assets, net of related debt		41,250,579
Unrestricted		(11,708,410,259)
Total Net Assets (Deficit)		(11,667,159,680)
Total Liabilities and Net Assets (Deficit)	$	14,972,916,803

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

Statement of Revenues, Expenses, and Changes in Net Assets
For the Fiscal Year Ended June 30, 2010

OPERATING REVENUES:		
Premiums and assessments, net of refunds	$	1,727,721,766
Miscellaneous revenue		40,250,830
Total Operating Revenues		1,767,972,596
OPERATING EXPENSES:		
Salaries and wages		137,085,408
Employee benefits		48,545,173
Personal services		4,520,989
Goods and services		67,817,231
Travel		3,339,227
Claims		3,971,058,506
Depreciation		7,990,730
Miscellaneous expenses		26,287,400
Total Operating Expenses		4,266,644,664
Operating (Loss)		(2,498,672,068)
NONOPERATING REVENUES (EXPENSES):		
Earnings on investments		1,441,576,317
Other revenues		7,878,020
Interest expense		(1,270,762)
Total Nonoperating Revenues (Expenses)		1,448,183,575
(Loss) Before Transfers		(1,050,488,493)
Transfers in		323,622,723
Transfers out		(322,783,143)
Net Transfers		839,580
Changes in Net Assets		(1,049,648,913)
Net Assets (Deficit), July 1		(10,617,510,767)
Net Assets (Deficit), June 30	$	(11,667,159,680)

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

Statement of Cash Flows
For the Fiscal Year Ended June 30, 2010

CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	$	1,744,636,274
Payments to/for beneficiaries		(1,950,970,302)
Payments to employees		(180,948,745)
Payments to suppliers		(84,945,121)
Other		56,254
Net Cash Flows from Operating Activities		(472,171,640)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Transfers in		412,200,386
Transfers out		(411,752,308)
Operating grants received		6,598,557
License fees collected		113,625
Net Cash Flows from Noncapital Financing Activities		7,160,260
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Interest paid		(1,345,676)
Principal payments on bonds payable		(3,820,000)
Sale of capital assets		158
Acquisitions of capital assets		(8,047,276)
Net Cash Flows from Capital and Related Financing Activities		(13,212,794)
CASH FLOWS FROM INVESTING ACTIVITIES		
Receipt of interest		486,206,687
Receipt of dividends		13,762,629
Investment expenses		(2,854,914)
Proceeds from sale of investment securities		5,042,112,245
Purchases of investment securities		(5,083,860,380)
Net Cash Flows from Investing Activities		455,366,267
Net Increase (Decrease) in Cash and Cash Equivalents		(22,857,907)
Cash and Cash Equivalents, July 1		64,187,002
Cash and Cash Equivalents, June 30	$	41,329,095
CASH FLOWS FROM OPERATING ACTIVITIES:		
Operating (Loss)	$	(2,498,672,068)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Flows from Operating Activities		
Depreciation		7,990,730
Interest income reported in income statement as operating activity		(5,223,347)
Change in Assets: Decrease (Increase)		
Receivables		66,754,418
Inventories		21,676
Prepaid expenses		37,640
Change in Liabilities: Increase (Decrease)		
Claims and judgments payable		1,982,869,000
Accrued liabilities		(25,949,689)
Net Cash Flows from Operating Activities	$	(472,171,640)
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES		
Increase (Decrease) in fair value of investments	$	934,668,091

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

Washington State Department of
Labor & Industries

Keep Washington Safe and Working.

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Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

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Note 1 - Summary of Significant Accounting Policies

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

1.A. Reporting Entity

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

The Workers' Compensation Program is classified as an enterprise fund of the state of Washington. The accompanying basic financial statements present only the activity of the Workers' Compensation Program and do not present the financial position, results of operations, or cash flows of the Washington State Department of Labor & Industries or the state of Washington. The Department of Labor & Industries financial reporting is included in the basic financial statements of the Comprehensive Annual Financial Report of the state of Washington. This report may be obtained from the Office of Financial Management, Accounting Division, P.O. Box 43113, Olympia, WA 98504-3113.

1.B. Basic Financial Statements

The Workers' Compensation Program consists of the following six enterprise fund accounts**:**

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

Revenues for this account are from employer-paid premiums. Premiums are based on individual employers' reported payroll hours and are reported net of refunds. However, employers may elect to have their premiums retrospectively rated with an annual adjustment for up to three years following the plan year based on individual employers' actual losses incurred. This may result in either a rebate of premiums paid or an assessment of additional premiums due. All retrospective premium adjustments are financed entirely through the Accident Account. The adjustment calculation considers both the Accident and Medical Aid Accounts' experience and premiums together; however, no retrospective premium adjustments are made through the Medical Aid Account.

The Medical Aid Account pays for the cost of medical and vocational rehabilitation services to injured workers. Revenues for this account usually arise from equal contributions from employers and employees; employers are required to withhold half of the medical aid premium from their employees' wages.

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

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

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

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

The Second Injury Account is used to pay pension costs on claims where a permanent total disability is at least partially caused by a prior injury. 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 Accounts 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 Accounts' claim liabilities for state-fund-insured claims; therefore, this account does not carry any claims payable liabilities.

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

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

Statement of Cash Flows.

Statement of Net Assets - This statement presents assets and liabilities for the Workers’ Compensation Program in order of liquidity. Net assets are 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** - consists of the portion of net assets that does not meet the definition of the preceding category.

Statement of Revenues, Expenses, and Changes in Net Assets - This statement presents the activity and changes in net assets of the Workers’ Compensation Program. Activity is distinguished between operating and nonoperating revenues and expenses.

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

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

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

1.C. Measurement Focus and Basis of Accounting

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

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

1.D. Assets, Liabilities and Net Assets

1.D.1. Cash and Cash Equivalents

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

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

1.D.2. Trust Cash and Trust Investments

The U.S. Department of Energy has contracted with the Workers' Compensation Program to pay benefits to Hanford nuclear production complex workers injured on the job. Funds, provided in advance by the U.S. Department of Energy to cover the pension liability determined by the Workers' Compensation Program, are recorded as "Trust Cash" and "Trust Investments."

As of June 30, 2010, Trust Cash amounted to $697,899 and is available to reimburse the Workers' Compensation Program for monthly pension payments. As of June 30, 2010, Trust Investments totaling $4,980,412 were invested in U.S. Treasury Notes and are also available to reimburse the Workers' Compensation Program for future expenses.

1.D.3. Investments

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

1.D.4. Receivables and Payables

Current receivables arose in the ordinary course of business and consist of amounts due for workers' compensation premiums, amounts due for overpayment of benefits to injured workers and providers, investment interest receivable, and other miscellaneous receivables. Receivables are recorded when they can be estimated, collected and earned (i.e. overpayment has occurred, service has been performed, or the time period has passed). Receivables due for workers' compensation premiums for the quarter ended June 30, 2010 are estimated. All receivables are reported net of an allowance for accounts estimated to be uncollectible. Current accounts receivable are generally expected to be collected within one year following the end of the fiscal year.

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

The Workers' Compensation Program establishes claims payable liabilities (unpaid loss and loss adjustment expense liabilities) based on estimates of the ultimate cost of claims (including future claim 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 liabilities are discounted at assumed interest rates of 2.5 percent in the Accident and Medical Aid Accounts and 6.5 percent in the Pension Reserve and Supplemental Pension Accounts to arrive at a settlement value that is net of third party recoveries.

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, costs, 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.D.5. Inventories and Prepaid Expenses

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

Prepaid items are certain types of services that will benefit future accounting periods and are accounted for using the consumption method. The portion of services used during a period is recorded as an expense. The remaining balance is reported as an asset until consumed. There were no prepaid expenses at the end of June 30, 2010.

1.D.6. Capital Assets

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

- All land.
- Buildings, building improvements, and leasehold improvements with a cost of $100,000 or greater.
- Infrastructure with a cost of $100,000 or greater.
- Intangible assets, either purchased or internally developed, with a cost of $1,000,000 or greater and that are identifiable.
- All capital assets acquired with a Certificate of Participation.
- All other capital assets with a unit cost of $5,000 or more and an estimated useful life of more than one year.

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. Net interest cost, if material, incurred during the period of construction is capitalized.

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

Generally, estimated useful lives are as follows:

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

1.D.7. Compensated Absences

Workers' Compensation Program employees accrue vested annual leave at a variable rate based on years of service. In general, accrued annual leave cannot exceed 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 four days of sick leave.

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

1.E. Other Information

1.E.1. Risk Management

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

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

The self insurance liability program provides loss control and prevention services to state agencies and manages the resolution of liability claims filed against the state for injuries and property damage to third parties. The Workers' Compensation Program participates in the State's Risk Management Fund in proportion to our anticipated exposure to liability losses.

1.E.2. Interfund/Interagency Activities

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

Note 2 - Accounting and Reporting Changes

Accounting Changes

The Workers' Compensation Program has changed its method of reporting of claims payable liabilities, which include unpaid loss and loss adjustment expense liabilities. In prior fiscal years, claims payable liabilities were grossed up to include recoveries. Starting in Fiscal Year 2010, the claims payable liabilities are reported net of recoveries. GASB Statement No. 10 indicates that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported (IBNR) claims, is based on the estimated ultimate cost of settling the claims. Estimated recoveries on unsettled claims should be deducted from the liability for unpaid claims.

The net effect of this change in accounting principle has resulted in no net prior period adjustment. Therefore, the net assets balance at June 30, 2009, reported on the Statement of Net Assets has not been restated.

Below is a summary of the accounting changes:

Claims Payable Liabilities Related Accounting Changes
(in thousands)

	Claims Overpayment Receivables	IBNR Long Term Receivables	Claims Payable Liabilities	Prior Period Adjustments
June 30, 2009, balance	$ 36,174	$ 121,105	$22,164,068	$ -
Accounting change - receivables	(36,174)	(121,105)	-	(157,279)
Accounting change - unpaid loss liabilities	-	-	(157,279)	157,279
June 30, 2009, balance after changes	$ -	$ -	$22,006,789	$ -

Reporting Changes

GASB has issued new standards effective for financial reporting periods beginning after June 15, 2009. The following two standards are applicable to the Workers' Compensation Program:

GASB Statement No. 51, *Accounting and Reporting for Intangible Assets*. The Workers' Compensation Program followed OFM and adopted the guidance under this statement starting in Fiscal Year 2010. OFM elected not to restate prior periods, as 1) the statement did not require restatement for internally generated software, and 2) other intangible assets identified by the State did not meet the State's capitalization threshold. Implementing GASB Statement No. 51 has no impact on prior basic financial statements.

GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. This statement requires the Workers' Compensation Program to disclose additional information regarding its holding of derivative instruments in the notes to the basic financial statements (refer to Note 3.B.6). Derivative instruments owned by the Workers' Compensation Program are investment-related and not subject to hedge fund accounting treatment as stated in this pronouncement.

Note 3 - Deposits and Investments

3.A. Deposits

Custodial credit risk for deposits 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. See Note 1.D.1 for more information on cash and cash equivalents.

The Workers' Compensation Program minimizes custodial credit risk by restrictions set forth in state law. Statutes require 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 RCW, makes and enforces regulations and administers a collateral program to ensure public funds deposited in banks and thrifts are protected if a financial institution becomes insolvent. Pledged securities under the PDPC collateral pool are held by the PDPC's agent in the name of the collateral pool.

The state of Washington's Office of the State Treasurer manages the deposits for the Workers' Compensation Program. At June 30, 2010, $817.8 million of the State's deposits with financial institutions were either insured or collateralized, with the remaining $23.9 million uninsured/uncollateralized. The Federal Deposit Insurance Corporation (FDIC) covers the Workers' Compensation Program's insured deposits, and the PDPC provides collateral protection.

3.B. Investments

3.B.1. Summary of Investment Policies

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

In accordance with RCW 43.33.110, the Workers' Compensation Program portfolios are to be managed to limit fluctuations in workers' compensation premiums, and subject to this purpose, achieve a maximum return at a prudent level of risk. Based on this requirement, the order of the objectives is to:

- Maintain the solvency of the accounts.

- Maintain premium rate stability.

- Ensure that sufficient assets are available to fund the expected liability payments.

- Subject to 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 are to be rebalanced across asset classes when the fair value of the assets falls outside the policy ranges. The timing of any rebalancing will be based on market opportunities, cash flows, and the consideration of transaction costs; therefore, they need not occur immediately.
- 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 International All Country World Ex U.S. Investable Market Index (MSCI ACW Ex U.S. 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.

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

- The fixed income portfolios' structure varies depending upon the required duration target. The duration targets will be 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 are to be managed within prescribed ranges. These targets are long-term in nature. Deviations may occur in the short-term as a result of interim market conditions. However, if a range is exceeded, the portfolios must be rebalanced as soon as it is practical to the target allocations. Target allocations for the Fixed Income Sectors:

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
Mortgage-backed securities	0 percent to 25 percent

- 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 entered into an agreement with JPMorgan to act as agent for the Workers' Compensation Program in securities lending transactions. As JPMorgan is the custodian bank for the Workers' Compensation Program, 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 reported as assets if the Workers' Compensation Fund has the ability to pledge or sell them without a borrower default. Liabilities resulting from these transactions are also reported in the Statement of Net Assets. 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 WSIB'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, 2010, was $2.6 billion and $2.5 billion, respectively. At fiscal year end, 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.

As of June 30, 2010, the Workers' Compensation Program held the following securities as collateral:

Securities as Collateral (in thousands)		
Cash and cash equivalents	$	1,763,496
Commercial paper		232,552
Securitized debt instruments		178,589
Repurchase agreements		133,309
Medium term notes		112,777
Corporate bonds		66,867
Miscellaneous		61,655
U.S. Government securities		25,342
Total Collateral Held	$	2,574,587

During Fiscal Year 2010, securities lending transactions could be terminated on demand by either the Workers' Compensation Program or the borrower. The weighted average maturity of loans for Fiscal Year 2010 was 2.2 days.

Cash collateral was invested by the Workers' Compensation Program in the WSIB's short-term investment pool (average final maturity of 30 days). Because the securities lending agreements were terminable at will, their duration did not generally match the duration of the investments made with the cash collateral. Noncash collateral could not be pledged or sold absent borrower default.

Accordingly, noncash collateral held under securities lending contracts with a value of $196.9 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. JPMorgan indemnified the Workers' Compensation Program by agreeing to purchase replacement securities or return the cash collateral in the event a borrower failed to return the loaned securities or pay distributions thereon. JPMorgan'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 2010, 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 2010 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 or less than the index. As of June 30, 2010, the Workers' Compensation Program fund's durations of the various fixed income classes were within the duration targets of the Comparable Market Index.

It is the goal of the fixed income portfolios to match the target durations. Although there may be differences from the targets due to market conditions, over any extended period of time those differences should not be material. The Treasury Inflation-Protected Securities (TIPS) will be managed to plus or minus 20 percent of the duration of the Barclays Capital U.S. TIPS 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, 2010. The schedule displays various asset classes held by maturity in years, effective durations, and credit ratings. Residential mortgage-backed, commercial mortgage-backed, and asset-backed securities are reported using the average life within the portfolio. The average life is a calculated estimate of the average time (in years) until maturity for these securities, taking into account possible prepayments of principal. All other securities on this schedule are reported using the stated maturity date.

Schedule of Maturities and Credit Ratings
(in thousands)

Investment Type	Fair Value	Maturity: Less than 1 year	Maturity: 1-5 years	Maturity: 6-10 years	Maturity: More than 10 years	Credit Rating	Effective Duration (years)
Residential mortgage-backed securities	$ 1,747,601	$ 23,935	$ 889,862	$ 732,074	$ 101,730	AAA	6.11
Commercial mortgage-backed securities	554,452	56,490	351,054	146,125	783	Multiple	3.91
Corporate bonds - domestic	3,081,812	125,039	680,589	1,016,490	1,259,694	Multiple	8.07
Corporate bonds - foreign (USD)	2,753,892	118,326	824,662	1,029,889	781,015	Multiple	6.67
Government securities - domestic:							
U.S. Government treasuries	605,292	-	605,292	-	-	AAA	1.63
Treasury inflation-protected securities	1,606,498	89,365	246,323	704,527	566,283	AAA	4.35
	10,349,547	$ 413,155	$3,597,782	$3,629,105	$2,709,505		
Commingled index funds - domestic	775,728						
Commingled index funds - foreign	548,241						
Money market funds	220,860						
Securities lending collateral	2,377,679						
Total investments not categorized	3,922,508						
Total	$ 14,272,055						

Investments with multiple credit ratings are presented using the Moody's rating scale as follows at June 30, 2010:

Additional Credit Rating Disclosure
(in thousands)

Moody's Equivalent Credit Rating	Investment Type: Commercial Mortgage-Backed Securities	Investment Type: Corporate Bonds - Domestic	Investment Type: Corporate Bonds-Foreign	Total
Aaa	$ 485,785	$ 116,121	$ 375,071	$ 976,977
Aa1	-	-	-	-
Aa2	28,161	-	245,091	273,252
Aa3	40,506	364,886	316,124	721,516
A1	-	307,416	329,248	636,664
A2	-	786,111	84,836	870,947
A3	-	290,627	240,360	530,987
Baa1	-	510,699	288,580	799,279
Baa2	-	513,004	522,373	1,035,377
Baa3	-	169,785	300,244	470,029
Other	-	23,163	51,965	75,128
Total Fair Value	$ 554,452	$ 3,081,812	$ 2,753,892	$ 6,390,156

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 Program as of June 30, 2010, were rated by Moody's and/or an equivalent national rating organization.

Concentration of Credit Risk - Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. The Workers' Compensation Program's policy states that no corporate fixed income issue cost shall exceed 3 percent of the fund's fair value at the time of purchase, nor shall its fair value exceed 6 percent of the fund's fair value at any time. There was no concentration of credit risk as of June 30, 2010.

Custodial Credit Risk (Investments) - Custodial credit risk for investments 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 listed under GASB Statement No. 3 Category 3 - uninsured and unregistered with securities held by the counterparty, or by its trust department or agent, but not in the Workers' Compensation Program's name. This includes the amount of any repurchase agreement that exceeds the 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 only security held by the Workers' Compensation Program with foreign currency risk at June 30, 2010, consists of $548.2 million invested in an international commingled equity index fund.

3.B.6. Derivatives

The Workers' Compensation Program is authorized to utilize various derivative financial instruments. These include mortgage-backed securities, financial futures, forward contracts, interest rate and equity swaps, and options to manage 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, 2010.

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, 2010, 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, that is, a sale of securities with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest. The fair value of the securities underlying reverse repurchase agreements normally exceeds the cash received, providing the dealers a margin against a decline in fair value of the securities. If the dealers default on their obligations to resell these securities to the State or provide securities or cash of equal value, the Workers' Compensation Program would suffer an economic loss equal to the difference between the fair value plus accrued interest of the underlying securities and the agreement obligation, including accrued interest. There were no reverse repurchase agreements during Fiscal Year 2010, and there were no liabilities outstanding as of June 30, 2010.

Note 4 - Receivables

Receivables at June 30, 2010, consisted of the following:

Receivables June 30, 2010		
Current Receivables		
Premiums receivable		
Actual premiums receivable	$	105,920,443
Estimated premiums receivable		423,083,000
Estimated self insurance premiums receivable		53,479,968
Total premiums receivable		582,483,411
Other receivables		
Receivable from overpayments		4,635,135
Investment interest receivable		102,317,852
Safety fines & penalties receivable		5,455,384
Miscellaneous receivables		3,321,645
Total Current Receivables, gross		698,213,427
Less: Allowance for uncollectible receivables		109,582,682
Total Current Receivables, net of allowance	$	588,630,745

Note 5 - Interfund/Interagency Balances and Transfers

5.A. Receivables From and Payables To Other State Accounts and Agencies

The following reflects the total balances in the Workers' Compensation Fund at June 30, 2010, and the amounts of receivables from and payables to other state accounts and agencies:

Receivables From Other State Accounts and Agencies June 30, 2010		
General Fund	$	98
Agency Accounts		55,433
Other State Agencies		481,475
Total Receivables From Other State Accounts and Agencies	$	537,006

Payables To Other State Accounts and Agencies June 30, 2010		
General Fund	$	3,732
Agency Accounts		111,339
Other State Agencies		5,228,276
Total Payables To Other State Accounts and Agencies	$	5,343,347

All balances are expected to be paid within one year from the date of the basic 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.

5.B. Interfund Transfers

In Fiscal Year 2010, net transfers of $839,580 were received from a statewide special technology pool managed by the Department of Information Services (DIS) as a result of a budgeting initiative created by the Legislature starting in Fiscal Year 2008. This amount is a reimbursement of transfers made by the Workers' Compensation Program to DIS in previous fiscal years.

Note 6 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2010, was as follows:

Capital Assets
June 30, 2010

Capital Assets	**Beginning Balance July 1, 2009**	**Increases**	**Decreases**	**Ending Balance June 30, 2010**
Capital assets, not being depreciated:				
Land and collections	$ 3,239,748	$ -	$ -	$ 3,239,748
Construction in progress	499,701	7,291,043	(348,144)	7,442,600
Total capital assets, not being depreciated	3,739,449	7,291,043	(348,144)	10,682,348
Capital assets, being depreciated:				
Buildings and building components	62,705,374	-	-	62,705,374
Accumulated depreciation	(22,381,238)	(1,256,374)	-	(23,637,612)
Net buildings and building components	40,324,136	(1,256,374)	-	39,067,762
Furnishings, equipment, and collections	71,113,263	1,104,377	(2,529,449)	69,688,191
Accumulated depreciation	(52,795,057)	(6,629,248)	2,488,470	(56,935,835)
Net furnishings, equipment, and collections	18,318,206	(5,524,871)	(40,979)	12,752,356
Other improvements	1,661,532	-	-	1,661,532
Accumulated depreciation	(698,313)	(105,106)	-	(803,419)
Net other improvements	963,219	(105,106)	-	858,113
Total capital assets, being depreciated, net	59,605,561	(6,886,351)	(40,979)	52,678,231
Total Capital Assets, net of depreciation	$ 63,345,010	$ 404,692	$ (389,123)	$ 63,360,579

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 & Industries headquarters in Tumwater, Washington, and refunding of general obligation bonds previously outstanding. The federal arbitrage regulations do not apply to the Workers' Compensation Program.

The terms of the bond payment obligations are as follows:

- **The General Obligation Bonds of Series R-93B**
  The Workers' Compensation Program is required to make varying annual principal and interest payments, with the final payment due in Fiscal Year 2016. The principal amount of these bonds outstanding was $13,460,000 at June 30, 2010. Bonds outstanding at June 30, 2010, have coupon interest rates between 5.5 percent and 5.7 percent. The original amount of this bond issue was $19,960,000 in Fiscal Year 1993.

- **The General Obligation Bonds of Series R-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 $2,095,000 at June 30, 2010. Bonds outstanding at June 30, 2010, have coupon interest rates of 5.0 percent. 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, 2010. Bonds outstanding at June 30, 2010, have coupon interest rates of 5.0 percent. The original amount of this bond issue was $6,635,000 in Fiscal Year 2007.

In Fiscal Year 2010, The Workers' Compensation Program paid $3,625,000 in principal and $1,537,130 in interest.

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

General Obligation Bonds by Fiscal Year	Principal	Interest	Total
2011	$ 4,030,000	$ 1,142,638	$ 5,172,638
2012	3,205,000	897,376	4,102,376
2013	3,400,000	717,480	4,117,480
2014	3,605,000	526,710	4,131,710
2015	3,820,000	324,530	4,144,530
2016	4,050,000	110,262	4,160,262
Total Debt Service Requirements	$ 22,110,000	$ 3,718,996	$ 25,828,996
Current portion	$ 4,030,000	$ 1,142,638	$ 5,172,638
Noncurrent portion	$ 18,080,000	$ 2,576,358	$ 20,656,358

Total interest incurred on bonds payable for the year ended June 30, 2010, was $1,270,762. There are no covenants related to the Workers' Compensation Program's obligation for these bonds.

Debt Refunding

When advantageous and permitted by statute and bond covenants, the State Finance Committee authorizes the refunding of outstanding bonds. When the State refunds outstanding bonds, the net proceeds of each refund issued are used to purchase U.S. Government securities. These securities are placed in irrevocable trusts with escrow agents to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered defeased, and the liability has been removed from the Statement of Net Assets. There were no debt refundings in Fiscal Year 2010.

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:

Changes in Claims Payable Liabilities
June 30, 2010, and 2009

Claims Payable	June 30, 2010	June 30, 2009
Unpaid loss and loss adjustment expenses at beginning of fiscal year	$ 22,006,789,000	$ 21,887,148,000
Incurred claims and claim adjustment expenses:		
Provision for insured events of the current fiscal year	2,204,709,000	2,225,312,000
Increase (decrease) in provision for insured events of prior fiscal years	1,895,787,000	109,437,000
Total incurred claims and claim adjustment expenses	4,100,496,000	2,334,749,000
Payments:		
Claims and claim adjustment expenses attributable to:		
Events of the current fiscal year	297,520,000	327,536,000
Insured events of prior fiscal years	1,783,933,000	1,730,293,000
Total payments	2,081,453,000	2,057,829,000
Total unpaid loss and loss adjustment expenses at fiscal year end	$ 24,025,832,000	$ 22,164,068,000
Current portion	$ 2,132,081,000	
Noncurrent portion	$ 21,893,751,000	

Please note in the above table that the Fiscal Year 2010 beginning balance is different from the Fiscal Year 2009 ending balance. Claims payable liabilities are now reported net of recoveries, thus resulting in a lower beginning balance for the current fiscal year. For further explanation, please see Note 2 - Accounting and Reporting Changes.

At June 30, 2010, $40.0 billion of unpaid loss and loss adjustment expense liabilities are presented at their net present and settlement value of $24.0 billion.

The claims and claims adjustment liabilities of $24.0 billion, as of June 30, 2010, include $12.8 billion for supplemental pension COLAs that are funded on a current basis per RCW 51.32.073. Management believes the funding is in compliance with the statute. The remaining claim liabilities of $11.2 billion are fully funded by a diverse portfolio of fixed income instruments, equity index funds, and cash, managed by the WSIB.

7.C. Changes in Noncurrent Liabilities

Noncurrent liability activity for the fiscal year ended June 30, 2010, was as follows:

Current and Noncurrent Liability Activity
Fiscal Year Ending June 30, 2010

Noncurrent Liabilities	**Beginning Balance July 1, 2009**	**Additions**	**Reductions**	**Ending Balance June 30, 2010**	**Due Within One Year**
Claims Payable, current & noncurrent	$ 22,006,789,000	$ 4,100,496,000	$ (2,081,453,000)	$ 24,025,832,000	$ 2,132,081,000
Bonds Payable:					
General Obligation Bonds:					
Series R-93B	15,290,000	-	(1,830,000)	13,460,000	1,935,000
Series R-2007A	4,085,000	-	(1,990,000)	2,095,000	2,095,000
Series R-2007C	6,555,000	-	-	6,555,000	-
Total Bonds Payable	25,930,000	-	(3,820,000)	22,110,000	4,030,000
Other Noncurrent Liabilities:					
Compensated absences	12,270,783	12,462,291	(12,288,116)	12,444,958	-
Other Postemployment Benefits	11,054,375	8,379,479	(1,964,554)	17,469,300	-
Total Other Noncurrent Liabilities	23,325,158	20,841,770	(14,252,670)	29,914,258	-
Total Noncurrent Liabilities (including current portion)	$ 22,056,044,158	$ 4,121,337,770	$ (2,099,525,670)	$ 24,077,856,258	$ 2,136,111,000

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, 2010:

Future Minimum Payments June 30, 2010	
Operating Leases (by Fiscal Year)	
2011	$ 7,041,359
2012	6,251,881
2013	6,097,115
2014	5,963,407
2015	5,460,446
2016-2020	9,684,691
Total Future Minimum Lease Payments	$ 40,498,899

The total operating lease rental expense for Fiscal Year 2010 was $9,983,595.

Note 8 - Deficit

At June 30, 2010, the Workers' Compensation Program had a deficit of $11.7 billion. The deficit is mainly a result of a $12.7 billion deficit in the Supplemental Pension Account at June 30, 2010, offset by $974.7 million net assets in the total Basic Plan. The Workers' Compensation Program Basic Plan is funded based on rates that will keep the plan solvent in accordance with recognized actuarial principles. Supplemental COLA adjustments granted for time-loss and disability payments, however, are funded on a pay-as-you-go basis. By statute of RCW 51.32.073, the Supplemental Pension Account is only allowed to collect enough revenue to provide for current COLA payments.

The following table shows the change in total deficit for the Workers' Compensation Program during Fiscal Year 2010.

Deficit June 30, 2010	
Balance, July 1, 2009	$ (10,617,510,767)
Fiscal Year 2010 Activity	(1,049,648,913)
Balance, June 30, 2010	$ (11,667,159,680)

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 P.O. Box 43113, Olympia, Washington 98507-3113, or online at http://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 percent 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, 2010 and 2009, was 5.45 percent for both years. Plan 3 members can choose contributions ranging from 5 percent to 15 percent of their salary for the defined contribution portion of the plan. 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, 2010 and 2009, for each of PERS Plans 1, 2, and 3, was 8.31 percent of the employee's annual covered salary for both fiscal years. The Workers' Compensation Program contributed 100 percent of the required amounts, which were $7,464,580, $11,214,837 and $8,328,658 to PERS during Fiscal Years 2010, 2009, and 2008, respectively.

Note 10 - Other Postemployment Benefits

The state of Washington, through the HCA, administers a cost-sharing multiple-employer Other Postemployment Benefit Plan (OPEB). 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.

The Workers' Compensation Program is a part of the State's plan on a cost sharing basis. The following table shows components of the Workers' Compensation Program's OPEB costs for Fiscal Year 2010, 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):

OPEB Obligation (NOO) June 30, 2010			
	Fiscal Year Ended June 30, 2010	Fiscal Year Ended June 30, 2009	Fiscal Year Ended June 30, 2008
NOO, beginning of year	$ 11,054,375	$ 5,613,293	$ -
Annual OPEB costs	8,379,479	7,382,463	7,168,475
Contribution made	(1,964,554)	(1,941,381)	(1,555,182)
NOO, end of year	$ 17,469,300	$ 11,054,375	$ 5,613,293

The information in the previous table was provided by the Washington State Office of Financial Management (OFM). OFM distributes the total state's increase in NOO, $284,321,000 and $247,696,000 for Fiscal years 2010 and 2009 respectively, between governmental and proprietary fund types based on total employee benefit expenses for health, life, and disability insurance. The governmental and proprietary fund types' shares of the increase in NOO are $256,470,103 and $30,762,757, respectively, for Fiscal Year 2010 and $222,208,713 and $25,416,058, respectively, for Fiscal Year 2009. OFM distributes the propriety fund types share of the increase in NOO to the Workers' Compensation Program based on its pro rata share of the total proprietary fund type's employee benefit expenses for health, life, and disability insurance.

The details of this OPEB plan can be found in the Comprehensive Annual Financial Report for the state of Washington. A copy of this report may be obtained by contacting the Accounting Division of the Office of Financial Management at P.O. Box 43113, Olympia, Washington 98507-3113, or online at http://www.ofm.wa.gov/cafr. The state of Washington's OPEB plan does not issue a financial report.

Note 11 - Commitments and Contingencies

11.A. Contingencies

The Workers' Compensation Program is party to numerous routine legal proceedings that normally occur in operations. At any given point, there may be numerous lawsuits that could impact expenditures. There is a recurring volume of tort and other claims for compensation and damages against the Workers' Compensation Program. The collective impact of these claims, however, is not likely to have material impact on the Workers' Compensation Program's 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. The total federal assistance for Fiscal Year 2010 was $7.8 million.

11.C. Commitments

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

Note 12 - Subsequent Events

12.A. Resolved Litigation

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

Jim A. Tobin v. Department of Labor & Industries was settled by the Supreme Court on August 12, 2010, in favor of the plaintiff. This case is primarily about distribution of money recovered from third parties. Chapter 51.24 RCW 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 to L&I, the injured worker, and attorney(s) under a complex statutory formula. The current amount subject to distribution includes third party damages for pain and suffering. The plaintiff of this case argued that pain and suffering damages must be excluded from distribution. Upon notification of the Supreme Court decision in favor of Jim A. Tobin, an increase in the amount of $165.8 million was recorded in claims payable liabilities as result of the Tobin case ruling.

12.B. Proposed Rate Announcement

Each year the Director of the Department of Labor & Industries adopts new workers' compensation insurance premium rates for the next calendar year. The proposed rate for Calendar Year 2011 is scheduled to be announced in November 2010.

12.C. Voter Initiative

The November 2010 statewide ballot included Voter Initiative 1082. This Initiative proposed to permit employers to purchase private industrial insurance beginning on July 1, 2012, from entities other than Labor & Industries. The initiative would have directed the Legislature to enact conforming legislation by March 1, 2012. The worker-paid share of medical-benefit premiums would have been eliminated and the premium basis would have changed from hours worked to a rate per $100 of payroll. As of November 2, 2010, the early election results indicated that this initiative was failing.

Washington State Department of
Labor & Industries

Keep Washington Safe and Working.

Required Supplementary Information

Washington State Department of
Labor & Industries

Keep Washington Safe and Working.

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

Fiscal Years 2001 through 2010
(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 fiscal accident year).
3. This section shows the cumulative amounts paid as of the end of successive years for each fiscal accident year.
4. This section shows how each fiscal accident year's incurred claims increased or decreased as of the end of successive years. Annual re-estimation results from new information received on known claims, 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 fiscal accident years mature, the correlation between original estimates and re-estimates is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature fiscal accident years.

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

		2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
1.	Net earned required contribution and investment revenues	$ 1,449	$ 1,197	$ 2,111	$ 1,337	$ 2,452	$ 1,392	$ 2,406	$ 1,697	$ 1,692	$ 2,797
2.	Estimated incurred claims and expenses, end of fiscal accident year	1,925	2,124	2,284	2,505	2,308	2,141	2,196	2,256	2,363	2,312
3.	Paid (cumulative) as of:										
	End of fiscal accident year	230	226	233	244	260	278	295	310	322	298
	One year later	494	500	501	528	556	589	625	679	667	
	Two years later	646	653	650	681	715	754	817	890		
	Three years later	747	756	751	784	821	873	953			
	Four years later	825	834	824	860	906	964				
	Five years later	890	896	882	925	977					
	Six years later	943	949	934	982						
	Seven years later	989	999	982							
	Eight years later	1,032	1,045								
	Nine years later	1,073									
4.	Re-estimated incurred claims and expenses:										
	End of fiscal accident year	1,925	2,124	2,284	2,505	2,308	2,141	2,196	2,256	2,363	2,312
	One year later	1,963	2,158	2,277	2,203	1,989	2,053	2,234	2,559	2,535	
	Two years later	2,067	2,277	2,045	1,971	1,939	2,055	2,390	2,647		
	Three years later	2,226	2,079	1,853	1,864	1,954	2,151	2,441			
	Four years later	2,039	1,906	1,767	1,886	2,025	2,196				
	Five years later	1,864	1,859	1,788	1,941	2,067					
	Six years later	1,835	1,879	1,829	1,966						
	Seven years later	1,858	1,926	1,868							
	Eight years later	1,870	1,952								
	Nine years later	1,897									
5.	Increase (decrease) in estimated incurred claims and expenses from end of fiscal accident year	(28)	(172)	(416)	(539)	(241)	55	245	391	172	

State of Washington Workers' Compensation Program - Supplemental Pension Plan
Schedule of Claims Development Information
Fiscal Years 2001 through 2010
(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 separately from the Basic Plan for the following reasons:

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

The rows of the table are defined as follows:

1. This line shows each fiscal year's earned contribution revenues and investment revenues.
2. This line shows the Supplemental Pension Plan's incurred claims (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred (called fiscal accident year).
3. This section shows the cumulative amounts paid as of the end of successive years for each fiscal accident year.
4. This section shows how each fiscal accident year's incurred claims increased or decreased as of the end of successive years. Annual re-estimation results from new information received on known claims, 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 fiscal accident 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.

		2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
1.	Net earned required contribution and investment revenues	$ 267	$ 281	$ 293	$ 288	$ 326	$ 305	$ 283	$ 334	$ 349	$ 372
2.	Estimated incurred claims and expenses, end of fiscal accident year	628	807	1,029	1,228	724	804	968	1,093	966	1,082
3.	Paid (cumulative) as of:										
	End of fiscal accident year	-	-	-	-	-	-	-	-	-	-
	One year later	5	2	5	2	1	3	6	8	6	
	Two years later	8	11	4	3	4	7	12	14		
	Three years later	22	6	6	6	8	14	21			
	Four years later	15	9	8	11	15	22				
	Five years later	19	12	13	16	22					
	Six years later	23	17	19	24						
	Seven years later	29	24	26							
	Eight years later	37	32								
	Nine years later	46									
4.	Re-estimated incurred claims and expenses:										
	End of fiscal accident year	628	807	1,029	1,228	724	804	968	1,093	966	1,082
	One year later	786	945	1,045	722	721	927	1,176	1,121	1,174	
	Two years later	910	1,046	676	720	848	1,065	1,125	1,316		
	Three years later	1,064	701	667	811	971	998	1,272			
	Four years later	727	682	759	940	897	1,119				
	Five years later	671	811	871	858	990					
	Six years later	792	905	780	919						
	Seven years later	883	821	854							
	Eight years later	768	884								
	Nine years later	839									
5.	Increase (decrease) in estimated incurred claims and expenses from end of fiscal accident year	211	77	(175)	(309)	266	315	304	223	208	

Workers' Compensation Program
Reconciliation of Claims Liabilities by Plan
Fiscal Years 2010 and 2009
(in thousands)

This schedule below presents the changes in claims liabilities for the past two fiscal years for the program's two benefit plans: Workers' Compensation Basic Plan and Workers' Compensation Supplemental Pension Plan

	Basic Plan		Supplemental Pension Plan		Total	
Claims Payable	FY 2010	FY 2009	FY 2010	FY 2009	FY 2010	FY 2009
Unpaid loss and loss adjustment expenses at beginning of fiscal year*	$ 10,620,789	$ 9,881,119	$ 11,386,000	$ 12,006,029	$ 22,006,789	$ 21,887,148
Incurred claims and claim adjustment expenses:						
Provision for insured events of the current fiscal year	1,679,299	1,752,767	525,410	472,545	2,204,709	2,225,312
Increase (decrease) in provision for insured events of prior fiscal years	604,734	795,945	1,291,053	(686,508)	1,895,787	109,437
Total incurred claims and claim adjustment expenses	2,284,033	2,548,712	1,816,463	(213,963)	4,100,496	2,334,749
Payments:						
Claims and claim adjustment expenses attributable to:						
Events of the current fiscal year	297,520	327,536	-	-	297,520	327,536
Insured events of prior fiscal years	1,383,991	1,354,463	399,942	375,830	1,783,933	1,730,293
Total payments	1,681,511	1,681,999	399,942	375,830	2,081,453	2,057,829
Total unpaid loss and loss adjustment expenses at fiscal year end	**$ 11,223,311**	**$ 10,747,832**	**$ 12,802,521**	**$ 11,416,236**	**$ 24,025,832**	**$ 22,164,068**
Current portion	$ 1,683,993		$ 448,088		$ 2,132,081	
Noncurrent portion	$ 9,539,318		$ 12,354,433		$ 21,893,751	

*2010 beginning balance is different from 2009 ending balance due to a change in accounting practices. Refer to Note 2 for more information.

Washington State Department of
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Supplementary Information

Washington State Department of
Labor & Industries

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Combining Statement of Net Assets
June 30, 2010

	Accident Account	Medical Aid Account	Pension Reserve Account	Total Basic Plan	Supplemental Pension Account	Second Injury Account	Self-Insured Overpayment Reimbursement Account	Total
ASSETS								
Current Assets:								
Cash and cash equivalents	$ 3,106,243	$ 1,925,737	$ 810,595	$ 5,842,575	$ 1,047,963	$ 33,814,104	$ 624,453	$ 41,329,095
Trust cash	-	-	697,899	697,899	-	-	-	697,899
Trust investments	-	-	4,980,412	4,980,412	-	-	-	4,980,412
Collateral held under securities lending agreements	763,436,380	1,001,947,817	612,294,912	2,377,679,109	-	-	-	2,377,679,109
Receivables, net of allowance	241,503,718	191,959,000	38,658,978	472,121,696	103,121,733	13,261,793	125,523	588,630,745
Receivables from workers' compensation accounts	21,639	145,828	15,832,561	16,000,028	5	-	-	16,000,033
Receivables from other state accounts and agencies	246,195	279,571	-	525,766	11,240	-	-	537,006
Receivables from other governments	970,256	236,412	-	1,206,668	-	-	-	1,206,668
Inventories	60,048	60,048	-	120,096	-	-	-	120,096
Total Current Assets	1,009,344,479	1,196,554,413	673,275,357	2,879,174,249	104,180,941	47,075,897	749,976	3,031,181,063
Noncurrent Assets:								
Investments, noncurrent	4,356,199,819	4,098,255,647	3,425,174,674	11,879,630,140	14,745,054	-	-	11,894,375,194
Capital assets, net of accumulated depreciation	32,219,529	31,141,050	-	63,360,579	-	-	-	63,360,579
Total Noncurrent Assets	4,388,419,348	4,129,396,697	3,425,174,674	11,942,990,719	14,745,054	-	-	11,957,735,773
Total Assets	$ 5,397,763,827	$ 5,325,951,110	$ 4,098,450,031	$ 14,822,164,968	$ 118,925,995	$ 47,075,897	$ 749,976	$ 14,988,916,836
LIABILITIES AND NET ASSETS (DEFICIT)								
LIABILITIES:								
Current Liabilities:								
Accounts payable	$ 1,711,834	$ 1,103,259	$ 67,261	$ 2,882,354	$ 141	$ -	$ -	$ 2,882,495
Deposits payable	5,310,205	108,065	1,887,461	7,305,731	-	-	-	7,305,731
Accrued liabilities	139,930,857	19,653,179	1,277,640	160,861,676	150,555	1,569	-	161,013,800
Obligations under securities lending agreements	763,436,380	1,001,947,817	612,294,912	2,377,679,109	-	-	-	2,377,679,109
Bonds payable - current	2,015,000	2,015,000	-	4,030,000	-	-	-	4,030,000
Payables to workers' compensation accounts	10,020,073	21,644	-	10,041,717	177	5,958,139	-	16,000,033
Payables to other state accounts and agencies	2,068,553	3,253,193	21,335	5,343,081	266	-	-	5,343,347
Unearned revenues	47,214	28,626	7,905,394	7,981,234	14,509	-	-	7,995,743
Claims payable - current	869,469,000	477,983,000	336,541,000	1,683,993,000	448,088,000	-	-	2,132,081,000
Total Current Liabilities	1,794,009,116	1,506,113,783	959,995,003	4,260,117,902	448,253,648	5,959,708	-	4,714,331,258
Noncurrent Liabilities:								
Claims payable, net of current portion	3,622,337,000	3,017,547,000	2,899,434,000	9,539,318,000	12,354,433,000	-	-	21,893,751,000
Bonds payable, net of current portion	9,040,000	9,040,000	-	18,080,000	-	-	-	18,080,000
Other long-term liabilities	6,354,204	6,090,754	-	12,444,958	-	-	-	12,444,958
Other Postemployment Benefits	8,956,711	8,512,589	-	17,469,300	-	-	-	17,469,300
Total Noncurrent Liabilities	3,646,687,915	3,041,190,343	2,899,434,000	9,587,312,258	12,354,433,000	-	-	21,941,745,258
Total Liabilities	5,440,697,031	4,547,304,126	3,859,429,003	13,847,430,160	12,802,686,648	5,959,708	-	26,656,076,516
NET ASSETS (DEFICIT):								
Invested in capital assets, net of related debt	21,164,529	20,086,050	-	41,250,579	-	-	-	41,250,579
Unrestricted	(64,097,733)	758,560,934	239,021,028	933,484,229	(12,683,760,653)	41,116,189	749,976	(11,708,410,259)
Total Net Assets (Deficit)	(42,933,204)	778,646,984	239,021,028	974,734,808	(12,683,760,653)	41,116,189	749,976	(11,667,159,680)
Total Liabilities and Net Assets (Deficit)	$ 5,397,763,827	$ 5,325,951,110	$ 4,098,450,031	$ 14,822,164,968	$ 118,925,995	$ 47,075,897	$ 749,976	$ 14,988,916,836

Combining Statement of Revenues, Expenses, and Changes in Net Assets
For the Fiscal Year Ended June 30, 2010

	Accident Account	Medical Aid Account	Pension Reserve Account	Total Basic Plan	Supplemental Pension Account	Second Injury Account	Self-Insured Overpayment Reimbursement Account	Total
OPERATING REVENUES:								
Premiums and assessments, net of refunds	$ 667,334,907	$ 612,731,302	$ 21,423,047	$ 1,301,489,256	$ 370,873,640	$ 54,858,910	$ 499,960	$ 1,727,721,766
Miscellaneous revenue	31,821,894	3,141,108	198,875	35,161,877	5,088,897	56	-	40,250,830
Total Operating Revenues	699,156,801	615,872,410	21,621,922	1,336,651,133	375,962,537	54,858,966	499,960	1,767,972,596
OPERATING EXPENSES:								
Salaries and wages	70,545,017	66,540,391	-	137,085,408	-	-	-	137,085,408
Employee benefits	25,070,828	23,474,345	-	48,545,173	-	-	-	48,545,173
Personal services	1,434,542	3,086,447	-	4,520,989	-	-	-	4,520,989
Goods and services	33,781,193	34,032,953	-	67,814,146	3,085	-	-	67,817,231
Travel	2,178,839	1,160,388	-	3,339,227	-	-	-	3,339,227
Claims	988,703,498	652,550,450	511,318,118	2,152,572,066	1,817,185,811	1,300,629	-	3,971,058,506
Depreciation	4,279,029	3,711,701	-	7,990,730	-	-	-	7,990,730
Miscellaneous expenses	15,609,635	5,793,338	21,237	21,424,210	4,860,608	2,582	-	26,287,400
Total Operating Expenses	1,141,602,581	790,350,013	511,339,355	2,443,291,949	1,822,049,504	1,303,211	-	4,266,644,664
Operating Income (Loss)	(442,445,780)	(174,477,603)	(489,717,433)	(1,106,640,816)	(1,446,086,967)	53,555,755	499,960	(2,498,672,068)
NONOPERATING REVENUES (EXPENSES):								
Earnings on investments	548,424,312	479,544,839	412,396,176	1,440,365,327	1,210,990	-	-	1,441,576,317
Other revenues	6,485,088	1,392,942	-	7,878,030	(10)	-	-	7,878,020
Interest expense	(635,381)	(635,381)	-	(1,270,762)	-	-	-	(1,270,762)
Total Nonoperating Revenues (Expenses)	554,274,019	480,302,400	412,396,176	1,446,972,595	1,210,980	-	-	1,448,183,575
Income (Loss) Before Transfers	111,828,239	305,824,797	(77,321,257)	340,331,779	(1,444,875,987)	53,555,755	499,960	(1,050,488,493)
Transfers in	419,790	419,790	297,893,949	298,733,529	-	24,889,194	-	323,622,723
Transfers out	(251,242,881)	(1,304,306)	-	(252,547,187)	-	(70,235,956)	-	(322,783,143)
Net Transfers	(250,823,091)	(884,516)	297,893,949	46,186,342	-	(45,346,762)	-	839,580
Changes in Net Assets	(138,994,852)	304,940,281	220,572,692	386,518,121	(1,444,875,987)	8,208,993	499,960	(1,049,648,913)
Net Assets (Deficit), July 1	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)
Net Assets (Deficit), June 30	$ (42,933,204)	$ 778,646,984	$ 239,021,028	$ 974,734,808	$ (12,683,760,653)	$ 41,116,189	$ 749,976	$ (11,667,159,680)

Combining Statement of Cash Flows
For the Fiscal Year Ended June 30, 2010

	Accident Account	Medical Aid Account	Pension Reserve Account	Total Basic Plan	Supplemental Pension Account	Second Injury Account	Self-Insured Overpayment Reimbursement Account	Total
CASH FLOWS FROM OPERATING ACTIVITIES:								
Receipts from customers	$ 689,626,994	$ 617,192,550	$ 23,911,732	$ 1,330,731,276	$ 359,579,860	$ 53,823,644	$ 501,494	$ 1,744,636,274
Payments to/for beneficiaries	(616,026,534)	(609,854,351)	(323,842,969)	(1,549,723,854)	(399,943,494)	(1,302,954)	-	(1,950,970,302)
Payments to employees	(93,423,068)	(87,525,677)	-	(180,948,745)	-	-	-	(180,948,745)
Payments to suppliers	(41,572,978)	(43,369,058)	-	(84,942,036)	(3,085)	-	-	(84,945,121)
Other	25,533	30,721	-	56,254	-	-	-	56,254
Net Cash Flows from Operating Activities	(61,370,053)	(123,525,815)	(299,931,237)	(484,827,105)	(40,366,719)	52,520,690	501,494	(472,171,640)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:								
Transfers in	224,039	224,039	386,863,113	387,311,191	-	24,889,195	-	412,200,386
Transfers out	(316,693,732)	(1,304,306)	-	(317,998,038)	-	(93,754,270)	-	(411,752,308)
Operating grants received	5,439,037	1,159,520	-	6,598,557	-	-	-	6,598,557
License fees collected	96,276	17,349	-	113,625	-	-	-	113,625
Net Cash Flows from Noncapital Financing Activities	(310,934,380)	96,602	386,863,113	76,025,335	-	(68,865,075)	-	7,160,260
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:								
Interest paid	(672,838)	(672,838)	-	(1,345,676)	-	-	-	(1,345,676)
Principal payments on bonds payable	(1,910,000)	(1,910,000)	-	(3,820,000)	-	-	-	(3,820,000)
Sale of capital assets	79	79	-	158	-	-	-	158
Acquisitions of capital assets	(4,107,825)	(3,939,451)	-	(8,047,276)	-	-	-	(8,047,276)
Net Cash Flows from Capital and Related Financing Activities	(6,690,584)	(6,522,210)	-	(13,212,794)	-	-	-	(13,212,794)
CASH FLOWS FROM INVESTING ACTIVITIES:								
Receipt of interest	195,465,027	148,788,898	140,732,596	484,986,521	1,220,182	(16)	-	486,206,687
Receipt of dividends	4,656,875	6,038,415	3,067,339	13,762,629	-	-	-	13,762,629
Investment expenses	(1,065,780)	(981,939)	(795,360)	(2,843,079)	(11,835)	-	-	(2,854,914)
Proceeds from sale of investment securities	1,689,283,007	1,593,759,898	1,289,401,336	4,572,444,241	469,668,004	-	-	5,042,112,245
Purchases of investment securities	(1,511,092,756)	(1,621,470,721)	(1,520,119,768)	(4,652,683,245)	(431,177,135)	-	-	(5,083,860,380)
Net Cash Flows from Investing Activities	377,246,373	126,134,551	(87,713,857)	415,667,067	39,699,216	(16)	-	455,366,267
Net Increase (Decrease) in Cash and Cash Equivalents	(1,748,644)	(3,816,872)	(781,981)	(6,347,497)	(667,503)	(16,344,401)	501,494	(22,857,907)
Cash & Cash Equivalents, July 1	4,854,887	5,742,609	1,592,576	12,190,072	1,715,466	50,158,505	122,959	64,187,002
Cash & Cash Equivalents, June 30	$ 3,106,243	$ 1,925,737	$ 810,595	$ 5,842,575	$ 1,047,963	$ 33,814,104	$ 624,453	$ 41,329,095
Cash Flows from Operating Activities:								
Operating Income (Loss)	$ (442,445,780)	$(174,477,603)	$ (489,717,433)	$(1,106,640,816)	$ (1,446,086,967)	$ 53,555,755	$ 499,960	$ (2,498,672,068)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Flows from Operating Activities:								
Depreciation	4,279,029	3,711,701	-	7,990,730	-	-	-	7,990,730
Interest income reported in income statement as operating activity	(4,956,415)	(120,570)	(8,754)	(5,085,739)	(137,624)	16	-	(5,223,347)
Change in Assets: Decrease (Increase)								
Receivables	34,056,182	5,012,807	5,714,686	44,783,675	(516,734)	22,485,943	1,534	66,754,418
Inventories	10,838	10,838	-	21,676	-	-	-	21,676
Prepaid expenses	18,820	18,820	-	37,640	-	-	-	37,640
Change in Liabilities: Increase (Decrease)								
Claims and judgments payable	350,825,000	41,203,000	183,761,000	575,789,000	1,407,080,000	-	-	1,982,869,000
Accrued liabilities	(3,157,727)	1,115,192	319,264	(1,723,271)	(705,394)	(23,521,024)	-	(25,949,689)
Net Cash Flows from Operating Activities	$ (61,370,053)	$(123,525,815)	$ (299,931,237)	$ (484,827,105)	$ (40,366,719)	$ 52,520,690	$ 501,494	$ (472,171,640)
Non Cash Investing, Capital and Financing Activities:								
Increase (Decrease) in fair value of investments	$ 347,364,313	$ 329,571,045	$ 258,708,649	$ 935,644,007	$ (975,916)	$ -	$ -	$ 934,668,091

Washington State Department of
Labor & Industries

Keep Washington Safe and Working.

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November 11, 2010

Statement of Actuarial Opinion
Regarding GAAP Reserves

State of Washington – Workers' Compensation Program

Identification

I, Rod Morris, am a Specialist Leader with the firm of Deloitte Consulting LLP. I am a Member of the American Academy of Actuaries and meet its qualification standards for rendering this Statement of Actuarial Opinion, and I am a Fellow of the Casualty Actuarial Society. I was appointed by the Washington State Auditor's Office to provide a Statement of Actuarial Opinion regarding the reasonableness of the State of Washington Workers' Compensation Program's ("the Program") carried GAAP loss and loss adjustment expense ("LAE") reserves as of June 30, 2010.

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

Scope

I have examined the reserves for the unpaid loss and LAE as shown in the Program's Comprehensive Annual Financial Report as of June 30, 2010.

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

My review was limited to the reserves listed below and did not include an analysis of any other balance sheet items. I have not examined the Program's assets and I have formed no opinion as to the validity or value of these assets. My opinion on the loss and LAE reserves is based upon the assumption that all reserves are backed by valid assets, which have suitably scheduled maturities and/or adequate liquidity to meet the cash flow requirements of the reserves.

Opinion

A summary of the Program's recorded loss and LAE reserves by account in its Comprehensive Annual Financial Report as of June 30, 2010 is as follows:

	Discounted
Accident Account	$4,491,806,000
Medical Aid Account	3,495,530,000
Pension Reserve Account	3,235,975,000
Total Basic Plan Loss and LAE Reserves	$11,223,311,000
Supplemental Pension Account	12,802,521,000
Total Program Loss and LAE Reserves	$24,025,832,000

In my opinion, the loss and LAE amounts listed above and shown in the Program's Comprehensive Annual Financial Report as of June 30, 2010:

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

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

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

Relevant Comments

A. Major Risk Factors

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

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

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

The Department discounts the loss and LAE reserves to reflect the time value of money using an average annual interest that varies by account. The future payments of the Accident Account, Medical Aid Account, and Supplemental Pension Account are discounted using an annual interest rate of 2.5%. The future payments of the Pension Reserve Account are discounted using an annual interest rate of 6.5%. Changes to the interest rate used for discounting could result in material changes to the reserves.

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

Underwriting Pools or Associations

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

We understand that the Program does not participate in any other voluntary or involuntary pools.

Reinsurance

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

Discounting

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

- For the Medical Aid Account, the Department's selected interest rate is 2.5%.
- For the Accident Account, a combination of two interest rates is used to discount the reserves. The future permanent total disability and fatal payments made to the Pension Account are discounted assuming an interest rate of 6.5%. All other payments are discounted using a rate of 2.5%. Based on the actuarially assumed payment schedule, the average interest rate used in the Accident Account is approximately 4.9%.
- For the Pension Reserve Account, the selected interest rate is 6.5%.
- For the Supplemental Pension Account, the selected interest rate is 2.5%

The average combined interest rate for the Program in total is approximately 3.14%, which is consistent with current risk free interest rates assuming a similar duration as the loss and LAE payments of the Program. As such, I believe the average combined interest rate is not unreasonable.

C. General Uncertainty

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

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

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

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November 11, 2010

Statistical Section

Washington State Department of
Labor & Industries

Keep Washington Safe and Working.

Statistical Section

Narrative and Index

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

FINANCIAL TRENDS

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

REVENUE CAPACITY

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

DEBT CAPACITY

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

DEMOGRAPHIC INFORMATION

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

OPERATING INFORMATION

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

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

Washington State Department of
Labor & Industries

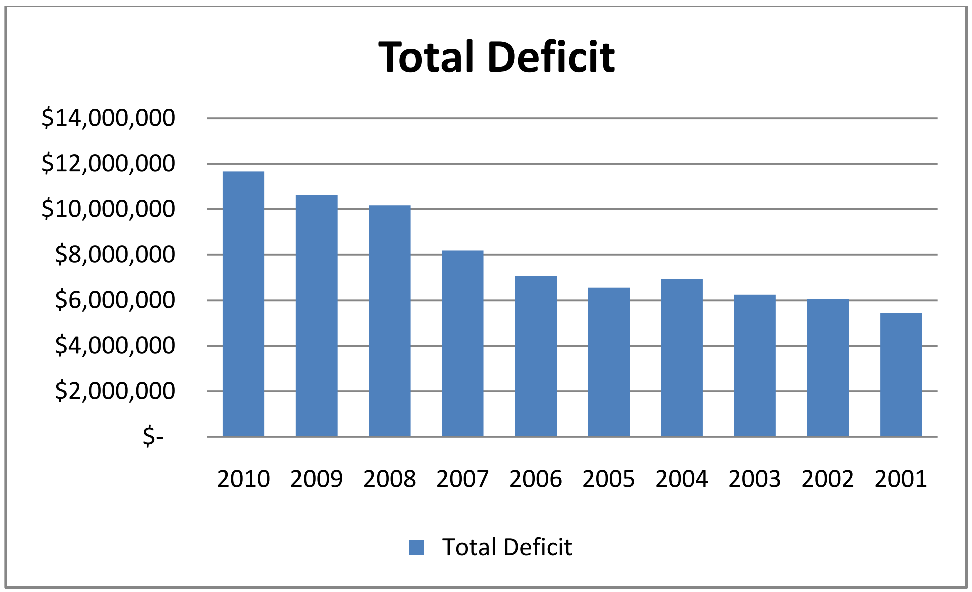
Keep Washington Safe and Working.

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

	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Invested in capital assets, net of related debt	$ 41,251	$ 37,415	$ 37,838	$ 39,911	$ 33,011	$ 47,530	$ 37,359	$ 13,949	$ 13,048	$ 10,857
Unrestricted	(11,708,411)	(10,654,926)	(10,203,709)	(8,225,454)	(7,093,780)	(6,605,610)	(6,979,379)	(6,259,962)	(6,077,533)	(5,437,032)
Total Net (Deficit) [1, 2]	$ (11,667,160)	$ (10,617,511)	$ (10,165,871)	$ (8,185,543)	$ (7,060,769)	$ (6,558,080)	$ (6,942,020)	$ (6,246,013)	$ (6,064,485)	$ (5,426,175)

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

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



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

	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Operating Revenues										
Premiums and assessments, net of refunds	$ 1,727,722	$ 1,824,276	$ 1,563,960	$ 1,689,072	$ 1,729,501	$ 1,689,490	$ 1,453,380	$ 1,286,965	$ 1,042,909	$ 1,084,613
Miscellaneous revenue	40,250	52,859	50,023	53,589	60,918	31,576	62,047	29,914	26,981	24,356
Total Operating Revenues	1,767,972	1,877,135	1,613,983	1,742,661	1,790,419	1,721,066	1,515,427	1,316,879	1,069,890	1,108,969
Operating Expenses										
Salaries and wages	137,085	134,295	133,773	120,244	116,951	111,995	108,557	105,358	106,964	93,901
Employee benefits	48,545	51,025	41,298	37,803	33,411	29,247	26,272	25,537	25,169	26,192
Personal services	4,521	6,449	7,533	3,800	2,945	4,586	2,641	5,565	2,507	4,160
Goods and services	67,817	73,594	72,568	70,814	64,227	66,145	60,248	62,597	60,783	56,765
Travel	3,339	3,314	4,183	3,482	3,477	3,180	2,796	2,661	2,828	2,955
Claims	3,971,059	2,180,781	3,727,966	3,585,725	1,998,393	2,165,729	2,172,545	2,373,605	1,939,151	1,881,808
Depreciation	7,991	10,003	10,281	8,220	25,551	3,202	6,261	442	970	1,864
Miscellaneous expenses	26,287	88,589	63,442	9,320	19,882	20,364	7,109	38,335	5,538	12,197
Total Operating Expenses	4,266,644	2,548,050	4,061,044	3,839,408	2,264,837	2,404,448	2,386,429	2,614,100	2,143,910	2,079,842
Operating Income (Loss)	(2,498,672)	(670,915)	(2,447,061)	(2,096,747)	(474,418)	(683,382)	(871,002)	(1,297,221)	(1,074,020)	(970,873)
Nonoperating Revenues (Expenses)										
Earnings on investments	1,441,576	216,035	466,963	966,548	(32,486)	1,065,226	171,169	1,117,289	435,356	631,618
Other revenues	7,878	7,477	7,785	6,978	7,600	5,449	7,480	6,428	7,134	(9,630)
Interest expense	(1,271)	(1,466)	(1,942)	(1,553)	(2,062)	(2,231)	(2,389)	(2,534)	(2,657)	(2,883)
Total Nonoperating Revenues (Expenses)	1,448,183	222,046	472,806	971,973	(26,948)	1,068,444	176,260	1,121,183	439,833	619,105
Income (Loss) Before Transfers	(1,050,489)	(448,869)	(1,974,255)	(1,124,774)	(501,366)	385,062	(694,742)	(176,038)	(634,187)	(351,768)
Transfers in	323,623	465,908	430,544	339,997	288,987	325,602	296,274	329,126	235,340	231,571
Transfers out	(322,783)	(468,679)	(430,544)	(339,997)	(290,310)	(326,724)	(297,539)	(334,616)	(239,463)	(242,667)
Net Transfers	840	(2,771)	-	-	(1,323)	(1,122)	(1,265)	(5,490)	(4,123)	(11,096)
Changes in Net Assets	(1,049,649)	(451,640)	(1,974,255)	(1,124,774)	(502,689)	383,940	(696,007)	(181,528)	(638,310)	(362,864)
Net Assets (Deficit), July 1[1]	(10,617,511)	(10,165,871)	(8,185,543)	(7,060,769)	(6,558,080)	(6,942,020)	(6,246,013)	(6,064,485)	(5,426,175)	(5,063,311)
Net Assets (Deficit), June 30	$ (11,667,160)	$ (10,617,511)	$ (10,159,798)	$ (8,185,543)	$ (7,060,769)	$ (6,558,080)	$ (6,942,020)	$ (6,246,013)	$ (6,064,485)	$ (5,426,175)

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

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

	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Premiums and Assessments										
Accident Account	$ 767,915	$ 832,584	$ 939,558	$ 918,803	$ 869,177	$ 761,923	$ 669,232	$ 627,214	$ 531,726	$ 579,638
Medical Aid Account [2]	601,087	637,975	332,781	592,633	615,687	628,821	520,547	408,097	284,044	292,833
Supplemental Pension Account	264,934	250,211	248,827	206,583	226,508	232,733	203,686	206,510	193,504	178,063
Net retrospective rating refunds	(112,494)	(81,255)	(98,125)	(190,285)	(161,893)	(116,729)	(91,570)	(99,899)	(92,185)	(85,897)
Dividend refunds	-	-	(33,560)	-	-	-	-	-	-	-
Self insurance assessments	205,780	184,511	174,479	161,338	180,022	182,742	151,485	145,043	125,820	119,976
Self Insured Overpayment Reimbursement Account	500	250	-	-	-	-	-	-	-	-
Total Premiums and Assessments	$ 1,727,722	$ 1,824,276	$ 1,563,960	$ 1,689,072	$ 1,729,501	$ 1,689,490	$ 1,453,380	$ 1,286,965	$ 1,042,909	$ 1,084,613
Average Standard Premium Rates [1] (per hour worked) - Effective from January 1 to December 31										
Accident	0.2729	0.2611	0.2565	0.2686	0.2827	0.2535	0.2461	0.2205	0.1862	0.1862
Medical Aid	0.2118	0.1954	0.1893	0.1713	0.1713	0.1916	0.1827	0.1675	0.0961	0.0961
Supplemental Pension	0.0968	0.0834	0.0779	0.0665	0.0621	0.0738	0.0717	0.0681	0.0717	0.0651
Total Average Standard Premium Rates (composite rate)	0.5815	0.5399	0.5237	0.5064	0.5161	0.5189	0.5005	0.4561	0.3540	0.3474
Employer portion	0.4272	0.4005	0.3901	0.3875	0.3994	0.3862	0.3733	0.3383	0.2701	0.2668
Worker portion	0.1543	0.1394	0.1336	0.1189	0.1167	0.1327	0.1272	0.1178	0.0839	0.0806
State Fund average hourly wage	$ 24.72	$ 23.86	$ 23.53	$ 22.75	$ 21.66	$ 20.54	$ 19.86	$ 19.73	$ 19.30	$ 18.94
Composite rate per $100 Payroll [3]	$ 2.35	$ 2.26	$ 2.23	$ 2.23	$ 2.38	$ 2.53	$ 2.52	$ 2.31	$ 1.83	$ 1.83
Investments [4]										
Investment income (interest and dividend)	$ 501,143	$ 546,021	$ 601,649	$ 610,844	$ 559,732	$ 503,461	$ 473,157	$ 489,124	$ 505,305	$ 547,287
Investment balances	$ 11,894,375	$ 10,886,051	$ 11,019,207	$ 10,983,413	$ 10,170,473	$ 10,185,293	$ 9,161,021	$ 9,170,964	$ 8,535,515	$ 9,021,593
Average rate of return	4.2%	5.0%	5.5%	5.6%	5.5%	4.9%	5.2%	5.3%	5.9%	6.1%

[1] These rates are for Washington State Fund firms.
[2] Medical Aid premium rate was reduced to zero from 7/1/2007 to 12/31/07 as a result of a rate holiday.
[3] This figure equals to composite rate divided by state fund average hourly wage.
[4] These amounts reflect only investments managed by Washington State Investment Board.

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

Schedule 4 - Employer Accounts
Last Eight Fiscal Years

	2010	2009	2008	2007	2006	2005	2004	2003
Employers insured	163,000	168,000	171,000	168,000	165,000	161,000	157,000	156,000
Workers covered	2,330,000	2,460,000	2,570,000	2,500,000	2,400,000	2,300,000	2,200,000	1,820,000
Hours reported	3,065,000,000	3,232,000,000	3,380,000,000	3,287,000,000	3,200,000,000	3,049,406,000	2,911,954,000	2,870,637,000
Self-insured employers	363	369	382	377	382	381	372	373
Workers covered under self-insured employers	826,000	830,000	870,000	830,000	841,000	830,000	799,000	764,000
Number of Employers Insured By Industry:								
Construction	21,963	25,051	27,244	27,184	26,244	24,810	23,822	23,577
Prof., scientific, and technical services	17,839	18,428	18,677	18,144	17,506	16,626	15,796	15,620
Retail trade	15,779	16,892	17,616	17,844	18,158	18,374	18,638	18,877
Other services (except public administration)	15,660	16,115	16,347	16,088	15,992	15,900	15,607	15,563
Accomodation and food services	13,807	14,367	14,641	14,477	14,141	13,777	13,445	12,905
Health care and social assistance	13,929	14,199	14,156	13,904	13,616	13,294	13,032	12,751
Administrative and support services	9,447	9,928	10,261	10,083	9,832	9,491	9,166	8,931
Wholesale trade	9,163	9,328	9,431	9,337	9,066	8,799	8,572	8,457
Agriculture, forestry, fishing, and hunting	7,284	7,690	7,905	8,157	8,416	8,625	9,101	9,296
Real estate, rental and leasing	6,563	7,117	7,372	7,099	7,004	6,830	6,609	6,412
Manufacturing	6,615	6,993	7,229	7,261	7,290	7,226	7,175	7,278
Finance and insurance	4,998	5,437	5,701	5,694	5,496	5,226	4,998	4,819
Unclassified establishments	8,016	4,537	1,888	572	438	455	449	433
Transportation and warehousing	3,833	4,013	4,211	4,103	4,019	3,884	3,831	3,810
Arts, entertainment, and recreation	2,418	2,508	2,585	2,512	2,485	2,407	2,361	2,295
Education services	2,177	2,161	2,126	2,062	1,952	1,879	1,819	1,766
Information	1,746	1,880	1,933	1,935	1,852	1,685	1,686	1,732
Public administration	1,042	1,063	1,058	1,051	1,043	1,046	1,040	1,029
Utilities	338	345	351	342	352	355	354	359
Mining	176	200	210	209	208	214	223	223
Mgmt. of companies and enterprises	103	99	102	106	92	79	72	67
Total	162,896	168,351	171,044	168,164	165,202	160,982	157,796	156,200

Note: This data is a snapshot of the fiscal year (July 1 – June 30) as of the first week of the following October. Data are not readily available prior to 2003.

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

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

	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Outstanding Debt:										
General obligation bonds [1]	$ 22,110	$ 25,930	$ 29,555	$ 33,080	$ 36,825	$ 39,870	$ 42,760	$ 45,475	$ 48,050	$ 50,475
Debt Ratios:										
Principal paid on total debt	$ 3,820	$ 3,625	$ 3,525	$ 3,370	$ 3,045	$ 2,890	$ 2,715	$ 2,575	$ 2,425	$ 2,240
Ratio of principal paid to total debt	17.3%	14.0%	11.9%	10.2%	8.3%	7.2%	6.3%	5.7%	5.0%	4.4%
Interest paid on total debt	$ 1,346	$ 1,537	$ 1,584	$ 1,733	$ 2,061	$ 2,231	$ 2,388	$ 2,533	$ 2,656	$ 2,868
Ratio of interest paid to total debt	6.1%	5.9%	5.4%	5.2%	5.6%	5.6%	5.6%	5.6%	5.5%	5.7%
Premiums and assessments earned	$ 1,727,722	$1,824,276	$1,563,960	$1,689,072	$ 1,729,501	$ 1,689,490	$ 1,453,380	$ 1,286,965	$ 1,042,909	$ 1,084,613
Ratio of total debt to premiums and assessments earned	1.3%	1.4%	1.9%	2.0%	2.1%	2.4%	2.9%	3.5%	4.6%	4.7%

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

Source: Washington State Agency Financial Reporting System

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

	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Unpaid loss and loss adjustment expenses at beginning of fiscal year [1]	$ 22,006,789	$21,887,148	$19,746,492	$17,755,100	$17,278,895	$16,591,098	$15,863,852	$14,883,099	$14,243,113	$13,621,702
Incurred claims and claim adjustment expenses:										
Provision for insured events of the current fiscal year	2,204,709	2,225,312	2,273,716	2,138,397	2,449,650	3,315,505	1,772,548	1,636,136	1,397,429	1,302,055
Increase (decrease) in provision for insured events of prior fiscal years	1,895,787	109,437	1,749,155	1,582,629	(318,243)	(1,025,582)	494,958	853,411	648,037	688,294
Total incurred claims and claim adjustment expenses	4,100,496	2,334,749	4,022,871	3,721,026	2,131,407	2,289,923	2,267,506	2,489,547	2,045,466	1,990,349
Payments:										
Claims and claim adjustment expenses attributable to:										
Events of the current fiscal year	297,520	327,536	316,086	294,879	277,626	259,673	244,334	232,797	225,567	229,934
Insured events of prior fiscal years	1,783,933	1,730,293	1,566,129	1,434,755	1,377,576	1,342,453	1,295,926	1,275,997	1,179,913	1,139,004
Total payments	2,081,453	2,057,829	1,882,215	1,729,634	1,655,202	1,602,126	1,540,260	1,508,794	1,405,480	1,368,938
Total unpaid loss and loss adjustment expenses at fiscal year end	$ 24,025,832	$ 22,164,068	$ 21,887,148	$ 19,746,492	$ 17,755,100	$ 17,278,895	$ 16,591,098	$ 15,863,852	$ 14,883,099	$ 14,243,113

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

Source: Washington Department of Labor & Industries Actuarial Services

Schedule 7 - Demographics of Accepted Claims
Last Eight Fiscal Years

	2010	2009	2008	2007	2006	2005	2004	2003
Male Injured Workers	66%	68%	70%	70%	70%	71%	70%	70%
Female Injured Workers	34%	32%	30%	30%	30%	29%	30%	30%
Average Age of Injured Workers	38	38	37	37	37	37	37	37
Workers Younger than 30	29%	32%	34%	35%	34%	34%	33%	33%
Workers 30 to 50	48%	48%	47%	48%	50%	51%	52%	52%
Workers Older than 50	22%	21%	19%	17%	17%	16%	16%	16%

Notes:
Because of rounding, some columns may not add up to 100%.
This data is a snapshot of the fiscal year (July 1 – June 30) as of the first week of the following October.
Data are not readily available prior to 2003.

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

Schedule 8 - Washington State Annual Average Wage Rates by Industry and Unemployment Rates
Last Eight Calendar Years

	2009	2008	2007	2006	2005	2004	2003	2002
Washington State Annual Average Wages by Industry								
Information	$ 105,715	$ 104,053	$ 96,240	$ 91,081	$ 82,647	$ 78,918	$ 104,042	$ 102,309
Mgmt. of companies and enterprises	87,642	87,431	86,867	85,031	75,236	75,776	69,743	67,659
Utilities	84,410	76,945	73,736	70,404	65,615	63,915	59,570	59,284
Prof., scientific, and technical services	71,837	70,120	70,104	63,687	61,181	58,486	56,933	54,645
Finance and insurance	71,304	72,653	70,044	66,684	62,382	62,091	57,954	53,944
Manufacturing	62,931	61,260	59,568	58,196	54,953	51,788	50,546	50,901
Wholesale trade	61,569	61,041	59,345	56,572	53,458	52,027	49,070	47,774
Mining	52,981	54,718	58,056	54,924	52,592	51,454	49,517	48,110
Construction	51,043	49,443	46,783	43,746	41,482	40,171	39,468	39,396
Government	50,420	48,705	46,914	44,745	42,915	41,756	40,546	39,360
Transportation and warehousing	46,522	45,433	45,320	44,078	42,798	41,780	40,219	39,501
Health care and social assistance	43,561	41,424	39,474	37,654	36,162	34,919	33,444	32,144
Administrative and support services	39,571	37,536	36,463	34,533	33,649	33,466	33,314	30,806
Real estate, rental and leasing	36,777	36,669	36,334	34,948	32,744	30,582	29,552	28,562
Education services	34,505	33,550	32,076	30,901	29,860	28,453	27,738	27,618
Retail trade	29,356	29,268	29,082	28,174	27,330	26,602	26,047	25,508
Arts, entertainment, and recreation	25,527	26,949	27,643	27,139	25,724	24,331	22,622	21,908
Other services	24,881	25,637	24,385	23,009	22,010	26,467	25,692	25,336
Agriculture, forestry, fishing, and hunting	23,675	24,491	23,413	22,239	21,122	20,495	20,152	19,909
Accomodation and food services	17,063	16,430	16,019	15,469	15,014	14,765	14,309	13,950
Washington State Unemployment (in thousands)								
Civilian labor force	3,529	3,477	3,391	3,317	3,259	3,200	3,146	3,105
Less employed	3,216	3,289	3,237	3,154	3,080	3,000	2,913	2,877
Total Unemployed	313	188	154	163	179	200	233	228
Unemployment percentage rate	8.9%	5.4%	4.5%	4.9%	5.5%	6.3%	7.4%	7.3%

Notes:
Industry classifications and wages are based on North American Industry Classification System (NAICS) codes. Data based on NAICS codes are not available in a comparable coding structure prior to 2002.
Wages include only employment covered by unemployment insurance. Wages may not include private firms or disclosure of individual employers.

Sources: Quarterly Census of Employment and Wages (QCEW) Annual Data, Labor Market and Economic Analysis Branch, Employment Security Department
Unemployment Rates: Economic Forecast, September 2010, Washington State Economic and Revenue Forecast Council

Schedule 9 - Number of Labor & Industries Employees By Division
Last Ten Fiscal Years

	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Regional Office 1	57	59	58	57	58	98	89	92	93	86
Regional Office 2	102	96	92	90	94	174	157	148	162	143
Regional Office 3	59	60	59	55	58	95	92	94	100	98
Regional Office 4	72	65	64	69	71	113	105	102	107	102
Regional Office 5	71	70	70	70	74	113	107	106	106	96
Regional Office 6	42	43	44	44	42	73	72	72	72	70
Administrative Services	172	171	176	174	171	187	218	230	250	275
Department Of Safety and Health	335	339	332	322	333	115	115	114	127	129
Director's Office	93	88	89	82	80	66	65	62	60	62
Insurance Services	944	954	977	980	994	994	989	979	989	997
Office of Human Resources	45	47	50	47	51	47	44	47	47	46
Fraud Prevention & Compliance	84	74	79	74	75	52	-	-	-	-
Information Services	178	189	194	194	175	190	172	179	182	173
Specialty Compliance Services	40	36	29	27	25	17	17	15	4	5
Total	2,294	2,291	2,313	2,285	2,301	2,334	2,242	2,240	2,299	2,282

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

Source: Washington State Agency Financial Reporting System

Schedule 10 - Claim Statistics and Most Frequent Injuries
Last Eight Fiscal Years

	2010	2009	2008	2007	2006	2005	2004	2003
Claim Statistics:								
Number of Claims Filed [1]	102,734	116,616	136,791	140,308	140,887	139,359	137,835	140,709
Number of Claims Accepted [1, 2]	86,184	102,440	119,788	121,769	124,391	121,217	121,201	125,162
Number of Claims Denied [1, 2]	12,703	14,964	15,748	15,171	15,210	15,977	16,050	17,373
Fatal Pensions Awarded	45	42	63	54	66	63	73	55
Total Permanent Disability Pensions Granted	937	1,612	1,109	1,557	840	952	967	1,588
Permanent Partial Disability Awards Granted	11,452	12,684	12,316	12,621	12,535	13,309	14,612	14,826
New Time-loss (Wage Replacement) Claims [3]	22,604	26,295	28,593	29,416	29,615	28,521	29,500	28,296
Medical-only Claims Accepted	66,885	80,171	95,052	96,505	97,964	96,289	94,003	98,586
Retraining Plans Completed	1,229	1,142	1,694	1,763	1,093	1,058	1,042	772
Total Days Paid for Lost Work	8,121,263	7,926,800	7,488,000	7,540,000	7,480,000	7,240,000	7,190,000	7,290,000
Most Frequent Injuries: [4]								
Back, spine, and spinal cord: Traumatic injuries to muscles, tendons, ligaments, and joints (includes sprains and strains)	12,026	13,486	16,192	15,236	N/A	N/A	N/A	N/A
Finger(s): Open wounds of finger(s), fingernails (includes cuts and lacerations, and amputation of fingertip or finger)	8,641	10,837	12,871	13,186	N/A	N/A	N/A	N/A
Face: Surface wounds and bruises (includes splinter or other foreign body in eye, and bruises or contusions of the forehead)	3,753	5,020	6,163	6,261	N/A	N/A	N/A	N/A
Leg(s): Traumatic injuries to muscles, tendons, ligaments, joints, etc., such as knee and thigh (excludes ankle and hip).	3,774	4,356	4,460	4,456	N/A	N/A	N/A	N/A
Shoulder: Traumatic injuries to muscles, tendons, ligaments, joints, etc. including clavicle, scapula (injuries to muscles, tendons, and ligaments that are not specifically otherwise classified)	3,501	4,053	4,235	4,042	N/A	N/A	N/A	N/A

Note: This data is a snapshot of the fiscal year (July 1 – June 30) as of the first week of the following October. Data are not readily available prior to 2003.

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

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

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

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

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

Schedule 11 - Risk Classes with Greatest Number of Ultimate Claims
Last Six Fiscal Years

Risk Class	Risk Class Description	2010	2009	2008	2007	2006	2005
0101	Excavation and Grading, Not Otherwise Classified (N.O.C.)	834	1,035	1,401	1,547	1,430	1,226
0306	Plumbing	799	1,197	1,466	1,487	1,466	1,389
0307	HVAC Systems, Installation, Service and Repair	816	1,120	1,370	1,533	1,578	1,558
0507	Roofing Work - Construction and Repair	706	840	1,071	1,265	1,120	1,052
0510	Wood Frame Building Construction	1,348	1,996	3,151	4,018	4,451	4,016
0516	Carpentry, N.O.C.	867	1,194	1,640	1,656	1,501	1,340
0518	Non Wood Frame Building Construction	701	1,442	1,925	1,683	1,323	1,161
0601	Electrical Wiring: Buildings and Structures	951	1,532	1,815	1,811	1,735	1,715
1101	Parcel and Package Delivery Service	898	1,022	1,337	1,404	1,394	1,370
1102	Trucking, N.O.C.	1,153	1,261	1,470	1,672	1,650	1,621
2009	Lumber Yards and Building Material Dealers	486	635	964	1,065	1,061	1,013
2104	Fruit & Vegetable Packing - Fresh	1,305	1,417	1,374	1,470	1,449	1,453
2903	Wood Products Manufacturing, N.O.C.	722	824	1,397	1,620	1,692	1,578
3402	Machine Shops and Machinery Mfg., N.O.C.	1,115	1,560	2,075	1,925	2,033	2,240
3404	Metal Goods Manufacturing, N.O.C. - Under 9 Gauge	701	919	1,249	1,297	1,356	1,564
3411	Automobile Dealers, Rentals and Service Shops	1,611	1,793	2,213	2,320	2,467	2,549
3905	Restaurants and Taverns	6,730	7,185	8,533	8,810	8,936	8,975
4803	Orchards	2,017	2,249	1,964	2,229	2,053	2,202
4904	Clerical Office, N.O.C.	1,114	1,443	1,561	1,693	1,732	1,805
4905	Motels and Hotels	972	997	1,142	1,141	1,116	1,121
4906	Colleges & Universities	1,772	1,887	1,916	1,934	1,920	2,040
4910	Property and Building Management Services	1,266	1,340	1,416	1,460	1,488	1,536
5307	State Government - All Other Employees, N.O.C.	1,182	1,261	1,267	1,266	1,357	1,395
6103	Schools, Churches and Day Care - Prof./Clerical Staff	1,333	1,500	1,482	1,419	1,475	1,377
6108	Nursing Homes	2,317	2,426	2,684	2,696	2,721	2,780
6109	Physicians & Medical Clinics	2,167	2,257	2,405	2,355	2,357	2,332
6303	Sales Personnel - Outside, N.O.C.	892	885	1,011	1,048	1,025	1,076
6306	Furniture Stores	635	710	838	942	1,012	995
6309	Hardware, Auto Parts and Sporting Good Stores	1,064	1,229	1,505	1,517	1,564	1,546
6402	Supermarkets	884	968	1,047	1,056	1,106	1,228
6406	Retail Stores, N.O.C.	1,210	1,370	1,506	1,581	1,650	1,591
6509	Boarding Homes and Retirement Centers	2,517	2,421	2,386	2,320	2,437	2,493
6511	Chore Services	931	910	910	986	1,056	836
6602	Janitorial Service	823	967	1,006	1,085	1,120	1,055

Notes:
These are estimated ultimate counts by fiscal accident year, developed from counts reported through June 30, 2010. They are "Allowed" State Fund claims which have been accepted for benefits. Data are not readily available prior to 2005.
The Risk Class is that assigned to the claim.
Per Washington Administrative Code (WAC) 296-17-31002, a Risk Class is defined as: "A grouping of businesses or industries having common or similar exposure to loss without regard to the separate employments, occupations or operations which are normally associated with the business or industry. Basic classifications describe a specific type of business operation or industry such as mechanical logging, sawmills, aircraft manufacturing, or restaurants. In most business operations, some workers are exposed to very little hazard, while others are exposed to greater hazard. Since a basic classification reflects the liability (exposure to hazard) of a given business or industry, all the operations and occupations that are common to an industry are blended together and included in the classification."

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

Washington State Department of
Labor & Industries

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