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, 2011
Olympia, Washington

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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

October 31, 2011

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

The Revised Code of Washington 51.44.115 requires the Department of Labor & Industries (L&I) to publish a Comprehensive Annual Financial Report (CAFR) for the Workers' Compensation Program within six months of the close of each fiscal year. This report is published to fulfill that requirement for the fiscal year ended June 30, 2011.

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

The State Auditor has issued an unqualified ("clean") opinion on the Workers' Compensation Program financial statements for the year ended June 30, 2011. The independent auditor's report is located at the front of the financial section of this report.

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

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

PROFILE OF WORKERS' COMPENSATION PROGRAM

L&I, an agency of Washington State, is responsible for managing the state's workers' compensation system; enforcing the Washington Industrial Safety and Health Act; providing safety and health consultations and information; enforcing wage and hour, child labor and family leave requirements; managing the state's Crime Victims' Compensation Program; registering contractors and apprentices; inspecting electrical work, elevators, boilers and factory-assembled structures; and issuing licenses for certain skilled trades. L&I headquarters is located at 7273 Linderson Way SW in Tumwater, Washington. There are 19 additional L&I field offices across Washington State that enable us to respond to specific needs in different localities.

L&I celebrated the 100th anniversary of the workers' compensation system in Washington State on July 28, 2011. Washington was one of the first states to enact workers' compensation laws. Our 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 one of only two states where workers paid a significant portion of the insurance premiums.

Washington's Workers' Compensation Program was 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. The state also has an optional financial incentive program, called the Retrospective Rating Program, to help qualifying employers reduce their industrial insurance costs. Employers who join the Retrospective Rating Program receive partial refunds if their claim costs are lower than expected, but must pay additional premiums if their claim costs are higher than expected.

The Workers' Compensation Program is proud to support approximately 2.36 million workers and over 163,000 employers statewide in the State Fund. Total premiums assessed in Fiscal Year 2011, including both the employer and worker portions, in the State Fund were $1.51 billion. Over 81,000 claims were accepted in Fiscal Year 2011; about 78 percent of the accepted claims were medical only and received no compensation for time off work. In the same year, 59 fatal pensions were awarded and 1,667 retraining plans were completed by injured workers who were not able to return to their occupation at injury.

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 final 2009-2011 appropriated budgets for administering the Accident and Medical Aid accounts of the program were $513,838,000. These budgets included federal funds of $16,808,000. The allotted administering budget for Fiscal Year 2011 was $257,333,000.

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.

LOCAL ECONOMY AND IMPACT ON LABOR & INDUSTRIES

Workers' compensation insurance covers all industries in the state of Washington. The economy of Washington was once dominated by commercial airplane manufacturing (Boeing), logging, and agriculture. More recently, though, a vibrant high-tech industry has developed, including such worldwide companies as Microsoft and Amazon.com. Other Washington companies such as Starbucks and Costco also have national reputations. Most of these larger companies are self-insured, but the State Fund covers a diverse group of smaller companies in such industries as professional and business services, health services, and construction. The state also has the largest system of functioning ferries in the country and a vibrant agriculture sector, including a growing selection of wineries.

Washington comprises nine major metropolitan areas and vast regions of wilderness and farm land. Of the nine metropolitan areas, only three are east of the Cascade Mountains. The Seattle/Bellevue/Everett metropolitan area alone accounts for almost half of the state's non-farm employment.

EFFECTS OF THE ECONOMIC RECESSION

Washington fared about average in the nation's worst economic recession since the Great Depression, which officially ended in June 2009. Since the end of the recession, Washington has lagged slightly behind the nation as a whole in terms of job growth. The unemployment rate remains above nine percent and total job growth has done little to regain the almost 200,000 jobs lost since the recession began. Construction, manufacturing, professional services, and retail trade were hit hardest during the recession, and only professional services has seen any job growth during the recovery.

The largest impact of the recession on the workers' compensation system was the dramatic reduction in covered hours that accompanied the decline in employment. Construction is a relatively hazardous industry and plays an important role in the state's workers' compensation system. Construction was one of the hardest-hit sectors during the recession. Since its peak employment in 2007, the construction industry has lost over one-third of its workforce, and construction's share of covered hours fell by almost 30 percent. The general decline in market demand during the recession hit all businesses and has put intense pressure on them to reduce costs, including payroll, taxes, and insurance premiums.

There have been several beneficial cost trends in workers' compensation during and since the recession. First, a long-term decline in the injury rate accelerated during the recession, but has since leveled out. At the same time, L&I has been able to very successfully hold down medical cost growth through a number of measures, including the use of Centers for Occupational Health and Education, fee schedules for physicians, and the use of generic drugs. Wage growth has also been very low, contributing to lower costs for injured workers needing wage compensation. Unfortunately, most of the beneficial effects of these cost trends have been outweighed by an increase in the average amount of time an injured worker spends off work. The duration of recovery time is impacted by the recession as injured workers, who cannot return to their job of injury, have a low probability of finding new jobs. Employers are less willing or able to take injured workers back on light duty, and attending providers may help facilitate lengthy recovery periods.

CURRENT ECONOMIC ACTIVITY AND OUTLOOK

Although there was some job growth in 2010, it slowed significantly in 2011. The forecast as of October 2011 is that job growth is expected to remain slow until 2013. Many sectors such as mining, logging, and construction, continue to lose jobs.

The national economy showed weak growth in the spring of 2011 with high oil prices caused, in part, by unrest in the Middle East. A tsunami in Japan caused major damage to that country and caused some disruptions to the U.S. manufacturing supply chain. Manufacturing output has started to grow, however, with a rise of 0.4 percent in May after a fall in April. The Institute for Supply Management (ISM) index also remains above 50, signaling growth in the manufacturing sector nationally.

In testimony in October 2011, the Chairman of the Federal Reserve Board stated that, "It is clear that, overall, the recovery from the crisis has been much less robust than we had hoped. Recent revisions of government economic data show the recession as having been even deeper, and the recovery weaker, than previously estimated." The Fed now predicts slower economic growth over the coming quarters than it did in June 2011. Sustained economic growth in the U.S. will need to come from an increase in consumer spending. Federal, state, and local governments are all hitting debt limits as tax revenues continue to recover slowly, and it is politically difficult to raise taxes. Consumer spending has been held in check by low or declining housing prices, tight capital markets, and continued high unemployment. Until consumer spending picks up, businesses are unlikely to significantly increase production and jobs.

Although the stock market performed well in 2010, the outlook for the stock market in 2011 is somewhat uncertain. There has been a great amount of volatility in stock prices since June 2011, and negative influences such as the European sovereign debt crisis remain.

LONG-TERM FINANCIAL PLANNING

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

During the 2011 Legislative Session, the Legislature passed historic changes to the workers' compensation system. These changes were aimed at reducing costs, improving the stability of premium rates during economic downturns, improving medical care, and improving outcomes for injured workers. Additional legislation provides for safety grants, reducing fraud, and conducting several studies for future policy.

The first piece of legislation that is likely to have a significant impact on the costs of the system and claims management is the Stay At Work Program. This program subsidizes employers who find light duty work for injured workers.

Another piece of legislation that will have a significant impact is a structured settlement option for injured workers over the age of 55 (dropping to 53 in 2015 and 50 in 2016) who meet certain other requirements. This is a voluntary program in which those who qualify can settle their claims and receive a financial settlement on a payment schedule.

There will be a period of preparation for both of these programs, but both have the potential to impact the choices for injured workers and the rates paid by employers in 2012.

AWARDS AND ACKNOWLEDGEMENTS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to L&I for its CAFR for the fiscal year ended June 30, 2010. This was the first year that L&I received this prestigious award. In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized CAFR. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

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 23 percent, which cuts employer costs while maintaining benefits. We give a claim-free discount to 81 percent of employers. In the past year, L&I's Fraud Prevention and Compliance Program has continued its efforts to identify unlicensed contractors and conduct employer audits and claim investigations, which resulted in near-record collections. The WSIB has done an outstanding job in managing our investments and keeping a watchful eye on the financial markets. The agency finds value in training and empowering staff to achieve a consistent level of high quality customer service.

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

The economic information discussed above was based on the September 12, 2011 Economic and Revenue Update published by the Economic and Revenue Forecast Council of Washington State and the economic analysis of the Research and Data Services Program of L&I.

Sincerely,

Judy Schurke Director	Carole Washburn Deputy Director for Operations	Beth Dupre Assistant Director for Insurance Services

Washington State Department of
Labor & Industries

Keep Washington Safe and Working.

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Washington State

Department of Labor & Industries

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2010

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

Government Finance Officers Association of the United States and Canada Corporation Seal Chicago

President

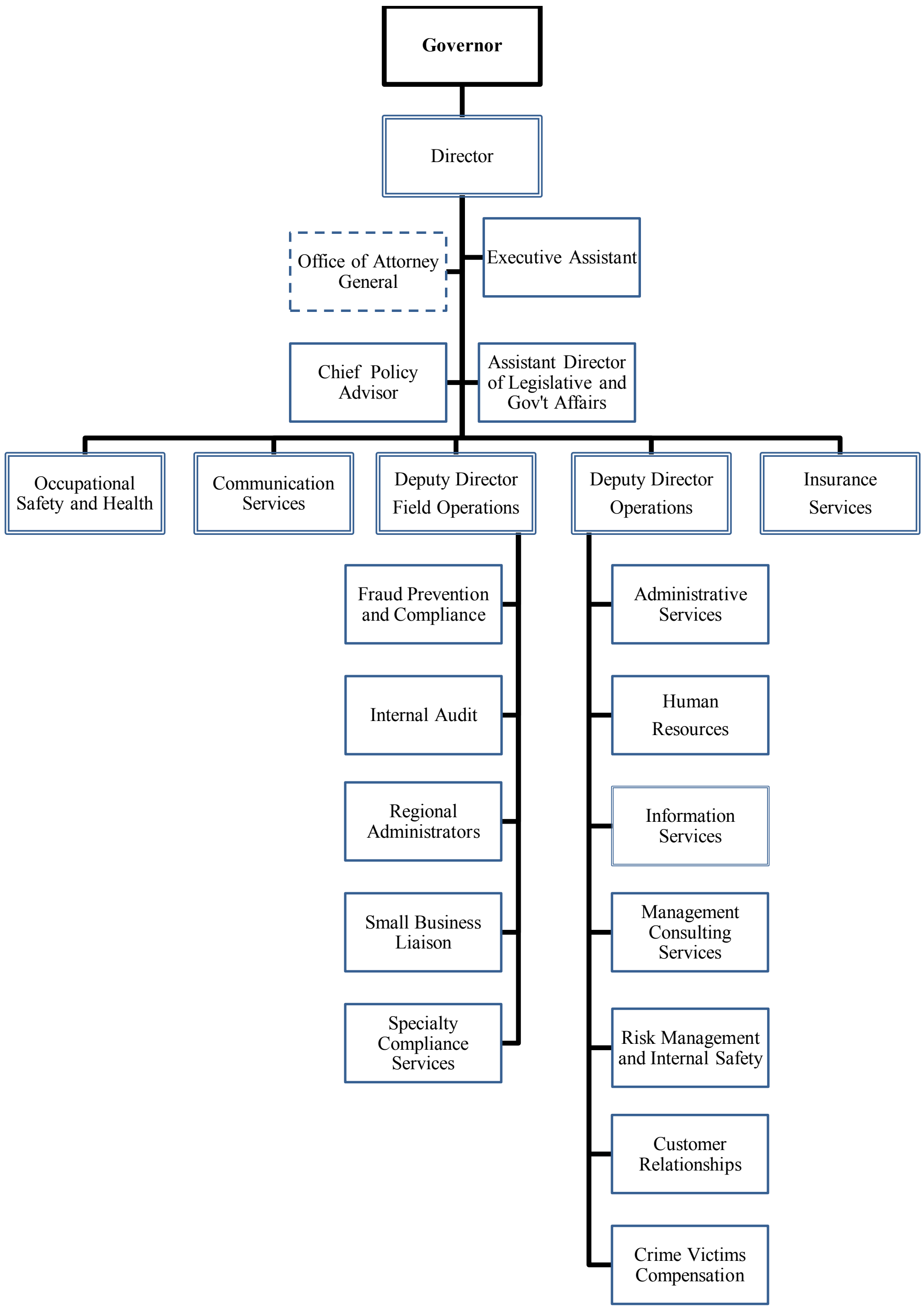
Executive Director

Washington State Department of
Labor & Industries

Keep Washington Safe and Working.

Washington State Department of
Labor & Industries

Organization Chart
2010 – 2011



June 30, 2011

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

October 31, 2011

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, 2011, 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 2. These investments represent 96 percent, 100 percent and 32 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 activity of the Workers' Compensation Program and do not purport to, and do not present the financial position of the state of Washington as of June 30, 2011, 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.

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

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the Workers' Compensation Program as of June 30, 2011, 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.

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 17 through 24, schedules of claims development information on 63 through 64, reconciliation of claims liabilities by plan on 65 and information on postemployment benefits other than pensions on page 66 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 combining and individual fund schedules and independent actuarial opinion on pages 69 through 77 are not a required part of the basic financial statements but are supplementary information presented for purposes of additional analysis. 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, 2011. 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, 2011	As of and For The Fiscal Year Ended June 30, 2010	$ Change	% Change
Total Assets	$ 15,517	$ 14,973	$ 544	3.6%
Total Liabilities	25,378	26,640	(1,262)	(4.7%)
Total Revenues Earned	3,026	3,217	(191)	(5.9%)
Total Expenses Incurred	1,219	4,267	(3,048)	(71.4%)
Total Net Assets (Deficit)	$ (9,860)	$ (11,667)	$ 1,807	15.5%

- During the 2011 legislative session, the passing of Engrossed House Bill 2123 made way for some of the most significant changes in the Washington State Workers' Compensation system since it was created in 1911.

- Total assets increased 3.6 percent over the prior fiscal year, mainly due to a recovery in the financial markets which improved results for fixed income and equity investments.

- Operating expenses incurred declined by 71.4 percent from prior year-end totals, largely due to the anticipated impact of workers' compensation reforms to be implemented in Fiscal Year 2012.

Overview of the Basic Financial Statements

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

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

A Rainy Day Fund was created by the legislature during the 2011 session with an effective date of June 15, 2011. The fund will hold transfers from the Accident and Medical Aid Accounts when assets for those accounts combined are between 10 and 30 percent in excess of their funded liabilities. Primarily, balances in this account will be used to reduce future rate increases or aid businesses in recovering from or during economic recessions. There is no activity to report for this account during Fiscal Year 2011.

For the fiscal year ended 2011, 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 69-71 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, 2011. It can be found on page 27 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 28 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 29 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 32-59 of this report.

Financial Analysis of the Workers' Compensation Program

Statement of Net Assets
(in millions)

	June 30, 2011	June 30, 2010
Assets		
Current assets and noncurrent receivables	$ 2,935	$ 3,015
Investments, noncurrent	12,513	11,895
Capital assets, net	69	63
Total Assets	$ 15,517	$ 14,973
Liabilities		
Current liabilities	$ 4,127	$ 4,698
Noncurrent liabilities	21,250	21,942
Total Liabilities	25,377	26,640
Net Assets (Deficit)		
Invested in capital assets, net of related debt	51	41
Unrestricted	(9,911)	(11,708)
Total Net Assets (Deficit)	(9,860)	(11,667)
Total Liabilities and Net Assets (Deficit)	$ 15,517	$ 14,973

Current assets. Current assets decreased during Fiscal Year 2011 by $80 million. This change largely resulted from a decrease of $160.6 million in collateral held under securities lending agreements as market conditions warranted a reduction in the cash collateral portfolio and loan balances were reduced. An average increase in premium rates of 12 percent in calendar year 2011 and 7.7 percent in calendar year 2010 has impacted the receivables balance, not including other state agencies or governments, compared to prior fiscal year resulting in an increase of $85 million. As the economy continues to recover, the number of delinquent accounts has increased, and additional resources to detect unregistered employers and collect past due accounts have been put in place.

Noncurrent investments. Noncurrent investments increased during Fiscal Year 2011 by $618.3 million. The increase is mainly due to an increase in fixed income securities of $381.8 million and equity investments of $315.3 million. Favorable market conditions increased realized and unrealized gains by $95.9 million for fixed income securities and $394 million for equities. An increase in premiums resulted in less funds being withdrawn from investments compared to the prior fiscal year.

Current liabilities. Current liabilities, other than claims payable, decreased during Fiscal Year 2011 by $181.3 million. This change mainly resulted from a $160.6 million decrease in securities lending activities as explained in the current assets detail above.

Total net assets (deficit). The Workers' Compensation Program's deficit decreased $1.8 billion during Fiscal Year 2011, ending the year with a deficit balance of $9.9 billion. This deficit consists of an $11.5 billion deficit in the Supplemental Pension Account, offset by net asset balances in the Accident, Medical Aid, and Pension Reserve Accounts of $381 million, $978.8 million, and $236 million, respectively. The Second Injury Account and Self-Insured Overpayment Reimbursement Account have a combined net asset balance of $47.6 million. Additional detail regarding the Supplemental Pension Account deficit can be found in Note 7 of this report.

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

(in millions)

	June 30, 2011	June 30, 2010
Benefit liabilities, beginning of year	$ 23,551	$ 21,543
New liabilities incurred, current year	1,820	2,072
Development on prior years		
Discount accretion	687	630
Other development on prior liabilities	(1,693)	1,210
Claim payments	(1,963)	(1,944)
Establishing self insurance second injury pension awards	46	40
Change in benefit liabilities	(1,103)	2,008
Benefit liabilities, end of year	$ 22,448	$ 23,551

* Excludes loss adjustment expense liabilities.

Total claims payable (included in current and noncurrent liabilities) was $22.9 billion at the end of Fiscal Year 2011, compared to $24 billion for the previous fiscal year, representing a 4.5 percent decrease. The main factors that contributed to this decrease came from recent workers' compensation reforms laid out in Substitute Senate Bill 5801 and Engrossed House Bill 2123, summarized as follows:

- An estimated reduction of $41.8 million in claim liabilities due to implementation of a single statewide network of health care providers to treat injured workers of both State Fund and self-insured employers and expansion of Centers of Occupational Health and Education (COHEs), which increase use of occupational health best practices in treating injured workers.

- The structured settlement option for injured workers who are age 55 by January 1, 2012 is expected to decrease claims liabilities by $556.9 million. The majority of this estimate is derived from a one-time cost savings on prior claims.

- A one year cost-of-living adjustment (COLA) freeze and one year delay for first-time COLA during Fiscal Year 2012 is anticipated to reduce claim payments by $494.2 million.

Changes in Net Assets
(in millions)

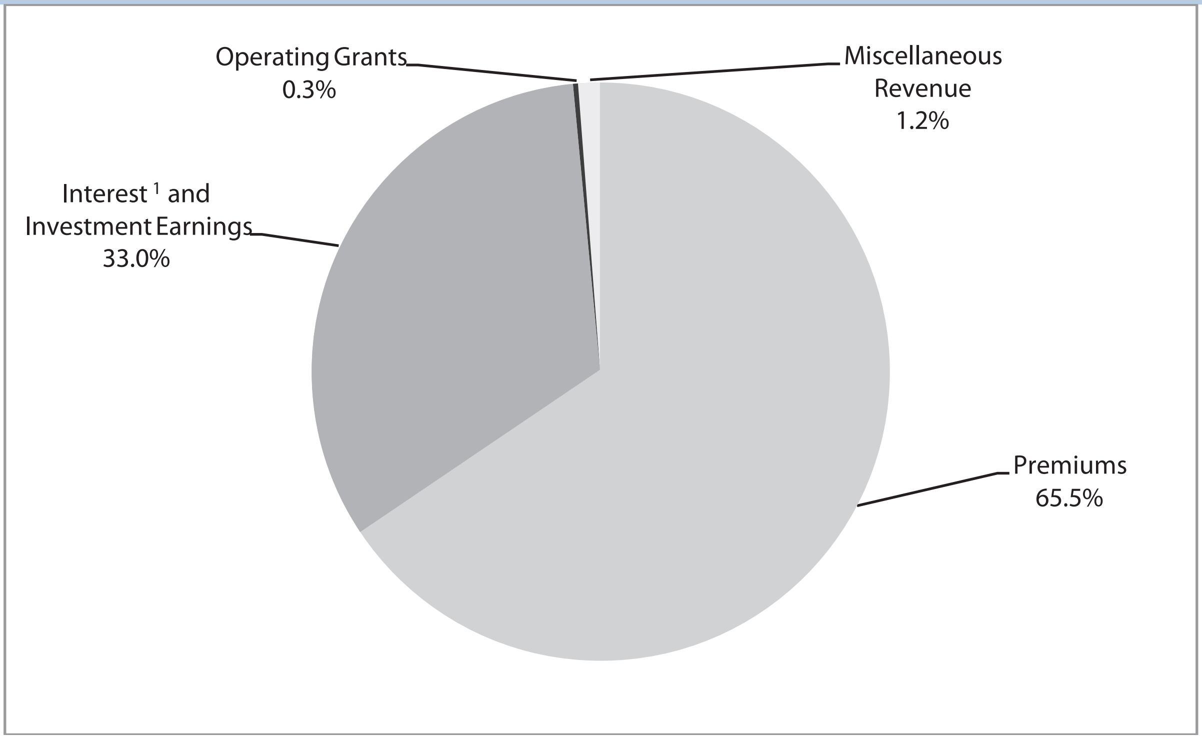
	Fiscal Year Ended June 30, 2011	Fiscal Year Ended June 30, 2010
Operating Revenues		
Premiums and assessments, net	$ 1,983	$ 1,728
Miscellaneous revenue	52	40
Total Operating Revenues	2,035	1,768
Nonoperating Revenues		
Earnings on investments	982	1,441
Other revenues	9	8
Total Revenues	3,026	3,217
Operating Expenses		
Salaries and wages	136	137
Employee benefits	51	48
Personal services	6	5
Goods and services	73	68
Travel	3	3
Claims	888	3,971
Depreciation	8	8
Miscellaneous expenses	53	26
Nonoperating Expenses		
Interest expense	1	1
Total Expenses	1,219	4,267
Income (Loss) before Transfers	1,807	(1,050)
Net Transfers	-	1
Change in Net Assets (Deficit)	1,807	(1,049)
Net Assets (Deficit) - Beginning of Year	(11,667)	(10,618)
Net Assets (Deficit) - End of Year	$ (9,860)	$ (11,667)

Premiums and assessments revenues, net. Premiums and assessments revenues, net, during Fiscal Year 2011 were $2 billion compared to $1.7 billion for Fiscal Year 2010, an increase of $255.6 million partially due to an average premium rate increase of 12 percent effective January 1, 2011. In Fiscal Year 2010 employers reported about 3.07 billion hours worked, this figure has increased to about 3.10 billion hours for the current fiscal year indicating that the previous trend in reported hours declining may have ended.

Earnings on investments. Although asset values for investments have appreciated, the earnings on investments have declined by 31.9 percent from the prior fiscal year. While the investment returns for equity securities increased from the previous year, the returns for the fixed income portfolio decreased from 13.9 percent to 8.3 percent. Bond yields increased during the current fiscal year, putting downward pressure on market values.

The following chart provides additional detail on the distribution of revenues earned by source during Fiscal Year 2011.

Fiscal Year 2011 Revenues by Source



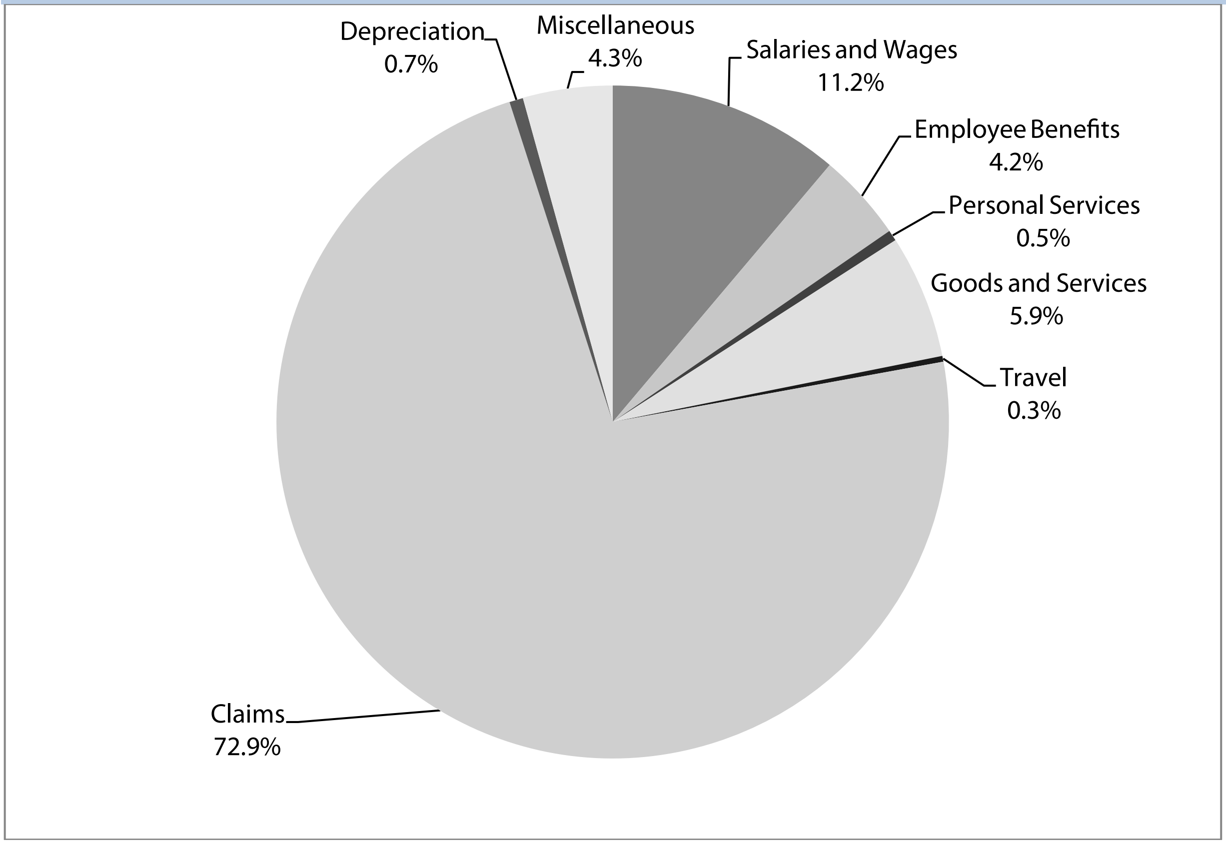
[1]The above chart groups interest earnings with investment earnings; however, interest earnings are categorized with miscellaneous revenue on the Statement of Revenues, Expenses, and Changes in Net Assets.

Operating expenses. Operating expenses for Fiscal Year 2011, other than claims expenses, were $330.1 million, compared to $295.6 million in Fiscal Year 2010. This increase was mainly due to an increase of $25.3 million in bad debt expenses. A $4.6 million increase in goods and services expenditures was due to a central office roof replacement, a computer upgrade, and increased efforts in detecting unregistered employers. A hiring freeze that began during Fiscal Year 2010 resulted in a $1.1 million decline in salaries and wages in Fiscal Year 2011. Travel expenses for Fiscal Year 2011 remained at the same level as the prior fiscal year due to a freeze on out-of-state travel expenditures.

Claims expenses. Claims expenses for Fiscal Year 2011 decreased $3.1 billion, or 77.6 percent, in Fiscal Year 2011 compared to Fiscal Year 2010. This decrease is mostly due to a reduction of benefit liabilities as a result of the recent worker's compensation reform legislation as discussed previously.

The following chart provides additional detail on the distribution of expenditures by type during Fiscal Year 2011.

Fiscal Year 2011 Expenditures by Type



Capital Asset and Debt Administration

Capital assets. Investment in capital assets, net of accumulated depreciation, as of June 30, 2011, was $69.2 million. This reflects a net increase of $5.8 million from the previous year, primarily as a result of increases in construction in progress for internally developed software to be used for early claims solutions and rewriting the code for the retrospective rating program. Additional information on capital assets can be found in Note 1.D.6 and Note 5 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 2011, the Workers' Compensation Program had $18.1 million in outstanding bonds payable. Scheduled principal payments in the amount of $4 million were paid during the current fiscal year. Additional information on the bonds can be found in Note 6.A of this report.

Potentially Significant Matters with Future Impacts

- The continued turmoil in the financial markets during first quarter of 2012 is expected to have an impact on investment balances, as well as realized and unrealized earnings.

- As the unemployment rate continues to be above 9 percent in Washington State the recovery in jobs remains slow, which will have an impact on reported payroll hours and, as a result, premium revenue.

Requests for Information

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

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.

Basic Financial Statements

Washington State Department of
Labor & Industries

Keep Washington Safe and Working.

Statement of Net Assets
June 30, 2011

ASSETS		
Current Assets:		
Cash and cash equivalents	$	38,506,079
Trust cash		899,877
Trust investments		3,967,662
Collateral held under securities lending agreements		2,217,078,142
Receivables, net of allowance		673,620,173
Receivables from other state accounts and agencies		56,617
Receivables from other governments		1,120,984
Inventories		94,880
Total Current Assets		2,935,344,414
Noncurrent Assets:		
Investments, noncurrent		12,512,715,417
Capital assets, net of accumulated depreciation		69,181,446
Total Noncurrent Assets		12,581,896,863
Total Assets	$	15,517,241,277
LIABILITIES AND NET ASSETS (DEFICIT)		
LIABILITIES		
Current Liabilities:		
Accounts payable	$	8,818,392
Deposits payable		6,958,651
Accrued liabilities		135,118,941
Obligations under securities lending agreements		2,217,078,142
Bonds payable, current		3,205,000
Payables to other state accounts and agencies		6,117,206
Payables to other governments		14,634
Unearned revenues		7,676,397
Claims payable, current		1,741,968,000
Total Current Liabilities		4,126,955,363
Noncurrent Liabilities:		
Claims payable, net of current portion		21,201,343,000
Bonds payable, net of current portion		14,875,000
Other long-term liabilities		11,225,361
Other postemployment benefits		23,331,132
Total Noncurrent Liabilities		21,250,774,493
Total Liabilities		25,377,729,856
Net Assets (Deficit):		
Invested in capital assets, net of related debt		51,101,446
Unrestricted		(9,911,590,025)
Total Net Assets (Deficit)		(9,860,488,579)
Total Liabilities and Net Assets (Deficit)	$	15,517,241,277

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, 2011

OPERATING REVENUES:		
Premiums and assessments, net of refunds	$	1,983,348,301
Miscellaneous revenue		51,411,187
Total Operating Revenues		2,034,759,488
OPERATING EXPENSES:		
Salaries and wages		135,979,180
Employee benefits		51,396,672
Personal services		6,366,257
Goods and services		72,442,527
Travel		3,401,100
Claims		888,159,582
Depreciation		8,037,356
Miscellaneous expenses		52,462,721
Total Operating Expenses		1,218,245,395
Operating Income		816,514,093
NONOPERATING REVENUES (EXPENSES):		
Earnings on investments		981,926,455
Other revenues		9,294,209
Interest expense		(1,063,656)
Total Nonoperating Revenues (Expenses)		990,157,008
Income Before Transfers		1,806,671,101
Transfers in		311,777,461
Transfers out		(311,777,461)
Net Transfers		-
Increase in Net Assets		1,806,671,101
Net Assets (Deficit), July 1		(11,667,159,680)
Net Assets (Deficit), June 30	$	(9,860,488,579)

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

Statement of Cash Flows
For the Fiscal Year Ended June 30, 2011

CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	$	1,889,803,417
Payments to/for beneficiaries		(1,971,339,545)
Payments to employees		(184,449,232)
Payments to suppliers		(85,500,716)
Other		7,034,684
Net Cash Flows from Operating Activities		(344,451,392)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Transfers in		311,646,388
Transfers out		(311,254,885)
Operating grants received		9,250,663
License fees collected		125,596
Net Cash Flows from Noncapital Financing Activities		9,767,762
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Interest paid		(1,142,638)
Principal payments on bonds payable		(4,030,000)
Sale of capital assets		-
Acquisitions of capital assets		(13,858,816)
Net Cash Flows from Capital and Related Financing Activities		(19,031,454)
CASH FLOWS FROM INVESTING ACTIVITIES		
Receipt of interest		472,110,538
Receipt of dividends		17,080,559
Investment expenses		(4,114,277)
Proceeds from sale of investment securities		4,514,031,510
Purchases of investment securities		(4,648,216,262)
Net Cash Flows from Investing Activities		350,892,068
Net Increase (Decrease) in Cash and Cash Equivalents		(2,823,016)
Cash and Cash Equivalents, July 1		41,329,095
Cash and Cash Equivalents, June 30	$	38,506,079

CASH FLOWS FROM OPERATING ACTIVITIES:		
Operating Income	$	816,514,093
Adjustments to Reconcile Operating Income (Loss) to Net Cash Flows from Operating Activities		
Depreciation		8,037,356
Change in Assets: Decrease (Increase)		
Receivables		(77,593,575)
Inventories		25,216
Prepaid expenses		-
Change in Liabilities: Increase (Decrease)		
Claims and judgments payable		(1,082,521,000)
Accrued liabilities		(8,913,482)
Net Cash Flows from Operating Activities	$	(344,451,392)

NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES		
Increase (Decrease) in fair value of investments	$	421,234,257

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, 2011

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Note 1 – Summary of Significant Accounting Policies

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

1.A. Reporting Entity

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 report is included in the basic financial statements of the Comprehensive Annual Financial Report of the state of Washington. A copy of the report may be obtained from the Washington State Office of Financial Management, Accounting Division, P.O. Box 43113, Olympia, WA 98504-3113. A copy can also be obtained from the OFM website at: http://ofm.wa.gov/cafr.

1.B. Basic Financial Statements

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

The Medical Aid Account pays for the cost of medical and vocational rehabilitation services to injured workers. Revenues for this account mostly 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 and 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 reimburses self-insured employers for benefits overpaid during the pendency of board or court appeals in which the self-insured employer prevails and has not recovered. The revenue for this account comes from self-insured employer overpayment assessments.

The Industrial Insurance Rainy Day Fund Account holds transfers of funds from the Accident and Medical Aid accounts and did not have any activity or balance at the end of the current fiscal year.

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

1.C. Measurement Focus and Basis of Accounting

Measurement focus describes the types of transactions and events reported in an account's operating statement. The Workers' Compensation Program's seven accounts are accounted for using the economic resources measurement focus, much like that of a private-sector business. With this measurement focus, all assets and liabilities associated with the operations of the accounts are included 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 the accrual basis of accounting, 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, 2011, Trust Cash amounted to $899,877 and is available to reimburse the Workers' Compensation Program for monthly pension payments. As of June 30, 2011, Trust Investments totaling $3,967,662 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, 2011 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 claims adjustment expenses) that have been reported but not resolved, and claims that have been incurred but not reported. The length of time for which such costs must be estimated varies depending on the type of benefit involved. Because actual claim costs depend on complex factors such as inflation, changes in doctrines of legal liabilities, claim adjudication, and judgments, the actual ultimate claim costs may differ from the estimates.

In the Accident Account the incurred but not yet awarded pensions are discounted at a rate of 6.5 percent to the anticipated time of award, and 2.5 percent from the anticipated time of award to the present. All other Accident and Medical Aid Account benefit and claims administration liabilities are discounted at 2.5 percent. The benefit liabilities in the Pension Reserve Account are discounted at 6.5 percent.

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

1.D.5. Inventories and Prepaid Expenses

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

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, 2011.

1.D.6. Capital Assets

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

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

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

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

Depreciation is calculated using the straight-line method over the estimated useful lives of the assets. The cost and related accumulated depreciation of 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 240 hours at the employee's anniversary date.

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

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

1.E. Other Information

1.E.1. Risk Management

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

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

1.E.2. Interfund/Interagency Activities

The Workers' Compensation Program engages in reciprocal and 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 – Deposits and Investments

2.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 RCW, makes and enforces regulations and administers a collateral pool program to ensure public funds are protected if a financial institution becomes insolvent. Securities pledged are held by a trustee agent for the benefit of the collateral pool.

The state of Washington's Office of the State Treasurer manages the deposits for the Workers' Compensation Program. At June 30, 2011, $1.09 billion of the state's deposits with financial institutions were either insured or collateralized, with the remaining $22.1 million uninsured/uncollateralized. The Federal Deposit Insurance Corporation (FDIC) covers the Workers' Compensation Program's insured deposits, and the PDPC provides collateral protection.

2.B. Investments

2.B.1. Summary of Investment Policies

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

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

- Maintain the solvency of the accounts.
- Maintain premium rate stability.
- Ensure that sufficient assets are available to fund the expected liability payments.
- Subject to 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
- Treasury inflation protection securities (TIPS)
- U.S. treasuries and government agencies
- Credit bonds
- Mortgage-backed securities rated investment grade, as defined by Barclays Capital Global Family of Fixed Income Indices
- Asset-backed securities rated investment grade, as defined by Barclays Capital Global Family of Fixed Income Indices
- Commercial mortgage-backed securities rated investment grade, as defined by Barclays Capital Global Family of Fixed Income Indices
- Investment grade non-U.S. dollar bonds

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

- All assets under the management of the WSIB are to be invested to maximize return at a prudent level of risk in accordance with RCW 43.33A.110 and RCW 43.33A.140.
- Asset allocations are to be reviewed every three to four years or sooner if there are significant changes in funding levels or the liability durations.
- Assets are to be rebalanced across asset classes when the fair value of the assets falls outside the policy ranges. The timing of any rebalancing will be based on market opportunities, cash flows, and the consideration of transaction costs; therefore, they need not occur immediately.

- 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. Both portfolios will be 100 percent passively managed in commingled index funds. The commingled funds may use futures for hedging or establishing a long-term position.

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

- Sector allocation 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 are reviewed every three years, or sooner if there are significant changes in the funding levels or the liability durations.

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

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

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

2.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.

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 Program 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, 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, 2011, were $2.45 billion and $2.38 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, 2011, the Workers' Compensation Program held the following securities as collateral:

Securities as Collateral (in thousands)		
Cash and cash equivalents	$	1,162,792
Bank and promissory notes		437,953
Commercial paper		344,958
Mortgage-backed securities		185,668
Repurchase agreements		149,070
Guaranteed insurance contracts		51,288
Sovereign debt		40,069
Miscellaneous		73,740
Total Collateral Held	$	2,445,538

During Fiscal Year 2011, 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 2011 was 1.5 days.

Cash collateral was invested by the Workers' Compensation Program in the WSIB's short-term investment pool (average final maturity of 34 days). Because the securities lending agreements were terminable at will, their duration did not generally match the duration of the investments made with the cash collateral. Non-cash collateral could not be pledged or sold absent borrower default.

Accordingly, non-cash collateral held under securities lending contracts with a value of $228.5 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 credit to the account an amount equal to the market value of the unreturned loan securities 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 2011, there were no significant violations of legal or contractual provisions, no failures by any borrowers to return loaned securities or to pay distributions thereon. Further, the Workers' Compensation Program incurred no losses during Fiscal Year 2011 resulting from a default by either the borrowers or the securities lending agents.

2.B.3. Interest Rate Risk

Interest rate risk is the risk that changes in interest rates over time will adversely affect the fair value of an investment. 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.

As of June 30, 2011, the duration of the Workers' Compensation Program portfolio was within the prescribed targets.

The following schedule provides information about the interest rate risks associated with the Workers' Compensation Program's investments as of June 30, 2011. 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)

		Maturity					
Investment Type	**Fair Value**	**Less than 1 year**	**1-5 years**	**6-10 years**	**More than 10 years**	**Credit Rating**	**Effective Duration (years)**
Residential mortgage-backed securities	$ 1,666,287	$ 8,000	$ 563,234	$ 741,507	$ 353,546	Aaa	7.22
Commercial mortgage-backed securities	455,538	55,218	399,584	736	-	Multiple	3.44
Corporate bonds - domestic	3,012,126	87,789	610,473	974,662	1,339,202	Multiple	8.29
Corporate bonds - foreign (USD)	2,222,468	32,002	618,750	758,732	812,984	Multiple	7.52
Foreign Government and Agencies (USD)	660,072		258,272	330,012	71,788	Multiple	5.50
Supranational (USD)	296,350	41,778	151,290	103,282	-	Aaa	3.17
Government securities - domestic:							
U.S. Government treasuries	703,731	544,495	130,347	28,889	-	Aaa	1.29
Treasury inflation-protected securities	1,714,801	-	591,980	562,188	560,633	Aaa	4.97
	10,731,373	$ 769,282	$ 3,323,930	$ 3,500,008	$ 3,138,153		
Commingled index funds - domestic	975,192						
Commingled index funds - foreign	664,049						
Money market funds	142,101						
Total investments not categorized	1,781,342						
Total	$ 12,512,715						

Investments with multiple credit ratings are presented using the Moody's rating scale as follows at June 30, 2011:

Multiple Credit Rating Disclosure
(in thousands)

	Investment Type				
Moody's Equivalent Credit Rating	**Commercial Mortgage-Backed Securities**	**Corporate Bonds - Domestic**	**Corporate Bonds-Foreign**	**Foreign Governement and Agencies**	**Total**
Aaa	$ 412,044	$ 5,021	$ -	$ 86,714	$ 503,779
Aa2	-	-	89,115	119,659	208,774
Aa3	43,494	253,467	200,994	90,211	588,166
A1	-	306,798	210,733	197,611	715,142
A2	-	658,343	51,648	-	709,991
A3	-	412,324	297,615	14,193	724,132
Baa1	-	504,802	278,461	21,423	804,686
Baa2	-	593,932	524,950	84,296	1,203,178
Baa3	-	187,432	436,983	25,490	649,905
Ba1 or lower	-	90,007	131,969	20,475	242,451
Total Fair Value	$ 455,538	$ 3,012,126	$ 2,222,468	$ 660,072	$ 6,350,204

2.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, 2011, 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, 2011.

***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 Workers' Compensation Program mitigates custodial credit risk by having its investment securities held by its custodian. Also, investment securities are registered in the name of the WSIB for the benefit of the Workers' Compensation Program, excluding cash and cash equivalents and repurchase agreements held as securities lending collateral.

2.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, 2011, consisted of $664 million invested in an international commingled equity index fund.

2.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 its exposure to fluctuations in interest and currency rates while increasing portfolio returns.

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

Consistent with the Workers' Compensation Program'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, 2011.

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, 2011, the only derivative securities held directly by the Workers' Compensation Program were collateralized mortgage obligations (CMOs) of $1.67 billion.

2.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 2011, and there were no liabilities outstanding as of June 30, 2011.

Note 3 - Receivables

Receivables at June 30, 2011, consisted of the following:

Receivables June 30, 2011		
Current Receivables		
Premiums receivable		
Actual premiums receivable	$	133,667,753
Estimated premiums receivable (1)		498,208,000
Estimated self insurance premiums receivable (2)		54,257,183
Total premiums receivable		686,132,936
Other receivables		
Receivable from overpayments		4,119,974
Investment interest receivable		109,021,139
Safety fines & penalties receivable		8,793,281
Miscellaneous receivables		3,775,534
Total Current Receivables, gross		811,842,864
Less: Allowance for uncollectible receivables		138,222,691
Total Current Receivables, net of allowance	$	673,620,173

(1) Estimated premiums receivable represents quarter ending June 30, 2011 premium amounts estimated by Labor & Industries actuaries to be collected for the Accident, Medical Aid, and Supplemental Pension Accounts.

(2) Estimated self insurance premiums receivable represents estimated assessment receivables accrued for the quarter ending June 30, 2011, based on prior employer quarterly reports. This amount also includes pension receivable, experting, and current receivable balances.

Note 4 - Interfund/Interagency Balances

The following reflects the total balances in the Workers' Compensation Program at June 30, 2011, and the amounts of receivables from and payables to other state accounts and agencies:

Receivables From Other State Accounts and Agencies June 30, 2011		
General Fund	$	3,692
Agency Accounts		45,688
Other State Agencies		7,237
Total Receivables From Other State Accounts and Agencies	$	56,617

Payables To Other State Accounts and Agencies June 30, 2011		
General Fund	$	14,307
Agency Accounts		227,649
Other State Agencies		5,875,250
Total Payables To Other State Accounts and Agencies	$	6,117,206

All balances are expected to be paid within one year from the date of the basic financial statements. These balances resulted from goods and services provided prior to June 30, 2011 and paid after the fiscal year ended. Receivables or payables within the Workers' Compensation Program are not included in the above totals.

Note 5 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2011, was as follows:

Capital Assets Activity
June 30, 2011

	Balance June 30, 2010	Increases	Decreases	Balance June 30, 2011
Capital assets, not being depreciated:				
Land and collections	$ 3,239,748	$ -	$ -	$ 3,239,748
Construction in progress	7,442,600	12,590,807	(6,993,336)	13,040,071
Total capital assets, not being depreciated	10,682,348	12,590,807	(6,993,336)	16,279,819
Capital assets, being depreciated:				
Buildings and building components	62,705,374	2,428,228	-	65,133,602
Accumulated depreciation	(23,637,612)	(1,296,843)	-	(24,934,455)
Net buildings and building components	39,067,762	1,131,385	-	40,199,147
Furnishings, equipment, and collections	69,688,191	1,494,273	(2,373,755)	68,808,709
Accumulated depreciation	(56,935,835)	(6,635,406)	2,373,165	(61,198,076)
Net furnishings, equipment, and collections	12,752,356	(5,141,133)	(590)	7,610,633
Other improvements	1,661,532	-	-	1,661,532
Accumulated depreciation	(803,419)	(105,108)	-	(908,527)
Net other improvements	858,113	(105,108)	-	753,005
Total capital assets, being depreciated, net	52,678,231	(4,114,856)	(590)	48,562,785
Intangible Assets - Definite Useful Lives	-	4,338,842	-	4,338,842
Accumulated amortization	-	-	-	-
Total capital assets, being amortized, net	-	4,338,842	-	4,338,842
Total capital assets, net of depreciation and amortization	$ 63,360,579	$ 12,814,793	$ (6,993,926)	$ 69,181,446

For Fiscal Year 2011, the total depreciation expense was $8,037,356.

In accordance with GASB Statement No. 51, a new capital asset category of "Intangible Assets – Definite Useful Lives" for internally generated software has been added to the table above in Fiscal Year 2011.

Note 6 – Noncurrent Liabilities

6.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 $11,525,000 at June 30, 2011. Bonds outstanding at June 30, 2011, have coupon interest rates of 5.7 percent. The original amount of this bond issue was $19,960,000 in Fiscal Year 1993.

- **The General Obligation Bonds of Series R-2007A**
  The Workers' Compensation Program was required to make varying annual principal and interest payments, with the final payment made in Fiscal Year 2011. 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 annual interest payments. The next principal payment will be in Fiscal Year 2012 with the final payment due in Fiscal Year 2016. The principal amount of these bonds outstanding was $6,555,000 at June 30, 2011. Bonds outstanding at June 30, 2011, have coupon interest rates of 5 percent. The original amount of this bond issue was $6,635,000 in Fiscal Year 2007.

In Fiscal Year 2011, The Workers' Compensation Program paid $4,030,000 in principal and $1,142,638 in interest. Since a portion of the interest paid was for the prior year, total Fiscal Year 2011 interest expense was $1,063,656.

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

General Obligation Bonds by Fiscal Year			
	Principal	**Interest**	**Total**
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	$ 18,080,000	$ 2,576,358	$ 20,656,358
Current portion	$ 3,205,000	$ 897,376	$ 4,102,376
Noncurrent portion	$ 14,875,000	$ 1,678,982	$ 16,553,982

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 2011.

6.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, 2011 and 2010		
Claims Payable	**June 30, 2011**	**June 30, 2010**
Unpaid loss and loss adjustment expenses at beginning of fiscal year	$ 24,025,832,000	$ 22,006,789,000
Incurred claims and claim adjustment expenses:		
Provision for insured events of the current fiscal year	1,950,485,000	2,204,709,000
Increase (decrease) in provision for insured events of prior fiscal years	(933,553,000)	1,895,787,000
Total incurred claims and claim adjustment expenses	1,016,932,000	4,100,496,000
Payments:		
Claims and claim adjustment expenses attributable to:		
Events of the current fiscal year	288,812,000	297,520,000
Insured events of prior fiscal years	1,810,641,000	1,783,933,000
Total payments	2,099,453,000	2,081,453,000
Total unpaid loss and loss adjustment expenses at fiscal year end	$ 22,943,311,000	$ 24,025,832,000
Current portion	$ 1,741,968,000	
Noncurrent portion	$ 21,201,343,000	

At June 30, 2011, $39.5 billion of unpaid loss and loss adjustment expense liabilities are presented at their net present and settlement value of $22.9 billion.

The claims and claims adjustment liabilities of $22.9 billion, as of June 30, 2011, include $11.6 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 $11.3 billion are fully funded by a diverse portfolio of fixed income instruments, equity index funds, and cash, managed by the WSIB.

6.C. Changes in Noncurrent Liabilities

Noncurrent liability activity for the fiscal year ended June 30, 2011, was as follows:

Current and Noncurrent Liability Activity
Fiscal Year Ending June 30, 2011

Noncurrent Liabilities	**Beginning Balance July 1, 2010**	**Additions**	**Reductions**	**Ending Balance June 30, 2011**	**Due Within One Year**
Claims Payable, current & noncurrent	$ 24,025,832,000	$ 1,016,932,000	$ (2,099,453,000)	$ 22,943,311,000	$ 1,741,968,000
Bonds Payable:					
General Obligation Bonds:					
Series R-93B	13,460,000	-	(1,935,000)	11,525,000	2,050,000
Series R-2007A	2,095,000	-	(2,095,000)	-	-
Series R-2007C	6,555,000	-	-	6,555,000	1,155,000
Total Bonds Payable	22,110,000	-	(4,030,000)	18,080,000	3,205,000
Other Noncurrent Liabilities:					
Compensated absences *	12,444,958	12,196,069	(13,415,666)	11,225,361	1,371,758
Other Postemployment Benefits	17,469,300	7,932,467	(2,070,635)	23,331,132	-
Total Other Noncurrent Liabilities	29,914,258	20,128,536	(15,486,301)	34,556,493	1,371,758
Total Noncurrent Liabilities (including current portion)	$ 24,077,856,258	$ 1,037,060,536	$ (2,118,969,301)	$ 22,995,947,493	$ 1,746,544,758

* Compensated absences due within one year are included in accrued liabilities on the Statement of Net Assets.

6.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. During Fiscal Year 2011, L&I closed the Colville service location; however, 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, 2011:

Future Minimum Payments June 30, 2011	
Operating Leases (by Fiscal Year)	
2012	$ 7,320,977
2013	7,187,338
2014	6,614,323
2015	6,219,497
2016	6,197,694
2017-2021	11,463,684
Total Future Minimum Lease Payments	$ 45,003,513

The total operating lease rental expense for Fiscal Year 2011 was $9,758,511.

Note 7 - Deficit

At June 30, 2011, the Workers' Compensation Program had a deficit of $9.9 billion. The deficit is mainly a result of an $11.5 billion deficit in the Supplemental Pension Account at June 30, 2011, offset by $1.6 billion 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. According to RCW 51.32.073, the Supplemental Pension Account is allowed to collect only enough revenue to provide for current payments. At June 30, 2011, claims payable in the Supplemental Pension Account were $11.6 billion.

The following table summarizes the change in deficit balance for the Supplemental Pension Account during Fiscal Year 2011.

Supplemental Pension Account Deficit Net Assets	
Balance, July 1, 2010	$ (12,683,760,653)
Fiscal Year 2011 Activity	1,179,847,456
Balance, June 30, 2011	$ (11,503,913,197)

Note 8 - Retirement Plans

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

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.

PERS retirement benefit provisions are established in chapters 41.34 and 41.40 RCW and may be amended only by the state Legislature. The annual benefit is basically 2 percent of the average final compensation (AFC) per year of service for Plan 1 and Plan 2, and 1 percent of the AFC per year of service for the defined benefit portion of Plan 3. An actuarial valuation of the retirement plan for the Workers' Compensation Program as a stand-alone entity is not available. A complete description of benefits and pension note disclosures for PERS is included in the Comprehensive Annual Financial Report for the state of Washington. A copy of this report may be obtained by contacting the Accounting Division of the Office of Financial Management at P.O. Box 43113, Olympia, Washington 98507-3113, or online at http://www.ofm.wa.gov/cafr.

The Legislature provided for minimum contribution rates for PERS. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates, Plan 2 employer and employee contribution rates, and Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent for state agencies.

The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3.

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, 2011 and 2010 were 3.90 percent and 5.45 percent respectively.

All employers are required to contribute at the level established by the Legislature. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan and member contributions finance the defined contribution portion.

The Director of the DRS sets Plan 3 employee contribution rates. Six rate options are available ranging from 5 to 15 percent; two of the options are graduated rates dependent on the employee's age.

The methods used to determine the contribution requirements are established under state statute in accordance with chapters 41.40 and 41.45 RCW.

The employer contribution rate for the Workers' Compensation Program at June 30, 2011 and 2010, for each of PERS Plans 1, 2, and 3, was 5.31 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 $7,378,462, $7,464,580, and $11,288,011 to PERS during Fiscal Years 2011, 2010, and 2009, respectively.

Note 9 - Other Postemployment Benefits

The Workers' Compensation Program participates fully in the Other Postemployment Benefit (OPEB) plan administered by the Washington State Health Care Authority (HCA) under the auspices of the Public Employees Benefits Board (PEBB), in addition to those pension benefits described in Note 8.

The following table shows components of the Workers' Compensation Program's OPEB costs for Fiscal Year 2011 and Fiscal Year 2010, the amount actually contributed to the plan, and changes in the Workers' Compensation Program's net OPEB obligation (NOO):

OPEB Obligation (NOO)

	Fiscal Year Ended June 30, 2011	Fiscal Year Ended June 30, 2010
NOO, beginning of year	$ 17,469,300	$ 11,054,375
Annual OPEB costs	7,932,467	8,379,479
Contribution made	(2,070,635)	(1,964,554)
NOO, end of year	$ 23,331,132	$ 17,469,300

The above information was provided by the Washington State Office of Financial Management. The Workers' Compensation Program's OPEB plan represents 2.27 percent and 2.24 percent of the state of Washington's OPEB plan as of June 30, 2011 and 2010, respectively.

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

Plan Description and Funding Policy

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

Employers participating in the PEBB plan include the state (which includes general government agencies and higher education institutions), 58 of the state's K-12 schools and educational service districts (ESDs) and 206 political subdivisions and tribal governments. Additionally, the PEBB plan is available to the retirees of the remaining 246 K-12 schools and ESDs.

As of June 30, 2011, membership in the PEBB plan consisted of the following:

PEBB Plan Membership
June 30, 2011

	Active Employees	Retirees[1]	Total
State	108,251	28,385	136,636
K-12 schools and ESDs[2]	2,009	27,159	29,168
Political subdivisions	11,753	1,188	12,941
Total	122,013	56,732	178,745

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

[2]In Fiscal Year 2011, there were 99,896 full-time equivalent active employees in the 246 K-12 schools and ESDs that elected to limit participation in PEBB only to their retirees.

For Fiscal Year 2011, the estimated monthly cost for PEBB benefits for active employees (averaged across all plans and tiers) is as follows:

PEBB Benefits
June 30, 2011

Required Premium[3]		
Medical	$	805
Dental		81
Life		5
Long-term disability		2
Total	$	893
Employer contribution	$	799
Employee contribution		94
Total	$	893

[3] Per 2011 Index Rate Model 7.20.

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

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

Per RCW 41.05.022, retirees who are not yet eligible for Medicare benefits may continue participation in the state's Non-Medicare community-rated health insurance risk pool on a self-pay basis. Retirees in the Non-Medicare risk pool receive an implicit subsidy. The implicit subsidy exists because retired members pay a premium based on a claims experience for active employees and other Non-Medicare retirees. The subsidy is valued using the difference between the age-based claims costs and the premium. In Calendar Year 2010, the average weighted implicit subsidy was valued at $272 per member per month, and in Calendar Year 2011, the average weighted implicit subsidy is projected to be $301 per member per month.

Retirees who are enrolled in both Parts A and B of Medicare may participate in the state's Medicare community-rated health insurance risk pool. Medicare retirees receive an explicit subsidy in the form of reduced premiums. Annually, the HCA administrator recommends an amount for the next calendar year's explicit subsidy for inclusion in the Governor's budget. In Calendar Year 2010, the explicit subsidy was $183 per member per month, and in Calendar Year 2011, the explicit subsidy is $183 per member per month.

Retirees participating in the PEBB life insurance program received an explicit subsidy of $5 per member per month in Calendar Year 2010. The explicit subsidy is also $5 per member per month in Calendar Year 2011.

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

Contributions are set each biennium as part of the budget process. In Fiscal Year 2011, the cost of the subsidies was approximately 6.8 percent of the cost of benefits for active employees. The benefits are funded on a pay-as-you-go basis.

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

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

Annual OPEB Cost and Net OPEB Obligation

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

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

The following table shows the components of the state's annual OPEB cost for Fiscal Year 2011, the amount contributed to the plan, and changes in the state's net OPEB obligation (NOO):

OPEB Cost Components
(in thousands)

		June 30, 2011
Annual required contribution	$	320,991
Interest on NOO		35,004
Amortization of NOO		(27,427)
Annual OPEB cost		328,568
Contributions made		(78,673)
Increase in NOO		249,895
NOO,beginning of year		777,872
NOO, end of year*	$	1,027,767

*estimated

The state's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for Fiscal Years 2009, 2010 and 2011 were as follows:

OPEB History
(dollars in thousands)

Fiscal Year Ended		Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed		Net OPEB Obligation
6/30/2011	$	328,568	23.9%	$	1,027,767
6/30/2010	$	354,420	19.8%	$	777,872
6/30/2009	$	334,374	25.9%	$	493,551

Funded Status and Funding Progress

The funded status of the plan as of January 1, 2011, the latest date for which information is available, was as follows:

OPEB Funded Status (dollars in thousands)		
		January 1, 2011
Actuarial accrued liability (AAL)	$	3,491,970
Actuarial value of plan assets		-
Unfunded actuarial accrued liability (UAAL)	$	3,491,970
Funded ratio (actuarial value of plan assets/AAL)		0.00%
Covered payroll (active plan members)	$	5,937,061
UAAL as a percentage of covered payroll		58.8%

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

Actuarial Methods and Assumptions

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

Significant methods and assumptions were as follows:

Significant Methods and Assumptions	
Actuarial valuation date	January 1, 2011
Actuarial cost method	Projected Unit Credit (PUC)
Amortization method	Closed, level percentage of projected payroll amortization method
Remaining amortization period	30 years
Asset valuation method	n/a - no assets
Actuarial assumptions:	
Investment rate of return	4.5%
Projected salary increases	4.0%
Health care inflation rate	7.0% initial rate, 5% ultimate rate in 2083
Inflation rate	3.5%

In addition to the assumptions above, several factors also significantly contributed to the actuarial results. The PEBB voted to permanently eliminate the subsidy paid for life insurance premiums beginning in January 2012. Also in January 2012, explicit subsidies for retirees enrolled in Medicare Parts A and B will be reduced from $183 per month to $150 per month. These changes caused the net liabilities to decrease.

Note 10 - Commitments and Contingencies

10.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.

10.B. Federal Assistance

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

Workers' Compensation Program's overall financial condition. The total federal assistance for Fiscal Year 2011 was $9.2 million.

10.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 11 - Subsequent Events

11.A. Investments

On August 5, 2011, the credit rating agency Standard & Poor's downgraded the United States' credit rating from AAA to AA+. Labor & Industries funds held $2.4 billion in U.S. Government securities at June 30, 2011, which was 19 percent of the net asset value of the fund.

11.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. On September 20, 2011, the Director announced a proposed average rate increase of 2.5 percent. The final rates will be adopted in early December 2011 and go into effect January 1, 2012.

11.C. Temporary Salary Reduction

Engrossed Substitute Senate Bill 5860 was passed by the Legislature in May 2011 and was signed by the Governor on June 15, 2011. This legislation reduces the base salary for most state employees of the executive, legislative, and judicial branches whose full-time monthly salary is $2,500 or greater by 3 percent during the 2011-2013 biennium. The bill also provides that employees subject to the salary reduction will accrue additional Temporary Salary Reduction (TSR) leave at the rate of up to 5.2 hours per month. The estimated reduction in appropriated funding for Fiscal Year 2012 is $4.2 million for the Workers' Compensation Program.

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 2002 through 2011
(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 policy years mature, the correlation between original estimates and re-estimates is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature fiscal accident years.

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

		2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
1.	Net earned required contribution and investment revenues	$ 1,197	$ 2,111	$ 1,337	$ 2,452	$ 1,392	$ 2,406	$ 1,697	$ 1,692	$ 2,797	$ 2,525
2.	Estimated incurred claims and expenses, end of fiscal accident year	2,124	2,284	2,505	2,308	2,141	2,196	2,256	2,363	2,312	2,254
3.	Paid (cumulative) as of:										
	End of fiscal accident year	226	233	244	260	278	295	310	322	298	289
	One year later	500	501	528	556	589	625	679	667	604	
	Two years later	653	650	681	715	754	817	890	863		
	Three years later	756	751	784	821	873	953	1,042			
	Four years later	834	824	860	906	964	1,059				
	Five years later	896	882	925	977	1,038					
	Six years later	949	934	982	1,039						
	Seven years later	999	982	1,031							
	Eight years later	1,045	1,027								
	Nine years later	1,089									
4.	Re-estimated incurred claims and expenses:										
	End of fiscal accident year	2,124	2,284	2,505	2,308	2,141	2,196	2,256	2,363	2,312	2,254
	One year later	2,158	2,277	2,203	1,989	2,053	2,234	2,559	2,535	2,271	
	Two years later	2,277	2,045	1,971	1,939	2,055	2,390	2,647	2,538		
	Three years later	2,079	1,853	1,864	1,954	2,151	2,441	2,724			
	Four years later	1,906	1,767	1,886	2,025	2,196	2,526				
	Five years later	1,859	1,788	1,941	2,067	2,244					
	Six years later	1,879	1,829	1,966	2,111						
	Seven years later	1,926	1,868	2,016							
	Eight years later	1,952	1,907								
	Nine years later	2,002									
5.	Increase (decrease) in estimated incurred claims and expenses from end of policy year	(122)	(377)	(489)	(197)	103	330	468	175	(41)	

State of Washington Workers' Compensation Program - Supplemental Pension Plan
Schedule of Claims Development Information
Fiscal Years 2002 through 2011
(in millions)

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

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

The rows of the table are defined as follows:

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

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

		2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
1.	Net earned required contribution and investment revenues	$ 281	$ 293	$ 288	$ 326	$ 305	$ 283	$ 334	$ 349	$ 372	$ 440
2.	Estimated incurred claims and expenses, end of fiscal accident year	807	1,029	1,228	724	804	968	1,093	966	1,082	843
3.	Paid (cumulative) as of:										
	End of fiscal accident year	-	-	-	-	-	-	-	-	-	-
	One year later	2	5	2	1	3	6	8	6	3	
	Two years later	11	4	3	4	7	12	14	10		
	Three years later	6	6	6	8	14	21	21			
	Four years later	9	8	11	15	22	30				
	Five years later	12	13	16	22	30					
	Six years later	17	19	24	30						
	Seven years later	24	26	31							
	Eight years later	32	34								
	Nine years later	40									
4.	Re-estimated incurred claims and expenses:										
	End of fiscal accident year	807	1,029	1,228	724	804	968	1,093	966	1,082	843
	One year later	945	1,045	722	721	927	1,176	1,121	1,174	843	
	Two years later	1,046	676	720	848	1,065	1,125	1,316	980		
	Three years later	701	667	811	971	998	1,272	1,152			
	Four years later	682	759	940	897	1,119	1,116				
	Five years later	811	871	858	990	958					
	Six years later	905	780	919	862						
	Seven years later	821	854	822							
	Eight years later	884	758								
	Nine years later	805									
5.	Increase (decrease) in estimated incurred claims and expenses from end of policy year	(2)	(271)	(406)	138	154	148	59	14	(239)	

Workers' Compensation Program
Reconciliation of Claims Liabilities by Plan
Fiscal Years 2011 and 2010
(in thousands)

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

	Basic Plan		Supplemental Pension Plan		Total	
Claims Payable	FY 2011	FY 2010	FY 2011	FY 2010	FY 2011	FY 2010
Unpaid loss and loss adjustment expenses at beginning of fiscal year	$ 11,223,311	$ 10,620,789	$ 12,802,521	$ 11,386,000	$ 24,025,832	$ 22,006,789
Incurred claims and claim adjustment expenses:						
Provision for insured events of the current fiscal year	1,549,771	1,679,299	400,714	525,410	1,950,485	2,204,709
Increase (decrease) in provision for insured events of prior fiscal years	208,093	604,734	(1,141,646)	1,291,053	(933,553)	1,895,787
Total incurred claims and claim adjustment expenses	1,757,864	2,284,033	(740,932)	1,816,463	1,016,932	4,100,496
Payments:						
Claims and claim adjustment expenses attributable to:						
Events of the current fiscal year	288,812	297,520	-	-	288,812	297,520
Insured events of prior fiscal years	1,404,053	1,383,991	406,588	399,942	1,810,641	1,783,933
Total payments	1,692,865	1,681,511	406,588	399,942	2,099,453	2,081,453
Total unpaid loss and loss adjustment expenses at fiscal year end	$ 11,288,310	$ 11,223,311	$ 11,655,001	$ 12,802,521	$ 22,943,311	$ 24,025,832
Current portion	$ 1,345,698		$ 396,270		$ 1,741,968	
Noncurrent portion	$ 9,942,612		$ 11,258,731		$ 21,201,343	

State of Washington Schedule of Funding Progress for Other Postemployment Benefits

This schedule presents the results of the OPEB valuation for Fiscal Years 2008 through 2011:

Schedule of Funding Progress
Other Postemployment Benefits
Valuation Years 2011 through 2008
(dollars in millions)

	2011	2009	2008
Actuarial valuation date	1/1/2011	1/1/2009	1/1/2008
Actuarial value of plan assets	$ -	$ -	$ -
Actuarial accrued liability (AAL)*	3,492	3,787	4,014
Unfunded actuarial accrued liability (UAAL)	3,492	3,787	4,014
Funded ratio	0%	0%	0%
Covered payroll	5,937	5,678	5,170
UAAL as a percentage of covered payroll	59%	67%	78%

* Based on projected unit credit actuarial cost method.

Source: Washington State Office of the State Actuary

Source: Office of Financial Management
State of Washington

Supplementary Information

Washington State Department of
Labor & Industries

Keep Washington Safe and Working.

Combining Schedule of Net Assets
June 30, 2011

	Accident Account	Medical Aid Account	Pension Reserve Account	Total Basic Plan	Supplemental Pension Account	Second Injury Account	Self-Insured Overpayment Reimbursement Account	Total
ASSETS								
Current Assets:								
Cash and cash equivalents	$ 4,622,085	$ 1,889,314	$ 1,345,460	$ 7,856,859	$ 698,837	$ 28,942,122	$ 1,008,261	$ 38,506,079
Trust cash	-	-	899,877	899,877	-	-	-	899,877
Trust investments	-	-	3,967,662	3,967,662	-	-	-	3,967,662
Collateral held under securities lending agreements	693,298,816	1,009,275,869	514,503,457	2,217,078,142	-	-	-	2,217,078,142
Receivables, net of allowance	315,508,381	186,382,948	40,244,883	542,136,212	120,137,671	11,345,974	316	673,620,173
Receivables from Workers' Compensation Accounts	40,522,282	1,736	396	40,524,414	101	6,350,280	-	46,874,795
Receivables from other state accounts and agencies	41,890	11,243	-	53,133	3,484	-	-	56,617
Receivables from other governments	926,970	194,014	-	1,120,984	-	-	-	1,120,984
Inventories	47,440	47,440	-	94,880	-	-	-	94,880
Total Current Assets	1,054,967,864	1,197,802,564	560,961,735	2,813,732,163	120,840,093	46,638,376	1,008,577	2,982,219,209
Noncurrent Assets:								
Investments, noncurrent	4,449,014,969	4,382,667,855	3,650,377,725	12,482,060,549	30,654,868	-	-	12,512,715,417
Capital assets, net of accumulated depreciation	35,415,803	33,765,643	-	69,181,446	-	-	-	69,181,446
Total Noncurrent Assets	4,484,430,772	4,416,433,498	3,650,377,725	12,551,241,995	30,654,868	-	-	12,581,896,863
Total Assets	$ 5,539,398,636	$ 5,614,236,062	$ 4,211,339,460	$ 15,364,974,158	$ 151,494,961	$ 46,638,376	$ 1,008,577	$ 15,564,116,072
LIABILITIES AND NET ASSETS (DEFICIT)								
LIABILITIES								
Current Liabilities:								
Accounts payable	$ 4,856,311	$ 3,904,691	$ 50,842	$ 8,811,844	$ 6,548	$ -	$ -	$ 8,818,392
Deposits payable	5,011,484	61,565	1,885,602	6,958,651	-	-	-	6,958,651
Accrued liabilities	96,284,278	21,623,169	16,830,222	134,737,669	379,175	2,097	-	135,118,941
Obligations under securities lending agreements	693,298,816	1,009,275,869	514,503,457	2,217,078,142	-	-	-	2,217,078,142
Bonds payable, current	1,602,500	1,602,500	-	3,205,000	-	-	-	3,205,000
Payables to Workers' Compensation Accounts	1,357	8,197	46,864,862	46,874,416	379	-	-	46,874,795
Payables to other state accounts and agencies	3,628,986	2,486,891	-	6,115,877	36	1,293	-	6,117,206
Payables to other governments	9,476	5,158	-	14,634	-	-	-	14,634
Unearned revenues	62,112	44,124	7,549,141	7,655,377	21,020	-	-	7,676,397
Claims payable, current	532,097,000	464,473,000	349,128,000	1,345,698,000	396,270,000	-	-	1,741,968,000
Total Current Liabilities	1,336,852,320	1,503,485,164	936,812,126	3,777,149,610	396,677,158	3,390	-	4,173,830,158
Noncurrent Liabilities:								
Claims payable, net of current portion	3,796,385,000	3,107,667,000	3,038,560,000	9,942,612,000	11,258,731,000	-	-	21,201,343,000
Bonds payable, net of current portion	7,437,500	7,437,500	-	14,875,000	-	-	-	14,875,000
Other long-term liabilities	5,791,188	5,434,173	-	11,225,361	-	-	-	11,225,361
Other postemployment benefits	11,961,487	11,369,645	-	23,331,132	-	-	-	23,331,132
Total Noncurrent Liabilities	3,821,575,175	3,131,908,318	3,038,560,000	9,992,043,493	11,258,731,000	-	-	21,250,774,493
Total Liabilities	5,158,427,495	4,635,393,482	3,975,372,126	13,769,193,103	11,655,408,158	3,390	-	25,424,604,651
NET ASSETS (DEFICIT):								
Invested in capital assets, net of related debt	26,375,803	24,725,643	-	51,101,446	-	-	-	51,101,446
Unrestricted	354,595,338	954,116,937	235,967,334	1,544,679,609	(11,503,913,197)	46,634,986	1,008,577	(9,911,590,025)
Total Net Assets (Deficit)	380,971,141	978,842,580	235,967,334	1,595,781,055	(11,503,913,197)	46,634,986	1,008,577	(9,860,488,579)
Total Liabilities and Net Assets (Deficit)	$ 5,539,398,636	$ 5,614,236,062	$ 4,211,339,460	$ 15,364,974,158	$ 151,494,961	$ 46,638,376	$ 1,008,577	$ 15,564,116,072

Combining Schedule of Revenues, Expenses, and Changes in Net Assets
For the Fiscal Year Ended June 30, 2011

	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	$ 852,611,712	$ 625,640,572	$ 19,754,677	$ 1,498,006,961	$ 439,976,312	$ 45,106,427	$ 258,601	$ 1,983,348,301
Miscellaneous revenue	40,877,874	2,310,510	144,383	43,332,767	8,074,400	4,020	-	51,411,187
Total Operating Revenues	893,489,586	627,951,082	19,899,060	1,541,339,728	448,050,712	45,110,447	258,601	2,034,759,488
OPERATING EXPENSES:								
Salaries and wages	69,869,741	66,109,439	-	135,979,180	-	-	-	135,979,180
Employee benefits	26,476,786	24,919,886	-	51,396,672	-	-	-	51,396,672
Personal services	2,220,124	4,146,133	-	6,366,257	-	-	-	6,366,257
Goods and services	37,539,524	34,884,997	-	72,424,521	18,006	-	-	72,442,527
Travel	2,245,867	1,155,233	-	3,401,100	-	-	-	3,401,100
Claims	468,377,850	664,674,150	494,359,128	1,627,411,128	(740,484,545)	1,232,999	-	888,159,582
Depreciation	4,324,621	3,712,735	-	8,037,356	-	-	-	8,037,356
Miscellaneous expenses	30,307,196	13,231,341	55,491	43,594,028	8,836,371	32,322	-	52,462,721
Total Operating Expenses	641,361,709	812,833,914	494,414,619	1,948,610,242	(731,630,168)	1,265,321	-	1,218,245,395
Operating Income (Loss)	252,127,877	(184,882,832)	(474,515,559)	(407,270,514)	1,179,680,880	43,845,126	258,601	816,514,093
NONOPERATING REVENUES (EXPENSES):								
Earnings on investments	341,839,791	385,227,777	254,692,311	981,759,879	166,576	-	-	981,926,455
Other revenues	7,633,547	1,660,662	-	9,294,209	-	-	-	9,294,209
Interest expense	(531,828)	(531,828)	-	(1,063,656)	-	-	-	(1,063,656)
Total Nonoperating Revenues (Expenses)	348,941,510	386,356,611	254,692,311	989,990,432	166,576	-	-	990,157,008
Income (Loss) Before Transfers	601,069,387	201,473,779	(219,823,248)	582,719,918	1,179,847,456	43,845,126	258,601	1,806,671,101
Transfers in	40,514,582	-	263,634,416	304,148,998	-	7,628,463	-	311,777,461
Transfers out	(217,679,624)	(1,278,183)	(46,864,862)	(265,822,669)	-	(45,954,792)	-	(311,777,461)
Net Transfers	(177,165,042)	(1,278,183)	216,769,554	38,326,329	-	(38,326,329)	-	-
Changes in Net Assets	423,904,345	200,195,596	(3,053,694)	621,046,247	1,179,847,456	5,518,797	258,601	1,806,671,101
Net Assets (Deficit), July 1	(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)
Net Assets (Deficit), June 30	$ 380,971,141	$ 978,842,580	$ 235,967,334	$ 1,595,781,055	$ (11,503,913,197)	$ 46,634,986	$ 1,008,577	$ (9,860,488,579)

Combining Schedule of Cash Flows
For the Fiscal Year Ended June 30, 2011

	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	$ 768,062,271	$ 631,418,022	$ 21,017,556	$ 1,420,497,849	$ 421,882,007	$ 47,039,753	$ 383,808	$ 1,889,803,417
Payments to/for beneficiaries	(630,633,962)	(590,258,442)	(342,581,368)	(1,563,473,772)	(406,586,849)	(1,278,924)	-	(1,971,339,545)
Payments to employees	(95,082,670)	(89,366,562)	-	(184,449,232)	-	-	-	(184,449,232)
Payments to suppliers	(43,517,421)	(41,965,289)	-	(85,482,710)	(18,006)	-	-	(85,500,716)
Other	6,632,294	267,119	18,572	6,917,985	114,762	1,937	-	7,034,684
Net Cash Flows from Operating Activities	5,460,512	(89,905,152)	(321,545,240)	(405,989,880)	15,391,914	45,762,766	383,808	(344,451,392)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:								
Transfers in	195,751	195,751	285,116,360	285,507,862	-	26,138,526	-	311,646,388
Transfers out	(227,554,046)	(1,278,183)	(5,649,382)	(234,481,611)	-	(76,773,274)	-	(311,254,885)
Operating grants received	7,559,361	1,691,302	-	9,250,663	-	-	-	9,250,663
License fees collected	106,473	19,123	-	125,596	-	-	-	125,596
Net Cash Flows from Noncapital Financing Activities	(219,692,461)	627,993	279,466,978	60,402,510	-	(50,634,748)	-	9,767,762
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:								
Interest paid	(571,319)	(571,319)	-	(1,142,638)	-	-	-	(1,142,638)
Principal payments on bonds payable	(2,015,000)	(2,015,000)	-	(4,030,000)	-	-	-	(4,030,000)
Acquisitions of capital assets	(7,521,187)	(6,337,629)	-	(13,858,816)	-	-	-	(13,858,816)
Net Cash Flows from Capital and Related Financing Activities	(10,107,506)	(8,923,948)	-	(19,031,454)	-	-	-	(19,031,454)
CASH FLOWS FROM INVESTING ACTIVITIES:								
Receipt of interest	181,844,876	147,630,292	142,300,998	471,776,166	334,372	-	-	472,110,538
Receipt of dividends	5,095,172	7,944,877	4,040,510	17,080,559	-	-	-	17,080,559
Investment expenses	(1,494,440)	(1,434,493)	(1,123,703)	(4,052,636)	(61,641)	-	-	(4,114,277)
Proceeds from sale of investment securities	1,625,907,509	1,262,467,174	1,209,187,502	4,097,562,185	416,469,325	-	-	4,514,031,510
Purchases of investment securities	(1,585,497,820)	(1,318,443,166)	(1,311,792,180)	(4,215,733,166)	(432,483,096)	-	-	(4,648,216,262)
Net Cash Flows from Investing Activities	225,855,297	98,164,684	42,613,127	366,633,108	(15,741,040)	-	-	350,892,068
Net Increase (Decrease) in cash and cash equivalents	1,515,842	(36,423)	534,865	2,014,284	(349,126)	(4,871,982)	383,808	(2,823,016)
Cash & cash equivalents, Beginning of year	3,106,243	1,925,737	810,595	5,842,575	1,047,963	33,814,104	624,453	41,329,095
Cash & cash equivalents, End of year	$ 4,622,085	$ 1,889,314	$ 1,345,460	$ 7,856,859	$ 698,837	$ 28,942,122	$ 1,008,261	$ 38,506,079
Cash Flows from Operating Activities:								
Operating Income (Loss)	$ 252,127,877	$(184,882,832)	$ (474,515,559)	$ (407,270,514)	$ 1,179,680,880	$ 43,845,126	$ 258,601	$ 816,514,093
Adjustments to Reconcile Operating Income (Loss) to Net Cash Flows from Operating Activities:								
Depreciation	4,324,621	3,712,735	-	8,037,356	-	-	-	8,037,356
Change in Assets: Decrease (Increase)								
Receivables	(71,498,673)	8,285,367	583,145	(62,630,161)	(17,004,440)	1,915,819	125,207	(77,593,575)
Inventories	12,608	12,608	-	25,216	-	-	-	25,216
Change in Liabilities: Increase (Decrease)								
Claims and judgments payable	(163,324,000)	76,610,000	151,713,000	64,999,000	(1,147,520,000)	-	-	(1,082,521,000)
Accrued liabilities	(16,181,921)	6,356,970	674,174	(9,150,777)	235,474	1,821	-	(8,913,482)
Net Cash Flows from Operating Activities	$ 5,460,512	$ (89,905,152)	$ (321,545,240)	$ (405,989,880)	$ 15,391,914	$ 45,762,766	$ 383,808	$ (344,451,392)
Non Cash Investing, Capital and Financing Activities:								
Increase (Decrease) in fair value of investments	$ 111,623,766	$ 218,157,412	$ 91,557,731	$ 421,338,909	$ (104,652)	$ -	$ -	$ 421,234,257

Washington State Department of
Labor & Industries

Keep Washington Safe and Working.

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October 25, 2011

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, 2011.

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, 2011.

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, 2011 is as follows:

	Discounted
Accident Account	$4,328,482,000
Medical Aid Account	3,572,140,000
Pension Reserve Account	3,387,688,000
Total Basic Plan Loss and LAE Reserves	$11,288,310,000
Supplemental Pension Account	11,655,001,000
Total Program Loss and LAE Reserves	$22,943,311,000

In my opinion, the loss and LAE amounts listed above and shown in the Program's Comprehensive Annual Financial Report as of June 30, 2011:

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

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

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

Relevant Comments

A. Major Risk Factors

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

By statute, the Program's direct exposure is limited to one line of business (workers' compensation) in one state (Washington). Therefore, any adverse trends affecting this line of business and/or state could have a material effect on the Program's loss and 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.

During 2011, the State of Washington passed two bills (SSB 5801 and EHB 2123) that promote getting workers back on the job faster and includes changes that are expected to reduce the system's overall costs in the future. These reforms will be implemented in January, 2012 but will have an impact on past claims. These reforms are considered in the Department's unpaid claim liability as of June 30, 2011. Key changes included in the reforms are:

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

There is an uncertainty in relation to the impact of these changes on the unpaid claim liability. The amount of savings included in the unpaid claim liability as of June 30, 2011 totals $1.2 billion on a discounted basis.

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%.
- 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 3.38%, which is consistent with a recent average of risk free interest rates assuming a similar duration as the loss and LAE payments of the Program but slightly higher than current risk free interest rates. 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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October 25, 2011

Washington State Department of
Labor & Industries

Keep Washington Safe and Working.

Statistical Section

Washington State Department of
Labor & Industries

Keep Washington Safe and Working.

Statistical Section

Narrative and Index

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

Page

FINANCIAL TRENDS

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

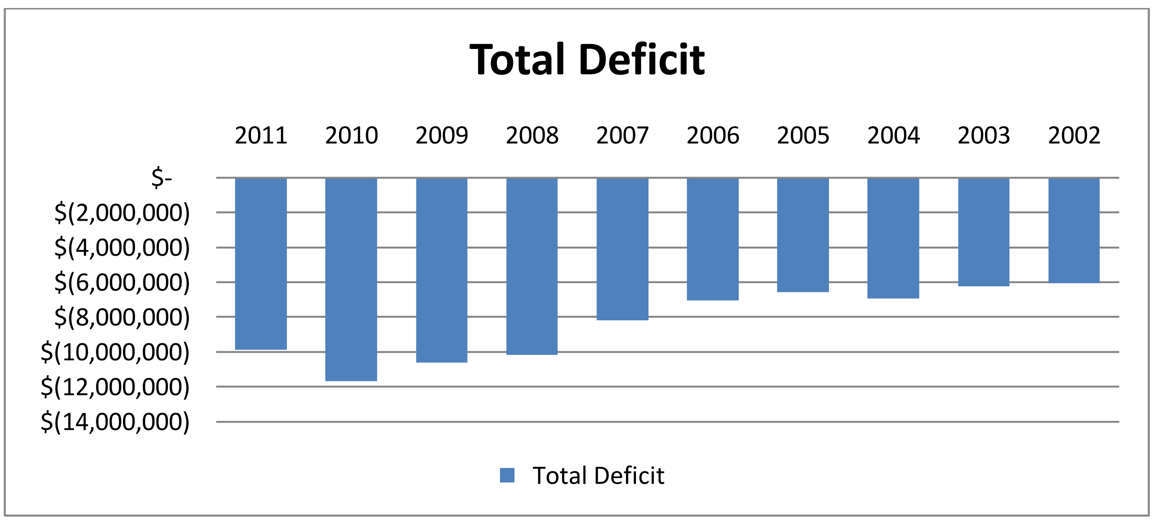
Washington State Department of
Labor & Industries

Keep Washington Safe and Working.

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

	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Invested in capital assets, net of related debt	$ 51,101	$ 41,251	$ 37,415	$ 37,838	$ 39,911	$ 33,011	$ 47,530	$ 37,359	$ 13,949	$ 13,048
Unrestricted	(9,911,590)	(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)
Total Net Assets (Deficit) [1, 2]	$ (9,860,489)	$ (11,667,160)	$ (10,617,511)	$ (10,165,871)	$ (8,185,543)	$ (7,060,769)	$ (6,558,080)	$ (6,942,020)	$ (6,246,013)	$ (6,064,485)

[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)

	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Operating Revenues										
Premiums and assessments, net of refunds	$ 1,983,348	$ 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
Miscellaneous revenue	51,411	40,250	52,859	50,023	53,589	60,918	31,576	62,047	29,914	26,981
Total Operating Revenues	2,034,759	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
Operating Expenses										
Salaries and wages	135,979	137,085	134,295	133,773	120,244	116,951	111,995	108,557	105,358	106,964
Employee benefits	51,397	48,545	51,025	41,298	37,803	33,411	29,247	26,272	25,537	25,169
Personal services	6,366	4,521	6,449	7,533	3,800	2,945	4,586	2,641	5,565	2,507
Goods and services	72,443	67,817	73,594	72,568	70,814	64,227	66,145	60,248	62,597	60,783
Travel	3,401	3,339	3,314	4,183	3,482	3,477	3,180	2,796	2,661	2,828
Claims	888,159	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
Depreciation	8,037	7,991	10,003	10,281	8,220	25,551	3,202	6,261	442	970
Miscellaneous expenses	52,463	26,287	88,589	63,442	9,320	19,882	20,364	7,109	38,335	5,538
Total Operating Expenses	1,218,245	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
Operating Income (Loss)	816,514	(2,498,672)	(670,915)	(2,447,061)	(2,096,747)	(474,418)	(683,382)	(871,002)	(1,297,221)	(1,074,020)
Nonoperating Revenues (Expenses)										
Earnings on investments	981,927	1,441,576	216,035	466,963	966,548	(32,486)	1,065,226	171,169	1,117,289	435,356
Other revenues	9,294	7,878	7,477	7,785	6,978	7,600	5,449	7,480	6,428	7,134
Interest expense	(1,064)	(1,271)	(1,466)	(1,942)	(1,553)	(2,062)	(2,231)	(2,389)	(2,534)	(2,657)
Total Nonoperating Revenues (Expenses)	990,157	1,448,183	222,046	472,806	971,973	(26,948)	1,068,444	176,260	1,121,183	439,833
Income (Loss) Before Transfers	1,806,671	(1,050,489)	(448,869)	(1,974,255)	(1,124,774)	(501,366)	385,062	(694,742)	(176,038)	(634,187)
Transfers in	311,777	323,623	465,908	430,544	339,997	288,987	325,602	296,274	329,126	235,340
Transfers out	(311,777)	(322,783)	(468,679)	(430,544)	(339,997)	(290,310)	(326,724)	(297,539)	(334,616)	(239,463)
Net Transfers	-	840	(2,771)	-	-	(1,323)	(1,122)	(1,265)	(5,490)	(4,123)
Changes in Net Assets	1,806,671	(1,049,649)	(451,640)	(1,974,255)	(1,124,774)	(502,689)	383,940	(696,007)	(181,528)	(638,310)
Net Assets (Deficit), July 1 [1]	(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)
Net Assets (Deficit), June 30	$ (9,860,489)	$ (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)

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

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

	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Premiums and Assessments										
State Fund Premiums:										
Accident	$ 916,514	$ 767,915	$ 832,584	$ 939,558	$ 918,803	$ 869,177	$ 761,923	$ 669,232	$ 627,214	$ 531,726
Medical Aid	614,714	601,087	637,975	332,781	592,633	615,687	628,821	520,547	408,097	284,044
Supplemental Pension	318,835	264,934	250,211	248,827	206,583	226,508	232,733	203,686	206,510	193,504
Net retrospective rating refunds	(75,011)	(112,494)	(81,255)	(98,125)	(190,285)	(161,893)	(116,729)	(91,570)	(99,899)	(92,185)
Dividend refunds	-	-	-	(33,560)	-	-	-	-	-	-
Total State Fund Premiums	1,775,052	1,521,442	1,639,515	1,389,481	1,527,734	1,549,479	1,506,748	1,301,895	1,141,922	917,089
Self-insurance assessments	208,296	206,280	184,761	174,479	161,338	180,022	182,742	151,485	145,043	125,820
Total Premiums and Assessments	$ 1,983,348	$ 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
Average Standard Premium Rates [1] (per hour worked) - Effective from January 1 to December 31										
Accident	0.3361	0.2589	0.2478	0.2434	0.2549	0.2683	0.2406	0.2336	0.2093	0.1768
Medical Aid [2]	0.1830	0.2040	0.1882	0.1824	0.1651	0.1651	0.1847	0.1761	0.1614	0.0926
Supplemental Pension	0.1075	0.0967	0.0834	0.0779	0.0665	0.0621	0.0738	0.0717	0.0681	0.0717
Total Average Standard Premium Rates (composite rate)	0.6266	0.5596	0.5194	0.5037	0.4865	0.4955	0.4991	0.4814	0.4388	0.3411
Employer portion	0.4814	0.4093	0.3836	0.3736	0.3707	0.3819	0.3699	0.3575	0.3241	0.2590
Worker portion	0.1453	0.1504	0.1358	0.1302	0.1158	0.1136	0.1293	0.1239	0.1148	0.0822
State fund average hourly wage	$ 25.49	$ 24.97	$ 24.44	$ 23.98	$ 23.18	$ 22.07	$ 20.93	$ 20.24	$ 20.11	$ 19.67
Composite rate per $100 Payroll [3]	$ 2.46	$ 2.24	$ 2.12	$ 2.10	$ 2.10	$ 2.24	$ 2.38	$ 2.38	$ 2.18	$ 1.73
Investments [4]										
Investment income (interest and dividend)	$ 501,382	$ 501,143	$ 546,021	$ 601,649	$ 610,844	$ 559,732	$ 503,461	$ 473,157	$ 489,124	$ 505,305
Investment balances	$ 12,512,715	$ 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
Average rate of return	4.0%	4.2%	5.0%	5.5%	5.6%	5.5%	4.9%	5.2%	5.3%	5.9%

[1] These rates are for Washington state fund firms. Past average standard premium rates change annually to reflect the current distribution of risk by class.
[2] Medical Aid premium rate was reduced to zero from 7/1/2007 to 12/31/07 as a result of the rate holiday.
[3] This figure equals the 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 Nine Fiscal Years

	2011	2010	2009	2008	2007	2006	2005	2004	2003
Employers insured	163,000	163,000	168,000	171,000	168,000	165,000	161,000	157,000	156,000
Workers covered	2,360,000	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	3,100,000,000	3,065,000,000	3,232,000,000	3,380,000,000	3,287,000,000	3,200,000,000	3,049,406,000	2,911,954,000	2,870,637,000
Self-insured employers	360	363	369	382	377	382	381	372	373
Workers covered under self-insured employers	821,000	826,000	830,000	870,000	830,000	841,000	830,000	799,000	764,000
Construction	21,631	21,963	25,051	27,244	27,184	26,244	24,810	23,822	23,577
Prof., scientific, and technical services	19,278	17,839	18,428	18,677	18,144	17,506	16,626	15,796	15,620
Other services (except public administration)	16,391	15,660	16,115	16,347	16,088	15,992	15,900	15,607	15,563
Retail trade	16,385	15,779	16,892	17,616	17,844	18,158	18,374	18,638	18,877
Accomodation and food services	14,642	13,807	14,367	14,641	14,477	14,141	13,777	13,445	12,905
Health care and social assistance	14,579	13,929	14,199	14,156	13,904	13,616	13,294	13,032	12,751
Wholesale trade	10,218	9,163	9,328	9,431	9,337	9,066	8,799	8,572	8,457
Administrative and support services	10,018	9,447	9,928	10,261	10,083	9,832	9,491	9,166	8,931
Agriculture, forestry, fishing, and hunting	7,258	7,284	7,690	7,905	8,157	8,416	8,625	9,101	9,296
Real estate, rental and leasing	6,719	6,563	7,117	7,372	7,099	7,004	6,830	6,609	6,412
Manufacturing	6,694	6,615	6,993	7,229	7,261	7,290	7,226	7,175	7,278
Finance and insurance	5,110	4,998	5,437	5,701	5,694	5,496	5,226	4,998	4,819
Transportation and warehousing	4,095	3,833	4,013	4,211	4,103	4,019	3,884	3,831	3,810
Arts, entertainment, and recreation	2,568	2,418	2,508	2,585	2,512	2,485	2,407	2,361	2,295
Education services	2,487	2,177	2,161	2,126	2,062	1,952	1,879	1,819	1,766
Information	1,836	1,746	1,880	1,933	1,935	1,852	1,685	1,686	1,732
Unclassified establishments	1,512	8,016	4,537	1,888	572	438	455	449	433
Public administration	1,040	1,042	1,063	1,058	1,051	1,043	1,046	1,040	1,029
Utilities	344	338	345	351	342	352	355	354	359
Mining	178	176	200	210	209	208	214	223	223
Mgmt. of companies and enterprises	118	103	99	102	106	92	79	72	67
Total	163,101	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 is 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)

	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Outstanding Debt:										
General obligation bonds [1]	$ 18,080	$ 22,110	$ 25,930	$ 29,555	$ 33,080	$ 36,825	$ 39,870	$ 42,760	$ 45,475	$ 48,050
Debt Ratios:										
Principal paid on total debt	$ 4,030	$ 3,820	$ 3,625	$ 3,525	$ 3,370	$ 3,045	$ 2,890	$ 2,715	$ 2,575	$ 2,425
Ratio of principal paid to total debt	22.3%	17.3%	14.0%	11.9%	10.2%	8.3%	7.2%	6.3%	5.7%	5.0%
Interest paid on total debt	$ 1,143	$ 1,346	$ 1,537	$ 1,584	$ 1,733	$ 2,061	$ 2,231	$ 2,388	$ 2,533	$ 2,656
Ratio of interest paid to total debt	6.3%	6.1%	5.9%	5.4%	5.2%	5.6%	5.6%	5.6%	5.6%	5.5%
Premiums and assessments earned	$1,983,348	$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
Ratio of total debt to premiums and assessments earned	0.9%	1.3%	1.4%	1.9%	2.0%	2.1%	2.4%	2.9%	3.5%	4.6%

[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)

	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Unpaid loss and loss adjustment expenses at beginning of fiscal year [1]	$ 24,025,832	$ 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
Incurred claims and claim adjustment expenses:										
Provision for insured events of the current fiscal year	1,950,485	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
Increase (decrease) in provision for insured events of prior fiscal years	(933,553)	1,895,787	109,437	1,749,155	1,582,629	(318,243)	(1,025,582)	494,958	853,411	648,037
Total incurred claims and claim adjustment expenses	1,016,932	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
Payments:										
Claims and claim adjustment expenses attributable to:										
Events of the current fiscal year	288,812	297,520	327,536	316,086	294,879	277,626	259,673	244,334	232,797	225,567
Insured events of prior fiscal years	1,810,641	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
Total payments	2,099,453	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
Total unpaid loss and loss adjustment expenses at fiscal year end	$ 22,943,311	$ 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

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

Source: Washington Department of Labor & Industries Actuarial Services

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

	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Population	6,767.9	6,724.5	6,672.2	6,608.3	6,525.1	6,420.3	6,298.8	6,208.5	6,126.9	6,059.3
Net Increase	43.4	52.4	63.9	83.2	104.8	121.4	90.3	81.6	67.6	89.0
Percent change	0.6%	0.8%	1.0%	1.3%	1.6%	1.9%	1.5%	1.3%	1.1%	1.5%
Components of change:										
Births	84.8	88.2	89.8	89.6	87.8	83.2	81.8	81.0	79.1	79.3
Deaths	48.0	47.7	48.1	47.9	46.2	45.3	45.6	46.0	44.7	44.9
Net migration	6.5	11.8	22.2	41.5	63.2	83.6	54.1	46.7	33.2	54.6

Note: Washington State population estimates are as of April 1 of each year. Population estimates for 2009 through 2002 have been revised to reflect intercensal estimates. Intercensal estimates are estimates of population between official census dates. Intercensal estimates are more accurate than postcensal estimates because they are bracketed on both sides by decennial or state-certified special census counts. Estimates for 2010 have been replaced with the 2010 U.S. Census Bureau count. Estimates for 2011 are postcensal estimates developed by the Washington State Office of Financial Management. Some figures may not total due to rounding.

Sources:
Washington State Office of Financial Management, Forecasting Division

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

	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Personal income	$ 287	$ 279	$ 289	$ 273	$ 252	$ 230	$ 222	$ 207	$ 200	$ 197
Percent change	3%	-4%	6%	8%	10%	4%	7%	4%	2%	3%
Per capita	$ 42,570	$ 41,795	$ 44,098	$ 42,192	$ 39,570	$ 36,766	$ 35,998	$ 33,909	$ 33,126	$ 32,966

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

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

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

	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Washington State Unemployment Rates										
Civilian labor force	3,531	3,535	3,479	3,393	3,319	3,259	3,200	3,146	3,105	3,053
Less Employed	3,192	3,206	3,286	3,237	3,155	3,080	3,000	2,913	2,877	2,864
Total unemployed	339	329	193	156	164	179	200	233	228	189
Unemployment percentage rate	9.6%	9.3%	5.5%	4.6%	5.0%	5.5%	6.3%	7.4%	7.3%	6.2%

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

Source: Economic Forecast, September 2011, Washington State Economic and Revenue Forecast Council

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

Industry [1]	2010 Annual Averages			2002 Annual Averages		
	Number of Employees [2]	Percent of Total	Number of Employers	Number of Employees [2]	Percent of Total	Number of Employers
Government	525,475	18.7%	2,092	490,324	18.8%	2,017
Health care and social assistance	322,215	11.5%	14,229	260,778	9.9%	13,028
Retail trade	303,095	10.8%	14,065	297,953	11.5%	16,040
Manufacturing	254,843	9.1%	6,884	280,964	10.8%	7,738
Accommodation and food services	218,179	7.8%	12,766	199,896	7.7%	11,595
Prof., scientific, and technical services	157,181	5.6%	18,400	131,001	5.0%	16,191
Construction	130,705	4.7%	21,517	142,285	5.5%	24,142
Other services	130,636	4.6%	64,868	74,461	2.9%	10,857
Administrative and support services	130,267	4.6%	9,402	118,810	4.6%	8,814
Wholesale trade	118,244	4.2%	12,945	111,634	4.3%	12,855
Information	102,199	3.6%	2,412	92,715	3.6%	2,627
Finance and insurance	88,153	3.1%	5,610	96,701	3.7%	5,500
Agriculture, forestry, fishing, and hunting	87,643	3.1%	7,218	76,389	2.9%	9,457
Transportation and warehousing	78,681	2.8%	3,945	78,224	3.0%	4,194
Arts, entertainment, and recreation	44,600	1.6%	2,421	40,715	1.6%	2,335
Real estate, rental and leasing	43,854	1.6%	6,286	45,009	1.7%	6,378
Education services	33,752	1.2%	2,396	26,632	1.0%	1,871
Mgmt. of companies and enterprises	31,761	1.1%	603	30,186	1.2%	577
Utilities	4,815	0.2%	231	4,461	0.2%	242
Mining	2,148	0.1%	165	2,965	0.1%	182
Total employed [3]	2,808,446	100%	208,455	2,602,103	100%	156,640

[1] Industry classifications 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.

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

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

Note: The state of Washington is legally prohibited from disclosing the names of individual employers. The information in this table is intended to assist readers in understanding the degree of concentration in the state's employment base.

Source: Quarterly Census of Employmnet and Wages (QCEW) Annual Data, Labor Market and Economic Analysis Branch, Washington State Employment Security Department

Schedule 11 - Washington State Annual Average Wage Rates by Industry
Last Nine Calendar Years

Washington State Annual Average Wage Rates by Industry	2010	2009	2008	2007	2006	2005	2004	2003	2002
Information	$ 109,777	$ 105,715	$ 104,053	$ 96,240	$ 91,081	$ 82,647	$ 78,918	$ 104,042	$ 102,309
Mgmt. of companies and enterprises	95,731	87,642	87,431	86,867	85,031	75,236	75,776	69,743	67,659
Utilities	77,591	84,410	76,945	73,736	70,404	65,615	63,915	59,570	59,284
Prof., scientific, and technical services	75,376	71,837	70,120	70,104	63,687	61,181	58,486	56,933	54,645
Finance and insurance	70,137	71,304	72,653	70,044	66,684	62,382	62,091	57,954	53,944
Manufacturing	64,925	62,931	61,260	59,568	58,196	54,953	51,788	50,546	50,901
Wholesale trade	63,348	61,569	61,041	59,345	56,572	53,458	52,027	49,070	47,774
Mining	55,654	52,981	54,718	58,056	54,924	52,592	51,454	49,517	48,110
Government	51,394	50,420	48,705	46,914	44,745	42,915	41,756	40,546	39,360
Construction	51,127	51,043	49,443	46,783	43,746	41,482	40,171	39,468	39,396
Transportation and warehousing	47,743	46,522	45,433	45,320	44,078	42,798	41,780	40,219	39,501
Health care and social assistance	44,673	43,561	41,424	39,474	37,654	36,162	34,919	33,444	32,144
Administrative and support services	41,466	39,571	37,536	36,463	34,533	33,649	33,466	33,314	30,806
Real estate, rental and leasing	38,359	36,777	36,669	36,334	34,948	32,744	30,582	29,552	28,562
Education services	35,158	34,505	33,550	32,076	30,901	29,860	28,453	27,738	27,618
Retail trade	30,021	29,356	29,268	29,082	28,174	27,330	26,602	26,047	25,508
Arts, entertainment, and recreation	25,121	25,527	26,949	27,643	27,139	25,724	24,331	22,622	21,908
Other services	24,227	24,881	25,637	24,385	23,009	22,010	26,467	25,692	25,336
Agriculture, forestry, fishing, and hunting	24,034	23,675	24,491	23,413	22,239	21,122	20,495	20,152	19,909
Accommodation and food services	17,632	17,063	16,430	16,019	15,469	15,014	14,765	14,309	13,950

Notes:
Industry classifications and wages are based on North American Industry Classification System (NAICS) codes. Data based on NAICS codes is 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, Washington State Employment Security Department

Schedule 12 - Demographics of Accepted Claims
Last Nine Fiscal Years

	2011	2010	2009	2008	2007	2006	2005	2004	2003
Male Injured Workers	66%	66%	68%	70%	70%	70%	71%	70%	70%
Female Injured Workers	34%	34%	32%	30%	30%	30%	29%	30%	30%
Average Age of Injured Workers	38	38	38	37	37	37	37	37	37
Workers Younger than 30	28%	29%	32%	34%	35%	34%	34%	33%	33%
Workers 30 to 50	47%	48%	48%	47%	48%	50%	51%	52%	52%
Workers Older than 50	23%	22%	21%	19%	17%	17%	16%	16%	16%
Percent of Workers Age Unkonwn	2%	1%	0%	0%	0%	0%	0%	0%	0%

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

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

Schedule 13 - Number of Employees By Division
Last Ten Fiscal Years

	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Regional Office 1	56	57	59	58	57	58	98	89	92	93
Regional Office 2	102	102	96	92	90	94	174	157	148	162
Regional Office 3	56	59	60	59	55	58	95	92	94	100
Regional Office 4	70	72	65	64	69	71	113	105	102	107
Regional Office 5	71	71	70	70	70	74	113	107	106	106
Regional Office 6	41	42	43	44	44	42	73	72	72	72
Administrative Services	169	172	171	176	174	171	187	218	230	250
DOSH	330	335	339	332	322	333	115	115	114	127
Director's Office	92	93	88	89	82	80	66	65	62	60
Insurance Services	945	944	954	977	980	994	994	989	979	989
Office of Human Resources	45	45	47	50	47	51	47	44	47	47
Fraud Prevention & Compliance	83	84	74	79	74	75	52	-	-	-
Information Services	171	178	189	194	194	175	190	172	179	182
Specialty Compliance Services	37	40	36	29	27	25	17	17	15	4
Total	2,268	2,294	2,291	2,313	2,285	2,301	2,334	2,242	2,240	2,299

Notes:
The above number of employees is based on Full-Time Equivalents. A Full-Time Equivalent (FTE) is one full calendar year of paid employent, 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 14 - Capital Asset Indicators - Business Locations
Last Ten Calendar Years

	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Tumwater headquarters	1	1	1	1	1	1	1	1	1	1
Number of other Olympia area offices	1	1	1	1	1	0	0	0	0	0
Number of field offices*	19	19	19	19	19	19	21	21	21	21
Number of warehouses	1	1	1	1	1	1	1	1	2	2
Number of labs	1	1	1	1	1	1	1	1	1	1

*Field offices does not include Tumwater Region 4 field office in Tumwater headquarters. The Colville field office closed in May 20011 but is included in the 2011 calendar year count.

Source: Washington State Department of Labor & Industries Facilities Services

Schedule 15 - Claim Statistics and Five Most Frequent Injuries
Last Nine Fiscal Years

	2011	2010	2009	2008	2007	2006	2005	2004	2003
Claim Statistics:									
Number of Claims Filed [1]	100,690	102,734	116,616	136,791	140,308	140,887	139,359	137,835	140,709
Number of Claims Accepted [1, 2]	81,274	86,184	102,440	119,788	121,769	124,391	121,217	121,201	125,162
Number of Claims Denied [1, 2]	12,762	12,703	14,964	15,748	15,171	15,210	15,977	16,050	17,373
Fatal Pensions Awarded	59	45	42	63	54	66	63	73	55
Total Permanent Disability Pensions Granted	1,036	937	1,612	1,109	1,557	840	952	967	1,588
Permanent Partial Disability Awards Granted	11,782	11,452	12,684	12,316	12,621	12,535	13,309	14,612	14,826
New Time-loss (Wage Replacement) Claims [3]	21,377	22,604	26,295	28,593	29,416	29,615	28,521	29,500	28,296
Medical-only Claims Accepted	63,308	66,885	80,171	95,052	96,505	97,964	96,289	94,003	98,586
Retraining Plans Completed	1,667	1,229	1,142	1,694	1,763	1,093	1,058	1,042	772
Total Days Paid for Lost Work	8,099,675	8,121,263	7,926,800	7,488,000	7,540,000	7,480,000	7,240,000	7,190,000	7,290,000
Five Most Frequent Injuries: [4]									
Back, spine, and spinal cord: Traumatic injuries to muscles, tendons, ligaments, and joints (includes sprains and strains)	10,227	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)	7,974	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)	3,320	3,753	5,020	6,153	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).	3,362	3,774	4,356	4,460	4,042	N/A	N/A	N/A	N/A
Mutiple traumatic injuries and disorders of mutiple body parts (includes bruises, sprains, or fractures affecting more than one body part)	3,314	-	-	-	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	-	N/A	N/A	N/A	N/A

Note: The data is a snapshot of the fiscal year (July 1 – June 30) as of the first week of the following October. Data is 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 Fiscal Year 2007. Data for these injury categories is not available in prior years.

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

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

Risk Class	Risk Class Description	2011	2010	2009	2008	2007	2006	2005
3905	Restaurants and Taverns	6,577	6,730	7,185	8,533	8,810	8,936	8,975
6509	Boarding Homes and Retirement Centers	2,476	2,517	2,421	2,386	2,320	2,437	2,493
6108	Nursing Homes	2,284	2,317	2,426	2,684	2,696	2,721	2,780
6109	Physicians & Medical Clinics	2,230	2,167	2,257	2,405	2,355	2,357	2,332
4803	Orchards	2,192	2,017	2,249	1,964	2,229	2,053	2,202
4906	Colleges & Universities	1,714	1,772	1,887	1,916	1,934	1,920	2,040
3411	Automobile Dealers, Rentals and Service Shops	1,618	1,611	1,793	2,213	2,320	2,467	2,549
6103	Schools, Churches and Day Care - Prof./Clerical Staff	1,411	1,333	1,500	1,482	1,419	1,475	1,377
2104	Fruit & Vegetable Packing - Fresh	1,271	1,305	1,417	1,374	1,470	1,449	1,453
3402	Machine Shops and Machinery Mfg., Not Otherwise Classified (N.O.C.)	1,270	1,115	1,560	2,075	1,925	2,033	2,240
4910	Property and Building Management Services	1,244	1,266	1,340	1,416	1,460	1,488	1,536
0510	Wood Frame Building Construction	1,230	1,348	1,996	3,151	4,018	4,451	4,016
5307	State Government - All Other Employees, N.O.C.	1,208	1,182	1,261	1,267	1,266	1,357	1,395
1102	Trucking, N.O.C.	1,171	1,153	1,261	1,470	1,672	1,650	1,621
4904	Clerical Office, N.O.C.	1,114	1,114	1,443	1,561	1,693	1,732	1,805
6309	Hardware, Auto Parts and Sporting Good Stores	1,045	1,064	1,229	1,505	1,517	1,564	1,546
4905	Motels and Hotels	1035	972	997	1,142	1,141	1,116	1,121
6406	Retail Stores, N.O.C.	1,000	1,210	1,370	1,506	1,581	1,650	1,591
6511	Chore Services	959	931	910	910	986	1,056	836
1101	Parcel and Package Delivery Service	947	898	1,022	1,337	1,404	1,394	1,370
0601	Electrical Wiring: Buildings and Structures	926	951	1,532	1,815	1,811	1,735	1,715
6602	Janitorial Service	925	823	967	1,006	1,085	1,120	1,055
6402	Supermarkets	826	884	968	1,047	1,056	1,106	1,228
0307	HVAC Systems, Installation, Service and Repair	801	816	1,120	1,370	1,533	1,578	1,558
0101	Excavation and Grading, N.O.C.	781	834	1,035	1,401	1,547	1,430	1,226
0516	Carpentry, N.O.C.	774	867	1,194	1,640	1,656	1,501	1,340
6303	Sales Personnel - Outside, N.O.C.	773	892	885	1,011	1,048	1,025	1,076
0306	Plumbing	766	799	1,197	1,466	1,487	1,466	1,389
0507	Roofing Work - Construction and Repair	721	706	840	1,071	1,265	1,120	1,052
3404	Metal Goods Manufacturing, N.O.C. - Under 9 Gauge	695	701	919	1,249	1,297	1,356	1,564
2903	Wood Products Manufacturing, N.O.C.	692	722	824	1,397	1,620	1,692	1,578
0518	Non Wood Frame Building Construction	613	701	1,442	1,925	1,683	1,323	1,161

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

The Risk Class is that assigned to the claim.

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

Sources: Washington State Department of Labor & Industries Actuarial Services

Washington State Department of
Labor & Industries

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Workers' Compensation Program Comprehensive Annual Financial Report

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