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, 2016

Olympia, Washington

October 2016

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Washington State Department of
Labor & Industries

Keep Washington Safe and Working

Table of Contents

Table of Contents

Continued

Page

STATISTICAL SECTION

Introductory Section

Washington State Department of
Labor & Industries

Keep Washington Safe and Working

LETTERHEAD

October 23, 2016

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

RE: Comprehensive Annual Financial Report

The Revised Code of Washington 51.44.115 requires the Department of Labor & Industries (L&I) to publish a Comprehensive Annual Financial Report (CAFR) for the Workers' Compensation Program within six months of the close of each fiscal year. This report is published to fulfill that requirement for the fiscal year ended June 30, 2016.

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

The State Auditor has issued an unmodified ("clean") opinion on the Workers' Compensation Program financial statements for the year ended June 30, 2016. The independent auditor's report is located at the front of the financial section of this report.

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

PROFILE OF WORKERS' COMPENSATION PROGRAM

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

L&I headquarters is located at 7273 Linderson Way SW in Tumwater, Washington. There are 18 additional L&I field offices across Washington State that enable us to respond to specific needs in different localities.

The workers' compensation system has existed in Washington State for 105 years. Washington was one of the first states to enact workers' compensation laws. Our state's Workmen's Compensation Act, established on July 28, 1911, was designed to protect workers and employers from injustice and financial hardship arising from work-related injuries in extremely hazardous work. In 1923, Washington became one of only two states where workers pay a portion of the insurance premiums.

Washington's workers' compensation insurance was provided solely through the State Fund until 1971, when the Legislature expanded the scope of coverage to virtually all workers and created an option for qualified employers to self-insure. The Self-Insurance Program allows employers with sufficient financial resources to pay the cost of claims for their injured workers from their own funds and assume significant responsibility for their own claims administration. The workers of self-insured employers are entitled to the same rights and benefits as those workers insured by the State Fund managed by L&I. There are approximately 355 employers who are self-insured, covering close to one-quarter of all workers in Washington.

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

The State Fund Workers' Compensation Program covers approximately 177,000 employers and 2.69 million workers statewide. Total premiums assessed in the State Fund during fiscal year 2016, including both the employer and worker portions, were $2.46 billion. Over 95,000 claims were accepted in fiscal year 2016; about 82 percent of these claims were for medical treatment only and received no compensation for time off work or disability-related benefits. Approximately 38,164 claims are active in any given month. About 16,741 of these claims are receiving time-loss benefits, many of which involve long-term disability and complex medical issues. In fiscal year 2016, retraining plans were completed by 438 injured workers who were not able to return to any type of work after injury without these services.

BUDGET CYCLE

The Workers' Compensation Program operates as an enterprise fund made up of seven accounts that are financed and operated in a manner similar to private business entities. The budget operates on a two-year cycle beginning on July 1 of each odd-numbered year. The biennial budget for administering the program is appropriated and allotted through Washington State's legislative process. The final 2015-2017 appropriated budget for administering the Workers' Compensation Program is $659,700,962, which includes $594,581,000 that was appropriated to L&I and the remainder for other state agencies. This budget includes $16,812,000 of federal funds dedicated to the Safety & Health Assessment & Research for Prevention (SHARP) Program, the Division of Occupational Safety and Health (DOSH), and the L&I Apprenticeship Program. The appropriated administering budget for fiscal year 2016 for the Worker's Compensation Program was $322,491,904, and the portion of the total fiscal year 2016 budget for L&I was $287,923,000.

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

LOCAL ECONOMY AND IMPACT ON LABOR & INDUSTRIES

Washington is the thirteenth largest state, with a population of 7.2 million,[1] and has the fourteenth largest state economy in the U.S.[2] It is comprised of eleven major metropolitan areas and vast regions of wilderness and farmland. The Seattle/Tacoma/Bellevue metropolitan area alone accounts for 60 percent of the state's non-farm employment, and an even higher share of the state's real Gross Domestic Product (GDP).

Workers' compensation insurance covers all industries in the state of Washington. The economy of Washington was once dominated by commercial airplane manufacturing (Boeing), logging, and agriculture. More recently, a vibrant high-tech industry has developed, including such worldwide companies as Microsoft and Amazon.com. Other Washington-based Fortune 500 companies include Costco, Starbucks, Paccar, Nordstrom, and Weyerhaeuser.

CURRENT ECONOMIC SITUATION AND OUTLOOK

The U.S. economy has slowed in 2016.[3] The economy grew by an annualized rate of 2.0 percent in the first quarter of 2016, but weakened to 1.4 percent and 1.1 percent in the second and third quarters.[4] The national economy, however, was projected to expand at a faster pace with a 2.3

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[1] "Annual Estimates of the Resident Population for the United States, Regions, States, and Puerto Rico: April 1, 2010 to July 1, 2015", U.S. Census Bureau, December, 2015.

[2] "Real Gross Domestic Product by State, 2014:I-2015:IV", Bureau of Economic Analysis (BEA), June 14, 2016.

[3] Unless otherwise stated, each specific year in this report refers to the state fiscal year that begins on July 1 and ends on June 30.

[4] Quarterly Gross Domestic Product Report, BEA, June 28, 2016.

percent growth rate for the final quarter of 2016 and 2.4 percent for the first two quarters combined of 2017.[5] The labor market has also cooled off in recent months, with a monthly average of only 149,000 new jobs in the second half of the year, far below the average of 240,100 and 237,000 new jobs per month for 2015 and the first half of 2016, respectively.[6] The unemployment rate decreased from 5.3 percent when the last year ended to 4.7 percent in May, 2016, the lowest rate since 2007.

In calendar year 2015, Washington was ranked the best state economy in the nation by *Business Insider*, with the state GDP growth and average weekly wage being the major factors.[7] Real personal income in Washington was estimated to grow 3.6 percent and 2.5 percent in 2016 and 2017, respectively.[8] Employers across the state added an average of 7,900 jobs each month in the first 11 months of 2016,[9] slower than the monthly average posted in 2015, but still much faster than 2014. Over the 12-month period from June 2015 - May 2016, the total employment in Washington increased by 3.2 percent, only trailing Oregon by 3.4 percent and Utah by 3.3 percent.[10] The state unemployment rate rose slightly from 5.6 percent in June 2015 to 5.8 percent in May 2016, mainly due to the expansion of the labor force.[11] For a similar reason, the Seattle/Bellevue/Everett metropolitan area also experienced a higher jobless rate of 4.9 percent in May 2016.

Washington's credit rating was in good standing in 2016 as a result of a healthy state economy and strong financial management. The most current ratings by Moody's, S&P, and Fitch all indicate the state's General Obligation Bonds as high quality (Aa1/AA+/AA+) with a stable outlook.[12]

According to the June 2016 *Wall Street Journal (WSJ) Economist Survey*, there is a 21 percent chance that the U.S. will be in a recession within the next 12 months. While the risk of recession remains low, it has increased significantly from the 14 percent probability back in November 2015.[13] The downside risks to the economic growth in U.S. and Washington in the near future include:

- The so-called "Brexit Referendum" that led to Britain's departure from the European Union and the wide implications for the European as well as global economies.

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[5] June 2016 Economic Review by Washington State Economic and Revenue Forecast Council (ERFC).
[6] As of June 3, 2016, BLS.
[7] "The Economies of All 50 U.S. States and Washington D.C., from Worst to Best", Business Insider, Jan 2016.
[8] "Final June 2016 Fiscal Year Tables for Economic Forecast", ERFC, June 15, 2016.
[9] As of June 15, 2016, Employment Security Department (ESD).
[10] Regional and State Employment and Unemployment for May 2016, BLS, June 17, 2016.
[11] According to June 15, 2016 Local Area Unemployment Statistics, the civilian labor force in Washington grew 2.7 percent since June 2015 to 3,628,484.
[12] January 2016 Credit Rating Reports are published by Washington State Treasurer (http://www.tre.wa.gov/debtManagement/bondRatings.shtml).
[13] Data Source: WSJ Economic Forecasting Survey, June 2016 Edition. (http://projects.wsj.com/econforecast/#qa=20160601003).

- The economic recession in Brazil, Argentina, and several other major economies in Latin America, along with the continuous slowdown of Asian economies represented by Japan and China.

- Concerns over when and how the Federal Reserve will make the second attempt in raising interest rates since December 2015, and its impact on many industries including finance and housing.

- A stronger dollar that further weakens exports.

- A more volatile financial market that affects business investments and consumer expenditures.

<u>Housing/Construction</u>[14]

The overall U.S. home sales continued to rise in 2016. Sales of new single-family houses in the first 11 months averaged a seasonally adjusted annual rate (SAAR) of 518,000 units, better than the 481,000 units sold in 2015.[15] Existing home sales also grew at a faster pace in 2016. Compared to the average of 5.10 million (SAAR) in 2015, sales of existing homes were up 4.5 percent to 5.33 million (SAAR) in the first 11 months.[16] Average home prices nationwide remained resilient, with a 5 percent gain from a year earlier (as of April 2016).[17]

In 2016, the Washington State housing market was booming. Home prices across the state continued to surge, and rise faster than in any other state in the country in recent months, mainly driven by strong demand and a tight supply of houses. According to the *CoreLogic* report, home prices in Washington increased 10.6 percent over the last 12 months (as of April 2016), the biggest rise among all states for the third month in a row. The median cost of all homes sold in Washington hit $312,000 in May 2016, up 44 percent from the recent trough of $216,000 set in March 2012, and surpassed the previous record high reached before the housing market crashed.[18] Building permits also rose at a faster clip across the state. In the Seattle/Tacoma/Bellevue metropolitan area home prices rose even faster than the state average, soaring 53 percent in a little over four years (February 2012- April 2016).[19]

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[14] As of July 1, 2016, the latest monthly data series for most housing /construction indicators was May 2016.
[15] As of June 23, 2016: Census Bureau (https://www.census.gov/construction/nrs/index.html).
[16] Data Source: http://www.realtor.org/topics/existing-home-sales.
[17] Data Source: S&P/Case-Shiller U.S. National Home Price Index, Federal Reserve Bank of St. Louis.
[18] Data Source: http://www.zillow.com/wa/home-values/.
[19] Data Source: S&P/Case-Shiller WA-Seattle Home Price Index, Federal Reserve Bank of St. Louis.

Large Employers

The Boeing Company reported that its revenue for the quarter ended March 31, 2016, increased by 2 percent to $22.63 billion, but its net earnings and core earnings per share declined 9 percent and 12 percent, respectively, compared with the same quarter a year earlier.[20] To control the increasing material and labor costs, the company announced in March 2016 that it would lay off more than 4,500 employees by June 2016 in its commercial airplanes division. The staff reduction accounts for almost three percent of Boeing's workforce of 161,000 employees as of December 2015.

Microsoft's latest quarterly report also signaled a below-market-expectation performance. Revenue for the quarter ended March 31, 2016, fell from $21.73 billion the same quarter a year earlier to $20.53 billion. Excluding one-time items, Microsoft earned 62 cents per share, shy of the 64 cents per share that analysts had expected.[21] On June 13, 2016, Microsoft announced its plan to acquire LinkedIn, the world's largest and most valuable professional network, for $26.2 billion. This is the largest acquisition in the company's history, and the transaction is expected to close by the end of calendar year 2016.

Small Businesses

Small business (1-49 employees) job creation in the U.S. has lost steam in 2016. The ADP employment data revealed that only about 79,000 new jobs were added each month by small businesses in 2016, far below the monthly average of 111,000 jobs created in 2015.[22] The Small Business Optimism Index has also been sluggish in recent months. The index has remained below 94 for five consecutive months since January 2016, also well below its 42-year average of 98.[23]

Small businesses in Washington fared better than their counterparts in other states. According to the Paychex | IHS Small Business Jobs report, Washington remained at the top of all 20 largest states for 8 out of 11 months in 2016, and Seattle remained the top metro index in small business employment growth among 20 largest areas for three months in a row (March 2016-May 2016)[24].

Financial markets

The U.S. stock market has experienced more volatility and smaller gains in 2016 than any prior year since the Great Recession. The three major indices, Dow, S&P 500 and NASDAQ, were down 6.6 percent (1,162 points), 6.3 percent (132 points) and 6.9 percent (352 points), respectively, in August 2015 alone, the biggest one-month loss for each index in more than three years. The stock market experienced another massive wave of selling in January 2016, with these indices suffering a 5.5 percent, 5.1 percent and 7.9 percent loss, respectively, in that month. For

[20] Boeing Company 1st Quarter Earnings Report, April 27, 2016.
[21] Microsoft Corporation FY 2016 3rd Quarter Earnings Report, April 21, 2016.
[22] Data Source: ADP National Employment Report for May 2016.
[23] Data Source: NFIB Small Business Economic Trends-May 2016.
[24] Data Source: http://www.paychex.com/jobs-index/index.aspx.

the whole year, the Dow and S&P 500 closed with small gains (1.8 percent and 1.7 percent), but the NASDAQ ended up having a 2.9 percent loss.[25] Mortgage rates were flat in most of 2016 and showed some downward pressure in recent months. The latest 30-year and 15-year average rates (May 2016) fell to 3.60 percent and 2.84 percent, respectively, down from the average of 3.98 percent and 3.19 percent when fiscal year 2015 ended.[26] Despite the Fed's December 2015 rate hike, treasury yields on bonds, notes and bills remained low. In May 2016, the average rates for 1-year, 5-year, 10-year, and 30-year treasury constant maturity series were 0.59 percent, 1.30 percent, 1.81 percent, and 2.63 percent, respectively.[27]

Workers' Compensation Impacts

Overall, solid employment growth nationwide, and in Washington as well, has had a positive impact on workers' compensation premiums. But the substantially weakened job growth in the second half of fiscal year 2016 will likely result in slower growth in premiums. Workers' compensation exposure is also expected to increase at a slower pace as a result of this changing labor market condition; however, both premium growth and exposure are also affected by business mix. If rates of growth in high risk industries outpace growth in other sectors, then premium and exposure may outpace that of the overall labor market.

At the industry level, the construction industry in Washington added jobs faster than any other industry in 2016 (July 2015 through May 2016),[28] mostly driven by a strong housing market. Construction is projected to be the second-fastest-growing industry in employment during 2014-2019, trailing professional and business services.[29] While this may lead to higher total insurance premiums collected, it may also negatively impact workers' compensation costs, given the fact that the construction industry is associated with a higher incidence rate and more severe injuries than most other industries.

The wage growth has slowed, translating into a smaller increase in time-loss and pension benefits for most workers injured before July 1, 2015. These benefits are required to be recalculated each year to reflect the change in the state's average wage. In Washington, the average annual wage increased 2.6 percent to $56,273 in 2015, compared to a 4.2 percent hike in 2014.[30] In light of this, L&I increased time-loss and pension benefit payments by this rate for eligible workers effective July 1, 2016.

Medical inflation (based on the Consumer Price Index for medical care) remained moderate, with an annual average growth rate of 2.7 percent (12-month change through May 2016), slightly above last year's average of 2.5 percent. Over a longer period of time, medical inflation rates from 2014-2016 were still much lower than the 5-year average of 3.3 percent during 2009-2013

[25] Data Source: Federal Reserve Bank of St. Louis.
[26] Data Source: The Freddie Mac Primary Mortgage Market Survey.
[27] Data Source: Treasury Constant Maturity data series, Federal Reserve Bank of St. Louis.
[28] Washington Employment Estimates, ESD, June 21, 2016.
[29] Industry Employment Projections, ESD, May 2016.
[30] Quarterly Census of Employment and Wages (QCEW), ESD, May 20, 2016.

and the 10-year average of 3.7 percent during 2004-2013.[31] This relatively low inflation may help contain medical costs on workers' compensation claims.

A highly volatile equity market continuing through 2016 would impact L&I's financial stability by introducing greater uncertainty and risk on its investment assets. While the agency can mitigate this risk by rebalancing and reallocating its investment portfolio towards lower-risk options, the overall return on investment (ROI) may be unfavorably affected as a trade-off, especially when the interest rates are at a persistently low level.

LONG-TERM FINANCIAL PLANNING

In 2012, L&I adopted a 10-year plan to increase the contingency reserve to a target of 13 to 15 percent of State Fund liabilities, while reducing the rate used to discount pension liabilities from 6.5 to 4.5 percent by 2023. The "contingency reserve" refers to any surplus remaining (similar to net position) on the statutory financial statements prepared in accordance with the National Association of Insurance Commissioners statutory accounting principles for the Industrial Insurance Fund.

During fiscal year 2016 the contingency reserve balance changed from $1,222 to $1,493 million, which was 10.8 percent of State Fund liabilities, and the discount rate was reduced from 6.4 to 6.3 percent. L&I's goal for fiscal years 2017 and 2018 is to increase the contingency reserve balance from $1,493 million in the Industrial Insurance Fund to $1,583 million by increasing premium rates and reducing costs through improved worker health and return-to-work outcomes by $35 to $70 million.

RELEVANT FINANCIAL POLICIES

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

MAJOR INITIATIVES

The Department of Labor & Industries covers many workplace and safety issues, all of which fall within two primary lines of business: prevention and recovery, each requiring support.

Prevention: L&I works to prevent the things that threaten the lives and livelihoods of the people who live and work in Washington from ever happening. That means preventing workplace injuries and fatalities, the failure of equipment we regulate, violations of worker's wage and labor rights, and fraud.

[31] Data Source: Federal Reserve Bank of St. Louis.

Recovery: When something does go wrong on the job, L&I strives to ensure remediation and recovery – working to make individuals, workplaces, and communities whole again. Success in recovery means that those who are injured get reconnected to the workforce as quickly as possible, those who are wronged get speedy relief and those who wronged them pay the right penalty or make restitution.

These two lines of business provide key guidance and direction as the agency prepares to better serve its customers of the future through its Business Transformation initiative. The goal is to project the needs and service preferences of future customers in technology, accessibility, and service, and then adapt in advance to prepare for those needs.

L&I also measures specific categories of its work. Governor Jay Inslee directed state agencies to measure performance, improvements, innovation, engagement, transparency and accountability in state government. In response, L&I is focused on five goals:

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

L&I has made great strides in its goal to make workplaces safe by reducing the rate of injury and fostering a culture of safety. Over the last decade, L&I has been instrumental in reducing the occupational illness and injury rate in Washington by almost one third. L&I conducted more than 7,200 workplace safety and health inspections and consultations in 2015. In the most recent year for which complete data is available (2014), Washington had the nation's ninth lowest workplace fatality rate, more than 20 percent lower than the national average.

L&I is a national leader in helping injured workers heal and return to work, with innovative incentives and return-to-work programs. The agency strives to create a culture in which employers, workers, medical providers, vocational experts, and L&I staff focus on maintaining the workers' connection to the workforce, along with their motivation to return to work. This culture, combined with quality medical services and operational efficiencies, saves employers money — an estimated $839 million in reduced benefit liabilities over the past three fiscal years. Through these programs and initiatives, long-term disability has been avoided for 560 injured workers each year; and 4,200 employers received more than $4 million to keep 18,000 workers on light duty while healing. L&I promotes high-quality, evidence-based care and is a national leader in reducing chronic opioid use, which is down to about one percent of incoming time-loss claims. These and other measures help to control health care cost growth, which is about 4.5 percent for 2016.

In late 2015, L&I began offering direct deposit and debit card options for injured workers and crime victims as part of our efforts to make it easier to do business with L&I. In the first full month, we made 1,218 electronic payments. A paper check remains an option, yet in today's world, we expect to see rapid growth in the use of direct deposit and debit card payments. Doing business with L&I also got much easier with our new "My L&I" dashboard for employers that puts the information they want most in plain view. In addition, our agency-wide initiative to better serve limited English proficiency customers includes mandatory eLearning for all staff on how to use a telephone interpreter service when they get a call from a person who speaks limited English.

L&I is cracking down on unscrupulous business practices with improved methods of identifying illegal activities. The agency is working with the Washington State Attorney General's Office to step up criminal and civil enforcement, especially cases of wage theft. L&I investigations resulted in returning more than $4.4 million in wages to workers last fiscal year ($2.8 million in wage/hour and $1.6 million in prevailing wage). L&I is also continuing efforts to identify and hold accountable all workers, providers and businesses that defraud the workers' compensation system. For every dollar spent on combatting workers' compensation fraud in fiscal year 2015, $8.93 was recovered by L&I. In the past two years, the agency referred a total of 28 fraud cases to the Attorney General for consideration of criminal prosecution, 14 in fiscal year 2015 and another 14 in fiscal year 2016.

Ensuring L&I is an employer of choice focuses on providing a culture of trust while developing opportunities for workplace flexibility, such as alternative schedules and telework options. L&I continues to encourage and promote safety and well-being, as well as to provide employees with opportunities to grow and learn. L&I continues to use Lean to empower employees to make decisions that affect their work. Employee-led Lean projects have reduced time for claim processing, improved relationships with customers, streamlined our collections process, and reduced burden on staff. Participation in wellness initiatives is brisk among the agency's employees, with more than 3,000 participants in agency-wide wellness campaigns in fiscal year 2016. L&I also added a lactation room, expanded onsite nutritional food options, and increased engagement in the SmartHealth wellness platform to 60 percent of the workforce.

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, 2015. A copy of the Certificate of Achievement is included in the introductory section of the CAFR. This was the sixth consecutive year that L&I received this prestigious award. In order to be awarded a Certificate of Achievement, a governmental unit must publish an easy-to-read and efficiently-organized CAFR. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

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

Sincerely,

Joel Sacks
Director

Randi Warick
Deputy Director for
Financial Management

Vickie Kennedy
Assistant Director for
Insurance Services

Washington State Department of
Labor & Industries

Keep Washington Safe and Working

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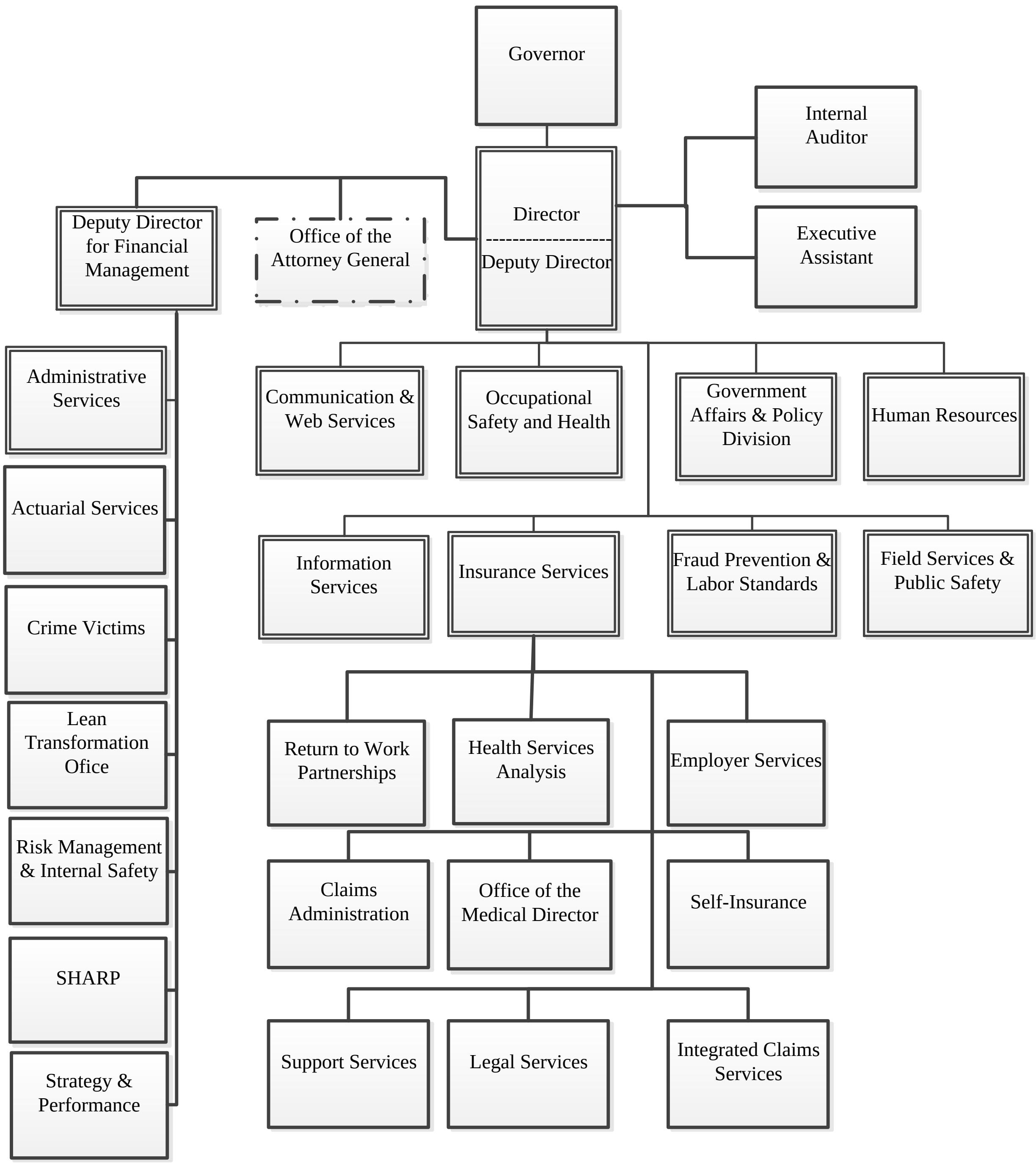
Washington State Department of
Labor & Industries

Keep Washington Safe and Working

Organization Chart

June 30, 2016



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Financial Section

Washington State Department of
Labor & Industries

Keep Washington Safe and Working

Independent Auditor Report Goes Here

Independent Auditor Report Goes Here

Independent Auditor Report Goes Here

Independent Auditor Report Goes Here

Management's Discussion and Analysis

Our management's discussion and analysis of the state of Washington Workers' Compensation Program's Comprehensive Annual Financial Report provides an overview of the Workers' Compensation Program's financial activities for the fiscal year ended June 30, 2016. The information included here should be considered along with the transmittal letter, which can be found on pages 3-13 of this report, and the accompanying basic financial statements and notes to the basic financial statements, which follow this narrative.

Financial Highlights

- Total assets and deferred outflows of resources increased $1,007 million from the prior fiscal year, mainly due to increases in investments of $953 million and an increase in securities lending collateral of $46 million.

- Total liabilities and deferred inflows of resources increased $804 million from the prior year, mostly due to increases in claims payable of $786 million, and securities lending collateral of $46 million, and recognition of the additional net state employee pension liability of $27 million in accordance with Governmental Accounting Standards Board Statement 68 *Accounting and Financial Reporting for Pensions*.

- Total revenues earned increased $823 million from the prior year, mainly due to increases in net premiums, unrealized gains on debt securities, and realized gains on debt and equity securities. Unrealized losses on equities partially offset the revenue increase.

- Total expenses incurred increased $220 million from the prior year, primarily due to a $208 million increase in claims expense and $17 million increase in salaries and benefits.

- Total net deficit decreased $202 million from the prior year, mainly due to the increase in investments offset by the increase in claims payable.

Overview of the Basic Financial Statements

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

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

The Industrial Insurance Rainy Day Fund was created by the Legislature during the 2011 session to hold transfers from the Accident Account and Medical Aid Account when assets for those accounts combined are between 10 and 30 percent in excess of total liabilities for the Industrial Insurance Fund. There has been no activity in this account since it was created in 2011. Additional information can be found in Note 12 of this report.

For the fiscal year ended on June 30, 2016, the basic financial statements show financial position and results of operations at the roll-up level. Detailed financial information for the individual accounts can be found in the Supplementary Information section on pages 99-102 of this report.

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

The Statement of Net Position presents information on the program's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. It reflects the program's financial position as of June 30, 2016. It can be found on page 39 of this report.

The Statement of Revenues, Expenses, and Changes in Net Position shows how the program's net position changed during the fiscal year. It presents both operating and nonoperating revenues and expenses for the fiscal year. It can be found on page 40 of this report.

The Statement of Cash Flows reflects cash collections and cash payments to arrive at the net increase or decrease in cash and cash equivalents during the fiscal year. It can be found on page 41of this report.

The Notes to the Basic Financial Statements are an integral part of the basic financial statements and provide additional information that is essential to a full understanding of the information provided in the Workers' Compensation Program's financial statements. They can be found on pages 43-87 of this report.

Financial Analysis of the Workers' Compensation Program

Statement of Net Position (dollars in millions)				
	June 30, 2016	**June 30, 2015**	**$ Change**	**% Change**
Assets and Deferred Outflows of Resources				
Current assets	$ 2,662	$ 936	$ 1,726	184.4%
DOE assets, noncurrent	5	5	-	0.0%
Investments, noncurrent	13,910	14,634	(724)	(4.9%)
Capital assets, net	67	72	(5)	(6.9%)
Deferred outflows from pensions	25	15	10	67.7%
Total Assets and Deferred Outflows of Resources	16,669	15,662	1,007	6.4%
Liabilities and Deferred Inflows of Resources				
Current liabilities	2,330	2,272	58	2.6%
Noncurrent liabilities	24,037	23,266	771	3.3%
Deferred inflows from pensions	19	44	(25)	(56.8%)
Total Liabilities and Deferred Inflows of Resources	26,386	25,582	804	3.1%
Net Position (Deficit)				
Net investment in capital assets	67	67	-	0.0%
Unrestricted	(9,785)	(9,987)	202	(2.0%)
Total Net Position (Deficit)	$ (9,718)	$ (9,920)	$ 202	(2.0%)

Current assets - Current assets increased by $1,726 million during fiscal year 2016, largely due to an increase in investments and securities lending collateral. Beginning in fiscal year 2016 the Workers' Compensation Program started splitting investments between current and non-current which added $1,677 million to current assets while decreasing non-current assets by the same amount. Securities lending collateral increased because demand for borrowing securities increased from the previous year.

Noncurrent investments - Noncurrent investments decreased during fiscal year 2016 by $724 million, mainly due to the $1,677 million of investments accounted for as current assets as discussed above. This change was made for fiscal year 2016 but not for fiscal year 2015, thus the fiscal year 2015 investment balance includes both current and non-current investments. If fiscal year 2016 current and non-current investments are combined, the total is $15,587 million compared to the fiscal year 2015 investment balance of $14,634 million. This is a $953 million, or 6.5 percent, increase.

The most significant changes in the current and non-current investment balances are from increases of $1,025 million in debt securities, $58 million in cash and cash equivalents, and $46 million in security lending collateral, partially offset by a decrease of $129 million in equity investments.

- Increasing debt securities were a result of both unrealized gains, as well as additional debt securities that were purchased with the proceeds from rebalancing the equity portfolio. Cash collected from operations and net investment income received were reinvested within the fixed income portfolio. The global low-interest-rate environment continued in fiscal year 2016 due to central bank policies, slow economic growth, and low inflation. Treasury yields moved up and down for the first six months, then fell for the last six months. For the full year, long-duration treasuries dramatically outperformed short-duration ones, as did long-duration credits. The Federal Open Markets Committee raised the Fed Funds rate at its December meeting. Fixed income performance was positive for the year; however, the portfolios underperformed their benchmarks due to exposure to emerging markets and commodity-oriented companies.

- Cash and Cash equivalents increased $58 million but stayed within policy ranges. Cash and cash equivalents fluctuate within policy targets from year-to-year, depending on trading volumes, cash needs of the Workers' Compensation Program, and market conditions. Net investment income received from debt securities and cash is invested in money market funds and used within each asset class to reinvest in longer term securities as the cash becomes available.

- Security lending collateral increased $46 million due to an increase in borrower demand for 10-year U.S. Treasury securities held in the Workers' Compensation Program as investors reacted to volatile equity markets with a flight to quality.

- Equity securities decreased by $129 million, mainly due to negative investment returns in the public equity markets and rebalancing activities that resulted in equity sales, with the proceeds reinvested in debt securities. Currently, the Workers' Compensation Program equity portfolio is split 60/40 between U.S. and non-U.S. equity investments, which resulted in the overall negative equity returns within the portfolio. The U.S. equity market returned 2.3 percent, and the non U.S. market lost 9.7 percent, as measured by Morgan Stanley Capital International (MSCI) indexes, which are broad barometers of overall market returns. Economic concerns led to declines in returns over the prior year in both the U.S. and international equity markets. The U.S. equity market performed better in fiscal year 2016 versus international equity markets. During fiscal year 2016, the U.S. dollar held its appreciated value due to interest rate differentials, superior U.S. economic growth, and the dollar's safety. Returns from non-U.S. equity markets suffered from local market declines and the strength of the U.S. dollar. Generally, the local market declines were due to slower Gross Domestic Product (GDP) growth and higher unemployment relative to the U.S. and broadly lower interest rates. The price of oil and several other commodities fell significantly over the second half of 2015 and then largely rebounded in the first half of 2016. In the U.S., value-oriented securities, including those that pay dividends, outperformed growth securities as well as the broader market, with most of that outperformance coming in the first half of 2016.

Current liabilities - Current liabilities, other than claims payable, increased during fiscal year 2015 by $6 million, mainly due to the increase of $46 million in security lending collateral, offset by decreases in accounts payable, deposits payable, accrued liabilities, and bonds payable obligations that total $40 million. Accrued liabilities decreased $30 million, mainly due to decreases in the retrospective rating liability and trades payable as compared to fiscal year 2015. The fiscal year 2015 retrospective rating liability was higher due to an increase in premiums of retrospective rating participants and improved retrospective rating participant performance relative to the State Fund. Trades payable for securities represents the amount owed for the purchase of investment securities as of the end of the fiscal year that will not be paid until July, and fluctuate depending on the timing of purchases and their settlement dates. Bonds payable decreased $4.1 million, because this debt was paid off. During the second quarter of fiscal year 2016 the final bond payment was made for the Tumwater headquarters building, which holds over 2,000 employees and contractors. Since 1990, L&I has made payments on the Tumwater headquarters building of $124 million: $69 in principal and $55 million in interest payments.

Claims payable - Claims payable liabilities include benefit and claim administration expense liabilities. Claims payable, included in current and noncurrent liabilities, was $25,852 million at the end of fiscal year 2016, an increase of $786 million, or 3.1 percent, when compared to the previous fiscal year. This increase is primarily due to a net increase in benefit liabilities. Benefit liabilities increased $745 million, as shown by the table below.

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

	June 30, 2016	June 30, 2015
Benefit liabilities, beginning of year	$ 24,492	$ 23,898
New liabilities incurred, current year	1,890	1,948
Development on prior years		
Change in reserve discount	318	301
Change in discount rate	34	37
Other development on prior liabilities	581	334
Claim payments	(2,078)	(2,026)
Change in benefit liabilities	745	594
Benefit liabilities, end of year	$ 25,237	$ 24,492

* Excludes claim administration expense liabilities

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

The Workers' Compensation Program has a plan to reduce the pension discount rate from 6.5 percent to 4.5 percent by 2023. The pension discount rate was reduced from 6.5 to 6.4 percent in fiscal year 2015. In fiscal year 2016, the Pension Reserve liability estimate increased $38 million when the pension discount rate was decreased from 6.4 to 6.3 percent.

In addition, the liabilities in the Supplemental Pension Account increased $429 million primarily due to a change in the way future COLAs are projected. The Supplemental Pension Fund provides for the COLA adjustments on workers' compensation time loss and pension benefit payments for injured workers insured through both the State Fund and self-insurance programs. The method used to project future COLAs was changed. In the past, projected future COLAs matched the Economic Research Forecast Council's estimates for two years and then continued at the long term assumed level of 1.5 percent per year. Now projected future COLAs will decline over the next ten years from the current inflation level to the long term assumed level of 1.5 percent per year.

The increases in benefit liabilities explained above were partially offset by net decreases in benefit liabilities from new information on previously-estimated liabilities. The Accident Account benefit liabilities were lower due to a reduction in the number of anticipated active time-loss claims which is the main reason for the net $138 million decrease on previously-estimated liabilities.

Total net position (deficit) - The Workers' Compensation Program's deficit decreased $202 million during fiscal year 2016, ending the year with a deficit balance of $9,718 million. This deficit consists of a $12,042 million deficit in the Supplemental Pension Account, offset by net position balances in the other Workers' Compensation Program accounts. The total net position deficit decrease is mainly due to realized and unrealized gains on investments, which increased the investment balances, an increase in hours reported by employers; and rate increases in the Medical Aid and Accident Accounts, which increased accounts receivable. This was offset by increases in claims payable liabilities, as discussed above. Additional detail regarding the Supplemental Pension Account deficit can be found in Note 8 of this report.

Changes in Net Position (dollars in millions)	Fiscal Year Ended June 30, 2016	Fiscal Year Ended June 30, 2015	$ Change	% Change
Operating Revenues				
Premiums and assessments, net	$ 2,516	$ 2,337	$ 179	7.7%
Miscellaneous revenue	58	57	1	1.8%
Total Operating Revenues	2,574	2,394	180	7.5%
Nonoperating Revenues				
Earnings on investments	858	215	643	299.1%
Other revenues	9	8	1	12.5%
Total Revenues	3,441	2,617	824	31.5%
Operating Expenses				
Salaries and wages	160	150	10	6.7%
Employee benefits	63	55	8	14.5%
Personal services	8	11	(3)	(27.3%)
Goods and services	82	83	(1)	(1.2%)
Travel	4	4	-	0.0%
Claims	2,874	2,667	207	7.8%
Depreciation	10	7	3	42.9%
Miscellaneous expenses	38	41	(3)	(7.3%)
Total Operating Expenses	3,239	3,018	221	7.3%
Nonoperating Expenses				
Interest expense	-	-	-	-
Total Expenses	3,239	3,018	221	7.3%
Income (Loss) before Transfers	202	(401)	603	(150.4%)
Net Transfers	-	-	-	0.0%
Change in Net Position (Deficit)	202	(401)	603	(150.4%)
Net Position (Deficit) - Beginning of Year*	(9,920)	(9,519)	(401)	4.2%
Net Position (Deficit) - End of Year	$ (9,718)	$ (9,920)	$ 202	2.0%

*Net Position (Deficit) – Beginning of Year for Fiscal Year Ended June 30, 2015 is restated.

Premiums and assessments, net - Net premium and assessment revenues during fiscal year 2016 were $2,516 million compared to $2,337 million for fiscal year 2015, an increase of $179 million. This increase resulted from additional hours reported by employers, more hours reported by businesses in higher rate classes, and premium rate increases in the Medical Aid Account effective January 1, 2015, and in the Accident Account effective January 1, 2016. In fiscal year 2015, employers reported 3,538 million hours worked; this figure increased to 3,695 million hours for fiscal year 2016. There has been a steady growth of quarterly standard premiums for 21 quarters since March 31, 2011.

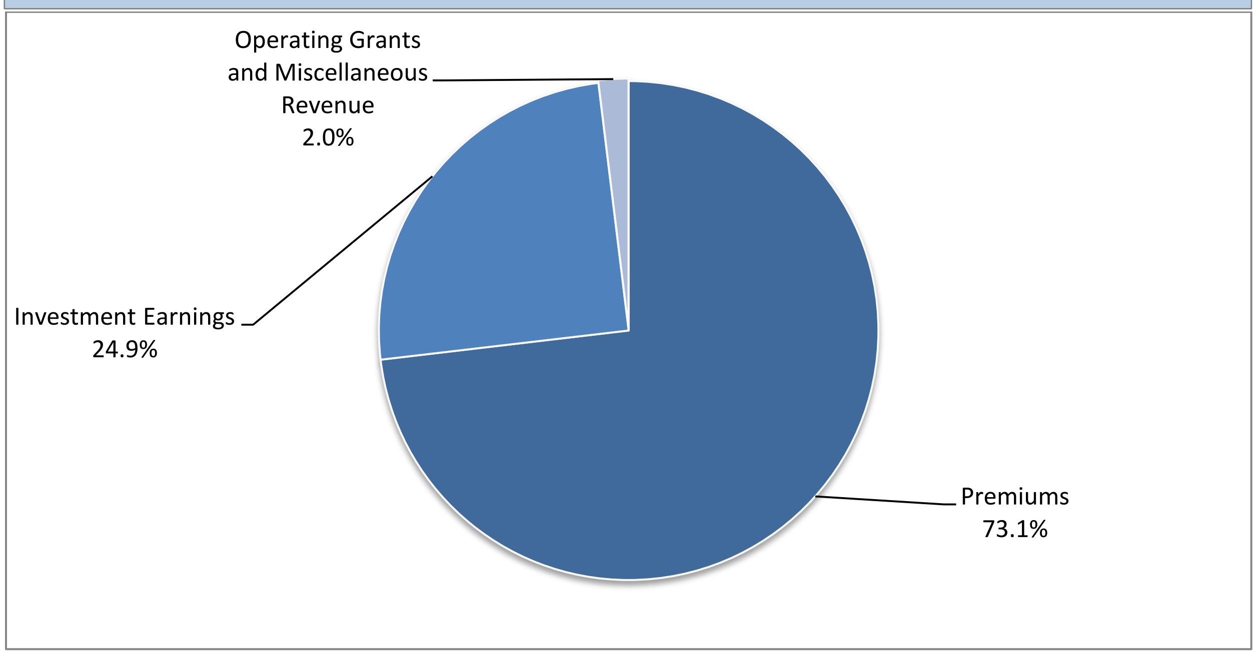
Earnings on investments - The earnings on investments increased $642 million from the prior fiscal year. Increased realized and unrealized gains and losses as, described in the paragraphs below, and a $9 million increase in interest and dividends earnings accounts for this change.

- Realized and unrealized gains and losses for debt securities increased $711 million as compared to fiscal year 2015. Realized gains were $22 million higher in fiscal year 2016, mostly due to the sale of fixed income securities as a result of investment rebalancing activities. Unrealized gains increased $689 million due to bond market prices that increased as a result of the global low interest rate environment created by central bank policies, slow economic growth, and low inflation. The fair market value of debt securities moves in the opposite direction to changes in interest rates. Rising interest rates result in decreasing bond market prices, while falling rates cause bond prices to increase. There were unrealized gains of $325 million during fiscal year 2016 and unrealized losses of $364 million in fiscal year 2015.

- Equity realized gains and unrealized losses in fiscal year 2016 decreased $78 million as compared to the prior fiscal year due to market conditions discussed above. Unrealized losses were $105 million and realized gains were $74 million for equities in fiscal year 2016, while unrealized and realized gains were $29 million and $18 million, respectively, in fiscal year 2015.

The following chart provides additional detail on the distribution of revenues by source during fiscal year 2016.

Fiscal Year 2016 Revenues by Source



Claims expense - Claims expense for fiscal year 2016 increased $208 million, or 7.8 percent, as compared to fiscal year 2015. Claims expense includes two main components: payments to beneficiaries and the change in claims payable.

Claim payments to beneficiaries increased by $44 million, or 2.1 percent, when compared to the prior year. Increases in the Pension and Supplemental Pension Accounts were partially offset by decreases in the Accident and Medical Aid Accounts. The net increase is explained by the following:

- The Accident Account's $19 million decrease in claim payments to beneficiaries primarily resulted from fewer active time-loss claims.

- The Medical Aid Account's $10 million decrease in claim payments to beneficiaries mainly resulted from fewer active medical claims, two fewer days paid during the fiscal year, and relatively low medical inflation during the year.

- The Pension Reserve Account's claim payments to beneficiaries increased $15 million, mostly because of higher numbers of pensioners receiving benefits, together with higher average monthly benefits.

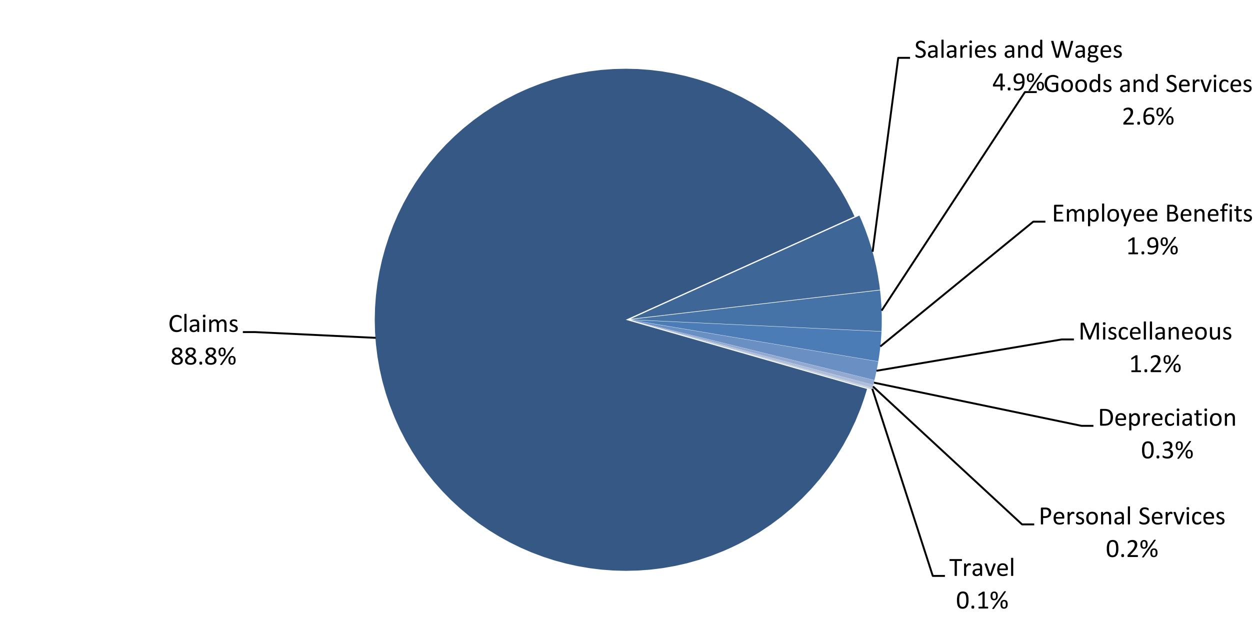
- The Supplemental Pension Account's $57 million increase in claim payments to beneficiaries is mainly due to the *Crabb v. Department of Labor & Industries* decision and an increase in the state's average annual wage, which is the basis for the increase in the COLAs paid in the Supplemental Pension Account. The increase to the average wages from 2013 to 2014 was 4.17 percent, which affected the cost of living adjustments paid during fiscal year 2016. In addition, as a part of the 2011 workers' compensation reforms, the Washington Legislature included a one-time COLA freeze to benefit payments for fiscal year 2014 and delayed first COLAs for all claims with injury dates after June 30, 2011, until the second July 1st after the injury. Until this change, injured workers received COLA on the first July 1st following the date of injury. The department applied these changes to all COLA recipients, including injured workers receiving compensation at the statutory maximum amount. When this was challenged in the *Crabb v. Department of Labor & Industries* case, the trial court held that the COLA changes did not apply to workers receiving the maximum benefit rate, and in June 2014 the Court of Appeals agreed with the trial court. Claim payments in the Supplemental Pension Account increased as a result.

The other main component of claims expense is the change in claims payable. In fiscal year 2016, claims payable increased $786 million, as discussed in the claims payable section on page 29 above.

Operating expenses - Operating expenses for fiscal year 2016, other than claims expense, were $364 million as compared to $352 million in fiscal year 2015, a $12 million, or 3.6 percent, increase. Higher operating expenses in fiscal year 2016 mainly resulted from increases in salaries and benefits. State employee salaries increased 3 percent effective July 1, 2015 as approved by the Legislature, and there are 24 more full-time-equivalent employees this fiscal year than last, mainly in Self-Insurance Administration and in Return to Work Partnerships. Increases of 21 percent in the employer retirement contribution rate and 27 percent in employer costs for health insurance account for the benefit expense increase.

The following chart provides additional detail on the distribution of operating expenses by type during fiscal year 2016.

Fiscal Year 2016 Operating Expenses by Type



Capital Asset and Debt Administration

Capital assets - Capital assets, net of accumulated depreciation, as of June 30, 2016, was $67 million. This reflects a net decrease of $4 million from the previous year. This net decrease is mainly due to an increase in accumulated depreciation resulting from prior year costs incurred for internally-developed software that are now being depreciated. Additional information on capital assets can be found in Note 1.D.6 and Note 6 of this report.

Bonds payable - Bond proceeds provided funding for the acquisition and construction of the building and grounds for L&I's headquarters in Tumwater. As of June 30, 2016, the Workers' Compensation Program does not have any outstanding bonds payable. The last scheduled principal payment in the amount of $4.1 million was made during fiscal year 2016. Additional information on the bonds can be found in Note 7.A and Note 7.C of this report.

Potentially Significant Matters with Future Impacts

In order to maintain the actuarial solvency of the funds while keeping reasonable limits on rate fluctuations, L&I has a nine year plan to steadily rebuild the Industrial Insurance Fund contingency reserve (similar to net position) to a range between 13 and 15 percent of liabilities (less securities lending obligations). "Contingency reserve" refers to any surplus remaining on the statutory financial statements prepared in accordance with the National Association of Insurance Commissioners statutory accounting principles for the Industrial Insurance Fund. L&I's goal for fiscal year 2017 is to increase the contingency reserve balance from $1,455 million to $1,583 million by increasing rates and reducing costs by $35 to $70 million.

The Workers' Compensation Program has a plan to reduce the pension discount rate from 6.5 percent to 4.5 percent by 2023. In the past two fiscal years, the pension discount rate was reduced from 6.5 to 6.3 percent. By the end of calendar year 2017, the Workers' Compensation Program plans to reduce the discount rate to between 6.3 and 5.75 percent. Each tenth of a percent that the pension discount rate drops, the contingency reserve decreases an estimated $30 to $50 million.

Requests for Information

This report is designed to provide a general overview of the Workers' Compensation Program and illustrate the program's financial condition to interested parties. If you have questions about this report or need additional financial information, please contact the Chief Accounting Officer at the Department of Labor & Industries, P.O. Box 44833, Olympia, Washington 98504-4833.
In accordance with the Revised Code of Washington (RCW) 51.44.115, L&I also publishes a Statutory Financial Information Report for the Industrial Insurance Fund (State Fund) annually. This report is prepared in compliance with statutory accounting practices and principles.

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

Washington State Department of
Labor & Industries

Keep Washington Safe and Working

Basic Financial Statements

Washington State Department of
Labor & Industries

Keep Washington Safe and Working

Statement of Net Position
June 30, 2016

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
Current Assets		
Cash and cash equivalents	$	43,560,147
Investments		1,677,825,223
DOE trust cash and investments		639,660
Collateral held under securities lending agreements		114,917,282
Receivables, net of allowance		821,354,042
Receivables from other state accounts and agencies		82,533
Receivables from other governments		1,376,133
Inventories		200,680
Prepaid expenses		1,973,460
Total Current Assets		2,661,929,160
Noncurrent Assets		
DOE trust cash and investments, noncurrent		2,047,881
DOE trust receivable		2,975,394
Investments, noncurrent		13,909,623,915
Capital assets, net of accumulated depreciation		67,451,709
Total Noncurrent Assets		13,982,098,899
Total Assets		16,644,028,059
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows from pensions		24,824,562
Total Assets and Deferred Outflows of Resources		16,668,852,621
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION (DEFICIT)		
LIABILITIES		
Current Liabilities		
Accounts payable		3,999,759
Deposits payable		7,770,192
Accrued liabilities		183,090,692
Obligations under securities lending agreements		114,917,282
Payable to other state accounts and agencies		6,138,085
Due to other governments		3,152
Unearned revenues		1,794,763
DOE trust liabilities		639,660
Claims and judgments payable		192,000
Claims payable, current		2,011,573,573
Total Current Liabilities		2,330,119,158
Noncurrent Liabilities		
Claims payable, net of current portion		23,840,752,000
Other long-term liabilities		8,652,031
DOE trust long-term liabilities		5,023,275
Other post-employment benefits		53,078,000
Net pension liability for employee retirement plans		129,683,674
Total Noncurrent Liabilities		24,037,188,980
Total Liabilities		26,367,308,138
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows from pensions		19,116,904
NET POSITION (DEFICIT)		
Net investment in capital assets		67,451,709
Unrestricted		(9,785,024,130)
Total Net Position (Deficit)	$	(9,717,572,421)

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

Statement of Revenues, Expenses, and Changes in Net Position
For the Fiscal Year Ended June 30, 2016

OPERATING REVENUES		
Premiums and assessments, net of refunds	$	2,516,255,923
Miscellaneous revenue		57,681,950
Total Operating Revenues		2,573,937,873
OPERATING EXPENSES		
Salaries and wages		159,686,066
Employee benefits		62,966,705
Personal services		7,457,129
Goods and services		82,423,778
Travel		4,105,841
Claims		2,873,992,928
Depreciation		10,206,009
Miscellaneous		37,449,983
Total Operating Expenses		3,238,288,439
Operating Income (Loss)		(664,350,566)
NONOPERATING REVENUES (EXPENSES)		
Earnings on investments		857,706,891
Other revenues		8,908,537
Interest expense		(36,694)
Total Nonoperating Revenues (Expenses)		866,578,734
Change in Net Position		202,228,168
Net Position (Deficit) - July 1		(9,919,800,589)
Net Position (Deficit) - June 30	$	(9,717,572,421)

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, 2016

CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	$	2,422,214,987
Payments to/for beneficiaries		(2,087,716,543)
Payments to employees		(218,253,628)
Payments to suppliers		(99,352,717)
Other		56,073,143
Net Cash Flows from Operating Activities		72,965,242
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Operating grants received		8,533,660
License fees collected		94,530
Net Cash Flows from Noncapital Financing Activities		8,628,190
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Interest paid		(110,262)
Principal payments on bonds payable		(4,050,000)
Acquisitions of capital assets		(6,023,479)
Net Cash Flows from Capital and Related Financing Activities		(10,183,741)
CASH FLOWS FROM INVESTING ACTIVITIES		
Net sales of trust investments		7,060
Receipt of interest and dividends		505,257,312
Investment expenses		(4,722,836)
Proceeds from sale of investment securities		7,891,022,668
Purchases of investment securities		(8,493,924,619)
Net Cash Flows from Investing Activities		(102,360,415)
Net decrease in cash and cash equivalents		(30,950,724)
Cash & cash equivalents, July 1 (includes trust cash of $202,942)		74,720,874
Cash & cash equivalents, June 30 (includes trust cash of $210,003)	$	43,770,150
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating income (loss)	$	(664,350,565)
Adjustments to Reconcile Operating Income to Net Cash Flows from Operating Activities		
Depreciation		10,206,009
Change in Assets: Decrease (Increase)		
Receivables		(44,862,276)
Inventories		32,446
Prepaid expenses		97,570
Change in Liabilities: Increase (Decrease)		
Claims and judgments payable		786,368,573
Accrued liabilities		(14,526,515)
Net Cash Flows from Operating Activities	$	72,965,242
NON CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES		
Increase in fair value of investments	$	219,639,819

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

Washington State Department of
Labor & Industries

Keep Washington Safe and Working

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

Index

Note 1 - Summary of Significant Accounting Policies

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

1.A. Reporting Entity

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

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

1.B. Basic Financial Statements

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

The Accident Account, established on July 1, 1947, per RCW 51.44.010, pays compensation directly to injured workers for lost wages during temporary disability and for permanent partial disability awards. It also pays costs for vocational retraining and for structured settlements. In addition, the Accident Account pays to the Pension Reserve Account the present value of pensions awarded to the surviving spouse or dependent of fatally injured workers and workers who are permanently and totally disabled.

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

On behalf of injured workers, the Medical Aid Account, established on July 1, 1917, per RCW 51.44.020, pays for the cost of medical services, vocational rehabilitation services, and Stay at Work reimbursements. Revenues for this account come mostly from equal contributions from employers and employees; employers are required to withhold half of their medical aid premium from their employees' wages.

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

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

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

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

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

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

The Industrial Insurance Rainy Day Fund Account was created by the Legislature during the 2011 session to hold transfers from the Accident and Medical Aid Accounts when assets for those accounts combined are between 10 and 30 percent in excess of their funded liabilities. Primarily, balances in this account will be used to reduce future rate increases or aid businesses in recovering from or during economic recessions. The account did not have any activity during fiscal year 2016 or a balance on June 30, 2016.

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

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

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

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

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

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

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

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

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

1.C. Measurement Focus and Basis of Accounting

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

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

1.D. Assets, Liabilities, and Net Position

1.D.1. Cash and Cash Equivalents

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

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

1.D.2. DOE Trust Cash and Investments

Per RCW 51.04.130, the U.S. Department of Energy has contracted with the Workers' Compensation Program to pay benefits to Hanford nuclear production complex workers injured on the job. Funds provided in advance by the U.S. Department of Energy to cover the pension liability determined by the Workers' Compensation Program are restricted assets and recorded as "DOE trust cash and investments." The remaining pension liability not covered by DOE trust cash and investments is recorded as "DOE trust receivable."

As of June 30, 2016, trust cash and investments of $639,660, representing the estimated current liability to L&I for the reimbursement of pension payments to Hanford injured workers, are classified as current assets on the Statement of Net Position. The remaining balance of trust cash and investments amounted to $2,047,881 and is classified under noncurrent assets. Trust investments were invested in one-year U.S. Treasury Notes.

1.D.3. Investments

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

1.D.4. Receivables and Payables

Current receivables arose in the ordinary course of business and consist of amounts due for workers' compensation premiums, investment interest receivable, and other miscellaneous receivables. Receivables are recorded when they can be reasonably estimated and have been earned (i.e., overpayment has occurred, service has been performed, or the time period has passed). Receivables due for workers' compensation premiums for the quarter ended June 30, 2016, 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 one percent per month. When an account is deemed uncollectible, it is written off against the allowance; however, such accounts are not forgiven until allowed by law. The Workers' Compensation Program does not require collateral for its accounts receivable except for self-insurance pension receivables.

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

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

In the Accident Account, the incurred but not-yet-awarded pensions are discounted at a rate between 4.5 and 6.3 percent from the anticipated payment dates back to the anticipated time of award and 1.5 percent from the anticipated time of award to the evaluation date. All other

Accident, Medical Aid, and Supplemental Pension Account claim liabilities are discounted at 1.5 percent. The claim liabilities in the Pension Reserve Account are discounted at 6.3 percent.

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

1.D.5. Inventories and Prepaid Expenses

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

Prepaid expenses are certain types of services that will benefit future accounting periods and are accounted for using the consumption method. The portion of services used during a period is recorded as an expense. The remaining balance is reported as an asset until consumed. As of June 30, 2016, prepaid expenses amounted to $1,973,459.

1.D.6. Capital Assets

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

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

- All capital assets acquired with a Certificate of Participation

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

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

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

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

Generally, estimated useful lives are as follows:

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

1.D.7. Compensated Absences

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

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

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

1.E. Other Information

1.E.1. Risk Management

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

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

1.E.2. Interfund/Interagency Activities

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

<u>Note 2 - Accounting and Reporting Changes</u>

Reporting Changes

Effective for fiscal year 2016 reporting, the Workers' Compensation Program adopted the following new standards issued by the GASB:

Statement No. 72 *Fair Value Measurement and Application.* GASB Statement No. 72 defines fair value and provides guidance for determining a fair value measurement for financial reporting purposes.

Statement No. 76 *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments.* GASB Statement No. 76 identifies the hierarchy of generally accepted accounting principles for governmental financial reporting and establishes the framework for selecting those principles.

Change in Estimate

Prior to fiscal year 2016, the liability for one of the self-insured employer's pensions was estimated on a cash-funded basis. Cash funded pensions are included in the pension benefit liability estimate, because the agency has the fiduciary responsibility to pay these benefits. In September of fiscal year 2016, new information was obtained which changed the basis upon which the estimates were formed from cash-funded to bonded. The pension liabilities associated with bonded pensions are not included in the agency pension benefit liabilities, because the employer is guaranteeing the payment. As a result, the claims payable liability estimate as of June 30, 2016, was reduced by $24,128,949, which decreased claims expense and decreased the net position deficit by the same amount. Per generally accepted accounting principles, changes in accounting estimates must be accounted for in the period in which the estimates are revised.

Note 3 - Deposits and Investments

3.A. Deposits

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

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

The OST manages the deposits for the Workers' Compensation Program. At June 30, 2016, $43.8 million of the Workers' Compensation Program's deposits with financial institutions were either insured or collateralized, with the remaining $2.5 million uninsured/uncollateralized. The Federal Deposit Insurance Corporation (FDIC) covers the Workers' Compensation Program's insured deposits, and the PDPC provides collateral protection.

3.B. Investments

3.B.1. Summary of Investment Policies

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

3.B.2. Valuation of Investments

Fair Value - GASB Statement No. 72 *Fair Value Measurement and Application* (Statement 72) specifies a hierarchy of valuation classifications based on whether the inputs to the valuation techniques used in each valuation classification are observable or unobservable. These classifications are summarized in three broad levels listed below:

- Level 1 – Unadjusted quoted prices for identical instruments in active markets.

- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, including quoted prices for similar assets or liabilities in markets that are active; quoted prices for identical or similar assets or liabilities in markets that are not active; and inputs other than quoted prices that are observable for the assets or liabilities (such as exchange rates, financing terms, interest rates, yield curves, volatilities, prepayment speeds, loss severities, credit risks, and default rates).

- Level 3 – Valuations derived from valuation techniques in which significant inputs or significant value drivers are unobservable.

Inputs that are used to measure fair value might fall in different levels of the fair value hierarchy, in which case, the Workers' Compensation Program defaults to the lowest level input that is significant to the fair value measurement of each investment, with Level 3 being the lowest level. The determination of fair value of an investment within the hierarchy of classifications above is not necessarily an indication of the risk or liquidity associated with the investments. In determining the appropriate levels, the Workers' Compensation Program performed a detailed analysis of the assets and liabilities that are subject to Statement 72. Valuation policies and procedures are managed by the Investment Accounting and Administration unit of the WSIB, which regularly monitors fair value measurements. Fair value measurements are prepared and reviewed monthly, and any third party valuations are reviewed for reasonableness and compliance with relevant accounting standards.

The Workers' Compensation Program receives fair value prices for publicly traded debt securities directly from its custodian bank. These prices are obtained from reputable pricing sources which include but are not limited to Barclays and Interactive Data Corporation. The custodian bank performs the following tolerance and review checks on the pricing data on a daily basis:

- Researches price changes from the previous day of 2 to 5 percent or greater, with corroborating evidence required from the primary pricing vendor.
- Prices unchanged for more than 10 days are sent to the appropriate vendor for review and verification.

The Workers' Compensation Program invests in Collective Investment Trusts operated by a bank or trust company and groups assets contributed into a commingled investment fund. These "mutual fund" type investments are not available to the general public and are open-ended funds, which issues or reduces shares for contributions and redemptions from the fund. The commingled fund manager determines a periodic price per unit of the collective trust by obtaining fair values of the underlying holdings using reputable pricing sources and computing an overall net asset value per share.

The Workers' Compensation Program reports investments at fair value and categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. Unrealized gains and losses are included in the Statement of Revenues, Expenses, and Changes in Net Position.

The table below presents fair value measurements as of June 30, 2016:

Schedule of Fair Value Measurement
June 30, 2016
(in thousands)

		Fair Value Measurements Using		
Investment Type	**Fair Value**	**Level 1**	**Level 2**	**Level 3**
Debt securities				
Mortgage and other asset-backed securities	$ 1,450,705		$ 1,450,705	
Corporate bonds	9,331,357		9,331,357	
U.S. and foreign government and agency securities	2,845,734		2,845,734	
Total investments by fair value level	13,627,796		$ 13,627,796	
Investments measured at net asset value (NAV)				
Commingled equity investment trusts	1,766,364			
Total investments measured at the NAV	1,766,364			
Total investments measured at fair value	$ 15,394,160			
Other assets (liabilities) measured at fair value				
Collateral held under securities lending agreements	$ 114,581		$ 114,581	
Obligations under securities lending agreements	$ (114,581)		$ (114,581)	
Total other assets (liabilities) measured at fair value	$ -		$ -	

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

Investments classified as Level 2 - Investments classified as Level 2 in the above table are comprised of publicly-traded debt securities. Publicly-traded debt securities are sourced from reputable pricing vendors using models that are market-based measurements representing their good faith opinion as to the exit value of a security in an orderly transaction under current market conditions. Such models take into account quoted prices, nominal yield spreads, benchmark yield curves, prepayment speeds, and other market-corroborated inputs.

Investments measured at net asset value (NAV) - The Workers' Compensation Program invests in seven separate collective investment trust funds (fund), operated by a bank or trust company, and groups assets contributed into a commingled investment fund. These mutual fund-type investments are not available to the general public and are open-ended funds, which issue or reduce shares for contributions and redemptions from the fund. The commingled fund manager determines a periodic price per unit of the collective trust by obtaining fair values of the underlying holdings using reputable pricing sources and computing an overall net asset value per share. The holdings within each fund are publicly traded equity securities.

Six funds are passively managed to collectively approximate the capitalization weighted total rates of return of the MSCI All Country World Ex U.S. Investable Market Index. Each fund has monthly openings and contributions, and withdrawals can be made on each opening date. The fund manager, at its discretion, reserves the right to delay the processing of deposits and withdrawals from each fund in order to ensure that securities transactions will be carried out in an orderly manner. The fund may suspend valuation and withdrawal rights when, at the fund manager's sole discretion, prevailing market conditions or other circumstances, events, or occurrences make the disposition or valuation of investments impracticable or inadvisable, or when the fund manager otherwise considers such action to be in the best interest of the participants or believes that such action would assist in eliminating or mitigating an adverse effect on the fund or participants.

One fund is passively managed to approximate the capitalization weighted total rates of return of the MSCI U.S. Investable Market Index. The fund has daily openings and contributions, and withdrawals can be made on any business day. The fund manager, at its discretion, may require withdrawal proceeds to be made partially or wholly in kind. Under certain circumstances, the fund manager may choose to suspend valuation and/or the right to make contributions and withdrawals from the fund. Such circumstances include actual or anticipated closure, restriction, or suspension of trading activity in any markets or exchanges where the fund investments are traded; where the purchase, sale, or pricing of the fund's investments would not be reasonably practicable or advisable; or where suspending contributions or withdrawals would be in the best interest of the fund or participants.

3.B.3. Securities Lending

The Workers' Compensation Program participates in securities lending programs with the WSIB and the OST to increase investment income. At June 30, 2016, the Workers' Compensation Program had $114,580,717 of cash collateral received in the Accident and Pension Reserve Accounts invested through the WSIB. There was $336,565 of cash collateral received in the Medical Aid and the Supplemental Pension Accounts invested through the OST.

Securities Lending – WSIB

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

The fair value of the securities on loan at June 30, 2016, was approximately $112.0 million. The Workers' Compensation Program reports securities on loan on the Statement of Net Position in their respective categories. At June 30, 2016, cash collateral received totaling $114.6 million is reported as a securities lending obligation, and the fair value of the reinvested cash collateral totaling $114.6 million is reported as security lending collateral in the Statement of Net Position. Securities received as collateral for which the Workers' Compensation Program does not have the ability to pledge or sell unless the borrower defaults are not reported as assets or liabilities in the Statement of Net Position. Total securities received as collateral at June 30, 2016, was $316,184.

During fiscal year 2016, debt securities were loaned and collateralized by the Workers' Compensation Program's agent with cash and U.S. government or U.S. agency securities, including U.S. agency mortgage-backed securities (exclusive of letters of credit). When the loaned securities had collateral denominated in the same currency, the collateral requirement was 102 percent of the fair value, including accrued interest, of the securities loaned. All other securities were required to be collateralized at 105 percent of the fair value, including accrued interest, of the loaned securities.

As of June 30, 2016, the Workers' Compensation Program held the following securities from reinvestment of cash collateral and securities received as collateral:

Collateral Held Under Securities Lending
June 30, 2016
(in thousands)

	Cash Collateral	Non Cash Collateral	Total
Mortgage-backed	$ -	$ 316	$ 316
Repurchase agreements	45,533	-	45,533
Yankee CDs	25,468	-	25,468
Commercial Paper	19,365	-	19,365
Cash equivalents and other	24,215	-	24,215
Total Collateral Held	$ 114,581	$ 316	$ 114,897

Securities lending transactions can be terminated on demand either by the Workers' Compensation Program or the borrower. As of June 30, 2016, the collateral held had an average duration of 17.2 days and an average weighted final maturity of 73.4 days. Because the securities lending agreements were terminable at will, their duration did not generally match the duration of the investments made with the cash collateral. Non-cash collateral cannot be pledged or sold absent borrower default. No more than 20 percent of the total on-loan value can be held by a specific borrower. Collateral investment guidelines specifically prohibit European-domiciled holdings. There are no restrictions on the amount of securities that can be lent.

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

During fiscal year 2016, there were no significant violations of legal or contractual provisions and no failures by any borrowers to return loaned securities or to pay distributions thereon. Further, the Workers' Compensation Program incurred no losses during fiscal year 2016 resulting from a default by either the borrowers or the securities lending agents.

Securities Lending – OST

State statutes permit the OST to lend its securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. The OST has contracted with Citibank, N.A. as a lending agent and receives a share of income earned from this activity. The lending agent lends securities and receives collateral, which can be in the form of cash or other securities. The collateral, which must be valued at 102 percent of the value of the loaned securities, is priced daily and, if necessary, action is taken to maintain the collateralization level at 102 percent.

Cash is invested by the lending agent in repurchase agreements, deposit accounts, or money market instruments, in accordance with investment guidelines approved by the OST. The securities held as collateral and the securities underlying the cash collateral are held by the custodian. One option available to the lending agent is to invest cash collateral into an OST account in the Local Government Investment Pool (LGIP). The LGIP portfolio is invested in a manner that meets the requirements set forth by the Governmental Accounting Standards Board for the external investment pools that wish to measure all of its investments at amortized costs. The funds are limited to high quality obligations with regulated maximum average maturities, the effect of which is to minimize both market and credit risk. The LGIP transacts with its participants at a stable net asset value per share of one dollar, which results in the amortized cost reported equaling the number of shares in the LGIP. During fiscal year 2016, cash received as collateral was invested in the LGIP money market fund and/or demand deposit accounts, which allow withdrawals each business day to cover maturing loans. At June 30, 2016, the Workers' Compensation Program's cash collateral totaled $336,565.

Contracts require the lending agent to indemnify the OST if the borrowers fail to return securities and if the collateral is inadequate to replace the securities lent, or if the borrower fails to pay the

OST for income distributed by the securities' issuers while the securities are on loan. The OST cannot pledge or sell collateral securities received unless the borrower defaults. At June 30, 2016, the fair value of securities on loan for the Workers' Compensation Program totaled $328,854.

The OST investment policy requires that any securities on loan be made available by the lending agent for next day liquidity at the option of the OST. During fiscal year 2016, the OST had no credit risk exposure to borrowers, because the amounts owed to the borrowers exceeded the amounts the borrowers owed to the OST.

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

3.B.4. Interest Rate Risk

Interest rate risk is the risk that changes in interest rates over time will adversely affect the fair value of an investment. While the Workers' Compensation Program does not have a formal policy relating to interest rate risk, the risk is managed within the Workers' Compensation Program portfolio using effective duration, which is the measure of a debt investment's exposure to fair value changes arising from changes in interest rates. Increases in prevailing interest rates generally translate into decreases in fair values of fixed income investments. As of June 30, 2016, the Workers' Compensation Program portfolio durations were within the prescribed duration targets.

The schedule below provides information about the interest rate risks associated with the Workers' Compensation Program investments as of June 30, 2016. The schedule displays various asset classes held by years until maturity and effective duration. All debt securities are reported using average life within the portfolio. The average life is a calculated estimate of the average time (in years) until maturity for these securities, taking into account possible prepayments of principal.

Schedule of Maturities and Effective Duration
June 30, 2016
(dollars in thousands)

		Maturity				Effective
Investment Type	**Fair Value**	**Less than 1 year**	**1-5 years**	**6-10 years**	**More than 10 years**	**Duration (years)**
Mortgage and other asset-backed securities	$ 1,450,705	$ 198,660	$ 1,118,071	$ 78,753	$ 55,221	3.30
Corporate bonds	9,331,357	1,082,926	2,678,109	2,239,181	3,331,141	7.60
U.S. government and agency securities	2,132,945	80,051	732,975	718,903	601,016	9.70
Foreign government and agencies	712,789	122,946	365,236	179,748	44,859	4.80
	13,627,796	$ 1,484,583	$ 4,894,391	$ 3,216,585	$ 4,032,237	
Investments Not Required to be Categorized						
Commingled investment trusts	1,766,364					
Cash and cash equivalents	193,242					
Total investments not categorized	1,959,606					
Total*	$ 15,587,402					

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

Investments with multiple credit ratings at June 30, 2016, are presented using the Moody's rating scale as follows:

Multiple Credit Rating Disclosure
June 30, 2016
(in thousands)

	Investment Type			
Moody's Equivalent Credit Rating	**Mortgage and Other Asset-Backed Securities**	**Corporate Bonds**	**Foreign Government and Agency Securities**	**Total Fair Value**
Aaa	$ 1,428,590	$ 338,020	$ 161,976	$ 1,928,586
Aa1	22,115	30,036		$ 52,151
Aa2	-	85,756	144,979	$ 230,735
Aa3	-	1,193,132	287,957	$ 1,481,089
A1	-	1,275,245	35,937	$ 1,311,182
A2	-	1,040,920	-	$ 1,040,920
A3	-	1,595,454	-	$ 1,595,454
Baa1	-	1,282,335	28,502	$ 1,310,837
Baa2	-	1,053,497	-	$ 1,053,497
Baa3		1,014,163	53,438	$ 1,067,601
Ba1 or lower	-	422,799	-	$ 422,799
Total Fair Value	$ 1,450,705	$ 9,331,357	$ 712,789	$ 11,494,851

3.B.5. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Workers' Compensation Program investment policies limit the fixed income securities to investment grade or higher at the time of purchase. Investment grade securities are those fixed income securities with a Moody's rating of Aaa to Baa or a Standard and Poor's rating of AAA to BBB. The rated debt investments of the Workers' Compensation Program as of June 30, 2016, were rated by Moody's and/or an equivalent national rating organization.

Concentration of Credit Risk - Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. The Workers' Compensation Program policy states that no corporate fixed income issue cost shall exceed 3 percent of the fund's fair value at the time of purchase, nor shall its fair value exceed 6 percent of the fund's fair value at any time. There was no concentration of credit risk as of June 30, 2016.

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

3.B.6. Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The Workers' Compensation Program does not have a formal policy to limit foreign currency risk. The only security held by the Workers' Compensation Program with foreign currency exposure at June 30, 2016, consisted of $671.6 million (includes U.S. dollar-denominated securities) invested in an international commingled equity index fund.

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

Workers' Compensation Program Foreign Currency Exposure by Country June 30, 2016 (in thousands)		
Foreign Currency Denomination		**Equity Securities**
Australia-Dollar	$	33,460
Brazil-Real		10,132
Canada-Dollar		46,214
Denmark-Krone		8,826
E.M.U.-Euro		133,050
Hong Kong-Dollar		45,085
India-Rupee		13,153
Indonesia-Rupiah		4,009
Israel-Sheqel		3,128
Japan-Yen		114,864
Malaysia-Ringgit		4,523
Mexico-Peso		6,036
New Taiwan-Dollar		19,255
Norway-Krone		3,592
Philippines-Peso		2,262
Singapore-Dollar		6,634
South Africa-Rand		10,576
South Korea-Won		22,923
Sweden-Krona		14,626
Switzerland-Franc		40,760
Thailand-Baht		3,668
United Kingdom-Pound		92,194
Miscellaneous Foreign Currencies		11,053
Total	$	650,023

3.B.7. Derivatives

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

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

Domestic and foreign passive equity index fund managers may also utilize various derivative securities to manage exposure to risk and increase portfolio returns. Information on the extent of use and holdings of derivative securities by passive equity index fund managers is unavailable. At June 30, 2016, the only derivative securities held directly by the Workers' Compensation Program were collateralized mortgage obligations (CMOs) of $922.5 million.

3.B.8. Reverse Repurchase Agreements

State law permits the Workers' Compensation Program to enter into reverse repurchase agreements, i.e., a sale of securities with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest. The fair value of the securities underlying reverse repurchase agreements normally exceeds the cash received, providing the dealers a margin against a decline in fair value of the securities. If the dealers default on their obligations to resell these securities to the state or provide securities or cash of equal value, the Workers' Compensation Program would suffer an economic loss equal to the difference between the fair value plus accrued interest of the underlying securities and the agreement obligation, including accrued interest. There were no reverse repurchase agreements entered into during fiscal year 2016, and there were no liabilities outstanding as of June 30, 2016.

Note 4 - Receivables

Receivables at June 30, 2016, consisted of the following:

Receivables June 30, 2016	
Current Receivables	
Premiums receivable	
Actual premiums receivable	$ 144,716,461
Estimated premiums receivable [1]	648,623,000
Estimated self-insurance premiums receivable [2]	54,666,098
Total Premiums Receivable	848,005,559
Other receivables	
Receivable from overpayments	1,887,629
Investment interest receivable	110,137,439
Safety fines and penalties receivable	17,014,257
Miscellaneous receivables	3,354,277
Total Current Receivables, Gross	980,399,161
Less: Allowance for uncollectible receivables	159,045,119
Total Current Receivables, Net of Allowance	$ 821,354,042

[1]Estimated premiums receivable represents premiums due for the quarter ended June 30, 2016. Premium amounts were estimated by L&I actuaries, to be collected for the Accident, Medical Aid, and Supplemental Pension Accounts.

[2]Estimated self-insurance premiums receivable represents estimated assessment receivables accrued for the quarter ended June 30, 2016, based on prior employer quarterly reports. This amount also includes pension receivables, experting, and accounts receivable balances.

Note 5 - Interfund/Interagency Balances

Receivables from other state accounts and agencies as of June 30, 2016, consisted of the following:

Receivables From Other State Accounts and Agencies June 30, 2016		
General Fund	$	6,748
L&I accounts*		39,070
Other state agencies		36,715
Total Receivables From Other State Accounts and Agencies	$	82,533

*Receivables and payables between the Workers' Compensation Program accounts are not included in the above totals.

All balances are expected to be received within one year from the date of the basic financial statements. These balances resulted from goods and services provided prior to June 30, 2016.

Payables to other state accounts and agencies as of June 30, 2016, consisted of the following:

Payables To Other State Accounts and Agencies June 30, 2016		
General Fund	$	233,560
L&I accounts*		332,068
Other state agencies		5,572,457
Total Payables To Other State Accounts and Agencies	$	6,138,085

*Receivables and payables between the Workers' Compensation Program accounts are not included in the above totals.

All balances are expected to be paid within one year from the date of the basic financial statements. These balances resulted from goods and services received prior to June 30, 2016, and paid after the fiscal year ended.

Note 6 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2016, was as follows:

Capital Assets Activity
June 30, 2016

	Beginning Balance July 1, 2015	Increases	Decreases	Ending Balance June 30, 2016
Capital Assets Not Being Depreciated:				
Land and collections	$ 3,239,748	$ -	$ -	$ 3,239,748
Construction in progress	11,182,638	5,769,084	(7,397,910)	9,553,812
Total Capital Assets Not Being Depreciated	14,422,386	5,769,084	(7,397,910)	12,793,560
Capital Assets Being Depreciated:				
Buildings and building components	65,133,602	-	-	65,133,602
Accumulated depreciation	(30,348,463)	(1,353,503)	-	(31,701,966)
Net Buildings and Building Components	34,785,139	(1,353,503)	-	33,431,636
Furnishings, equipment, and collections	64,175,122	259,831	(3,754,639)	60,680,314
Accumulated depreciation	(61,809,736)	(857,709)	3,738,244	(58,929,201)
Net Furnishings, Equipment, and Collections	2,365,386	(597,878)	(16,395)	1,751,113
Other improvements	1,289,262	-	-	1,289,262
Accumulated depreciation	(727,583)	(20,408)	-	(747,991)
Net Other Improvements	561,679	(20,408)	-	541,271
Total Capital Assets Being Depreciated, Net	37,712,204	(1,971,789)	(16,395)	35,724,020
Intangible assets - definite useful lives	34,748,526	7,397,911	-	42,146,437
Accumulated amortization	(15,237,920)	(7,974,388)	-	(23,212,308)
Total Capital Assets Being Amortized, Net	19,510,606	(576,477)	-	18,934,129
Total Capital Assets, Net of Depreciation and Amortization	$ 71,645,196	$ 3,220,818	$ (7,414,305)	$ 67,451,709

For fiscal year 2016, the total depreciation expense was $10,206,009.

Note 7 - Noncurrent Liabilities

7.A. Bonds Payable

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

The terms of the bond payment obligations are as follows:

- **The General Obligation Bonds of Series R-93B**
  The Workers' Compensation Program is required to make annual principal and semi-annual interest payments. The final payment was made on October 1, 2015. The original amount of this bond issue was $19,960,000 in fiscal year 1993.

- **The General Obligation Bonds of Series R-2007C**
  The Workers' Compensation Program is required to make annual principal and semi-annual interest payments. The final payment was made on July 1, 2015. The original amount of this bond issue was $6,635,000 in fiscal year 2007.

In fiscal year 2016, the Workers' Compensation Program paid $4,050,000 in principal and $110,262 in interest on these bonds. Since a portion of the interest paid was for the prior year, total fiscal year 2016 interest expense was $36,694.

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

Debt Refunding

When advantageous and permitted by statute and bond covenants, the State Finance Committee authorizes the refunding of outstanding bonds. When the state refunds outstanding bonds, the net proceeds of each refund issued are used to purchase U.S. government securities. These securities are placed in irrevocable trusts with escrow agents to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered defeased, and the liability has been removed from the Statement of Net Position. There were no debt refundings in fiscal year 2016.

7.B. Claims Payable

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

Changes in Claims Liabilities
June 30, 2016 and 2015

Claims Payable	**June 30, 2016**	**June 30, 2015**
Unpaid claims and claim adjustment expenses at beginning of fiscal year	$ 25,066,149,000	$ 24,437,534,000
Incurred claims and claim adjustment expenses		
Provision for insured events of the current fiscal year	2,048,491,000	2,102,923,000
Increase in provision for insured events of prior fiscal years	975,846,000	711,211,000
Total Incurred Claims and Claim Adjustment Expenses	3,024,337,000	2,814,134,000
Payments		
Claims and claim adjustment expenses attributable to		
Events of the current fiscal year	303,784,000	300,862,000
Insured events of prior fiscal years	1,934,376,000	1,884,657,000
Total payments	2,238,160,000	2,185,519,000
Total Unpaid Claims and Claim Adjustment Expenses at Fiscal Year End	$ 25,852,326,000	$ 25,066,149,000
Current portion	$ 2,011,574,000	$ 1,959,663,000
Noncurrent portion	$ 23,840,752,000	$ 23,106,486,000

At June 30, 2016, $37,253 million of unpaid loss and loss adjustment expense liabilities are presented at their net present and settlement value of $25,852 million. These claims are discounted at an assumed interest rate of 1.5 percent (for time-loss and medical), and 4.5 to 6.3 percent (for pension) to arrive at a settlement value.

The claims and claim adjustment liabilities of $25,852 million, as of June 30, 2016, include $12,261 million for supplemental pension COLAs that are funded on a current basis per RCW 51.32.073. Management believes the funding is in compliance with the statute. The remaining claim liabilities of $13,591 million are fully funded by a diverse portfolio of fixed income instruments, equity index funds, and cash, managed by the WSIB.

7.C. Changes in Current and Noncurrent Liabilities

Current and noncurrent liability activity for the fiscal year ended June 30, 2016, was as follows:

Current and Noncurrent Liability Activity
Fiscal Year 2016

Current and Noncurrent Liabilities	Beginning Balance July 1, 2015	Additions	Reductions	Ending Balance June 30, 2016	Due Within One Year[2]	Noncurrent Balance June 30, 2016
Claims payable, current & noncurrent	$ 25,066,149,000	$ 3,024,337,000	$ (2,238,160,000)	$ 25,852,326,000	$ 2,011,574,000	$ 23,840,752,000
Bonds payable						
General obligation bonds						
Series R-93B	2,575,000	-	(2,575,000)	-	-	-
Series R-2007C	1,475,000	-	(1,475,000)	-	-	-
Total Bonds Payable	4,050,000	-	(4,050,000)	-	-	-
Other current and noncurrent liabilities						
Compensated absences[1]	13,690,150	14,476,345	(13,990,562)	14,175,933	5,523,902	8,652,031
DOE trust liabilities	5,960,822	-	(297,887)	5,662,935	639,660	5,023,275
Other postemployment benefits	42,573,000	13,030,000	(2,525,000)	53,078,000	-	53,078,000
Net pension liability	102,263,881	27,419,793	-	129,683,674	-	129,683,674
Total Other Current and Noncurrent Liabilities	164,487,853	54,926,138	(16,813,449)	202,600,542	6,163,562	196,436,980
Total Current and Noncurrent Liabilities	$ 25,234,686,853	$ 3,079,263,138	$ (2,259,023,449)	$ 26,054,926,542	$ 2,017,737,562	$ 24,037,188,980

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

7.D. Operating Leases

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

The following schedule presents future minimum payments for operating leases as of June 30, 2016:

Future Minimum Payments June 30, 2016	
Operating Leases (by Fiscal Year)	
2017	$ 7,917,556
2018	4,724,072
2019	3,075,093
2020	2,045,043
2021	1,026,930
Total Future Minimum Lease Payments	$ 18,788,694

The total operating lease rental expense for fiscal year 2016 was $11,061,621.

Note 8 - Deficit

At June 30, 2016, the Workers' Compensation Program had a deficit of $9,718 million. This is a result of a $12,042 million deficit in the Supplemental Pension Account at June 30, 2016, offset by a combined $2,325 million net position in the total Basic Plan, Second Injury Account, and the Self-Insured Employer Overpayment Reimbursement Account. The Workers' Compensation Program Basic Plan is funded based on rates that will keep the plan solvent in accordance with recognized actuarial principles. Supplemental COLA adjustments granted for time-loss and disability payments, however, are funded on a pay-as-you-go basis. According to RCW 51.32.073, the Supplemental Pension Account is allowed to collect only enough revenue to provide for current payments. At June 30, 2016, non-current claims payable in the Supplemental Pension Account totaled $11,746 million.

The following table summarizes the change in deficit balance for the Supplemental Pension Account during fiscal year 2016:

Supplemental Pension Account **Net Position (Deficit)**	
Balance, July 1, 2015	$ (11,589,846,693)
Fiscal year 2016 activity	(452,429,566)
Balance, June 30, 2016	$ (12,042,276,259)

Note 9 - Retirement Plans and Net Pension Liability

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

The table below shows the net pension liability, deferred outflows of resources, and deferred inflows of resources reported on June 30, 2016, for the Workers' Compensation Program's proportionate share of the liabilities for the PERS and TRS employee retirement plans. Additional detail is provided later in this note.

Workers' Compensation Program Proportionate Share
June 30, 2016

	Net Pension Liability	Deferred Outflows of Resources	Deferred Inflows of Resources
PERS 1	$ 70,982,707	$ 8,169,751	$ 3,883,528
PERS 2/3	58,566,959	16,636,554	15,214,231
TRS 1	104,621	11,761	7,744
TRS 2/3	29,387	6,496	11,401
Total	$ 129,683,674	$ 24,824,562	$ 19,116,904

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

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

9.A. Public Employees' Retirement System

Plan Descriptions

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

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

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

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

Benefits Provided

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

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

Contributions

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

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

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

The employer contribution rate for the Workers' Compensation Program at the close of fiscal year 2016 for each of Plans 1, 2, and 3 was 11.18 percent.

The member contribution rate for Plan 1 is established by statute at 6 percent for employees of state agencies. Contributions for Plan 2 members are determined by the aggregate method and may vary over time. The contribution rate for Plan 2 state agency employees at June 30, 2016, was 6.12 percent of the employee's annual covered salary. Under Plan 3, employer contributions finance the defined benefit portion of the plan, and member contributions finance the defined contribution portion. The Director of the DRS sets Plan 3 employee contribution rate options. Members can choose from six rate options ranging from 5 to 15 percent. Two of the options are graduated rates dependent on the employee's age.

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of June 30, 2014, with the results rolled forward to June 30, 2015, using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

The actuarial assumptions used in the June 30, 2014, valuation were based on the results of the 2007-2012 Experience Study Report.

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

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

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

The long-term expected rate of return of 7.50 percent approximately equals the median of the simulated investment returns over a 50-year time horizon, adjusted to remove or dampen any short term changes to the WSIB's CMAs that aren't expected over the entire 50-year measurement period.

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2015, are summarized in the following table:

Rates of Return
June 30, 2015

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Fixed Income	20%	1.70%
Tangible Assets	5%	4.40%
Real Estate	15%	5.80%
Global Equity	37%	6.60%
Private Equity	23%	9.60%
Total	100%	

The inflation component used to create the above table is 2.20 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

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

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

Employers' Proportionate Share of
Net Pension Liability (Asset)

	PERS 1	PERS 2/3
1% Decrease	$ 86,421,625	$ 171,252,818
Current Discount Rate	$ 70,982,707	$ 58,566,959
1% Increase	$ 57,706,639	$ (27,712,363)

Net Pension Liability

At June 30, 2016, the Workers' Compensation Program reported a liability of $70,982,707 for its proportionate share of the collective net pension liability for PERS 1 and $58,566,959 for PERS 2/3. The Workers' Compensation Program's proportion for PERS 1 was 3.26 percent, an increase of 0.02 percent since the prior reporting period, and 3.34 percent for PERS 2/3, an increase of 0.04 percent. The proportions are based on the Workers' Compensation Program's contributions to the pension plan relative to the contributions of all participating employers.

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

For the year ended June 30, 2016, a reduction to pension expense of $4,871,892 was recognized for PERS 1, and a reduction to pension expense of $2,062,856 was recognized for PERS 2/3.

At June 30, 2016, PERS 1 and PERS 2/3 reported deferred outflows of resources related to pensions from the following sources:

Deferred Outflows of Resources
June 30, 2016

	PERS 1	PERS 2/3	Total
Difference between expected and actual experience	$ -	$ 6,225,684	$ 6,225,684
Changes of assumptions	-	94,364	94,364
Net difference between projected and actual earnings on pension plan investments	-	-	-
Change in proportionate share of contributions	-	966,685	966,685
Contributions subsequent to measurement date	8,169,751	9,349,821	17,519,572
Total	$ 8,169,751	$ 16,636,554	$ 24,806,305

At June 30, 2016, PERS 1 and PERS 2/3 reported deferred inflows of resources related to pensions from the following sources:

Deferred Inflows of Resources June 30, 2016	PERS 1	PERS 2/3	Total
Difference between expected and actual experience	$ -	$ -	$ -
Changes of assumptions	-	-	-
Net difference between projected and actual earnings on pension plan investments	3,883,528	15,634,601	19,518,129
Change in proportionate share of contributions	-	(420,371)	(420,371)
Total	$ 3,883,528	$ 15,214,230	$ 19,097,758

Pension contributions made subsequent to the measurement date in the amount of $8,169,751 and $9,349,821 for PERS 1 and PERS 2/3, respectively, were reported as deferred outflows of resources at June 30, 2016, and will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2017.

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

Net Deferred Outflows and (Inflows) of Resources Fiscal Year ended June 30,	PERS 1	PERS 2/3
2017	$ (1,505,122)	$ (3,836,906)
2018	$ (1,505,122)	$ (3,836,906)
2019	$ (1,505,122)	$ (3,836,923)
2020	$ 631,837	$ 3,583,238
2021 and thereafter	$ -	$ -

9.B. Teachers' Retirement System

Plan Description

The Legislature established the Teachers' Retirement System (TRS) in 1938. The TRS retirement benefit provisions are established in chapters 41.32 and 41.34 RCW and may be amended only by the Legislature. Eligibility for membership requires service as a certificated public school employee working in an instructional, administrative, or supervisory capacity. The

TRS is comprised principally of non-state-agency employees. The University of Washington promotes health and minimizes occupational disease or injury through teaching, research, and service for the Workers' Compensation Program. The University of Washington employees paid from Workers' Compensation Program funds are members of TRS Plan 3.

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

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

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

Benefits Provided

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

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

Contributions

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

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

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

The employer contribution rate for the Workers' Compensation Program at the close of fiscal year 2016 for each of Plans 1, 2, and 3 was 13.13 percent.

The member contribution rate for Plan 1 is established by statute at 6 percent for employees of state agencies and higher education employees. Contributions for Plan 2 members are determined by the aggregate method and may vary over time. The contribution rate for Plan 2 state agency and higher education employees at June 30, 2016, was 5.95 percent of the employee's annual covered salary. Under Plan 3, employer contributions finance the defined benefit portion of the plan, and member contributions finance the defined contribution portion. The Director of the DRS sets Plan 3 employee contribution rate options. Members can choose from six rate options ranging from 5 to 15 percent. Two of the options are graduated rates dependent on the employee's age.

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of June 30, 2014, with the results rolled forward to June 30, 2015, using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

The actuarial assumptions used in the June 30, 2014, valuation were based on the results of the 2007-2012 Experience Study Report.

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

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

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

The long-term expected rate of return of 7.50 percent approximately equals the median of the simulated investment returns over a 50-year time horizon, adjusted to remove or dampen any short term changes to the WSIB's CMAs that aren't expected over the entire 50-year measurement period.

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2015, are summarized in the following table:

Rates of Return
June 30, 2015

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Fixed Income	20%	1.70%
Tangible Assets	5%	4.40%
Real Estate	15%	5.80%
Global Equity	37%	6.60%
Private Equity	23%	9.60%
Total	100%	

The inflation component used to create the above table is 2.20 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

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

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

Employers Proportionate Share of Net Pension Liability (Asset)		
	TRS 1	TRS 2/3
1% Decrease	$ 131,517	$ 124,350
Current Discount Rate	$ 104,621	$ 29,387
1% Increase	$ 81,492	$ (41,206)

Net Pension Liability

At June 30, 2016, the Workers' Compensation Program reported a liability of $104,621 for its proportionate share of the collective net pension liability for TRS 1 and $29,388 for TRS 2/3. The Workers' Compensation Program's proportion for TRS 1 was 0.380 percent, a decrease of 0.420 percent since the prior reporting period, and 0.480 percent for TRS 2/3, a decrease of 0.620 percent. The proportions are based on the Workers' Compensation Program's contributions to the pension plan relative to the contributions of all participating employers.

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

For the year ended June 30, 2016, pension expense reduction of $100,116 was recognized for TRS 1, and an increase to pension expense of $78 was recognized for TRS 2/3.

At June 30, 2016, TRS 1 and TRS 2/3 reported deferred outflows of resources related to pensions from the following sources:

Deferred Outflows of Resources June 30, 2016			
	TRS 1	**TRS 2/3**	**Total**
Difference between expected and actual experience	$ -	$ 4,652	$ 4,652
Changes of assumptions	-	26	26
Net difference between projected and actual earnings on pension plan investments	-	-	-
Change in proportionate share of contributions	-	(11,354)	(11,354)
Contributions subsequent to measurement date	11,761	13,172	24,933
Total	$ 11,761	$ 6,496	$ 18,257

At June 30, 2016, TRS 1 and TRS 2/3 reported deferred inflows of resources related to pensions from the following sources:

Deferred Inflows of Resources June 30, 2016	TRS 1	TRS 2/3	Total
Difference between expected and actual experience	$ -	$ -	$ -
Changes of assumptions	-	-	-
Net difference between projected and actual earnings on pension plan investments	7,744	11,402	19,146
Change in proportionate share of contributions	-	-	-
Total	$ 7,744	$ 11,402	$ 19,146

Pension contributions made subsequent to the measurement date in the amount of $11,761 and $13,172 for TRS 1 and TRS 2/3, respectively, were reported as deferred outflows of resources at June 30, 2016, and will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2017.

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

Net Deferred Outflows and (Inflows) of Resources

Fiscal Year ended June 30,	TRS 1	TRS 2/3
2017	$ (3,003)	$ (6,764)
2018	$ (3,003)	$ (6,764)
2019	$ (3,003)	$ (6,764)
2020	$ 1,266	$ 1,693
2021 and thereafter	$ -	$ 520

Note 10 - Other Postemployment Benefits

The Workers' Compensation Program is administered by L&I, an agency of the state of Washington and part of the primary government. Employees of the Workers' Compensation Program are eligible to participate in the state of Washington's defined benefit Other Postemployment Benefit (OPEB) plan, an agent multiple-employer plan, as administered by the state through the Washington State Health Care Authority (HCA).

Plan Description and Funding Policy

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

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

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

Per RCW 41.05.022, retirees who are not yet eligible for Medicare benefits may continue participation in the state's non-Medicare community-rated health insurance risk pool on a self-pay basis. Retirees in the non-Medicare risk pool receive an implicit subsidy. The implicit subsidy exists because retired members pay a premium based on a claims experience for active employees and other non-Medicare retirees. The subsidy is valued using the difference between the age-based claim costs and the premium. In calendar year 2015, the average weighted implicit subsidy was valued at $308 per member per month, and in calendar year 2016, the average weighted implicit subsidy is projected to be $304 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 2015, the explicit subsidy was $150 per member per month, and it remained $150 per member per month in calendar year 2016.

Administrative costs, as well as implicit and explicit subsidies, are funded by required contributions from participating employers. The subsidies provide monetary assistance for medical benefits. Contributions are set each biennium as part of the budget process. The benefits are funded on a pay-as-you-go basis.

The plan has no investments or other assets. Accordingly, the PEBB OPEB plan is not reported in the financial statements of the state, nor is a separate financial report publicly available. For information on the results of the most recent actuarial valuation for the OPEB, refer to: http://osa.leg.wa.gov/Actuarial_Services/OPEB/OPEB.htm.

Annual OPEB Cost and Net OPEB Obligation

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

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

The following tables show components of the Workers' Compensation Program's allocated annual OPEB costs for fiscal year 2016 and changes in the Workers' Compensation Program's Net OPEB Obligation (NOO). All contributions required by the funding method were paid.

Components of Allocated Annual OPEB Cost Fiscal Year 2016	
Annual required contribution	$ 12,901,000
Allocated interest on net OPEB obligation	1,703,000
Allocated amortization of net OPEB obligation	(1,574,000)
Allocated annual OPEB cost	13,030,000
Allocated contributions made	(2,525,000)
Increase in net OPEB obligation	10,505,000
Net OPEB obligation, beginning of year	42,573,000
Net OPEB obligation, end of year	$ 53,078,000

The Workers' Compensation Program's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the NOO for fiscal years 2016, 2015, and 2014 were as follows:

Net OPEB Obligation by Fiscal Year	2016	2015	2014
Allocated annual OPEB cost	$ 13,030,000	$ 12,558,000	$ 8,732,000
Percentage of annual OPEB cost contributed	19.4%	18.2%	25.1%
Net OPEB obligation	$ 53,078,000	$ 42,573,000	$ 32,299,000

The Workers' Compensation Program's NOO represents 1.9, 1.8, and 1.7 percent of the state of Washington's NOO as of June 30, 2016, 2015, and 2014, respectively.

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

Note 11 - Commitments and Contingencies

11.A. Federal Assistance

The Workers' Compensation Program has received federal financial assistance for specific purposes that are generally subject to review or audit by the grantor agencies. Entitlement to this assistance is generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations. Any disallowance resulting from a review or audit may become a liability of the Workers' Compensation Program. The Workers' Compensation Program does estimate and recognize a claims liability for disallowances when determined by the grantor agency or for probable disallowances based on experience pertaining to these grants; however, these recognized liabilities and any unrecognized disallowances are considered immaterial to the Workers' Compensation Program's overall financial condition. The total federal assistance for fiscal year 2016 was $8.8 million.

11.B. Contingencies

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

11.C. Financial Guarantees

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

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

Note 12 - Subsequent Events

12.A. Proposed Rate Announcement

Each year, the Director of L&I adopts new workers' compensation insurance premium rates for the next calendar year. On September 21, 2016, the Director announced a proposed 0.7 percent increase in the average premium rate for 2017. The following four principles were used to guide the rate-setting process:

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

The final rates will be adopted in early December 2016 and go into effect on January 1, 2017.

Industrial Insurance Rainy Day Fund

RCW 51.44.023 was enacted during the 2011 Legislative session, creating an Industrial Insurance Rainy Day Fund to hold transfers from the Accident and Medical Aid Accounts when assets for those accounts combined are between 10 and 30 percent of total liabilities for the

Industrial Insurance Fund. Money from the Industrial Insurance Rainy Day Fund should be applied to reduce a rate increase or aid business in recovering from or during economic recessions. Per the June 30, 2016, Statutory Financial Information Report for the Industrial Insurance Fund, the combined assets of the Accident and Medical Aid Accounts are in excess of 10 percent of total liabilities. As a part of the 2017 rate-making process, the Director announced that he plans to restrict the Medical Aid Account Contingency Reserve (similar to restricted component of net position) for the Industrial Insurance Rainy Day Fund. The Medical Aid Account contingency reserve balance will be restricted by $107 million for the Industrial Insurance Rainy Day Fund. Statutory Financial Information is based on Statutory Accounting Principles (SAP) as promulgated by the National Association of Insurance Commissioners (NAIC).

Washington State Department of
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Required Supplementary Information

Washington State Department of
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Reconciliation of Claims Liabilities by Plan
Fiscal Years 2016 and 2015
(in thousands)

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

	Basic Plan		Supplemental Pension Plan		Total	
Claims Payable	FY 2016	FY 2015	FY 2016	FY 2015	FY 2016	FY 2015
Unpaid loss and loss adjustment expenses at beginning of fiscal year	$ 13,233,959	$ 12,912,537	$ 11,832,190	$ 11,524,997	$ 25,066,149	$ 24,437,534
Incurred claims and claim adjustment expenses						
Provision for insured events of the current fiscal year	1,779,283	1,817,350	269,208	285,573	2,048,491	2,102,923
Increase (decrease) in provision for insured events of prior fiscal years	326,795	256,524	649,051	454,687	975,846	711,211
Total incurred claims and claim adjustment expenses	2,106,078	2,073,874	918,259	740,260	3,024,337	2,814,134
Payments						
Claims and claim adjustment expenses attributable to						
Events of the current fiscal year	303,784	300,862	-	-	303,784	300,862
Insured events of prior fiscal years	1,444,927	1,451,590	489,449	433,067	1,934,376	1,884,657
Total payments	1,748,711	1,752,452	489,449	433,067	2,238,160	2,185,519
Total Unpaid Loss and Loss Adjustment Expenses at Fiscal Year End	$ 13,591,326	$ 13,233,959	$ 12,261,000	$ 11,832,190	$ 25,852,326	$ 25,066,149
Current portion	$ 1,496,612	$ 1,474,543	$ 514,962	$ 485,120	$ 2,011,574	$ 1,959,663
Noncurrent portion	$ 12,094,714	$ 11,759,416	$ 11,746,038	$ 11,347,070	$ 23,840,752	$ 23,106,486

Source: Washington State Department of Labor & Industries Actuarial Services

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

	2015	2014
Workers' Compensation Program's proportion of the net pension liability*	3.26%	3.24%
Workers' Compensation Program's proportionate share of the net pension liability	$ 70,982,707	$ 69,146,130
Workers' Compensation Program's covered-employee payroll*	$ 3,934,364	$ 4,660,286
Workers' Compensation Program's proportionate share of the net pension liability as a percentage of its covered-employee payroll*	1,804.35%	1,483.82%
Plan fiduciary net position as a percentage of the total pension liability	59.10%	61.19%

This schedule is to be built prospectively until it contains ten years of data.
*Updated to employer contribution percent provided by the Office of Financial Management.

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

	2015	2014
Workers' Compensation Program's proportion of the net pension liability*	3.34%	3.30%
Workers' Compensation Program's proportionate share of the net pension liability	$ 58,566,959	$ 32,912,727
Workers' Compensation Program's covered-employee payroll*	$ 145,729,911	$ 139,125,822
Workers' Compensation Program's proportionate share of the net pension liability as a percentage of its covered-employee payroll*	40.19%	23.66%
Plan fiduciary net position as a percentage of the total pension liability	89.20%	93.29%

This schedule is to be built prospectively until it contains ten years of data.
*Updated to employer contribution percent provided by the Office of Financial Management.

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

	2015	2014
Workers' Compensation Program's proportion of the net pension liability*	0.380%	0.800%
Workers' Compensation Program's proportionate share of the net pension liability	$ 104,621	$ 183,886
Workers' Compensation Program's covered-employee payroll*	$ 14,869	$ 36,888
Workers' Compensation Program's proportionate share of the net pension liability as a percentage of its covered-employee payroll*	700.00%	497.30%
Plan fiduciary net position as a percentage of the total pension liability	65.70%	68.77%

This schedule is to be built prospectively until it contains ten years of data.
*Updated to employer contribution percent provided by the Office of Financial Management.

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

	2015	2014
Workers' Compensation Program's proportion of the net pension liability*	0.480%	1.100%
Workers' Compensation Program's proportionate share of the net pension liability	$ 29,388	$ 21,139
Workers' Compensation Program's covered-employee payroll*	$ 161,784	$ 282,403
Workers' Compensation Program's proportionate share of the net pension liability as a percentage of its covered-employee payroll*	17.90%	7.45%
Plan fiduciary net position as a percentage of the total pension liability	92.48%	96.81%

This schedule is to be built prospectively until it contains ten years of data.
*Updated to employer contribution percent provided by the Office of Financial Management.

Schedule of Contributions
Public Employees' Retirement System (PERS) Plan 1
Fiscal Year Ended June 30

	2016	2015	2014
Workers' Compensation Program's contractually-required contribution	$ 416,260	$ 421,190	$ 488,967
Workers' Compensation Program's contributions in relation to the contractually-required contribution	416,260	421,190	488,967
Workers' Compensation Program's contribution deficiency (excess)	$ -	$ -	$ -
Workers' Compensation Program's covered-employee payroll	$ 3,365,461	$ 3,934,364	$ 4,660,286
Workers' Compensation Program's contributions as a percentage of covered-employee payroll	12.37%	10.71%	10.49%

This schedule is to be built prospectively until it contains ten years of data.

Schedule of Contributions
Public Employees' Retirement System (PERS) Plan 2/3
Fiscal Year Ended June 30

	2016	2015	2014
Workers' Compensation Program's contractually-required contribution	$16,972,044	$ 13,388,292	$12,784,004
Workers' Compensation Program's contributions in relation to the contractually-required contribution	16,972,044	13,388,292	12,784,004
Workers' Compensation Program's contribution deficiency (excess)	$ -	$ -	$ -
Workers' Compensation Program's covered-employee payroll	$155,271,356	$145,729,911	$139,125,822
Workers' Compensation Program's contributions as a percentage of covered-employee payroll	10.93%	9.19%	9.19%

This schedule is to be built prospectively until it contains ten years of data.

Schedule of Contributions
Public Employees' Retirement System (TRS) Plan 1
Fiscal Year Ended June 30

	2016	2015	2014
Workers' Compensation Program's contractually-required contribution	$ -	$ -	$ -
Workers' Compensation Program's contributions in relation to the contractually-required contribution	-	-	-
Workers' Compensation Program's contribution deficiency (excess)	$ -	$ -	$ -
Workers' Compensation Program's covered-employee payroll	$ 21,793	$ 14,869	$ 36,888
Workers' Compensation Program's contributions as a percentage of covered-employee payroll	0.00%	0.00%	0.00%

This schedule is to be built prospectively until it contains ten years of data.

Schedule of Contributions
Public Employees' Retirement System (TRS) Plan 2/3
Fiscal Year Ended June 30

	2016	2015	2014
Workers' Compensation Program's contractually-required contribution	$ 12,771	$ 17,005	$ 32,556
Workers' Compensation Program contributions in relation to the contractually-required contribution	12,771	17,005	32,556
Workers' Compensation Program's contribution deficiency (excess)	$ -	$ -	$ -
Workers' Compensation Program's covered-employee payroll	$ 200,654	$ 161,784	$ 282,403
Workers' Compensation Program's contributions as a percentage of covered-employee payroll	6.36%	10.51%	11.53%

This schedule is to be built prospectively until it contains ten years of data.

Washington State Department of
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Supplementary and Other Information

Washington State Department of
Labor & Industries

Keep Washington Safe and Working

Combining Schedule of Net Position
June 30, 2016

	Accident Account	Medical Aid Account	Pension Reserve Account	Total Basic Plan	Supplemental Pension Account	Second Injury Account	Self-Insured Overpayment Reimbursement Account	Total
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES								
Current Assets								
Cash and cash equivalents	$ 6,834,136	$ 3,598,004	$ 2,093,790	$ 12,525,930	$ 1,630,149	$ 28,528,720	$ 875,348	$ 43,560,147
Investments	612,997,718	595,354,820	411,476,305	1,619,828,843	57,996,380	-	-	1,677,825,223
DOE trust cash and investments	-	-	639,660	639,660	-	-	-	639,660
Collateral held under securities lending agreements	88,568,091	253,777	26,012,627	114,834,495	82,787	-	-	114,917,282
Receivables, net of allowance	398,729,591	251,394,106	38,745,459	688,869,156	121,875,931	10,508,964	99,991	821,354,042
Receivables from Workers' Compensation Accounts	340,440	321,953	151,769,577	152,431,970	11,452	-	-	152,443,422
Receivables from other state accounts and agencies	42,669	35,135	-	77,804	4,729	-	-	82,533
Receivables from other governments	1,125,264	250,869	-	1,376,133	-	-	-	1,376,133
Inventories	100,340	100,340	-	200,680	-	-	-	200,680
Prepaid expenses	834,908	1,138,552	-	1,973,460	-	-	-	1,973,460
Total Current Assets	1,109,573,157	852,447,556	630,737,418	2,592,758,131	181,601,428	39,037,684	975,339	2,814,372,582
Noncurrent Assets								
DOE trust cash and investments, noncurrent	-	-	2,047,881	2,047,881	-	-	-	2,047,881
DOE trust receivable	-	-	2,975,394	2,975,394	-	-	-	2,975,394
Investments, noncurrent	5,082,962,358	4,744,589,757	4,041,767,887	13,869,320,002	40,303,913	-	-	13,909,623,915
Capital assets, net of accumulated depreciation	28,450,179	39,001,530	-	67,451,709	-	-	-	67,451,709
Total Noncurrent Assets	5,111,412,537	4,783,591,287	4,046,791,162	13,941,794,986	40,303,913	-	-	13,982,098,899
Deferred Outflows of Resources								
Deferred outflows from pensions	12,548,075	12,276,487	-	24,824,562	-	-	-	24,824,562
Total Assets	$ 6,233,533,769	$ 5,648,315,330	$ 4,677,528,580	$ 16,559,377,679	$ 221,905,341	$ 39,037,684	$ 975,339	$ 16,821,296,043

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

Combining Schedule of Net Position
June 30, 2016

	Accident Account	Medical Aid Account	Pension Reserve Account	Total Basic Plan	Supplemental Pension Account	Second Injury Account	Self-Insured Overpayment Reimbursement Account	Total
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION (DEFICIT)								
LIABILITIES								
Current Liabilities								
Accounts payable	$ 1,925,376	$ 2,001,487	$ 23,669	$ 3,950,532	$ 24,094	$ 450	$ 24,683	$ 3,999,759
Deposits payable	5,639,405	41,446	1,816,001	7,496,852	273,340	-	-	7,770,192
Accrued liabilities	171,196,199	8,953,089	1,484,423	181,633,711	1,454,517	2,464	-	183,090,692
Obligations under securities lending agreements	88,568,091	253,777	26,012,627	114,834,495	82,787	-	-	114,917,282
Bonds payable, current	-	-	-	-	-	-	-	-
Payables to Workers' Compensation Accounts	123,691,199	353,183	-	124,044,382	41,301	28,357,739	-	152,443,422
Payables to other state accounts and agencies	3,413,188	2,724,879	-	6,138,067	18	-	-	6,138,085
Payables to other governments	1,576	1,576	-	3,152	-	-	-	3,152
Unearned revenues	325,289	163,931	-	489,220	1,305,543	-	-	1,794,763
DOE trust liabilities	-	-	639,660	639,660	-	-	-	639,660
Claims and judgments payable	100,000	92,000	-	192,000	-	-	-	192,000
Claims payable, current	572,119,573	479,712,000	444,780,000	1,496,611,573	514,962,000	-	-	2,011,573,573
Total Current Liabilities	966,979,896	494,297,368	474,756,380	1,936,033,644	518,143,600	28,360,653	24,683	2,482,562,580
Noncurrent Liabilities								
Claims payable, net of current portion	4,351,898,000	3,845,310,000	3,897,506,000	12,094,714,000	11,746,038,000	-	-	23,840,752,000
Bonds payable, net of current portion	-	-	-	-	-	-	-	-
Other long-term liabilities	4,500,913	4,151,118	-	8,652,031	-	-	-	8,652,031
DOE trust long-term liabilities	-	-	5,023,275	5,023,275	-	-	-	5,023,275
Other post-employment benefits	26,954,584	26,123,416	-	53,078,000	-	-	-	53,078,000
Net pension liability for employee retirement plan	65,737,077	63,946,597	-	129,683,674	-	-	-	129,683,674
Total Noncurrent Liabilities	4,449,090,574	3,939,531,131	3,902,529,275	12,291,150,980	11,746,038,000	-	-	24,037,188,980
Total Liabilities	5,416,070,470	4,433,828,499	4,377,285,655	14,227,184,624	12,264,181,600	28,360,653	24,683	26,519,751,560
Deferred Inflows of Resources								
Deferred inflows from pensions	9,906,094	9,210,810	-	19,116,904	-	-	-	19,116,904
Net Position (Deficit):								
Invested in capital assets, net of related debt	28,450,179	39,001,530	-	67,451,709	-	-	-	67,451,709
Unrestricted	779,107,026	1,166,274,491	300,242,925	2,245,624,442	(12,042,276,259)	10,677,031	950,656	(9,785,024,130)
Total Net Position (Deficit)	$ 807,557,205	$ 1,205,276,021	$ 300,242,925	$ 2,313,076,151	$ (12,042,276,259)	$ 10,677,031	$ 950,656	$ (9,717,572,421)

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

Combining Schedule of Revenues, Expenses, and Changes in Net Position
For the Fiscal Year Ended June 30, 2016

	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	$ 1,158,152,990	$ 834,611,644	$ 23,086,240	$ 2,015,850,874	$ 458,902,320	$ 41,189,016	$ 313,713	$ 2,516,255,923
Miscellaneous revenue	42,202,894	2,255,052	64,609	44,522,555	13,159,386	9	-	57,681,950
Total Operating Revenues	1,200,355,884	836,866,696	23,150,849	2,060,373,429	472,061,706	41,189,025	313,713	2,573,937,873
OPERATING EXPENSES								
Salaries and wages	80,080,318	79,605,748	-	159,686,066	-	-	-	159,686,066
Employee benefits	31,687,063	31,279,642	-	62,966,705	-	-	-	62,966,705
Personal services	2,731,582	4,725,547	-	7,457,129	-	-	-	7,457,129
Goods and services	41,940,903	40,482,875	-	82,423,778	-	-	-	82,423,778
Travel	2,687,187	1,418,654	-	4,105,841	-	-	-	4,105,841
Claims	609,949,430	740,976,864	603,503,250	1,954,429,544	918,624,674	736,789	201,921	2,873,992,928
Depreciation	3,992,624	6,213,385	-	10,206,009	-	-	-	10,206,009
Miscellaneous	24,327,682	6,049,313	2,365	30,379,360	7,070,508	115	-	37,449,983
Total Operating Expenses	797,396,789	910,752,028	603,505,615	2,311,654,432	925,695,182	736,904	201,921	3,238,288,439
Operating Income (Loss)	402,959,095	(73,885,332)	(580,354,766)	(251,281,003)	(453,633,476)	40,452,121	111,792	(664,350,566)
NONOPERATING REVENUES (EXPENSES)								
Earnings on investments	337,809,127	254,858,592	263,835,262	856,502,981	1,203,910	-	-	857,706,891
Other revenues	7,351,751	1,556,786	-	8,908,537	-	-	-	8,908,537
Interest expense	(18,347)	(18,347)	-	(36,694)	-	-	-	(36,694)
Total Nonoperating Revenues (Expenses)	345,142,531	256,397,031	263,835,262	865,374,824	1,203,910	-	-	866,578,734
Income (Loss) Before Transfers	748,101,626	182,511,699	(316,519,504)	614,093,821	(452,429,566)	40,452,121	111,792	202,228,168
Transfers in	133,956,266	-	613,718,058	747,674,324	-	35,762,140	-	783,436,464
Transfers out	(514,788,958)	(735,344)	(167,426,078)	(682,950,381)	-	(100,486,083)	-	(783,436,464)
Net Transfers	(380,832,692)	(735,344)	446,291,980	64,723,944	-	(64,723,943)	-	-
Changes in Net Position	367,268,934	181,776,355	129,772,476	678,817,765	(452,429,566)	(24,271,822)	111,792	202,228,168
Net Position (Deficit) - July 1	440,288,271	1,023,499,666	170,470,449	1,634,258,386	(11,589,846,693)	34,948,853	838,864	(9,919,800,589)
Net Position (Deficit) - June 30	$ 807,557,205	$ 1,205,276,021	$ 300,242,925	$ 2,313,076,151	$ (12,042,276,259)	$ 10,677,031	$ 950,656	$ (9,717,572,421)

Combining Schedule of Cash Flows
For the Fiscal Year Ended June 30, 2016

	Accident Account	Medical Aid Account	Pension Reserve Account	Total Basic Plan	Supplemental Pension Account	Second Injury Account	Self-Insured Overpayment Reimbursement Account	Total
CASH FLOWS FROM OPERATING ACTIVITIES								
Receipts from customers	$ 1,089,594,043	$ 823,241,480	$ 24,362,126	$ 1,937,197,649	$ 446,446,271	$ 38,254,932	$ 316,135	$ 2,422,214,987
Payments to/for beneficiaries	(579,154,301)	(578,197,733)	(438,821,849)	(1,596,173,883)	(490,602,885)	(737,854)	(201,921)	(2,087,716,543)
Payments to employees	(109,665,976)	(108,587,652)	-	(218,253,628)	-	-	-	(218,253,628)
Payments to suppliers	(48,289,752)	(51,104,527)	(168)	(99,394,447)	16,597	450	24,683	(99,352,717)
Other	41,386,237	1,466,331	64,609	42,917,177	13,155,958	8	-	56,073,143
Net Cash Flows from Operating Activities	393,870,251	86,817,899	(414,395,282)	66,292,868	(30,984,059)	37,517,536	138,897	72,965,242
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES								
Transfers in	133,631,523	(28,321)	629,402,938	763,006,140	(10,721)	35,762,140	-	798,757,559
Transfers out	(525,353,169)	(403,314)	(167,426,077)	(693,182,560)	23,732	(105,598,731)	-	(798,757,559)
Operating grants received	6,994,140	1,539,520	-	8,533,660	-	-	-	8,533,660
License fees collected	80,565	13,965	-	94,530	-	-	-	94,530
Net Cash Flows from Noncapital Financing Activities	(384,646,941)	1,121,850	461,976,861	78,451,770	13,011	(69,836,591)	-	8,628,190
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES								
Interest paid	(55,131)	(55,131)	-	(110,262)	-	-	-	(110,262)
Principal payments on bonds payable	(2,025,000)	(2,025,000)	-	(4,050,000)	-	-	-	(4,050,000)
Acquisitions of capital assets	(2,825,431)	(3,198,048)	-	(6,023,479)	-	-	-	(6,023,479)
Net Cash Flows from Capital and Related Financing Activities	(4,905,562)	(5,278,179)	-	(10,183,741)	-	-	-	(10,183,741)
CASH FLOWS FROM INVESTING ACTIVITIES								
Net sales of trust investments	-	-	7,060	7,060	-	-	-	7,060
Receipt of interest and dividends	199,081,491	157,123,211	147,821,429	504,026,131	1,231,181	-	-	505,257,312
Investment expenses	(1,699,219)	(1,583,035)	(1,319,467)	(4,601,721)	(121,115)	-	-	(4,722,836)
Proceeds from sale of investment securities	2,900,665,294	2,518,972,633	1,914,699,318	7,334,337,245	556,685,423	-	-	7,891,022,668
Purchases of investment securities	(3,102,839,128)	(2,756,175,701)	(2,108,166,702)	(7,967,181,531)	(526,743,088)	-	-	(8,493,924,619)
Net Cash Flows from Investing Activities	(4,791,562)	(81,662,892)	(46,958,362)	(133,412,816)	31,052,401	-	-	(102,360,415)
Net increase (decrease) in cash and cash equivalents	(473,814)	998,678	623,217	1,148,081	81,353	(32,319,055)	138,897	(30,950,724)
Cash & cash equivalents, July 1 (includes trust cash of $202,942)	7,307,950	2,599,326	1,680,576	11,587,852	1,548,796	60,847,775	736,451	74,720,874
Cash & cash equivalents, June 30 (includes trust cash of $210,003)	$ 6,834,136	$ 3,598,004	$ 2,303,793	$ 12,735,933	$ 1,630,149	$ 28,528,720	$ 875,348	$ 43,770,150
Cash Flows from Operating Activities								
Operating income (loss)	$ 402,959,095	$ (73,885,331)	$ (580,354,766)	$ (251,281,002)	$ (453,633,476)	$ 40,452,121	$ 111,792	$ (664,350,565)
Adjustments to Reconcile Operating Income to Net Cash Flows from Operating Activities								
Depreciation	3,992,624	6,213,385	-	10,206,009	-	-	-	10,206,009
Change in Assets: Decrease (Increase)								
Receivables	(26,420,426)	(10,724,502)	1,319,412	(35,825,516)	(6,105,213)	(2,933,969)	2,422	(44,862,276)
Inventories	16,223	16,223	-	32,446	-	-	-	32,446
Prepaid expenses	48,374	49,196	-	97,570	-	-	-	97,570
Change in Liabilities: Increase (Decrease)								
Claims and judgments payable	30,630,574	162,392,000	164,536,000	357,558,574	428,809,999	-	-	786,368,573
Accrued liabilities	(17,356,213)	2,756,928	104,072	(14,495,213)	(55,369)	(616)	24,683	(14,526,515)
Net Cash Flows from Operating Activities	$ 393,870,251	$ 86,817,899	$ (414,395,282)	$ 66,292,868	$ (30,984,059)	$ 37,517,536	$ 138,897	$ 72,965,242
Non Cash Investing, Capital and Financing Activities								
Increase in fair value of investments	$ 76,937,752	$ 44,296,136	$ 98,248,855	$ 219,482,743	$ 157,076	$ -	$ -	$ 219,639,819

ACTUARIAL INDEPENDENT AUDITOR'S REPORT

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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's CAFR presents detailed information as a supplement to the information in the basic financial statements, note disclosures, and required supplementary information to assist readers in assessing the program's overall financial health.

Page

FINANCIAL TRENDS

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

REVENUE CAPACITY

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

DEBT CAPACITY

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

DEMOGRAPHIC INFORMATION

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

OPERATING INFORMATION

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

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

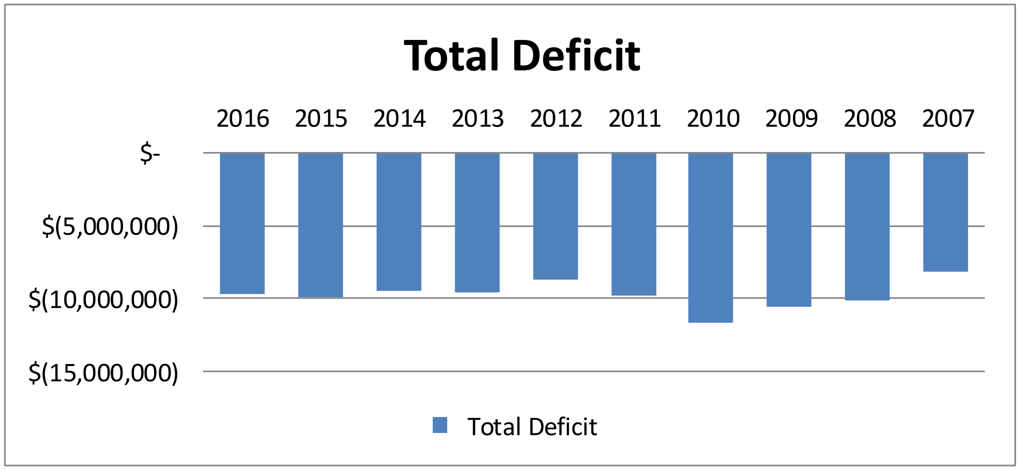
Washington State Department of
Labor & Industries

Keep Washington Safe and Working

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

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Net Investment in capital assets	$ 67,452	$ 67,595	$ 58,781	$ 57,687	$ 52,708	$ 51,101	$ 41,251	$ 37,415	$ 37,838	$ 39,911
Unrestricted	(9,785,024)	(9,987,396)	(9,577,704)	(9,682,379)	(8,741,896)	(9,911,590)	(11,708,411)	(10,654,926)	(10,203,709)	(8,225,454)
Total Net Position (Deficit) [1, 2]	$ (9,717,572)	$ (9,919,801)	$ (9,518,923)	$ (9,624,692)	$ (8,689,188)	$ (9,860,489)	$ (11,667,160)	$ (10,617,511)	$(10,165,871)	$ (8,185,543)

[1] Starting in fiscal year 2009, the Self-Insured Overpayment Reimbursement Account was added to the Workers' Compensation Program.
[2] Fiscal year 2008, 2012 and 2014 are restated amounts.



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

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Operating Revenues										
Premiums and assessments, net of refunds	$ 2,516,256	$ 2,337,483	$ 2,200,410	$ 2,123,483	$ 2,014,841	$ 1,983,348	$ 1,727,722	$ 1,824,276	$ 1,563,960	$ 1,689,072
Miscellaneous revenues	57,682	56,714	53,986	47,354	47,964	51,411	40,250	52,859	50,023	53,589
Total Operating Revenues	2,573,938	2,394,197	2,254,396	2,170,837	2,062,805	2,034,759	1,767,972	1,877,135	1,613,983	1,742,661
Operating Expenses										
Salaries and wages	159,686	150,278	145,431	140,203	136,406	135,979	137,085	134,295	133,773	120,244
Employee benefits	62,966	55,397	58,367	54,367	54,379	51,397	48,545	51,025	41,298	37,803
Personal services	7,457	11,304	5,661	8,895	8,013	6,366	4,521	6,449	7,533	3,800
Goods and services	82,424	82,416	76,389	79,315	69,194	72,443	67,817	73,594	72,568	70,814
Travel	4,106	4,145	4,047	4,068	3,779	3,401	3,339	3,314	4,183	3,482
Claims	2,873,993	2,666,452	2,810,658	3,014,796	1,594,192	888,159	3,971,059	2,180,781	3,727,966	3,585,725
Depreciation	10,206	7,184	7,228	8,428	6,634	8,037	7,991	10,003	10,281	8,220
Miscellaneous	37,450	41,041	33,954	28,486	45,946	52,463	26,287	88,589	63,442	9,320
Total Operating Expenses	3,238,288	3,018,217	3,141,735	3,338,558	1,918,543	1,218,245	4,266,644	2,548,050	4,061,044	3,839,408
Operating Income (Loss)	(664,350)	(624,020)	(887,339)	(1,167,721)	144,262	816,514	(2,498,672)	(670,915)	(2,447,061)	(2,096,747)
Nonoperating Revenues (Expenses)										
Earnings on investments	857,707	215,557	1,119,761	223,875	1,009,688	981,927	1,441,576	216,035	466,963	966,548
Other revenues	8,909	7,840	8,329	8,998	8,421	9,294	7,878	7,477	7,785	6,978
Interest expense	(37)	(255)	(461)	(656)	(839)	(1,064)	(1,271)	(1,466)	(1,942)	(1,553)
Total Nonoperating Revenues (Expenses)	866,579	223,142	1,127,629	232,217	1,017,270	990,157	1,448,183	222,046	472,806	971,973
Income (Loss) Before Transfers [2]			240,290	(935,504)	1,161,532	1,806,671	(1,050,489)	(448,869)	(1,974,255)	(1,124,774)
Transfers in			325,015	371,670	303,273	311,777	323,623	465,908	430,544	339,997
Transfers out			(325,015)	(371,670)	(303,273)	(311,777)	(322,783)	(468,679)	(430,544)	(339,997)
Net Transfers			-	-	-	-	840	(2,771)	-	-
Changes in Net Position	202,229	(400,878)	240,290	(935,504)	1,161,532	1,806,671	(1,049,649)	(451,640)	(1,974,255)	(1,124,774)
Net Position (Deficit), July 1 [1]	(9,919,801)	(9,518,923)	(9,624,691)	(8,689,188)	(9,860,489)	(11,667,160)	(10,617,511)	(10,165,871)	(8,185,543)	(7,060,769)
Net Position (Deficit), June 30	$ (9,717,572)	$ (9,919,801)	$ (9,384,401)	$ (9,624,692)	$ (8,698,957)	$ (9,860,489)	$ (11,667,160)	$ (10,617,511)	$ (10,159,798)	$ (8,185,543)

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

[2] Starting in fiscal year 2015, intrafund transfers should not be reported, per GFOA comments.

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

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Premiums and Assessments										
State Fund Premiums										
Accident	$ 1,299,794	$ 1,231,128	$ 1,165,138	$ 1,105,903	$ 1,060,670	$ 916,514	$ 767,915	$ 832,584	$ 939,558	$ 918,803
Medical Aid [1]	820,177	779,315	695,460	624,913	596,421	614,714	601,087	637,975	332,781	592,633
Supplemental Pension	340,034	321,967	316,448	302,915	318,328	318,835	264,934	250,211	248,827	206,583
Net retrospective rating refunds	(156,378)	(188,302)	(174,854)	(136,404)	(171,509)	(75,011)	(112,494)	(81,255)	(98,125)	(190,285)
Dividend refunds	-	-	-	-	-	-	-	-	(33,560)	-
Total State Fund Premiums	2,303,627	2,144,108	2,002,192	1,897,327	1,803,910	1,775,052	1,521,442	1,639,515	1,389,481	1,527,734
Self-insurance assessments	212,629	193,375	198,218	226,156	210,931	208,296	206,280	184,761	174,479	161,338
Total Premiums and Assessments	$ 2,516,256	$ 2,337,483	$ 2,200,410	$ 2,123,483	$ 2,014,841	$ 1,983,348	$ 1,727,722	$ 1,824,276	$ 1,563,960	$ 1,689,072
Average Standard Premium Rates[2] (per hour worked) - Effective from January 1 to December 31										
Accident	0.3645	0.3553	0.3557	0.3557	0.3557	0.3487	0.2686	0.2570	0.2525	0.2644
Medical Aid	0.2159	0.2159	0.2088	0.1888	0.1888	0.1880	0.2096	0.1934	0.1874	0.1696
Supplemental Pension	0.0950	0.0894	0.0909	0.0928	0.0932	0.1077	0.0969	0.0835	0.0780	0.0666
Stay At Work [3]	0.0054	0.0072	0.0072	0.0079	0.0075	N/A	N/A	N/A	N/A	N/A
Total Average Standard Premium Rates (composite rate)	0.6808	0.6678	0.6626	0.6452	0.6452	0.6444	0.5751	0.5339	0.5179	0.5006
Employer portion	0.4786	0.4682	0.4597	0.4525	0.4583	0.4540	0.3814	0.3607	0.3505	0.3477
Worker portion	0.1582	0.1563	0.1535	0.1448	0.1448	0.1479	0.1533	0.1385	0.1327	0.1181
State Fund average hourly wage	$ 28.20	$ 27.56	$ 26.85	$ 25.78	$ 25.27	$ 24.44	$ 23.59	$ 23.09	$ 22.66	$ 21.90
Composite net rate per $100 Payroll [4]	$ 2.26	$ 2.27	$ 2.28	$ 2.32	$ 2.39	$ 2.46	$ 2.27	$ 2.16	$ 2.13	$ 2.13
Investments [5]										
Investment income (interest and dividend)	$ 503,057	$ 493,679	$ 479,457	$ 466,299	$ 488,831	$ 501,382	$ 501,143	$ 546,021	$ 601,649	$ 610,844
Investment balances	$15,587,449	$14,634,116	$14,502,551	$13,381,566	$13,321,822	$12,512,715	$11,894,375	$10,886,051	$11,019,207	$10,983,413
Average rate of return	3.2%	3.4%	3.3%	3.5%	3.7%	4.0%	4.2%	5.0%	5.5%	5.6%

[1] Medical Aid premium rate was reduced to zero from 7/1/2007 to 12/31/2007 as a result of a rate holiday.

[2] These rates are for State Fund firms. Past average standard premium rates change annually to reflect the current distribution of risk by class.

[3] Stay at Work program started in calendar year 2012.

[4] This figure equals the composite net of Retro rate divided by State Fund average hourly wage.

[5] These amounts reflect only investments managed by Washington State Investment Board.

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

Schedule 4 - Employer Accounts
Last Ten Fiscal Years

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Employers insured	177,000	174,000	169,000	168,000	166,000	163,000	163,000	168,000	171,000	168,000
Workers covered	2,800,000	2,690,000	2,577,000	2,487,000	2,420,000	2,360,000	2,330,000	2,460,000	2,570,000	2,500,000
Hours reported	3,678,000,000	3,538,000,000	3,388,000,000	3,270,000,000	3,183,000,000	3,100,000,000	3,065,000,000	3,232,000,000	3,380,000,000	3,287,000,000
Self-insured employers	355	355	355	363	365	360	363	369	382	377
Workers covered under self-insured employers	872,000	865,000	884,000	846,000	845,000	821,000	826,000	830,000	870,000	830,000
Industry Classifications - NAICS Sector										
Construction	23,562	22,460	21,998	21,229	21,191	21,631	21,963	25,051	27,244	27,184
Prof., scientific, and technical services	22,801	22,074	21,474	20,035	19,960	19,278	17,839	18,428	18,677	18,144
Retail trade	15,645	15,796	16,146	16,219	16,627	16,385	15,779	16,892	17,616	17,844
Other services (except public administration)	16,749	16,541	16,511	16,353	16,613	16,391	15,660	16,115	16,347	16,088
Health care and social assistance	15,147	15,007	15,013	14,843	14,929	14,579	13,929	14,199	14,156	13,904
Accomodation and food services	15,009	14,672	14,611	14,538	14,754	14,642	13,807	14,367	14,641	14,477
Administrative and support services	11,706	11,399	11,138	10,458	10,459	10,018	9,447	9,928	10,261	10,083
Wholesale trade	10,483	10,832	10,652	10,189	10,450	10,218	9,163	9,328	9,431	9,337
Agriculture, forestry, fishing, and hunting	7,202	7,069	6,980	7,141	7,238	7,258	7,284	7,690	7,905	8,157
Manufacturing	6,559	6,603	6,604	6,670	6,717	6,694	6,615	6,993	7,229	7,261
Real estate, rental and leasing	6,828	6,765	6,721	6,642	6,627	6,719	6,563	7,117	7,372	7,099
Transportation and warehousing	5,636	6,130	6,106	5,753	5,569	4,095	3,833	4,013	4,211	4,103
Finance and insurance	4,873	4,997	5,017	5,003	5,073	5,110	4,998	5,437	5,701	5,694
Arts, entertainment, and recreation	2,866	2,742	2,715	2,624	2,655	2,568	2,418	2,508	2,585	2,512
Education services	2,991	2,907	2,769	2,653	2,618	2,487	2,177	2,161	2,126	2,062
Information	2,090	2,144	2,147	2,114	2,107	1,836	1,746	1,880	1,933	1,935
Public administration	1,025	1,027	1,028	1,026	1,030	1,040	1,042	1,063	1,058	1,051
Unclassified establishments	5,387	2,265	985	3,816	382	1,512	8,016	4,537	1,888	572
Utilities	356	359	357	355	352	344	338	345	351	342
Mining	159	167	172	177	180	178	176	200	210	209
Mgmt. of companies and enterprises	169	158	150	144	133	118	103	99	102	106
Total Employer Accounts	177,243	172,114	169,294	167,982	165,664	163,101	162,896	168,351	171,044	168,164

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

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

Schedule 5 - Ratios of Outstanding Debt
Last Ten Fiscal Years
(dollars in thousands, except per covered worker)

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Outstanding Debt:										
General obligation bonds [1]	$ -	$ 4,050	$ 7,870	$ 11,475	$ 14,875	$ 18,080	$ 22,110	$ 25,930	$ 29,555	$ 33,080
Debt Ratios:										
Principal paid on total debt	$ 4,050	$ 3,820	$ 3,605	$ 3,400	$ 3,205	$ 4,030	$ 3,820	$ 3,625	$ 3,525	$ 3,370
Ratio of principal paid to total prior year debt	100.0%	48.5%	31.4%	22.9%	17.7%	18.2%	14.7%	12.3%	10.7%	9.2%
Interest paid on total debt	$ 110	$ 325	$ 527	$ 717	$ 897	$ 1,143	$ 1,346	$ 1,537	$ 1,584	$ 1,733
Ratio of interest paid to total prior year debt	2.7%	4.1%	4.6%	4.8%	5.0%	5.2%	5.2%	5.2%	4.8%	4.7%
Premiums and assessments earned	$2,516,256	$2,337,483	$2,200,410	$2,123,483	$2,014,841	$1,983,348	$1,727,722	$1,824,276	$1,563,960	$1,689,072
Ratio of total debt to premiums and assessments earned	0.0%	0.2%	0.4%	0.5%	0.7%	0.9%	1.3%	1.4%	1.9%	2.0%
Total debt per covered worker [2]	$ -	$ 1.51	$ 3.05	$ 4.61	$ 6.15	$ 7.66	$ 9.49	$ 10.54	$ 11.50	$ 13.23

[1] In fiscal year 2007, bond balances were further reduced as a result of debt refunding in addition to principal payments. Bonds were paid in full in fiscal year 2016.

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

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

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Unpaid loss and loss adjustment expenses at beginning of fiscal year [1]	$ 25,066,149	$ 24,437,534	$ 23,627,560	$22,596,350	$22,943,311	$24,025,832	$22,006,789	$21,887,148	$19,746,492	$17,755,100
Incurred claims and claim adjustment expenses										
Provision for insured events of the current fiscal year	2,048,491	2,102,923	1,910,196	1,924,011	1,823,525	1,950,485	2,204,709	2,225,312	2,273,716	2,138,397
Increase (decrease) in provision for insured events of prior fiscal years	975,846	711,211	1,043,312	1,226,506	(92,184)	(933,553)	1,895,787	109,437	1,749,155	1,582,629
Total incurred claims and claim adjustment expenses	3,024,337	2,814,134	2,953,508	3,150,517	1,731,341	1,016,932	4,100,496	2,334,749	4,022,871	3,721,026
Payments										
Claims and claim adjustment expenses attributable to										
Events of the current fiscal year	303,784	300,862	296,885	296,347	283,763	288,812	297,520	327,536	316,086	294,879
Insured events of prior fiscal years	1,934,376	1,884,657	1,846,649	1,822,960	1,794,539	1,810,641	1,783,933	1,730,293	1,566,129	1,434,755
Total payments	2,238,160	2,185,519	2,143,534	2,119,307	2,078,302	2,099,453	2,081,453	2,057,829	1,882,215	1,729,634
Total unpaid loss and loss adjustment expenses at fiscal year end	$ 25,852,326	$ 25,066,149	$ 24,437,534	$23,627,560	$22,596,350	$22,943,311	$24,025,832	$22,164,068	$21,887,148	$19,746,492

[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)

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Population	7,183.7	7,061.4	6,968.2	6,882.4	6,817.8	6,767.9	6,724.5	6,672.2	6,608.3	6,525.1
Net Increase	122.3	93.2	85.8	64.6	49.9	43.4	52.4	63.9	83.2	104.8
Percent change	1.7%	1.3%	1.2%	0.9%	0.7%	0.6%	0.8%	1.0%	1.3%	1.6%
Components of change										
Births	89.8	88.5	87.0	87.3	87.1	86.4	88.4	89.8	89.6	87.8
Deaths	54.6	52.8	50.7	51.1	49.2	48.8	47.7	48.1	47.9	46.2
Net migration	87.1	57.6	49.5	28.5	12.0	5.8	11.5	22.2	41.5	63.2

Note: Washington State population estimates are as of April 1 of each year. Population estimates for 2007 through 2009 have been revised to reflect intercensal estimates. "Intercensal estimates" are estimates of population between official census dates. Intercensal estimates are more accurate than postcensal estimates because they are bracketed on both sides by decennial or state-certified special census counts. Estimates for 2010 have been replaced with the 2010 U.S. Census Bureau count. Estimates for 2011 through 2016 are postcensal estimates developed by the Washington State Office of Financial Management. Some figures may not total due to rounding.

Source: Washington State Office of Financial Management Forecasting Division

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

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Personal income	$ 367	$ 350	$ 331	$ 326	$ 306	$ 289	$ 282	$ 292	$ 278	$ 256
Percent change	5%	6%	2%	7%	6%	3%	-3%	5%	9%	9%
Per capita	$ 51,146	$ 49,610	$ 47,468	$ 47,344	$ 44,800	$ 42,821	$ 42,248	$ 44,460	$ 42,954	$ 40,204

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

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

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

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Civilian labor force	3,540	3,490	3,457	3,463	3,482	3,515	3,535	3,479	3,393	3,319
Less Employed	3,340	3,277	3,217	3,185	3,162	3,167	3,206	3,286	3,237	3,155
Total unemployed	200	213	240	278	320	348	329	193	156	164
Unemployment rate	5.7%	6.1%	6.9%	8.0%	9.2%	9.9%	9.3%	5.5%	4.6%	5.0%

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

Source: Washington State Economic and Revenue Forecast, June 2016

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

	2015 Annual Averages			2006 Annual Averages		
Industry [1]	**Number of Employees** [2]	**Percent of Total**	**Number of Employers**	**Number of Employees** [2]	**Percent of Total**	**Number of Employers**
Government	533,671	17.1%	2,126	504,618	17.7%	2,039
Health care and social assistance [3]	389,712	12.5%	54,020	288,031	10.1%	13,338
Retail trade	349,642	11.2%	14,849	315,136	11.1%	14,400
Manufacturing	287,498	9.2%	7,136	281,520	9.9%	7,193
Accommodation and food services	257,079	8.2%	13,866	222,814	7.8%	12,086
Professional, scientific, and technical	181,926	5.8%	22,802	141,709	5.0%	16,143
Construction	162,760	5.2%	22,967	182,112	6.4%	24,090
Administrative and support services [4]	155,656	5.0%	11,384	145,201	5.1%	8,692
Wholesale trade	130,254	4.2%	13,402	123,275	4.3%	12,472
Information	113,635	3.6%	3,301	97,744	3.4%	2,443
Agriculture, forestry, fishing, and hunting	102,574	3.3%	7,378	83,978	2.9%	7,941
Other services [3]	92,095	2.9%	17,982	112,542	3.9%	49,364
Finance and insurance	91,672	2.9%	5,660	103,493	3.6%	5,866
Transportation and warehousing	90,714	2.9%	4,514	83,397	2.9%	3,957
Real estate, rental and leasing	47,657	1.5%	6,597	49,647	1.7%	6,706
Arts, entertainment, and recreation	47,512	1.5%	2,710	44,408	1.6%	2,350
Mgmt. of companies and enterprises	41,885	1.4%	639	33,577	1.2%	628
Education services	39,828	1.3%	3,088	29,833	1.1%	1,963
Utilities	4,848	0.2%	228	4,509	0.2%	228
Mining	2,339	0.1%	158	3,357	0.1%	163
Total average employment [5]	3,122,957	100%	214,807	2,850,901	100%	192,062

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

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

[3] A number of state-funded programs that provide nonmedical, home-based services for the elderly and persons with disabilities were incorrectly classified as other services. Effective January 2014, these were classified correctly as health care and social assistance. This reclassification caused the annual average wage for other services to increase. Wages classifies as other services do not include public administration.

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

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

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

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

Industry [2]	Annual Average Wages [1] 2015 [3]	2014	2013	2012	2011	2010	2009	2008	2007	2006
Information	$ 150,562	$ 148,429	$ 135,304	$ 131,872	$ 119,968	$ 109,777	$ 105,715	$ 104,053	$ 96,240	$ 91,081
Management of companies and enterprises	108,469	106,518	105,501	105,535	102,009	95,731	87,642	87,431	86,867	85,031
Utilities	92,790	87,212	86,373	84,024	82,058	77,591	84,410	76,945	73,736	70,404
Finance and insurance	85,977	82,102	79,587	77,455	73,154	70,137	71,304	72,653	70,044	66,684
Professional, scientific, and technical services	85,647	84,883	81,893	79,972	77,178	75,376	71,837	70,120	70,104	63,687
Manufacturing	73,870	74,303	70,798	69,306	68,065	64,925	62,931	61,260	59,568	58,196
Wholesale trade	72,544	70,169	68,230	68,481	65,831	63,348	61,569	61,041	59,345	56,572
Mining	67,466	63,404	62,444	60,231	58,871	55,654	52,981	54,718	58,056	54,924
Government	57,240	55,603	53,733	52,871	52,174	51,394	50,420	48,705	46,914	44,745
Construction	56,944	55,037	53,735	53,056	52,304	51,127	51,043	49,443	46,783	43,746
Transportation and warehousing	54,395	52,293	51,967	50,876	49,628	47,743	46,522	45,433	45,320	44,078
Health care and social assistance [5]	47,469	44,245	47,733	47,067	45,852	44,673	43,561	41,424	39,474	37,654
Real estate, rental and leasing	46,950	45,181	43,426	42,040	39,816	38,359	36,777	36,669	36,334	34,948
Administrative and support services [4]	45,922	44,382	43,261	43,381	42,942	41,466	39,571	37,536	36,463	34,533
Retail trade	38,299	36,127	34,084	32,364	30,917	30,021	29,356	29,268	29,082	28,174
Education services	37,502	36,918	36,775	36,226	35,576	35,158	34,505	33,550	32,076	30,901
Other services [5]	36,417	35,571	26,717	25,651	24,549	24,227	24,881	25,637	24,385	23,009
Arts, entertainment, and recreation	30,545	29,725	27,771	25,276	25,023	25,121	25,527	26,949	27,643	27,139
Agriculture, forestry, fishing, and hunting	28,507	27,758	26,880	26,295	25,097	24,034	23,675	24,491	23,413	22,239
Accommodation and food services	20,449	19,561	19,136	18,698	18,062	17,632	17,063	16,430	16,019	15,469

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

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

[3] 2015 data is preliminary.

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

[5] A number of state-funded programs that provide nonmedical, home-based services for the elderly and persons with disabilities were incorrectly classified as "other services". Effective January 2014, these were classified correctly as "health care and social assistance". This reclassification caused the average annual wage for "other services" to increase. Wages classified as other services do not include public

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

Schedule 12 - Demographics of Accepted Claims
Last Ten Fiscal Years

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Male injured workers	67%	67%	67%	67%	67%	66%	66%	68%	70%	70%
Female injured workers	33%	33%	33%	33%	33%	34%	34%	32%	30%	30%
Average age of injured workers	38	38	38	38	38	38	38	38	37	37
Injured workers younger than 30	29%	29%	28%	27%	27%	28%	29%	32%	34%	35%
Injured workers 30 to 50	45%	45%	46%	46%	46%	47%	48%	48%	47%	48%
Injured workers older than 50	24%	24%	24%	24%	24%	23%	22%	21%	19%	17%
Injured workers age unknown	2%	2%	2%	2%	2%	2%	1%	0%	0%	0%

Notes:
Because of rounding, some columns may not add up to 100%.
The data is a snapshot of the fiscal year (July 1 – June 30) as of the following September. Before Fiscal Year 2012, the data is as of the first week of the following October.

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

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

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Administrative Services	136	132	127	122	121	169	172	171	176	174
Communications & Web Services	54	51	47	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Director's Office	32	31	31	141	87	92	93	88	89	82
DOSH	349	355	356	344	341	330	335	339	332	322
Field Services & Public Safety	7	4	4	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Financial Management	54	53	50	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Fraud Prevention & Labor Standards	132	131	122	86	85	83	84	74	79	74
Human Resources	54	54	46	44	46	45	45	47	50	47
Information Services	208	201	194	175	173	171	178	189	194	194
Insurance Services	1,101	1,076	1,048	955	990	945	944	954	977	980
New legislation	6	12	6	93	58	N/A	N/A	N/A	N/A	N/A
Region 1	58	60	60	61	59	56	57	59	58	57
Region 2	100	102	101	100	102	102	102	96	92	90
Region 3	52	54	55	55	54	56	59	60	59	55
Region 4	70	70	70	71	74	70	72	65	64	69
Region 5	72	72	68	71	71	71	71	70	70	70
Region 6	39	39	38	39	40	41	42	43	44	44
Specialty Compliance Services	N/A	N/A	N/A	37	38	37	40	36	29	27
Total	2,524	2,497	2,423	2,394	2,339	2,268	2,294	2,291	2,313	2,285

Notes:

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

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

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

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Tumwater headquarters	1	1	1	1	1	1	1	1	1	1
Field offices*	18	18	18	18	18	19	19	19	19	19
Warehouses	1	1	1	1	1	1	1	1	1	1
Labs	1	1	1	1	1	1	1	1	1	1
Other offices	2	2	2	2	2	1	1	1	1	1

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

Source: Washington State Department of Labor & Industries Facilities Services

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

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Claim Statistics:										
Number of Claims Filed [1]	110,498	109,359	106,903	103,328	101,524	100,690	102,734	116,616	136,791	140,308
Number of Claims Accepted [1, 2]	95,277	82,707	86,968	84,064	84,863	81,274	86,184	102,440	119,788	121,769
Number of Claims Denied [1, 2]	16,760	14,098	14,593	14,077	13,857	12,762	12,703	14,964	15,748	15,171
Fatal Pensions Awarded	48	61	51	44	35	59	45	42	63	54
Total Permanent Disability Pensions Granted	1,047	1,063	1,085	1,614	925	1,036	937	1,612	1,109	1,557
Permanent Partial Disability Awards Granted	10,280	10,769	10,431	10,760	11,524	11,782	11,452	12,684	12,316	12,621
New Time-loss (Wage Replacement) Claims [3]	19,065	19,509	20,049	19,740	20,205	21,377	22,604	26,295	28,593	29,416
Medical-only Claims Accepted	78,816	66,411	69,752	67,171	67,539	63,308	66,885	80,171	95,052	96,505
Retraining Plans Completed [4]	438	474	501	1,740	1,665	1,667	1,229	1,142	1,694	1,763
Total Days Paid for Lost Work	6,475,281	6,841,091	7,054,849	7,521,311	7,850,982	8,099,675	8,121,263	7,926,800	7,488,000	7,540,000
Five Most Frequent Injuries: [5]										
Back, spine, and spinal cord: Traumatic injuries to muscles, tendons, ligaments, and joints (includes sprains and strain	11,652	10,624	10,466	10,247	10,829	10,227	12,026	13,486	16,192	15,236
Finger(s): Open wounds of finger(s), fingernails (includes cuts and lacerations, and amputation of fingertip or finger)	11,068	9,429	9,459	8,665	8,761	7,974	8,641	10,837	12,871	13,186
Shoulder(s): Traumatic injuries to muscles, tendons, ligaments, joints, etc., including clavicle, scapula (includes injuries to muscles, tendons, and ligaments that are not specifically otherwise classified)	4,126	3,728	3,646	3,441	3,457	-	3,501	4,053	4,235	-
Face: Surface wounds and bruises (includes splinter or other foreign body in eye, and bruises or contusions of the forehead)	4,056	3,473	3,611	3,723	3,775	3,320	3,753	5,020	6,153	6,261
Leg(s): Traumatic injuries to muscles, tendons, ligaments, joints, etc., such as knee and thigh (excludes ankle and hip)	3,939	3,696	3,802	3,614	3,484	3,362	3,774	4,356	4,460	4,042
Multiple traumatic injuries and disorders of multiple body parts (includes bruises, sprains, or fractures affecting more than one body part)	-	-	-	-	-	3,314	-	-	-	4,456

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

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

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

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

[4] Beginning in fiscal year 2014, the statistics reported are for retraining plans successfully completed. The previous years include all training plans whether completed successfully or not.

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

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

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

Risk Class	Risk Class Description	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
3905	Restaurants and Taverns	7,722	7,520	7,189	6,927	6,707	6,435	6,691	7,130	8,461	8,743
4803	Orchards	3,361	3,398	3,081	2,869	2,656	2,153	2,052	2,223	1,951	2,218
6509	Boarding Homes and Retirement Centers	2,437	2,373	2,501	2,408	2,481	2,399	2,436	2,394	2,362	2,302
6109	Physicians & Medical Clinics	2,136	2,117	2,221	2,140	2,179	2,266	2,221	2,248	2,394	2,346
6108	Nursing Homes	1,819	1,872	2,038	2,077	2,081	2,185	2,271	2,409	2,660	2,675
4906	Colleges & Universities	1,760	1,717	1,759	1,706	1,817	1,772	1,842	1,877	1,904	1,928
2104	Fruit & Vegetable Packing - Fresh	1,686	1,866	1,563	1,482	1,306	1,247	1,310	1,412	1,365	1,461
3411	Automobile Dealers, Rentals and Service Shops	1,678	1,582	1,542	1,561	1,492	1,591	1,605	1,791	2,199	2,312
0510	Wood Frame Building Construction	1,568	1,514	1,343	1,285	1,137	1,209	1,323	2,011	3,152	3,995
6103	Schools, Churches and Day Care - Prof./Clerical Staff	1,394	1,302	1,338	1,347	1,391	1,432	1,343	1,490	1,475	1,412
0516	Carpentry, N.O.C.	1,376	1,257	1,049	955	864	763	902	1,192	1,639	1,652
3402	Machine Shops and Machinery Mfg., N.O.C.	1,354	1,303	1,325	1,254	1,326	1,225	1,139	1,564	2,064	1,918
4910	Property and Building Management Services	1,283	1,276	1,238	1,273	1,290	1,240	1,285	1,332	1,405	1,448
4905	Motels and Hotels	1,186	1,137	1,143	1,123	995	1,021	963	995	1,135	1,135
1101	Parcel and Package Delivery Service	1,118	989	971	961	968	958	893	1,021	1,325	1,394
0601	Electrical Wiring: Buildings and Structures	1,091	1,057	931	923	872	938	989	1,533	1,813	1,807
6309	Hardware, Auto Parts and Sporting Good Stores	1,064	1,055	1,064	1,089	1,080	1,034	1,080	1,223	1,496	1,508
6107	Veterinary Services	1,062	995	950	894	832	756	700	752	803	776
1102	Trucking, N.O.C.	1,042	1,047	1,029	1,040	1,105	1,152	1,172	1,266	1,471	1,665
6602	Janitorial Service	1,022	1,009	977	936	992	946	850	960	998	1,081
3902	Fruit/Vegetable Canneries/Food Product Mfg., N.O.C.	1,010	964	783	741	730	751	841	745	861	799
0518	Non Wood Frame Building Construction	994	915	760	691	610	644	763	1,450	1,921	1,681
6402	Supermarkets	958	1,017	1,013	886	794	824	881	961	1,039	1,049
6406	Retail Stores, N.O.C.	953	985	1,017	930	1,011	1,009	1,201	1,359	1,491	1,568
6511	Chore Services	946	880	970	922	921	962	935	908	919	978
0307	HVAC Systems, Installation, Service and Repair	941	855	858	784	733	800	801	1,119	1,363	1,526
5307	State Government - All Other Employees, N.O.C.	887	845	919	934	1,077	1,232	1,196	1,258	1,274	1,262
0306	Plumbing	829	881	757	729	767	761	791	1,201	1,459	1,481
4904	Clerical Office, N.O.C.	822	878	1,017	1,016	1,117	1,166	1,208	1,436	1,551	1,686
3405	Aircraft Part Manufacturing, N.O.C.	807	822	798	868	802	671	635	716	1,053	1,056
2903	Wood Products Manufacturing, N.O.C.	800	822	823	728	736	682	714	826	1,392	1,616
3404	Metal Goods Manufacturing, N.O.C. - Under 9 Gauge	730	750	786	764	784	677	692	924	1,248	1,292

Notes:
These claim counts are estimated by fiscal accident year from counts reported through June 30 of each fiscal year. The claims are "allowed" State Fund claims which have been accepted for benefits. Data is as of October 5, 2016.

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

The Risk Class is that assigned to the claim.

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

Sources: Washington State Department of Labor & Industries Actuarial Services

Washington State Department of
Labor & Industries

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