

STATE OF WASHINGTON  
2010 COMPREHENSIVE ANNUAL  
FINANCIAL REPORT SUMMARY



WASHINGTON  
**BRIAN SONNTAG**  
STATE AUDITOR

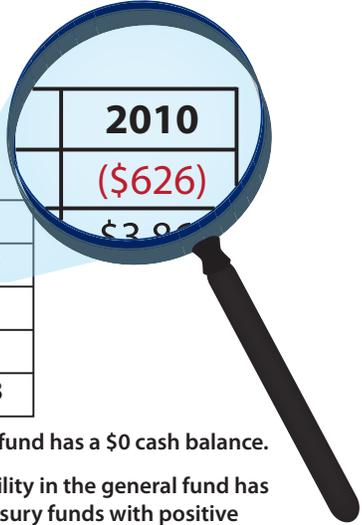
# A snapshot of Washington's financials

State law requires the State Auditor's Office to do an annual audit of the state's financial statements.

The Comprehensive Annual Financial Report (CAFR) contains the Director of Office of Financial Management's discussion and analysis, financial statements covering all state activities and a statistical section containing trend and nonfinancial data. The statements are prepared by OFM in accordance with national standards established by the Governmental Accounting Standards Board. We recognize the CAFR is a complex and lengthy document, and are providing this summary to highlight important information.

### State Treasurer's Ending Fiscal Year Cash Balances (in millions)

Fund Type	2009	2010
General Fund	(\$15)	(\$626)
Other Treasury Funds	\$2,900	\$3,861
Trust Funds	\$642	\$678
<b>TOTAL</b>	<b>\$3,527</b>	<b>\$3,913</b>



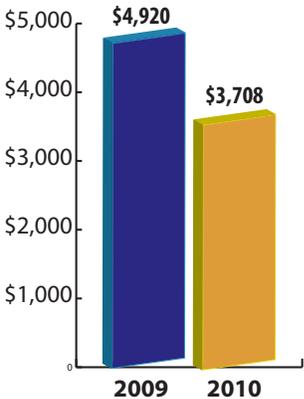
The state's financial statements indicate the general fund has a \$0 cash balance. Since the State Treasurer pools treasury funds, a liability in the general fund has been established to report amount due to other treasury funds with positive cash balances.

Our independent audit of fiscal year 2010 resulted in a clean audit opinion, meaning we did not identify any significant issues with the state's financial statements. Complete financial information is available in the full report, which is published by the Office of Financial Management <http://www.ofm.wa.gov/cafr/default.asp>.

At June 30, 2010 the state's general fund had a negative cash balance. It is important to note that the general fund is one account among hundreds in the state treasury. It pays for a number of state services, primarily human services and education.

Treasury funds are under the control of the State Treasurer and are subject to appropriation by the Legislature. Examples of treasury funds include the Transportation Account and the State Building Construction Account. Treasury trust funds are placed in the custody of the State Treasurer but are not subject to Legislative appropriation. Examples of treasury trust funds include the Pollution Liability Insurance Program Trust Fund and Life Sciences Discovery Fund. Local accounts are under the control of an agency with cash on deposit in a local bank account. Examples of local funds include the Unemployment Compensation Fund and the Institutions of Higher Education - Grant and Contracts Account.

### Local Account Ending Fiscal Year Cash Balance (in millions)



Year	Cash Balance (in millions)
2009	\$4,920
2010	\$3,708

The amounts include petty cash, cash in bank, cash with fiscal agents, pooled cash and short term investments with the local government investment pool. Sources do not fall under the State Treasurer.

## Highlights

- Tax revenues decreased \$1 billion or 6 percent in fiscal year 2010 from fiscal year 2009. The sluggish economy, slumping housing markets and reduced consumer spending have adversely affected state tax collections, especially sales use taxes and real estate excise taxes.
- State expenses continued to grow despite the reduction in tax revenues. Human services expenses increased by \$ 510 million or 4 percent in fiscal year 2010 from fiscal year 2009, reflecting an increased number of individuals who are seeking public assistance from state programs and services.
- At the end of fiscal year 2010,

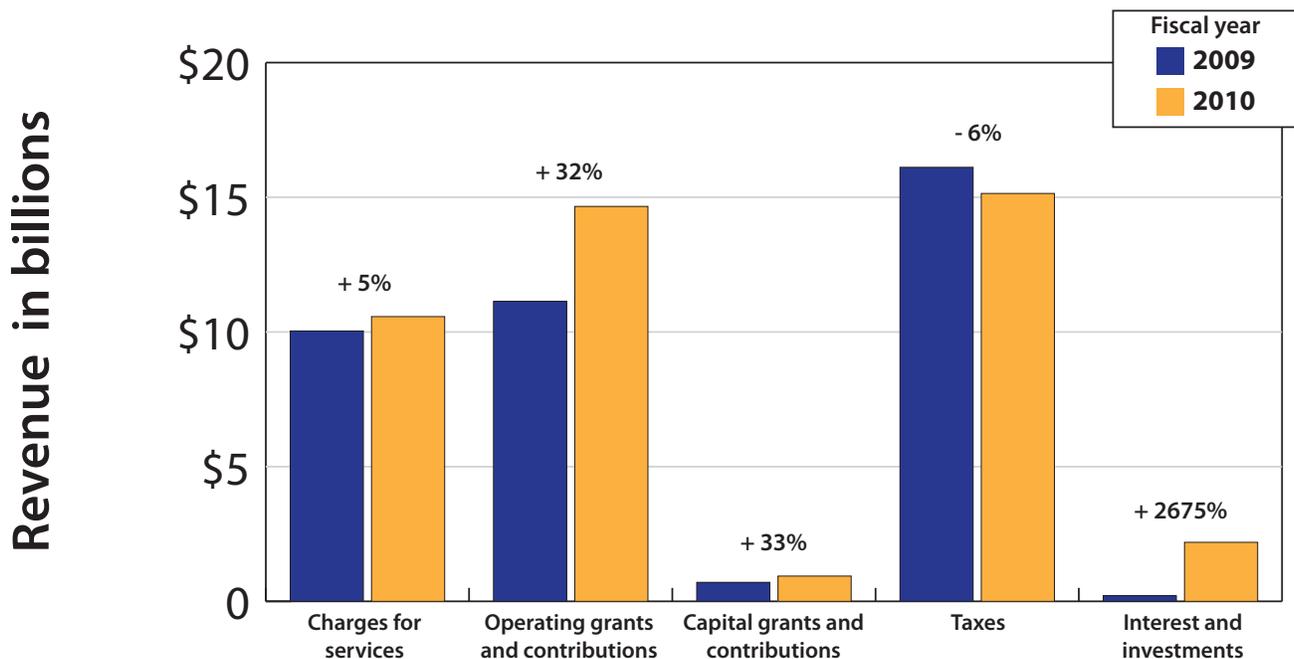
the state had general obligation debt of \$ 16.6 billion, an increase of 18 percent over fiscal year 2009. The state has pledged it's full faith, credit and taxing power to repay this debt. On June 30, 2010, the state's general obligation debt was rated Aa1 by Moody's Investor Services, AA+ by Standard & Poor's Rating Group and AA+ by Fitch Ratings. Bond ratings are an important measure of the state's economic strength and accountability. They determine how much the state pays in interest when it borrows money.

- The state's Budget Stabilization Account (rainy day fund) had a balance of \$95 million as of June 30, 2010. The balance in the fund for the last five fis-

cal years has been:

- **June 30, 2010 - \$ 95.0 million**
- **June 30, 2009 - \$21.4 million**
- **June 30, 2008 - \$302.7 million**
- **June 30, 2007 - \$226.9 million**
- **June 30, 2006 - \$67.8 million**
- Workers' compensation activities reported a loss of \$1 billion in fiscal year 2010. Claims costs increased by \$1.8 billion or 82 percent in Fiscal Year 2010 compared with Fiscal Year 2009. The increase in claims costs is attributable to increases in forecasted future wage inflation, an increase in the number of pensions granted for permanent disability, and increases in the duration of time-loss claims affecting both current and prior year claims. Claims and claims adjustment liabilities grew to

## Total primary government revenue in billions



\$24 billion as of June 30, 2010. Only \$11.2 billion is funded by long-term investments.

- Unemployment compensation activity reported a loss of \$985 million in fiscal year 2010. Unemployment benefits rose \$2.4 billion in fiscal year 2010 as the annualized unemployment rate increased from 7.3 percent in fiscal year 2009 to 9.2 percent in fiscal year 2010.

## Challenges Ahead

The financial statements reveal several growing obligations that are not adequately funded. The following issues have the potential to affect state resources:

### State pension plans

Two of the state's closed pension plans, PERS 1 for retired state employees and TRS 1 for retired teachers, have significant unfunded liabilities. As of June 30, 2009, the unfunded liability for PERS 1 was \$ 4.2 billion and TRS 1 was \$ 2.7 billion. That means the state does not have money set aside to pay the promised retirement benefits to retirees in those two systems. This situation was caused by continuous underfunding and recent investment losses. Significant increases in future contributions will be needed to maintain sufficient assets to pay these benefits in the future. The remaining state retirement plans are fully funded and healthy.

### Post-employment benefits

The state administers a post-employment benefit plan of subsidized medical, dental, life and long-term disability insurance to employees who elect to continue coverage and pay the administratively established premiums at the time they retire. The plan had an unfunded liability of \$ 3.8 billion as of January 1, 2009, the most current information available from the State Actuary at the time of this report.

### Workers' Compensation

The Workers' Compensation Program had an unfunded liability of \$12.8 billion for supplemental pension cost-of-living increases (COLA) as of June 30, 2010. These COLAs are provided to injured workers and their dependents who receive disability payments. The state cannot save money in a fund to pay for these costs as state law requires this program to be operated on a pay-as-you-go basis. This puts pressure on the Department of Labor and Industries to raise employer and employee premium rates or revamp benefits. An independent actuary who reviewed the Workers' Compensation Fund concluded that significant premium rate increases would be necessary for the fund to break even. As of June 30, 2010 the Workers' Compensation Accident Fund was insolvent. Insolvency is defined as liabilities in excess of the value of assets. It is important to note that although the fund is insolvent, at this point the program has sufficient assets to pay claims and to perform day-to-day services.

## Total Government Expenses (in millions)

Expenses	2009	2010
General Government	\$1,815	\$1,738
Education - K-12	8,549	8,468
Education - Higher Education	6,044	6,051
Human Services	12,436	12,946
Adult Corrections	1,044	938
Natural Resources & Recreation	1,062	1,084
Transportation	1,883	2,073
Interest on Long-term Debt	728	810
Workers' Compensation	2,544	4,268
Unemployment Compensation	2,360	4,729
Higher Education Student Services	1,502	1,628
Liquor Control	540	552
Washington's Lottery	401	389
Other Activities	391	345
<b>TOTAL EXPENSES</b>	<b>\$41,299</b>	<b>\$46,019</b>

### **Risk management fund**

The Risk Management Fund has set aside only \$116 million in cash and investments to pay for future estimated claims of approximately \$727 million as of June 30, 2010. This fund pays tort claims, judgments, and settlements against the state. State law limits accumulating funds in the Self-Insurance Liability Program to 50 percent of total outstanding and actuarially determined claims.

### **Federal fiscal stabilization**

Washington has used federal grant money from the American Recovery and Reinvestment Act to avoid making significant service and workforce cuts in areas such as education and corrections. For the fiscal year ended June 30, 2010, the federal government has granted more than \$1.3 billion in Recovery Act money to the state. This funding ends in 2011.

### **Guaranteed Education Tuition (GET) Program**

The GET program, administered by the Higher Education Coordinating Board, was established in 1998, to make higher education more affordable and accessible to Washington State citizens. Due to reduced investment earnings and higher than projected tuition increases in recent years, GET's June 30, 2010 fund balance was negative \$254,619,000.

**Visit the Office of Financial Management website to view the full [Comprehensive Annual Financial Report](#).**

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