OHIO BUREAU OF WORKERS' COMPENSATION
AND
INDUSTRIAL COMMISSION OF OHIO
(A COMPONENT UNIT OF THE STATE OF OHIO)

Management's Discussion and Analysis,

Financial Statements and Supplemental Schedules

June 30, 2002 and 2001

(With Independent Auditors' Report Thereon)

Auditor of State
Betty Montgomery

Board of Commissioners
Ohio Bureau of Workers' Compensation
and Industrial Commission of Ohio
30 W. Spring Street, 28th Floor
Columbus, Ohio 43215

We have reviewed the Independent Auditor's Report of the Ohio Bureau of Workers' Compensation and Industrial Commission of Ohio, Franklin County, prepared by KPMG, for the audit period July 1, 2001 through June 30, 2002. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Ohio Bureau of Workers' Compensation and Industrial Commission of Ohio is responsible for compliance with these laws and regulations.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

February 27, 2003

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OHIO BUREAU OF WORKERS' COMPENSATION
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(A COMPONENT UNIT OF THE STATE OF OHIO)

Management's Discussion and Analysis,
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MANAGEMENT'S DISCUSSION AND ANALYSIS

This section presents management's discussion and analysis of the Ohio Bureau of Workers' Compensation's (BWC's) and the Industrial Commission of Ohio's (IC's) financial performance for fiscal year 2002, which ended on June 30, 2002. BWC and IC are collectively referred to as BWC/IC. This information is based on BWC/IC's financial statements, which begin on page 7.

Financial highlights

- BWC/IC's total assets at June 30, 2002 were $22.2 billion, a decrease of $767 million or 3.3 percent compared to June 30, 2001.
- BWC/IC's total liabilities at June 30, 2002 were $20.3 billion, an increase of $1.9 billion or 10.1 percent compared to June 30, 2001.
- BWC/IC's operating revenues for fiscal year 2002 were $2.3 billion, an increase of $340 million or 17.3 percent from fiscal year 2001.
- BWC/IC's operating expenses for fiscal year 2002 were $4.5 billion, an increase of $287 million or 6.8 percent from fiscal year 2001.
- BWC/IC's total net assets declined $2.6 billion in fiscal year 2002, compared to a $1.9 billion decline in fiscal year 2001.

Financial statements overview

BWC/IC's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America. Management's discussion and analysis is intended to serve as an introduction to BWC/IC's financial statements, which are prepared using the accrual basis of accounting and the economic resources measurement focus.

- Statement of Net Assets - This statement presents information reflecting BWC/IC's assets, liabilities and net assets. Net assets represent the amount of total assets less total liabilities. The statement is categorized by current and noncurrent assets and liabilities. For the purpose of the accompanying financial statements, current assets and liabilities are defined as those assets and liabilities with immediate liquidity or those that are collectible or will be due within 12 months of the statement date.
- Statement of Revenues, Expenses and Changes in Net Assets - This statement reflects the operating revenues and expenses, as well as non-operating revenues and expenses, for the fiscal year. Major sources of operating revenues are premium and assessment income. Major sources of operating expenses are workers' compensation benefits, compensation adjustment expenses and premium reductions and refunds. Revenues and expenses related to capital and investing activities are reflected in the non-operating component of this statement.
- Statement of Cash Flows - The statement of cash flows is presented using the direct method of reporting, which reflects cash flows from operating, capital and related financing, and investing activities. Cash collections and payments are reflected in this statement to arrive at the net increase or decrease in cash and cash equivalents for the fiscal year.
- Notes to the Financial Statements - The notes provide additional information that is essential to a full understanding of BWC/IC's financial position and results of operations presented in the financial statements.
- Supplemental Information - This section includes supplemental schedules presenting the statement of net assets and the statement of revenues, expenses and changes in net assets for the individual accounts administered by BWC/IC. This section also includes required supplemental information that presents 10 years of revenue and reserve development information.

Continued

Financial analysis

Components of BWC/IC's Statements of Net Assets and Statements of Revenues, Expenses and Changes in Net Assets as of June 30, 2002 and June 30, 2001, and for the years then ended were as follows (000's omitted):

	2002	2001
Current assets	$ 6,128,638	$ 4,713,674
Noncurrent assets	16,064,088	18,246,109
Total assets	$22,192,726	$22,959,783
Current liabilities	$6,758,984	$5,536,750
Noncurrent liabilities	13,544,252	12,907,015
Total liabilities	$20,303,236	$18,443,765
Net assets invested in capital assets, net of related debt	$8,682	$6,852
Restricted net assets	1,880,808	4,509,166
Total net assets	$1,889,490	$4,516,018
Net premium and assessment income, including provision for uncollectibles	$2,296,132	$1,955,604
Other operating income	13,567	13,599
Total operating revenues	$2,309,699	$1,969,203
Workers' compensation benefits and compensation adjustment expenses	$2,934,353	$2,498,499
Premium reductions and refunds	1,473,880	1,624,921
Other operating expenses	93,999	91,615
Total operating expenses	$4,502,232	$4,215,035
Net investment income (loss)	$(430,147)	$313,997
Loss on disposal of capital assets	(3,848)	(1,469)
Decrease in net assets	$(2,626,528)	$(1,933,304)

BWC/IC's total net assets at June 30, 2002 were $1.9 billion, which is a decrease of $2.6 billion compared to June 30, 2001. This decrease primarily is due to:

- A $1.1 billion decrease in the fair value of the investment portfolio due to downturns in world equity markets;
- Premium reduction and refund expenses of $1.5 billion. The Workers' Compensation Oversight Commission approved a one-time 75 percent premium reduction for Ohio private employers for the policy year July 1, 2001 through June 30, 2002, which produced estimated savings of $1.3 billion to these employers. A one-time 50 percent premium reduction was approved by the Workers' Compensation Oversight Commission for public taxing district employers for their policy year beginning January 1, 2002, which produced estimated savings of $144 million to these employers through December 31, 2002. Additionally, public taxing district employers qualified for an additional 25 percent cash refund by attending a BWC-hosted Public Employer Summit. Approximately $66.5 million will be returned to employers attending these meetings. These reductions and refunds follow the January 1, 2001 policy year's one-time 75 percent premium reduction, which produced an estimated $200 million in savings for public employer taxing districts.

Continued

In fiscal year 2002, premium and assessment income increased $341 million, primarily due to growth in the payroll base and an increase in assessment rates for administrative costs. In fiscal year 2002, BWC/IC experienced a net investment loss of $430 million, compared to net investment income of $314 million in fiscal year 2001. The decrease in investment income was primarily attributable to the downturn in the world equity markets during this period.

Workers' compensation benefits and compensation adjustment expenses were $2.9 billion in fiscal year 2002 compared to $2.5 billion in fiscal year 2001. The increase in workers' compensation benefits is due in part to increased utilization of medical services and medical cost inflation. A decline in the number of newly awarded permanent total disability claims has helped to reduce the impact of the increased medical costs.

Conditions expected to affect financial position or results of operations

Management estimates the 75 percent premium reduction granted to private employers for the July 1, 2002 to December 31, 2002 payroll period will reduce the premium obligations of private employers by $600 million.

The 75 percent premium reduction is based on reduced frequency of claims, BWC's streamlined processes to reduce costs for employers, and investment returns. Premiums are based on rates that, on average, are more than 39 percent lower than those in effect seven years ago.

Investment-related savings are impacted to a degree by external factors beyond management control and, consequently, may not provide premium reduction possibilities on a continuing basis. There has been continued volatility in the investment markets as evidenced by the S&P 500 declining 13.8 percent, with the treasury bond markets increasing 5.0 percent during the first two months of fiscal year 2003. Importantly, BWC offers employers a variety of safety programs and cost-control programs that can help employers create a safer workplace, reduce accidents, and lower costs. An employer's commitment to maintaining a safe workplace is one key element in controlling costs because claims drive workers' compensation premium rates. The more claims costs employers incur, the higher their workers' compensation premiums.

BWC continues to control workers' compensation costs through cost-cutting reform efforts, claims-process improvements, increased investigation of suspected fraud cases, and medical managed-care initiatives. These programs will take on added importance in reducing costs, as actuarial assumptions as of June 30, 2002 include long-term medical inflation of 8.0 percent for payments during fiscal year 2003 and 9.0 percent for payments after June 30, 2003.

BWC's safety and cost-control programs include:

- Drug-Free Workplace Program (DFWP) and Drug-Free EZ Program - DFWP offers private and public state-fund employers premium discounts of between 10 percent and 20 percent for up to five years for establishing a safer, more cost-effective workplace through a substance-free environment. Like DFWP, the Drug-Free EZ Program enables employers with 25 or fewer employees to receive premium discounts of up to 20 percent for up to five years by implementing a substance-free environment in their workplaces. The Drug-Free EZ Program can be used in conjunction with other premium discount programs and group-rating programs.

Continued

- Premium Discount Program Plus (PDP+) - This incentive program is designed to assist experience-rated qualifying employers establish a safer, more cost-effective workplace. For implementing BWC's 10-Step Business Plan, employers will receive premium discounts of up to 10 percent for each of the first two years of participation and up to 5 percent for the third year of participation, upon meeting program requirements. An employer participating in PDP+ can also participate in DFWP and obtain additional credits, and both discounts will apply.

- SafetyGRANT$ - Employers can receive matching funds to help set up BWC's DFWP and fund research to prevent cumulative trauma disorders. Over $4 million in safety grants were awarded to employers during fiscal year 2002.

- Transitional WorkGRANT$ - BWC will reimburse up to 80 percent in funding to employers who develop a transitional work program designed specifically for their business to gradually return injured workers to their jobs sooner, thereby reducing disability costs. Employers received reimbursements of $1.4 million during fiscal year 2002.

BWC's investment strategies embrace diversity

The investment portfolio of the State Insurance Fund, whose assets are held and invested to provide future benefit payments to injured workers, has been managed under an investment policy that was approved by the Workers' Compensation Oversight Commission in February 1997 and has been monitored by that body thereafter. The execution of that investment policy is the responsibility of the BWC Administrator/CEO and his professional staff. The portfolio is invested in a diversified investment structure through external investment managers retained and monitored by BWC staff. A broad array of equity, fixed income, and private capital vehicles are employed. For the 5-year period ending June 30, 2002, investment returns of the State Insurance Fund have exceeded both the actuarial return assumptions and the returns of most public sector investment funds (the portfolio earned a higher return than 82% of U.S. public sector funds for the 5-year period ending June 30, 2002).

Included in the investment management group are minority, women-owned, and smaller emerging firms. The Workers' Compensation Oversight Commission has made a conscious effort to utilize these firms by policy.

At June 30, 2002, 25 minority firms (including 6 women-owned firms) managed $1.4 billion and 17 emerging firms (including 10 women-owned firms) managed $366 million for BWC. A recent internal case study reflected very competitive returns by minority and emerging firms in all investment sectors utilized by BWC, indicating that the use of minority and emerging investment firms has added value to BWC's investment holdings. This study reinforces management's intentions to maintain its diverse investment structure in the future management of the State Insurance Fund.

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Independent Auditors' Report

The Honorable Bob Taft
Governor of the State of Ohio,
The Honorable Jim Petro
Auditor of State of Ohio:

We have audited the accompanying statements of net assets of the Ohio Bureau of Workers' Compensation and Industrial Commission of Ohio (BWC/IC), a component unit of the State of Ohio, as of June 30, 2002 and 2001, and the related statements of revenues, expenses and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of BWC/IC's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of BWC/IC as of June 30, 2002 and 2001, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in note 1 to the financial statements, in 2002, BWC/IC adopted Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended by GASB Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*. Also, as described in note 1 to the financial statements, BWC/IC adopted GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, in 2002.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 20, 2002 on our consideration of BWC/IC's internal control over financial reporting and on our tests of their compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

The management's discussion and analysis and required supplemental revenue and reserve development information on pages 1 through 4 and 27 through 28, are not a required part of the basic financial statements but is supplementary information required by the GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental schedule of net assets and schedule of revenues, expenses and changes in net assets included on pages 29 through 31 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

KPMG LLP

September 20, 2002

OHIO BUREAU OF WORKERS' COMPENSATION
AND
INDUSTRIAL COMMISSION OF OHIO
(A COMPONENT UNIT OF THE STATE OF OHIO)

STATEMENTS OF NET ASSETS

June 30, 2002 and 2001

(000's omitted)

	2002	2001
ASSETS		
Current assets:		
Cash and cash equivalents (Note 2)	$2,377,053	$1,686,131
Collateral on loaned securities (Note 2)	2,111,450	1,972,713
Premiums in course of collection	133,294	65,338
Assessments in course of collection	229,624	205,583
Accounts receivable, net of allowance for uncollectibles of $565,307 in 2002; $514,505 in 2001	160,538	155,874
Investment trade receivables	1,014,193	506,890
Accrued investment income	100,383	119,352
Other current assets	2,103	1,793
Total current assets	6,128,638	4,713,674
Noncurrent assets:		
Fixed maturities, at fair value (cost $8,870,744 in 2002; $10,039,404 in 2001) (Note 2)	8,939,843	10,089,088
Domestic equity securities:		
Common stocks, at fair value (cost $4,159,092 in 2002; $4,813,481 in 2001) (Note 2)	3,977,781	5,099,458
Preferred stocks, at fair value (cost $62,803 in 2002; $59,921 in 2001) (Note 2)	47,125	44,260
International securities, at fair value (cost $1,617,523 in 2002; $1,808,334 in 2001) (Note 2)	1,500,545	1,713,685
Investments in limited partnerships, at fair value (Note 2)	359,562	247,483
Unbilled premiums receivable	830,076	641,300
Retrospective premiums receivable	230,592	226,502
Capital assets (Notes 3 and 5)	165,653	170,642
Restricted cash	12,911	13,691
Total noncurrent assets	16,064,088	18,246,109
Total assets	$ 22,192,726	$ 22,959,783

	2002	2001
LIABILITIES		
Current liabilities:		
Reserve for compensation (Note 4)	$ 1,631,590	$ 1,528,212
Reserve for compensation adjustment expenses (Notes 4 and 10)	437,955	419,725
Warrants payable	34,301	28,748
Deferred revenue (Note 6)	14,263	18,353
Bonds payable (Notes 5 and 6)	10,000	9,000
Investment trade payables	2,433,261	1,538,047
Accounts payable	11,635	14,442
Premium refund payable (Note 11)	66,539	-
Obligations under securities lending (Note 2)	2,111,450	1,972,713
Other current liabilities (Note 6)	7,990	7,510
Total current liabilities	6,758,984	5,536,750
Noncurrent liabilities:		
Reserve for compensation (Note 4)	11,635,582	10,977,763
Reserve for compensation adjustment expenses (Notes 4 and 10)	1,182,379	1,186,994
Premium payment security deposits (Note 6)	81,272	80,081
Deferred revenue (Note 6)	398,823	409,664
Bonds payable (Notes 5 and 6)	158,770	168,472
Other noncurrent liabilities (Notes 6 and 14)	87,426	84,041
Total noncurrent liabilities	13,544,252	12,907,015
Total liabilities	20,303,236	18,443,765
NET ASSETS		
Invested in capital assets, net of related debt	8,682	6,852
Restricted net assets	1,880,808	4,509,166
Total net assets (Notes 8, 9 and 10)	$ 1,889,490	$ 4,516,018

Commitments and contingencies (Notes 4, 5, 11 and 13)

The accompanying notes are an integral part of the financial statements.

OHIO BUREAU OF WORKERS' COMPENSATION
AND
INDUSTRIAL COMMISSION OF OHIO
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STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

For the years ended June 30, 2002 and 2001

(000's omitted)

	2002	2001
Operating revenues:		
Premium income	$1,880,463	$ 1,597,489
Special premium income	-	8,634
Assessment income	482,222	414,935
Provision for uncollectibles	(66,553)	(65,454)
Other income	13,567	13,599
Total operating revenues	2,309,699	1,969,203
Operating expenses:		
Workers' compensation benefits (Note 4)	2,494,009	2,064,473
Compensation adjustment expenses (Note 4)	440,344	434,026
Premium reductions and refunds (Note 11)	1,473,880	1,624,921
Personal services	45,042	48,484
General and administrative	15,976	15,353
Other expenses	32,981	27,778
Total operating expenses	4,502,232	4,215,035
Net operating loss	(2,192,533)	(2,245,832)
Non-operating revenues (expenses):		
Net investment income (loss) (Note 2)	(430,147)	313,997
Loss on disposal of capital assets (Note 3)	(3,848)	(1,469)
Total non-operating revenues (expenses)	(433,995)	312,528
Decrease in net assets	(2,626,528)	(1,933,304)
Net assets, beginning of year	4,516,018	6,449,322
Net assets, end of year	$ 1,889,490	$ 4,516,018

The accompanying notes are an integral part of the financial statements.

OHIO BUREAU OF WORKERS' COMPENSATION
AND
INDUSTRIAL COMMISSION OF OHIO
(A COMPONENT UNIT OF THE STATE OF OHIO)

STATEMENTS OF CASH FLOWS

For the years ended June 30, 2002 and 2001

(000's omitted)

	2002	2001
Cash flows from operating activities:		
Cash receipts from premiums and assessments	$ 717,790	$ 1,453,693
Cash receipts - other	11,566	28,541
Cash disbursements for claims	(1,964,515)	(1,816,226)
Cash disbursements to employees for services	(235,122)	(252,169)
Cash disbursements for maintenance and equipment	(90,895)	(105,893)
Cash disbursements for employer refunds	(73,034)	(223,122)
Net cash used for operating activities	(1,634,210)	(915,176)
Cash flows from capital and related financing activities:		
Purchase of capital assets, net of retirements	(5,158)	(2,590)
Construction in progress	(8,155)	(672)
Principal payments on bonds	(9,000)	(8,000)
Net cash used for capital and related financing activities	(22,313)	(11,262)
Cash flows from investing activities:		
Investments sold	39,971,162	37,140,855
Investments matured	1,352,122	963,739
Investments purchased	(39,633,271)	(38,071,074)
Interest and dividends received	757,543	1,045,600
Investment expenses	(100,111)	(200,573)
Net cash provided by investing activities	2,347,445	878,547
Net increase (decrease) in cash and cash equivalents	690,922	(47,891)
Cash and cash equivalents, beginning of year	1,686,131	1,734,022
Cash and cash equivalents, end of year	$ 2,377,053	$ 1,686,131

The accompanying notes are an integral part of the financial statements.

OHIO BUREAU OF WORKERS' COMPENSATION
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STATEMENTS OF CASH FLOWS, Continued

For the years ended June 30, 2002 and 2001

(000's omitted)

	2002	2001
Reconciliation of net operating loss to net cash used for operating activities:		
Net operating loss	$ (2,192,533)	$ (2,245,832)
Adjustments to reconcile net operating loss to net cash used for operating activities:		
Provision for uncollectible accounts	66,553	65,454
Depreciation	14,454	13,686
Amortization of discount and issuance costs on bonds payable	298	317
Other	(1,594)	(3,706)
(Increases) decreases in assets and increases (decreases) in liabilities:		
Premiums and assessments in course of collection	(91,997)	789,423
Special premiums receivable	-	575,989
Unbilled premiums receivable	(188,776)	(34,600)
Accounts receivable	(71,217)	(59,586)
Retrospective premiums receivable	(4,090)	77,573
Other assets	(310)	(246)
Restricted cash	780	2,337
Reserves for compensation and compensation adjustment expenses	774,812	474,151
Special premiums credit payable	-	(575,989)
Premium refund payable	66,539	-
Premium payment security deposits	1,191	1,629
Warrants payable	5,553	644
Accounts payable	(2,807)	8,605
Deferred revenue	(14,931)	(7,824)
Other liabilities	3,865	2,799
Net cash used for operating activities	$ (1,634,210)	$ (915,176)

The accompanying notes are an integral part of the financial statements.

1. Background and Summary of Significant Accounting Policies

Organization

The Ohio Bureau of Workers' Compensation (BWC) and the Industrial Commission of Ohio (IC) were created in 1912 and 1925, respectively, and are the exclusive providers of workers' compensation insurance to private and public employers in Ohio who are not granted the privilege of paying compensation and medical benefits directly (self-insured employers). BWC and IC are collectively referred to herein as BWC/IC. BWC/IC was created and is operated pursuant to Chapters 4121, 4123, 4127, and 4131 of the Ohio Revised Code (the Code) and is a component unit of the State of Ohio (the State).

The Governor of the State appoints the BWC Administrator, five of the nine members of the Workers' Compensation Oversight Commission (of which four are non-voting legislative members), and the three members of the IC. The BWC Administrator, with the advice and consent of the Workers' Compensation Oversight Commission, is responsible for the operations of the workers' compensation system, while the IC is responsible for administering claim appeals.

Basis of Presentation

BWC/IC has prepared its financial statements in accordance with accounting principles generally accepted in the United States of America. Accordingly, these financial statements were prepared using the accrual basis of accounting and the economic resources measurement focus. The accompanying financial statements include all accounts, activities, and functions of BWC/IC as a component unit of the State in accordance with Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity". For internal reporting purposes, BWC/IC maintains separate internal accounts (hereafter referred to as funds) as required by the Code. For external financial reporting purposes, BWC/IC has elected to report as a single column business type activity as the individual funds do not have external financial reporting accountability requirements. All significant interfund balances and transactions have been eliminated.

BWC/IC administers the following funds:

State Insurance Fund (SIF)
Disabled Workers' Relief Fund (DWRF)
Coal-Workers Pneumoconiosis Fund (CWPF)
Public Work-Relief Employees' Fund (PWREF)
Marine Industry Fund (MIF)
Intentional Tort Fund (ITF)
Self-Insuring Employers' Guaranty Fund (SIEGF)
Occupational Safety Loan Fund (OSLF)
Administrative Cost Fund (ACF)

Continued

Description of the Funds

SIF, CWPF, PWREF, and MIF are insurance funds providing workers' compensation benefits to injured workers.

DWRF is an assessment fund providing supplemental cost of living benefits to persons permanently and totally disabled and are receiving benefits from SIF or PWREF. The maximum benefit levels are changed annually based on the United States Department of Labor National Consumer Price Index.

SIEGF is an assessment fund providing for payment of compensation and medical benefits to employees of self-insured employers in order to cover any default in payments by self-insured employers.

ACF provides for the payment of administrative and operating costs of all funds except DWRF, CWPF, and MIF, which pay such costs directly.

ITF was established in 1986 to provide for the payment of punitive damages to employees and employer legal fees in intentional tort actions filed by employees having rights to receive workers' compensation benefits where such benefits result from an intentional tort of the employer. In August 1991, the Ohio Supreme Court declared ITF unconstitutional. As a result of this decision, the related unpaid intentional tort benefits may not be paid. The cumulative assessments collected from employers were expected to be prorated as a credit to the administrative assessment of the participants for the rating year beginning July 1, 1993. However, on September 24, 1992, the United States District Court issued an order prohibiting BWC/IC from disbursing ITF assets until such order is lifted or amended by the court. As of June 30, 2002, no such action had taken place. See Note 14.

OSLF was established to make low-interest loans available to employers to improve, install, or erect equipment that reduces hazards to the health and safety of workers. A $1 million transfer in November 1995 from Safety & Hygiene assessments provided funding for OSLF. In accordance with the provisions of Amended Substitute House Bill 75 signed into law on April 10, 2001, the cash balance of OSLF was transferred to the Safety & Hygiene account within ACF in November 2001. A portion of premiums paid by employers is earmarked for safety and loss prevention activities performed by the Safety & Hygiene Division, which is included in ACF.

Effective July 1, 2001, BWC/IC adopted the provisions of GASB Statement No. 34, “Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments” (GASB 34), as amended by GASB Statement No. 37, “Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus”. The adoption of GASB 34 required BWC/IC to make several changes to the presentation of the financial statements, in addition to requiring the presentation of BWC/IC’s management’s discussion and analysis (MD&A). The MD&A is considered to be required supplementary information and is presented before the financial statements. The statements of net assets (formerly, balance sheets) have been prepared to report current and noncurrent asset and liability classifications and net assets (formerly, fund balance) have been classified as invested in capital assets and restricted net assets. The

Continued

statements of revenues, expenses and changes in net assets (formerly, statements of operations and changes in fund balance) distinguishes between operating revenues and expenses and non-operating items. Operating revenues and expenses generally result from providing services in connection with ongoing operations. Operating revenues are primarily derived from premiums and assessments. Operating expenses include the costs of claims and related administrative expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. BWC/IC retroactively applied the provisions of GASB 34 to the 2001 financial statements.

Effective July 1, 2001, BWC/IC also adopted the provisions of GASB Statement No. 38, “Certain Financial Statement Note Disclosures”.

Pursuant to GASB Statement No. 20, “Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting,” BWC/IC follows GASB guidance as applicable to proprietary funds and Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements.

Cash and Cash Equivalents

Cash and cash equivalents in the accompanying statements of net assets and for the purposes of the statements of cash flows include cash and all highly liquid debt instruments purchased with a maturity of three months or less, except for cash and cash equivalents included in international securities. Cash equivalents are stated at amortized cost, which approximates fair value.

Investments

Investments in fixed maturities include bonds and notes. Fixed maturities, domestic equity securities, and international securities are stated at fair value. Fair values of fixed maturities are based on quotations from national security exchanges or, in the event such quotations are not available, from "matrixed" prices which are calculated using the coupon interest rate, maturity date, credit rating, market indices, and other market data as it relates to the issue being valued. Fair values of equity securities are based on quotations from national or international exchanges and are valued at the last reported sales price at current exchange rates. Dividends, interest earnings, the net increase (decrease) in the fair value of investments (which includes both the change in fair value and realized gains and losses), and investment expenses are aggregated and reported as net investment income in the statements of revenues, expenses and changes in net assets. The cost of securities sold is determined using the average cost method. Purchases and sales of investments are recorded as of the trade date.

BWC/IC invests in international equity securities through the use of outside money managers. It is the intent of BWC/IC and the international money managers to be fully invested in non-cash equivalent international securities; however, cash and cash equivalents are often held temporarily. Accrued investment income and investment trade receivables

Continued

and payables for international securities are included in the international securities balance reported in the statements of net assets. See Note 2.

BWC/IC participates as a limited partner in partnerships investing in equities, bonds, notes, and other assets. Investments in limited partnerships are carried at fair value.

BWC/IC participates in a securities lending program, administered by the custodial agent bank, whereby certain securities are transferred to an approved independent broker/dealer (borrower) in exchange for collateral. Securities under loan are included with fixed maturities and equity securities in the statements of net assets. BWC/IC has minimized its exposure to credit risk due to borrower default by requiring the custodial agent to ensure that BWC/IC's loaned securities are collateralized at 102% of the fair value. Securities received as collateral cannot be sold by BWC/IC unless the borrower defaults, as such, these amounts are not reflected in the financial statements. Cash received as collateral, as well as the related liability, is reflected in the financial statements. Cash received as collateral is invested in short-term obligations, which must have an average weighted maturity of 45 days or less. The contract with the custodial agent bank does not provide indemnification in cases of borrower default; however, BWC/IC has not experienced any losses due to credit or market risk on securities lending activity since the implementation of the program in November 1993.

Derivatives are generally defined as a contract whose value depends on, or derives from, the values of an underlying asset, reference rate, or index. BWC/IC has classified the following as derivatives:

- Mortgage and Asset-Backed Securities – As of June 30, 2002 and 2001, BWC/IC held the following mortgage and asset-backed securities that are categorized as derivative securities:
  - GNMA, FNMA, and FHLMC pass-throughs with amortization terms of 15 and 30 years;
  - Collateralized mortgage obligation securities backed by FNMA and FHLMC with 15 and 30 year pass-throughs;
  - Commercial mortgage-backed securities backed by commercial mortgages and leases on a variety of property types; and
  - Asset-backed securities backed by auto loans, credit card receivables, home equity loans, and electric-utility receivables.

  The overall return or yield on mortgage and asset-backed securities depends on the amount of interest collected over the life of the security and the change in the fair value. Although BWC/IC expects to receive the full amount of principal, if prepaid, the interest income that would have been collected during the remaining period to maturity is lost. Accordingly, the yields and maturities of mortgage and asset-backed securities generally depend on when the underlying loan principal and interest are repaid. If interest rates fall below the loan's contractual rate, it is generally to the borrower's advantage to repay the existing loan and obtain new, lower interest rate financing. The fair value of mortgage and asset-backed securities was $5.4 billion and $6.0 billion as of June 30, 2002 and 2001, respectively, and are reported within fixed maturities in the statements of net assets.

Continued

- BWC/IC, through the use of international money managers, enters into various foreign currency exchange contracts to manage exposure to changes in foreign currency exchange rates on its international securities holdings. A foreign currency exchange contract is a commitment to purchase or sell a foreign currency at a future date at a negotiated forward rate. Risk associated with such contracts includes movement in the value of foreign currency relative to the U.S. dollar and the ability of the counterparty to perform. The fair value of the foreign currency exchange contracts receivable for (payable by) BWC/IC was $803 thousand and ($39 thousand) as of June 30, 2002 and 2001, respectively.

Premium Income

SIF, CWPF, PWREF, and MIF premium income is recognized over the coverage period and is collected in subsequent periods for all funds except MIF, which collects premiums in advance of the coverage period. Premiums earned but not yet due are reflected as premiums in course of collection in the statements of net assets. Premiums are based on rates that are approved by the Workers' Compensation Oversight Commission and on the employers' payroll, except self-insured employer premiums, which are based on paid compensation. SIF rates for private and public taxing district employers meeting certain size criteria are adjusted automatically based on their own claims experience.

Retrospective rating plans and group rating plans are offered to qualified employers. SIF recognizes estimated ultimate premium income on retrospectively rated business during the coverage period. Retrospective rating adjustments related to the coverage period are collected in subsequent periods, as experience develops on injuries incurred during the coverage period. The estimated future retrospective rating adjustments are reflected in the statements of net assets as retrospective premiums receivable.

The Code permits state employers to pay into SIF on a terminal funding (pay-as-you-go) basis. Additionally, certain benefits are paid from the SIF Surplus Fund (see Note 8) for self-insured employers. As BWC/IC has the statutory authority to assess premiums against the state and self-insured employers in future periods, an unbilled premiums receivable equal to their share of the discounted reserve for compensation and compensation adjustment expenses, less BWC/IC's portion of the discounted reserve, is reflected in the statements of net assets.

Assessment Income

DWRF I (DWRF benefits awarded for injuries incurred prior to January 1, 1987) and ACF assessment income is recognized over the period for which the assessment applies and is collected in subsequent periods. These amounts are reflected as assessments in course of collection in the statements of net assets. Deferred revenue in the statements of net assets represents DWRF II (DWRF benefits awarded for injuries incurred on or after January 1, 1987) and SIEGF assessments received or in the course of collection, but not yet recognized. DWRF II and SIEGF assessments are recognized as revenues at such time and to the extent that DWRF II and SIEGF claims are paid (terminal funding basis).

Continued

DWRF I assessments are based on employers' payroll and a statutorily determined rate. DWRF II and ACF assessments are based on rates that are approved by the Workers' Compensation Oversight Commission and on employers' payroll, except for ACF assessments of self-insured employers, which are based on paid workers' compensation benefits. SIEGF assessments are based on the financial strength of self-insured employers and paid workers' compensation benefits with the exception of new self-insured employers, which are based on a percentage of base-rated premium.

Premium Payment Security Deposits

Premium payment security deposits are collected in advance from private employers to reduce credit risk for premiums collected in subsequent periods. A deposit is submitted upon application for coverage and generally represents 30% of an estimated eight month premium, with a maximum deposit of $1 thousand. The deposit is applied to outstanding premiums or refunded to the employer upon cancellation of coverage.

Allowance for Doubtful Accounts

BWC/IC provides an allowance for doubtful accounts by charging operations for estimated receivables that will not be collected. The adequacy of the allowance is determined by management based on a review of aged receivable balances.

Capital Assets

Capital assets are carried at cost, net of accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows:

Description	Estimated Useful Lives (Years)
Buildings	30
Furniture and fixtures	10
Vehicles and equipment	5

When assets are disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized in the financial statements. The cost of maintenance and repairs is charged to operations as incurred; significant renewals and betterments are capitalized.

Reserves for Compensation and Compensation Adjustment Expenses

The reserve for compensation includes actuarial estimates for both reported claims and claims incurred but not reported (IBNR). The reserve for compensation adjustment expenses is determined by estimating future expenses to be incurred in settlement of the claims. The

Continued

reserve for compensation is based on historical claims experience data and assumptions and projections as to future events, including claims frequency, severity, persistency, and inflationary trends for medical claim reserves. The reserve for compensation adjustment expenses is based on projected claim-related expenses, estimated costs of the managed care Health Partnership Program, and the reserve for compensation. The methods of making such estimates and for establishing the resulting liabilities are reviewed quarterly and updated based on current circumstances. Any adjustments resulting from changes in estimates are recognized in the current period. The reserves for compensation and compensation adjustment expenses were discounted at 5.8% in 2002 and 6.0% in 2001 to reflect the present value of future benefit payments. The selected discount rate approximates an average yield on United States government securities with a duration similar to the expected claims underlying BWC/IC's reserves.

A reserve is not provided in DWRF I and II or SIEGF for workers' compensation benefit awards granted or IBNR as both funds are operated on a terminal funding basis and, as such, are not required to match revenues and expenses but rather to match assessments to claims disbursements. Future DWRF benefits to be paid for injuries, which have occurred, as of June 30, 2002 were estimated to be $5.2 billion undiscounted and $2.3 billion discounted at 5.8%. These same DWRF benefits were estimated to be $6.9 billion undiscounted and $2.7 billion discounted at 6.0% as of June 30, 2001. Future assessments and transfers of investment income from SIF will fund future DWRF benefits. Future SIEGF benefits to be paid for injuries, which have occurred, as of June 30, 2002 were estimated to be $233 million undiscounted and $144 million discounted at 5.8%. The liability for SIEGF benefits as of June 30, 2001 was estimated to be $243 million undiscounted and $145 million discounted at 6.0%. Future SIEGF benefits will be funded by future assessments from self-insured employers.

Management believes that the recorded reserves for compensation and compensation adjustment expenses are adequate. While management uses available information to estimate the reserves for compensation and compensation adjustment expenses, future changes to the reserves for compensation and compensation adjustment expenses may be necessary based on claims experience and changing claims frequency and severity conditions.

Income Taxes

As a component unit and integral part of the State, the income of BWC/IC is not subject to federal or state income tax.

Use of Estimates

In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported

Continued

amounts of revenues and expenses for the reporting period. Actual results could differ from those estimates.

2. Cash and Investments

BWC/IC is authorized by Section 4123.44 of the Code to invest using an investment policy established by the Workers' Compensation Oversight Commission, which uses the prudent person standard. The prudent person standard requires investments be made with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent and informed person would use.

GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements," requires governmental entities to categorize investments to give an indication of the level of risk assumed by the entity at year-end. Investments that are insured or registered for which the securities are held by BWC/IC or by its agent in the name of BWC/IC are included in Category 1. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the name of BWC/IC. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent, but not in BWC/IC's name. All investments of BWC/IC meet the criteria of Category 3, except securities on loan with cash collateral and investments in limited partnerships, that by their nature, are not required to be categorized.

Category 1 also includes cash balances insured or collateralized with securities held by BWC/IC or by their agent in the name of BWC/IC. Of the bank balance, the Federal Deposit Insurance Corporation insured $100,000. The remaining bank balance cash deposits were collateralized with eligible securities, in amounts equal to at least 105% of the carrying value of the deposits held, in the name of BWC/IC's pledging financial institution, as required by the Code (Category 3).

Continued

BWC/IC's cash balances and investments are categorized as follows to give an indication of the level of risk assumed by BWC/IC at June 30, 2002 and 2001 (000's omitted):

	2002 Category 1	2002 Category 3	2002 Total Carrying/Fair Value	2001 Category 1	2001 Category 3	2001 Total Carrying/Fair Value
Cash balance per bank	$ 100	$ 2,766	$ 2,866	$ 100	$ 6,663	$ 6,763
Net reconciling items	-	10,802	10,802	-	957	957
Cash balance included in cash and cash equivalents in the statements of net assets	100	13,568	13,668	100	7,620	7,720
Restricted cash	100	12,811	12,911	100	13,591	13,691
Investments:						
Fixed maturities:						
Not on securities loan	-	7,174,596	7,174,596	-	8,180,887	8,180,887
On loan for broker provided collateral	-	182,481	182,481	-	281,298	281,298
On loan for letters of credit collateral	-	121,963	121,963	-	140,280	140,280
Domestic equity securities:						
Common stocks not on securities loan	-	3,551,939	3,551,939	-	4,663,010	4,663,010
Preferred stocks not on securities loan	-	47,125	47,125	-	44,260	44,260
International securities not on securities loan	-	1,313,343	1,313,343	-	1,713,685	1,713,685
Cash equivalents	-	2,363,385	2,363,385	-	1,678,411	1,678,411
Securities lending short-term collateral	-	2,111,450	2,111,450	-	1,972,713	1,972,713
Total	$ 200	$16,892,661	16,892,861	$ 200	$18,695,755	18,695,955
Investments – Not Categorized:						
Securities on loan with cash collateral:						
Fixed maturities			1,460,803			1,486,623
Common stocks			425,842			436,448
International securities			187,202			-
Investments in limited partnerships			359,562			247,483
			$19,326,270			$20,866,509

Continued

Net investment income (loss) for the years ended June 30, 2002 and 2001, is summarized as follows (000's omitted):

	2002	2001
Fixed maturities	$567,652	$659,840
Equity securities	91,507	94,112
Investments in limited partnerships	(26,916)	18,136
Cash equivalents	46,445	104,612
Securities lending	58,292	162,925
Decrease in fair value of investments	(1,067,016)	(525,055)
Investment expenses	(100,111)	(200,573)
	$(430,147)	$313,997

The allocation and fair value of international securities held at June 30, 2002 and 2001, is summarized as follows (000's omitted):

	2002	2001
Cash and cash equivalents	$61,093	$23,494
Accrued interest receivable	4,240	2,022
Net foreign currency exchange contracts receivable (payable)	803	(39)
Net investment trade payable	(20,027)	-
Equity securities	1,454,436	1,688,208
Total international securities	$1,500,545	$1,713,685

3. Capital Assets

Capital asset activity for the years ended June 30, 2002 and 2001, is summarized as follows (000's omitted):

	Balance at 6/30/2000	Increases	Decreases	Balance at 6/30/2001	Increases	Decreases	Balance at 6/30/2002
Capital assets not being depreciated							
Land	$ 12,631	$ -	$ -	$ 12,631	$ -	$ -	$ 12,631
Construction in progress	-	672	-	672	8,155	-	8,827
Subtotal	12,631	672	-	13,303	8,155	-	21,458
Capital assets being depreciated							
Buildings	227,934	-	-	227,934	-	-	227,934
Furniture and equipment	84,399	2,673	(7,881)	79,191	5,223	(9,219)	75,195
Land improvements	66	-	-	66	-	-	66
Subtotal	312,399	2,673	(7,881)	307,191	5,223	(9,219)	303,195
Accumulated depreciation							
Buildings	(83,617)	(7,507)	-	(91,124)	(7,507)	-	(98,631)
Furniture and equipment	(58,833)	(6,178)	6,329	(58,682)	(6,946)	5,306	(60,322)
Land improvements	(45)	(1)	-	(46)	(1)	-	(47)
Subtotal	(142,495)	(13,686)	6,329	(149,852)	(14,454)	5,306	(159,000)
Net capital assets	$182,535	$(10,341)	$(1,552)	$170,642	$(1,076)	$(3,913)	$165,653

Continued

4. Reserves for Compensation and Compensation Adjustment Expenses

The reserve for compensation consists of reserves for indemnity and medical claims resulting from work related injuries or illnesses. The recorded liability for reserves for compensation and compensation adjustment expenses is based on an estimate by BWC/IC's independent consulting actuary. Management believes that the recorded liability is adequate; however, the ultimate liability may vary from the amounts provided.

All reserves have been discounted at 5.8% at June 30, 2002 and 6.0% at June 30, 2001. A decrease in the discount rate to 4.8% would result in reserves for compensation and compensation adjustment expenses increasing to $16.4 billion at June 30, 2002, while an increase in the rate to 6.8% would result in reserves for compensation and compensation adjustment expenses decreasing to $13.6 billion at June 30, 2002. A decrease in the discount rate to 5.0% would result in reserves for compensation and compensation adjustment expenses increasing to $15.5 billion at June 30, 2001, while an increase in the rate to 7.0% would result in reserves for compensation and compensation adjustment expenses decreasing to $12.9 billion at June 30, 2001. The undiscounted reserves for compensation and compensation adjustment expenses were $30.6 billion at June 30, 2002 and $29.5 billion at June 30, 2001. The net loss would have been $197 million higher in fiscal year 2002 and $595 million higher in fiscal year 2001 if the reserves for compensation and compensation adjustment expenses were not discounted.

The changes in the reserves for compensation and compensation adjustment expenses for the years ended June 30, 2002 and 2001, are summarized as follows (in millions):

	2002	2001
Reserves for compensation and compensation adjustment expenses, beginning of period	$14,112	$13,638
Incurred:		
Provision for insured events of current period	2,184	2,039
Net increase in provision for insured events of prior periods net of discount accretion of $818 in 2002 and $818 in 2001, respectively	478	455
Decrease in discount rate	272	-
Total incurred	2,934	2,494
Payments:		
Compensation and compensation adjustment expenses attributable to insured events of current period	456	434
Compensation and compensation adjustment expenses attributable to insured events of prior periods	1,702	1,586
Total payments	2,158	2,020
Reserves for compensation and compensation adjustment expenses, end of period	$14,888	$14,112

Continued

As a result of changes in estimates of insured events of prior years, the provision for compensation and compensation adjustment expenses increased $478 million in 2002 and increased $455 million in 2001, primarily due to increased utilization of medical services and medical cost inflation. A decline in the number of newly awarded permanent total disability claims has helped to reduce the impact of increased medical costs.

5. Bonds Payable

In 1993, BWC/IC financed the William Green Building through the issuance of bonds by the Ohio Building Authority (OBA). These special obligation bonds are collateralized by lease rental payments pledged by BWC/IC to OBA and bear a predetermined interest rate ranging from 3.25% to 5.125%. The lease period coincides with the State's biennial budget and is renewable for successive two-year periods until the bonds are retired. Lease payments are based on the estimated debt service of the bonds, but are limited to an amount appropriated by the Ohio General Assembly in BWC/IC's biennial budget. Lease rental payments totaled $17.6 million and $16.9 million for the years ended June 30, 2002 and 2001, respectively.

The building continues to be reflected in capital assets and the related obligation has been reflected as bonds payable in the statements of net assets. Future principal and interest payments are as follows (000's omitted):

Fiscal Year	Principal	Interest	Total
2003	$ 10,000	$ 8,175	$ 18,175
2004	11,000	7,734	18,734
2005	12,000	7,240	19,240
2006	13,000	6,688	19,688
2007	14,000	6,077	20,077
2008-2012	79,000	19,105	98,105
2013-2014	31,255	2,209	33,464
Unamortized bond discount and issuance costs	(1,485)	-	(1,485)
Total	$ 168,770	$ 57,228	$ 225,998

Continued

6. Long-term Obligations

Activity for long-term obligations (excluding the reserves for compensation and compensation adjustment expenses – see Note 4) for the years ended June 30, 2002 and 2001, is summarized as follows (000's omitted):

	Balance at 6/30/2000	Increases	Decreases	Balance at 6/30/2001	Due Within One Year
Premium payment security deposits	$78,452	$9,393	$(7,764)	$80,081	$ -
Deferred revenue	435,841	8,030	(15,854)	428,017	18,353
Bonds payable	185,155	-	(7,683)	177,472	9,000
Other liabilities	88,752	26,728	(23,929)	91,551	7,510
	$788,200	$44,151	$(55,230)	$777,121	$34,863

	Balance at 6/30/2001	Increases	Decreases	Balance at 6/30/2002	Due Within One Year
Premium payment security deposits	$80,081	$3,449	$(2,258)	$81,272	$ -
Deferred revenue	428,017	8,483	(23,414)	413,086	14,263
Bonds payable	177,472	-	(8,702)	168,770	10,000
Other liabilities	91,551	27,332	(23,467)	95,416	7,990
	$777,121	$39,264	$(57,841)	$758,544	$32,253

7. Benefit Plans

Defined Benefit Pension Plan

BWC/IC contributes to the Public Employees Retirement System of Ohio (PERS), a cost-sharing, multiple-employer defined benefit pension plan. PERS provides retirement and disability benefits, annual cost of living adjustments, and survivor benefits for the public employees of Ohio. Benefits are established and may be amended by State statute. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Public Employees Retirement System of Ohio, 277 East Town Street, Columbus, Ohio 43215. As of June 30, 2002, the most recent report issued by PERS is as of December 31, 2001.

The Code provides PERS statutory authority for employee and employer contributions. The employee contribution rate was 8.5%, while the employer contribution rate was 13.31% of covered payroll. BWC/IC's contributions representing 100% of the dollar amount billed are as follows (000's omitted):

Twelve months ended June 30, 2002	$21,911
Twelve months ended June 30, 2001	$15,511
Twelve months ended June 30, 2000	$20,959

Continued

Post-Retirement Health Care

PERS provides post-retirement health care coverage to age and service retirees with 10 or more years of qualifying Ohio service credit. Health care coverage for disabled recipients and primary survivor recipients is available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12, “Disclosure of Information on Postemployment Benefits Other Than Pension Benefits by State and Local Governmental Employers.” The Code provides statutory authority for employer contributions and requires public employers to fund post-retirement health care through their contributions to PERS. The portion of the PERS contribution set aside for the funding of OPEB was 4.3% during calendar year 2001.

OPEBs are advanced-funded on an actuarially determined basis. Significant actuarial assumptions for the latest actuarial review performed December 31, 2000 include: a rate of return on investments of 7.75%; salary increases of 4.75% compounded annually; and health care increases of 4.75% annually.

All plan investments are carried at fair value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach, assets are adjusted annually to reflect 25% of unrealized market appreciation or depreciation on investment assets.

Based upon the portion of each employer’s contribution to PERS set aside for funding OPEB as described above, BWC/IC’s contribution for the twelve months ended June 30, 2002 allocated to OPEB was approximately $7.1 million. The plan’s net assets available to fund future health care benefits totaled $11.7 billion as of December 31, 2000. The number of active participants at December 31, 2000 was 411,076. The actuarially accrued liability and the unfunded actuarially accrued liability as of December 31, 2000, based on the actuarial cost method used, were $14.4 billion and $2.6 billion, respectively.

8. Surplus Fund

The SIF Surplus Fund is established by the Code and is financed by a percentage of all SIF premiums paid by private, self-insured, and public employers (excluding state employers). The SIF Surplus Fund has been appropriated for specific charges, including compensation related to claims of handicapped persons or employees of noncomplying employers, and the expense of providing rehabilitation services, counseling, training, living maintenance payments, and other related charges to injured workers. The SIF Surplus Fund may also be charged on a discretionary basis as ordered by BWC/IC, as permitted by the Code. See Note 10.

9. Premium Payment Security Fund

The SIF Premium Payment Security Fund (PPSF) is established by the Code and is financed by a percentage of all premiums paid by private employers. Amounts are charged to the PPSF when the employer's premium due for a payroll period is determined to be uncollectible by the Attorney General of Ohio and the employer's premium payment security deposit is not sufficient to cover the premiums due for the payroll period. See Note 10.

10. Net Assets

Individual fund net asset (deficit) balances at June 30, 2002 and 2001 were as follows (000's omitted):

	2002	2001
SIF	$2,591,777	$5,166,949
SIF Surplus Fund	(818,302)	(635,940)
SIF Premium Payment Security Fund	113,110	112,342
Total SIF Net Assets	1,886,585	4,643,351
DWRF	600,266	539,842
CWFP	135,357	134,241
PRWEF	11,671	12,902
MIF	9,605	7,010
SIEGF	13,667	12,277
OSLF	-	1,358
ACF	(767,661)	(834,963)
Total Net Assets	$1,889,490	$4,516,018

The ACF fund deficit is a result of recording reserves of $948 million in 2002 and $993 million in 2001 for compensation adjustment expenses in accordance with accounting principles generally accepted in the United States of America, even though funding for ACF is on a terminal funding basis in accordance with the Code. Consequently, incurred compensation adjustment expenses are not fully funded.

11. Premium Reductions and Refunds

On June 28, 2000, the Workers' Compensation Oversight Commission approved a one-time 75% premium reduction for private employers for the policy periods July 1, 2000 through December 31, 2000 and January 1, 2001 through June 30, 2001, producing estimated savings of $1.3 billion to these employers. This premium reduction has been reflected in the accompanying statement of revenues, expenses and changes in net assets for the year ended June 30, 2001.

On December 14, 2000, public employer taxing districts were awarded a $180 million refund of excess premiums and a one-time 75% premium reduction for the January 2001 policy period producing estimated savings of $200 million to these employers through December 31, 2001. The refund has been reflected in the accompanying statement of revenues, expenses and changes in net assets for the year ended June 30, 2001. Each of the accompanying statements of revenues, expenses and changes in net assets for the years ended June 30, 2002 and 2001 reflects $100 million of the premium reduction.

On April 24, 2001, private employers were awarded a one-time 75% premium reduction for the July 1, 2001 through December 31, 2001 and January 1, 2002 through June 30, 2002 policy periods, producing estimated savings of $1.3 billion to these employers. This premium reduction has been reflected in the accompanying statement of revenues, expenses and changes in net assets for the year ended June 30, 2002.

Continued

On October 25, 2001, public employer taxing districts were awarded a one-time 50% premium reduction for the January 2002 policy period producing estimated savings of $144 million to these employers through December 31, 2002. The accompanying statement of revenues, expenses and changes in net assets for the year ended June 30, 2002 reflects $72 million of the premium reduction and the remaining $72 million will be reflected in the statement of revenues, expenses and changes in net assets for the year ended June 30, 2003. To assist Ohio's public employer taxing districts in improving their workers' compensation management, employers attending a BWC hosted Public Employer Summit will receive an additional 25% cash refund. A refund payable of $66.5 million has been accrued as of June 30, 2002.

On April 23, 2002, private employers were awarded a one-time 75% premium reduction for the July 1, 2002 through December 31, 2002 policy period, which will produce estimated savings of $600 million to these employers in the year ended June 30, 2003. This premium reduction will be reflected in the statement of revenues, expenses and changes in net assets for the year ended June 30, 2003.

12. Risk Management

BWC/IC is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To cover these risks, BWC/IC maintains commercial insurance and property insurance. There were no reductions in coverage in either fiscal year 2002 or 2001. Claims experience over the past three years indicates there were no instances of losses exceeding insurance coverage. Additionally, BWC/IC provides medical benefits for its employees on a fully insured basis with independent insurance companies or the State's self-insured benefit plan.

13. Contingent Liabilities

BWC/IC is a party in various litigation. While the final outcome cannot be determined at this time, management is of the opinion that the liability, if any, for these legal actions will not have a material adverse effect on BWC/IC's financial position.

14. Subsequent Event

As discussed in Note 1, on September 24, 1992, the United States District Court issued an order prohibiting BWC/IC from disbursing ITF assets until such order is lifted or amended by the court. On August 26, 2002, the United States Sixth Circuit Appeals Court denied the contention that employers were entitled to reimbursement from ITF for amounts paid by employers to settle intentional tort lawsuits that occurred between 1986 and 1991. BWC/IC's management is developing a plan to refund the total assets of ITF to the employers, which will be distributed after the period for appealing this decision to the United States Supreme Court has passed. As of June 30, 2002, the amount of total assets to be refunded to employers was $66 million.

REQUIRED SUPPLEMENTAL REVENUE AND RESERVE DEVELOPMENT INFORMATION, UNAUDITED

(See Accompanying Independent Auditors' Report)

June 30, 2002 and 2001

GASB Statement No. 30, "Risk Financing Omnibus", requires the presentation of ten years of supplemental revenue and reserve development information, if available.

The table on the following page illustrates how BWC/IC's gross premium revenues and investment income compare to related costs of workers' compensation benefits (compensation) and other expenses incurred by BWC/IC as of the end of each of the last ten and one-half reporting periods. The rows of the table are defined as follows: (1) This line shows the total of each period's gross premium revenues and investment income. (2) This line shows each period's operating expenses, including overhead and compensation adjustment expenses not allocable to individual claims. (3) This line shows incurred compensation and allocated compensation adjustment expenses (both paid and accrued) as originally reported at the end of the first period in which the injury occurred. (4) This section of eleven rows shows the cumulative amounts paid as of the end of successive periods for each period. The diagonal for the period ended June 30, 1996 represents six months of paid development. The diagonals for subsequent years represent paid development one and one-half years later. (5) This section of ten rows shows how each period's incurred compensation increased or decreased as of the end of successive periods. The diagonal for the period ended June 30, 1996 represents six months of incurred compensation development. The diagonals for subsequent years represent incurred compensation development one and one-half years later. (6) This line compares the latest re-estimated incurred compensation amount to the amount originally established (line 3) and shows whether this latest estimate of compensation cost is greater or less than originally estimated. As data for individual periods mature, the correlation between original estimates and re-estimated amounts is commonly used to evaluate the accuracy of incurred compensation currently recognized in less mature periods. The columns of the table show data for successive periods on an undiscounted basis. Periods 1992 through 1995 are for the years ended December 31, 1992 through 1995; the 1996 period is for the six months ended June 30, 1996; and periods 1997 through 2002 are for the fiscal years ended June 30, 1997 through 2002.

Continued

OHIO BUREAU OF WORKERS' COMPENSATION
AND
INDUSTRIAL COMMISSION OF OHIO
(A COMPONENT UNIT OF THE STATE OF OHIO)

REQUIRED SUPPLEMENTAL REVENUE AND RESERVE
DEVELOPMENT INFORMATION, UNAUDITED, Continued
(See Accompanying Independent Auditors' Report)
(In Millions of Dollars)

	Fiscal years ended June 30						Six months ended June 30	Years ended December 31			
	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993	1992
1. Gross premiums, assessments, and investment income*	2,032	2,535	4,344	3,609	5,092	4,933	1,795	3,366	3,161	3,159	3,502
2. Unallocated expenses*	194	292	258	273	323	273	186	345	265	561	263
3. Estimated incurred compensation and compensation adjustment expense, end of period*	2,184	2,039	1,936	1,797	1,984	1,995	925	1,795	1,826	2,094	2,103
Discount*	1,800	1,715	1,672	1,821	2,580	2,498	1,203	2,421	2,615	2,971	2,933
Gross liability as originally estimated*	3,984	3,754	3,608	3,618	4,564	4,493	2,128	4,216	4,441	5,065	5,036
4. Paid (cumulative) as of :											
End of period	456	434	404	422	389	321	75	276	247	227	213
One or one-half year later		821	757	809	673	434	176	477	561	552	555
Two or one and one-half years later			967	984	1,038	611	274	677	659	734	739
Three or two and one-half years later				1,122	1,155	1,085	344	817	810	801	883
Four or three and one-half years later					1,252	1,171	468	920	923	919	938
Four and one-half years later						1,245	506	1,004	1,015	1,009	1,035
Five and one-half years later							538	1,069	1,090	1,079	1,115
Six and one-half years later								1,126	1,149	1,140	1,182
Seven and one-half years later									1,205	1,188	1,231
Eight and one-half years later										1,238	1,286
Nine and one-half years later											1,330
5. Re-estimated incurred compensation and compensation adjustment expenses:											
One or one-half year later		3,457	3,243	3,111	2,603	3,461	1,707	3,790	3,954	4,062	4,525
Two or one and one-half years later			3,311	3,059	3,032	2,899	1,611	3,627	3,486	3,607	3,620
Three or two and one-half years later				3,078	2,763	2,878	1,544	3,475	3,423	3,157	3,271
Four or three and one-half years later					2,681	2,516	1,388	2,973	3,347	3,199	2,957
Four and one-half years later						2,292	1,317	2,627	3,002	3,040	3,013
Five and one-half years later							1,180	2,501	2,592	2,698	2,941
Six and one-half years later								2,245	2,479	2,257	2,654
Seven and one-half years later									2,361	2,180	2,273
Eight and one-half years later										2,074	2,211
Nine and one-half years later											2,109
6. Decrease in estimated incurred compensation and compensation adjustment expenses from end of period		(297)	(297)	(540)	(1,883)	(2,201)	(948)	(1,971)	(2,080)	(2,991)	(2,927)

*Certain 1997 through 2001 amounts have been reclassified to conform to the 2002 presentation.

OHIO BUREAU OF WORKERS' COMPENSATION
AND
INDUSTRIAL COMMISSION OF OHIO
(A COMPONENT UNIT OF THE STATE OF OHIO)
SUPPLEMENTAL SCHEDULE OF NET ASSETS
(See Accompanying Independent Auditors' Report)
June 30, 2002
(000's omitted)

	State Insurance Fund	Disabled Workers' Relief Fund	Coal-Workers Pneumoconiosis Fund	Public Work-Relief Employees' Fund	Marine Industry Fund	Intentional Tort Fund	Self-Insuring Employers' Guaranty Fund	Occupational Safety Loan Fund	Administrative Cost Fund	Eliminations	Totals
ASSETS											
Current assets:											
Cash and cash equivalents	$ 2,221,516	$ 41,009	$ 15,680	$ 16,077	$ 10,406	$ 65,710	$ 4,864	$ -	$ 1,791	$ -	$ 2,377,053
Collateral on loaned securities	2,020,359	89,034	354	128	976	-	-	-	599	-	2,111,450
Premiums in course of collection	133,032	-	-	262	-	-	-	-	-	-	133,294
Assessments in course of collection	-	54,626	-	-	-	-	-	-	174,998	-	229,624
Accounts receivable, net of allowance for uncollectibles	129,101	23,295	-	21	-	15	1,149	-	6,957	-	160,538
Interfund receivables	4,484	13,793	-	418	314	2	574	-	11,136	(30,721)	-
Investment trade receivables	1,013,998	140	12	7	8	-	28	-	-	-	1,014,193
Accrued investment income	85,118	12,720	2,428	7	34	-	76	-	-	-	100,383
Other current assets	2,103	-	-	-	-	-	-	-	-	-	2,103
Total current assets	5,609,711	234,617	18,474	16,920	11,738	65,727	6,691	-	195,481	(30,721)	6,128,638
Noncurrent assets:											
Fixed maturities	7,905,333	859,024	162,046	399	1,417	-	11,624	-	-	-	8,939,843
Domestic equity securities:											
Common stocks	3,977,781	-	-	-	-	-	-	-	-	-	3,977,781
Preferred stocks	32,531	8,999	5,595	-	-	-	-	-	-	-	47,125
International securities	1,500,545	-	-	-	-	-	-	-	-	-	1,500,545
Investments in limited partnerships	359,562	-	-	-	-	-	-	-	-	-	359,562
Unbilled premiums receivable	776,751	-	-	-	-	-	-	-	53,325	-	830,076
Retrospective premiums receivable	230,592	-	-	-	-	-	-	-	-	-	230,592
Capital assets	36,557	22	-	-	-	-	-	-	129,074	-	165,653
Restricted cash	-	-	-	-	-	-	-	-	12,911	-	12,911
Total noncurrent assets	14,819,652	868,045	167,641	399	1,417	-	11,624	-	195,310	-	16,064,088
Total assets	$ 20,429,363	$ 1,102,662	$ 186,115	$ 17,319	$ 13,155	$ 65,727	$ 18,315	$ -	$ 390,791	$ (30,721)	$ 22,192,726

OHIO BUREAU OF WORKERS' COMPENSATION
AND
INDUSTRIAL COMMISSION OF OHIO
(A COMPONENT UNIT OF THE STATE OF OHIO)
SUPPLEMENTAL SCHEDULE OF NET ASSETS, Continued
(See Accompanying Independent Auditors' Report)
June 30, 2002
(000's omitted)

	State Insurance Fund	Disabled Workers' Relief Fund	Coal-Workers Pneumoconiosis Fund	Public Work-Relief Employees' Fund	Marine Industry Fund	Intentional Tort Fund	Self-Insuring Employers' Guaranty Fund	Occupational Safety Loan Fund	Administrative Cost Fund	Eliminations	Totals
LIABILITIES											
Current liabilities:											
Reserve for compensation	$ 1,629,808	$ -	$ 989	$ 170	$ 623	$ -	$ -	$ -	$ -	$ -	$ 1,631,590
Reserve for compensation adjustment expenses	152,298	-	51	-	37	-	-	-	285,569	-	437,955
Warrants payable	34,301	-	-	-	-	-	-	-	-	-	34,301
Deferred revenue	-	12,034	-	-	-	-	2,229	-	-	-	14,263
Bonds payable	-	-	-	-	-	-	-	-	10,000	-	10,000
Investment trade payables	2,433,261	-	-	-	-	-	-	-	-	-	2,433,261
Accounts payable	518	-	-	-	-	-	-	-	11,117	-	11,635
Interfund payables	24,677	2,488	64	10	278	32	2,419	-	753	(30,721)	-
Premium refund payable	66,539	-	-	-	-	-	-	-	-	-	66,539
Obligations under securities lending	2,020,359	89,034	354	128	976	-	-	-	599	-	2,111,450
Other current liabilities	-	17	1	-	290	-	-	-	7,682	-	7,990
Total current liabilities	6,361,761	103,573	1,459	308	2,204	32	4,648	-	315,720	(30,721)	6,758,984
Noncurrent liabilities:											
Reserve for compensation	11,583,192	-	45,801	5,340	1,249	-	-	-	-	-	11,635,582
Reserve for compensation adjustment expenses	516,702	-	3,349	-	97	-	-	-	662,231	-	1,182,379
Premium payment security deposits	81,123	-	149	-	-	-	-	-	-	-	81,272
Deferred revenue	-	398,823	-	-	-	-	-	-	-	-	398,823
Bonds payable	-	-	-	-	-	-	-	-	158,770	-	158,770
Other noncurrent liabilities	-	-	-	-	-	65,695	-	-	21,731	-	87,426
Total noncurrent liabilities	12,181,017	398,823	49,299	5,340	1,346	65,695	-	-	842,732	-	13,544,252
Total liabilities	18,542,778	502,396	50,758	5,648	3,550	65,727	4,648	-	1,158,452	(30,721)	20,303,236
NET ASSETS (DEFICIT)											
Invested in capital assets, net of related debt	36,557	22	-	-	-	-	-	-	(27,897)	-	8,682
Restricted for Surplus Fund	(818,184)	-	-	-	-	-	-	-	-	-	(818,184)
Restricted for Premium Payment Security Fund	113,110	-	-	-	-	-	-	-	-	-	113,110
Restricted for workers' compensation benefits	2,555,102	600,244	135,357	11,671	9,605	-	13,667	-	(739,764)	-	2,585,882
Total net assets (deficit)	$ 1,886,585	$ 600,266	$ 135,357	$ 11,671	$ 9,605	$ -	$ 13,667	$ -	$ (767,661)	$ -	$ 1,889,490

OHIO BUREAU OF WORKERS' COMPENSATION
AND
INDUSTRIAL COMMISSION OF OHIO
(A COMPONENT UNIT OF THE STATE OF OHIO)
SUPPLEMENTAL SCHEDULE OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS

(See Accompanying Independent Auditors' Report)

For the year ended June 30, 2002

(000's omitted)

	State Insurance Fund	Disabled Workers' Relief Fund	Coal-Workers Pneumoconiosis Fund	Public Work-Relief Employees' Fund	Marine Industry Fund	Intentional Tort Fund	Self-Insuring Employers' Guaranty Fund	Occupational Safety Loan Fund	Administrative Cost Fund	Eliminations	Totals
Operating revenues:											
Premium income	$1,878,105	$ -	$1,232	$439	$687	$ -	$ -	$ -	$ -	$ -	$1,880,463
Assessment income	-	118,906	-	-	-	-	14,117	-	349,199	-	482,222
Provision for uncollectibles	(61,778)	(2,401)	-	-	-	-	-	-	(2,374)	-	(66,553)
Other income	3,710	-	31	-	-	-	-	-	9,826	-	13,567
Total operating revenues	1,820,037	116,505	1,263	439	687	-	14,117	-	356,651	-	2,309,699
Operating expenses:											
Workers' compensation benefits	2,338,416	127,503	13,393	2,058	(1,478)	-	14,117	-	-	-	2,494,009
Compensation adjustment expenses	223,626	-	731	-	(145)	-	-	-	216,132	-	440,344
Premium reductions and refunds	1,473,880	-	-	-	-	-	-	-	-	-	1,473,880
Personal services	-	472	7	-	10	-	-	-	44,553	-	45,042
General and administrative	-	231	-	-	-	-	-	-	15,745	-	15,976
Other expenses	16,400	-	-	-	59	-	-	-	16,522	-	32,981
Total operating expenses	4,052,322	128,206	14,131	2,058	(1,554)	-	14,117	-	292,952	-	4,502,232
Net income (loss) before operating transfers	(2,232,285)	(11,701)	(12,868)	(1,619)	2,241	-	-	-	63,699	-	(2,192,533)
Operating transfers	(25,753)	21,747	-	-	-	-	-	(1,376)	5,382	-	-
Net operating income (loss)	(2,258,038)	10,046	(12,868)	(1,619)	2,241	-	-	(1,376)	69,081	-	(2,192,533)
Non-operating revenues (expenses):											
Net investment income (loss)	(498,728)	50,378	13,984	388	354	-	1,390	18	2,069	-	(430,147)
Loss on disposal of capital assets	-	-	-	-	-	-	-	-	(3,848)	-	(3,848)
Total non-operating revenues (expenses)	(498,728)	50,378	13,984	388	354	-	1,390	18	(1,779)	-	(433,995)
Increase (decrease) in net assets (deficit)	(2,756,766)	60,424	1,116	(1,231)	2,595	-	1,390	(1,358)	67,302	-	(2,626,528)
Net assets (deficit), beginning of year	4,643,351	539,842	134,241	12,902	7,010	-	12,277	1,358	(834,963)	-	4,516,018
Net assets (deficit), end of year	$1,886,585	$600,266	$135,357	$11,671	$9,605	$ -	$13,667	$ -	$(767,661)	$ -	$1,889,490

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Report on Compliance and on Internal Control
Over Financial Reporting Based on an Audit of Financial Statements
Performed in Accordance With *Government Auditing Standards*

The Honorable Bob Taft
Governor of the State of Ohio,

The Honorable Jim Petro
Auditor of State of Ohio:

We have audited the financial statements of the Ohio Bureau of Workers' Compensation and Industrial Commission of Ohio (BWC/IC), a component unit of the State of Ohio, as of and for the year ended June 30, 2002, and have issued our report thereon dated September 20, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether BWC/IC's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted an immaterial instance of noncompliance, which we have reported to management of BWC/IC in a separate letter dated September 20, 2002.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered BWC/IC's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control over financial reporting. Our consideration of internal control over financial reporting would not necessarily disclose all matters in internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving internal control over financial reporting, which we have reported to management of BWC/IC in a separate letter dated September 20, 2002.

This report is intended solely for the information and use of management, the Governor of the State of Ohio, the Auditor of State of Ohio, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

September 20, 2002

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OHIO BUREAU OF WORKERS' COMPENSATION AND INDUSTRIAL COMMISSION OF OHIO

FRANKLIN COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
MARCH 11, 2003