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

Columbus, Ohio

Financial Statements
and
Supplementary Financial Information
For the years ended June 30, 2007 and 2006

And Independent Auditors' Report Thereon

Mary Taylor, CPA
Auditor of State

Board of Directors
Ohio Bureau of Workers' Compensation
and Industrial Commission of Ohio
30 W. Spring Street
Columbus, Ohio 43215

We have reviewed the *Independent Auditors' Report* of the Ohio Bureau of Workers' Compensation and Industrial Commission of Ohio, Franklin County, prepared by Schneider Downs & Co., Inc., for the audit period July 1, 2006 through June 30, 2007. 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.

Mary Taylor

Mary Taylor, CPA
Auditor of State

November 13, 2007

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OHIO BUREAU OF WORKERS' COMPENSATION
AND
INDUSTRIAL COMMISSION OF OHIO

(A DEPARTMENT OF THE STATE OF OHIO)

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 years ended June 30, 2007, 2006, and 2005. 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, 2007 were $22.1 billion, an increase of $2.6 billion or 13.3 percent compared to June 30, 2006.
- BWC/IC's total liabilities at June 30, 2007 were $19.8 billion, an increase of $164 million or 0.8 percent compared to June 30, 2006.
- BWC/IC's operating revenues for fiscal year 2007 were $4.3 billion, an increase of $2.2 billion or 103 percent compared to fiscal year 2006. Included in fiscal year 2007 operating revenues is a one-time adjustment of $1.9 billion related to an accounting change for the Disabled Workers' Relief Fund (DWRF).
- BWC/IC's operating expenses for fiscal year 2006 were $2.8 billion, an increase of $757 million or 37.6 percent from fiscal year 2006.
- BWC/IC's total net assets increased by $2.4 billion in fiscal year 2007, compared to an $863 million increase in fiscal year 2006. The fiscal year 2007 increase in net assets is significantly impacted by the $1.9 billion one-time accounting change for DWRF.

Financial statement 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 generally 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 and compensation adjustment expenses. 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, noncapital financing, 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.

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, 2007, June 30, 2006, and June, 30, 2005, and for the years then ended were as follows (000's omitted):

	2007	2006	2005
Current assets	$ 1,953,056	$ 1,307,535	$ 5,076,805
Noncurrent assets	20,187,730	18,230,169	17,656,714
Total assets	$22,140,786	$19,537,704	$22,733,519
Current liabilities	$ 2,697,850	$ 2,463,584	$ 6,112,358
Noncurrent liabilities	17,137,390	17,200,741	17,611,005
Total liabilities	$19,835,240	$19,664,325	$23,723,363
Net assets invested in capital assets, net of related debt	$ 5,179	$ (3,965)	$ (13,143)
Unrestricted net assets (deficit)	2,300,367	(122,656)	(976,701)
Total net deficit	$ 2,305,546	$ (126,621)	$ (989,844)
Net premium and assessment income, including provision for uncollectibles	$2,395,421	$2,095,060	$2,201,134
Assessment income due to statutory change	1,875,512	-	-
Other income	17,703	15,326	11,987
Total operating revenues	$4,288,636	$2,110,386	$2,213,121
Workers' compensation benefits and compensation adjustment expenses	$2,667,148	$1,933,813	$2,916,837
Premium reductions and refunds	-	(8,229)	232,836
Other expenses	100,527	85,452	90,564
Total operating expenses	$2,767,675	$2,011,036	$3,240,237
Net investment income	$ 911,430	$ 763,812	$ 988,440
Gain (loss) on disposal of capital assets	(224)	61	4,688
Increase (decrease) in net assets	$ 2,432,167	$ 863,223	$ (33,988)

BWC/IC's total net assets increased by $2.4 billion during fiscal year 2007 compared to an $863 million increase during fiscal year 2006.

- Ohio House Bill 100 passed in June 2007, granting BWC/IC the authority to assess employers in future periods for amounts needed to fund the Disabled Workers' Relief Fund (DWRF). BWC/IC has recorded an unbilled receivable equal to DWRF's discounted reserve for compensation and compensation adjustment expenses in the statement of net assets. This statutory change resulted in premium and assessment income increasing by $1.9 billion in fiscal year 2007.

Continued

- Workers' compensation benefits and compensation adjustment expenses exceeded net premium and assessment income by $272 million in fiscal year 2007. In fiscal year 2006, net premium and assessment income exceeded workers' compensation benefits and compensation adjustment expenses by $161 million.

- Workers' compensation benefits and compensation adjustment expenses were $2.7 billion in fiscal year 2007 compared to $1.9 billion in fiscal year 2006. This increase is primarily due to a $344 million increase in the reserves for compensation and compensation adjustment expenses during fiscal year 2007 compared to a $373 million decrease in fiscal year 2006. A significant factor in this increase is the change in the interest rate used to discount the reserves from 5.25% at June 30, 2006 to 5.0% at June 30, 2007. The change in the discount rate increased reserves by approximately $457 million. This increase is partially off-set by continuing improvements from reductions in the cost of pharmacy benefits and lower hospital costs. Medical reserves for claims occurring on or before June 30, 2006 declined by $995 million in fiscal year 2007. In fiscal year 2006, the medical reserves for claims occurring on or before June 30, 2005 declined by $755 million. Continuing favorable improvements in the number of newly awarded permanent total disability claims (PTD) reduced PTD reserves by $113 million compared to $155 million reduction in fiscal year 2006.

- Net assets were reduced by premium reduction and refund expenses of $233 million in fiscal year 2005. The Workers' Compensation Oversight Commission approved a one-time 20 percent premium reduction for Ohio's private employers for the policy year July 1, 2004 through December 31, 2004. A one-time 20 percent premium reduction was approved by the Workers' Compensation Oversight Commission for public taxing district employers for the policy year beginning January 1, 2004. No premium credits were approved during fiscal years 2007 and 2006.

- In fiscal year 2007, BWC/IC earned net investment income of $911 million, compared to net investment income of $764 million in fiscal year 2006. At fiscal year-end 2006, approximately 96% of BWC's invested assets were held in a passively managed bond index fund that replicated the medium duration Lehman Aggregate Bond Index. During the third quarter of fiscal year 2007, the bond index fund units held by the State Insurance Fund were liquidated and assets transitioned to long-duration fixed income securities, treasury inflation protected securities, and large-cap domestic equity securities. At June 30, 2007, approximately 8% of BWC's invested assets remained in the bond index fund.

- The J Leonard Camera Rehabilitation Center property was sold to The Ohio State University in February 2005 for $18 million, resulting in a realized gain of $6 million from the sale of this capital asset.

- As of June 30, 2007 and June 30, 2006, BWC/IC had debt in special obligation bonds of $113.1 million and $128.1 million, respectively. These bonds were issued in 2003, through the Ohio Building Authority (OBA) to refund the 1993 William Green Building Series A bonds. The bonds are collateralized by lease rental payments pledged by BWC/IC to OBA. These bonds were rated Aa3 by Moody's Investors Service, Inc.

Continued

Conditions expected to affect financial position or results of operations

Private employer rates increased an average of 3.9 percent for premiums effective July 1, 2006 followed by a 0 percent premium rate change effective July 1, 2007. Private employer rates are 26.5% lower than they were in 1996. BWC decreased public employer taxing district premiums by an average of 1.0 percent for the January 1, 2006 policy year followed by a 3.2 percent increase for policy year 2007. Even with this rate increase, rates for public employer taxing districts are 9.0 percent lower than in 1996.

Paid medical costs for workers' compensation claims were almost 12 percent, or nearly $106 million, lower than expected medical costs for fiscal year 2007. The reduced costs continue a positive trend by BWC and other Ohio stakeholders to implement containment measures designed to curb increasing medical costs. The most significant differences are in pharmacy payments, payments on medical-only claims and payments to hospitals. Medical costs now account for approximately 57 percent of the total benefits for private employers and 70 percent for public taxing district employers, compared to approximately 47.9 percent for private employers and 51.8 percent for public taxing district employers for injuries occurring during 1995.

From time to time, BWC/IC is involved in judicial proceedings arising in the ordinary course of its business. BWC/IC will vigorously defend these suits and expects to prevail; however, there can be no assurance that we will be successful in our defense.

BWC continues to control workers' compensation costs through cost-cutting reform efforts, claims-process improvements, increased investigation of suspected fraud and medical managed-care initiatives. Beginning January 1, 2007, BWC implemented new reimbursement methodology to reimburse inpatient hospital fees at 115 percent of Medicare approved rates. It is estimated that this change will decrease future payments for inpatient hospital charges by approximately 10 percent. Work will begin before the end of the year on revising the rate schedule for outpatient fees. These programs will take on added importance in reducing costs, as actuarial assumptions as of June 30, 2007 include medical inflation plus utilization rates ranging from 9 percent for physician services to 12 percent for pharmacy benefits and medical-only benefits in the first year of the claim and 9 percent for all provider types in the second and subsequent years.

Managed Care Organizations (MCOs) provide case management services on more difficult claims and oversee some processes involved with claims. BWC's contract with the MCOs for the 2007 calendar year will enable MCOs to focus on managing the medical care for injured workers. BWC will be introducing technological improvements to simplify and streamline the medical care processes that will result in increased accuracy, faster provider payments, and greater value for employers paying premiums. The 2007 contract reduces the basic compensation to MCOs from 8 percent to 7.25 percent of billed premiums, saving an estimated $16.5 million.

In June 2007, Ohio House Bill 100 created a new 11-member Bureau of Workers' Compensation Board of Directors. All 11 members have full voting rights. On July 31, 2007, the Governor named the members to the Board, effectively abolishing the Workers' Compensation Oversight Commission. The new Board of Directors is an independent body of fiduciaries entrusted with:

- Setting overall administrative policy for BWC;
- Advising BWC's administrator on all policy and operational matters;
- Safeguarding the assets of Ohio's workers' compensation system, including maintaining the solvency of the State Insurance Fund;
- Providing independent verification of BWC's financial and operational performance.

INDEPENDENT AUDITORS' REPORT

Ohio Bureau of Workers' Compensation and Industrial Commission of Ohio
(A Department of the State of Ohio)
Columbus, 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 department of the State of Ohio (State), as of June 30, 2007 and 2006 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 the BWC/IC's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. 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 the 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.

As discussed in Note 1, the financial statements of BWC/IC are intended to present the financial position and changes in financial position and cash flows of only that portion of the governmental activities, business-type activities, major funds, and remaining fund information of the State that is attributable to the transactions of BWC/IC. They do not purport to, and do not, present fairly the financial position and changes in financial position and cash flows, where applicable, of the State in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material aspects, the financial position of the BWC/IC as of June 30, 2007 and 2006 and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 1, 2007 on our consideration of the BWC/IC's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of

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that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

The Management's Discussion and Analysis and required supplemental revenue and reserve development information on pages 1 through 4 and 31 through 32, respectively, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. 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 that comprise BWC/IC's basic financial statements. The supplemental schedule of net assets and schedule of revenues, expenses, and changes in net assets included in Pages 33 through 35 are presented for purposes of additional analysis and are not a required part of the basic financial statements. This supplemental information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Schneider Downs & Co., Inc.

Columbus, Ohio
October 1, 2007

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

STATEMENTS OF NET ASSETS

June 30, 2007 and 2006

(000's omitted)

	2007	2006
ASSETS		
Current assets:		
Cash and cash equivalents (Note 3)	$327,915	$193,606
Collateral on loaned securities (Note 3)	6,801	6,285
Premiums in course of collection	851,291	754,272
Assessments in course of collection	221,668	196,578
Accounts receivable, net of allowance for uncollectibles of $795,631 in 2007; $811,499 in 2006	170,881	151,210
Investment trade receivables	187,946	-
Accrued investment income	183,418	2,421
Other current assets	3,136	3,163
Total current assets	1,953,056	1,307,535
Noncurrent assets:		
Fixed maturities, at fair value (Note 3)	11,956,476	-
Bond index fund, at fair value (Note 3)	1,372,985	15,590,155
Domestic equity securities:		
Common stocks, at fair value (Note 3)	2,626,001	1,241
Preferred stocks, at fair value (Note 3)	5,509	9,822
International securities, at fair value (Note 3)	1,096	922
Investments in limited partnerships, at fair value (Note 3)	456,346	427,339
Unbilled premiums receivable	961,896	1,049,182
Unbilled assessments receivable	2,398,880	755,474
Retrospective premiums receivable	290,050	271,552
Capital assets (Notes 4 and 6)	116,927	122,942
Restricted cash (Note 3)	1,564	1,540
Total noncurrent assets	20,187,730	18,230,169
Total assets	$ 22,140,786	$ 19,537,704

	2007	2006
LIABILITIES		
Current liabilities:		
Reserve for compensation (Note 5)	$ 1,868,461	$ 1,886,938
Reserve for compensation adjustment expenses (Note 5)	481,510	420,856
Warrants payable	45,539	44,390
Deferred revenue (Note 7)	-	17,925
Bonds payable (Notes 6 and 7)	15,055	14,150
Investment trade payables	252,525	-
Accounts payable	9,465	8,808
Obligations under securities lending (Note 3)	6,801	6,285
Other current liabilities (Note 7)	18,494	64,232
Total current liabilities	2,697,850	2,463,584
Noncurrent liabilities:		
Reserve for compensation (Note 5)	15,544,204	15,363,740
Reserve for compensation adjustment expenses (Note 5)	1,377,019	1,255,642
Premium payment security deposits (Note 7)	87,808	87,693
Deferred revenue (Note 7)	-	354,922
Bonds payable (Notes 6 and 7)	98,021	113,902
Other noncurrent liabilities (Note 7)	30,338	24,842
Total noncurrent liabilities	17,137,390	17,200,741
Total liabilities	19,835,240	19,664,325
NET ASSETS (DEFICIT)		
Invested in capital assets, net of related debt	5,179	(3,965)
Unrestricted net assets (deficit)	2,300,367	(122,656)
Total net assets (deficit) (Notes 9, 10, and 14)	$ 2,305,546	$ (126,621)

Commitments and contingencies (Notes 5, 6, 11, and 13)

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

OHIO BUREAU OF WORKERS' COMPENSATION
AND
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(A DEPARTMENT OF THE STATE OF OHIO)

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

For the years ended June 30, 2007 and 2006

(000's omitted)

	2007	2006
Operating revenues:		
Premium income	$1,802,634	$ 1,754,594
Assessment income	651,216	410,504
Assessment income due to statutory change (Note 2)	1,875,512	-
Provision for uncollectibles	(58,429)	(70,038)
Other income	17,703	15,326
Total operating revenues	4,288,636	2,110,386
Operating expenses:		
Workers' compensation benefits (Note 5)	2,030,596	1,609,421
Compensation adjustment expenses (Note 5)	636,552	324,392
Premium reductions and refunds (Note 11)	-	(8,229)
Personal services	48,974	44,970
Other administrative expenses	51,553	40,482
Total operating expenses	2,767,675	2,011,036
Net operating income	1,520,961	99,350
Non-operating revenues:		
Net investment income (Note 3)	911,430	763,812
(Loss) gain on disposal of capital assets	(224)	61
Total non-operating revenues	911,206	763,873
Increase in net assets	2,432,167	863,223
Net deficit, beginning of year	(126,621)	(989,844)
Net assets (deficit), end of year	$ 2,305,546	$ (126,621)

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

OHIO BUREAU OF WORKERS' COMPENSATION
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(A DEPARTMENT OF THE STATE OF OHIO)

STATEMENTS OF CASH FLOWS

For the years ended June 30, 2007 and 2006

(000's omitted)

	2007	2006
Cash flows from operating activities:		
Cash receipts from premiums and assessments	$ 2,365,616	$ 2,315,107
Cash receipts - other	31,122	27,274
Cash disbursements for claims	(2,122,099)	(2,105,501)
Cash disbursements to employees for services	(247,020)	(242,185)
Cash disbursements for other operating expenses	(88,426)	(88,735)
Cash disbursements for Santos settlement	(46,895)	-
Cash disbursements for employer refunds	(138,935)	(85,127)
Net cash used for operating activities	(246,637)	(179,167)
Cash flows from capital and related financing activities:		
(Purchase) sale of capital assets, net of retirements	(5,081)	(3,631)
Principal and interest payments on bonds	(20,051)	(19,662)
Net cash used in capital and related financing activities	(25,132)	(23,293)
Cash flows from investing activities:		
Investments sold	21,216,513	61,413,959
Investments matured	8,358	985,385
Investments purchased	(21,440,066)	(64,014,458)
Interest and dividends received	630,762	813,246
Investment expenses	(9,489)	(84,707)
Net cash provided by (used in) investing activities	406,078	(886,575)
Net increase (decrease) in cash and cash equivalents	134,309	(1,089,035)
Cash and cash equivalents, beginning of year	193,606	1,282,641
Cash and cash equivalents, end of year	$ 327,915	$ 193,606

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, 2007 and 2006

(000's omitted)

	2007	2006
Reconciliation of net operating income (loss) to net cash used for operating activities:		
Net operating income	$ 1,520,961	$ 99,350
Adjustments to reconcile net operating income to net cash used for operating activities:		
Assessment income due to statutory change	(1,875,512)	-
Provision for uncollectible accounts	58,429	70,038
Depreciation	10,872	8,819
Amortization of discount and issuance costs on bonds payable	5,075	5,512
(Increases) decreases in assets and increases (decreases) in liabilities:		
Premiums and assessments in course of collection	(122,109)	98,209
Unbilled premiums receivable	319,392	(29,175)
Accounts receivable	(78,100)	(49,327)
Retrospective premiums receivable	(18,498)	(19,089)
Other assets	27	(1,021)
Restricted cash	(24)	135
Reserves for compensation and compensation adjustment expenses	344,018	(372,506)
Premium payment security deposits	115	701
Warrants payable	1,149	1,689
Accounts payable	657	(1,880)
Deferred revenue	(372,847)	10,662
Other liabilities	(40,242)	(1,284)
Net cash used for operating activities	$ (246,637)	$ (179,167)
Noncash investing, capital, and financing activities		
Change in fair values of investments	$ 109,160	$ 104,946

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

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2007 and 2006

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 that have not been 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).

The Governor of the State of Ohio (the State) appoints the BWC Administrator, five of the eleven members of the Workers' Compensation Oversight Commission (of which four are non-voting legislative members), and the three members of the IC. In fiscal year 2006, House Bill 66 added two investment experts to the Workers' Compensation Oversight Commission. The Treasurer of State appoints one investment expert, while the Ohio Senate President and Ohio House Speaker jointly appoint the second investment expert. 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.

In June 2007, House Bill 100 created a new 11-member Board of Directors. All members have full voting rights. On July 31, 2007, the Governor named the members to the Board, effectively abolishing the Workers' Compensation Oversight Commission.

BWC/IC is a department of the primary government of the State and is a proprietary operation for purposes of financial reporting. The accompanying financial statements include all accounts, activities, and functions of BWC/IC and are not intended to present the financial position, results of operations, or cash flows of the State taken as a whole. The financial information presented herein for BWC/IC will be incorporated within the State's financial statements.

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. For internal reporting purposes, BWC/IC maintains separate internal accounts 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 accounts do not have external financial reporting accountability requirements. All significant interaccount balances and transactions have been eliminated.

Continued

Pursuant to Governmental Accounting Standards Board (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. As permitted by Generally Accepted Accounting Standards, BWC/IC has elected not to apply Financial Accounting Standards Board Statements and Interpretations issued after November 10, 1989.

BWC/IC administers the following accounts:

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

Description of the Accounts

SIF, CWPF, PWREF, and MIF provide workers' compensation benefits to qualifying employees sustaining work-related injuries or diseases.

DWRF provides supplemental cost-of-living benefits to persons who are 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 provides for the payment of compensation and medical benefits to employees of self-insured employers that are bankrupt or in default.

ACF provides for the payment of administrative and operating costs of all accounts except DWRF, CWPF, and MIF, which pay such costs directly. ACF also includes the portion of premiums paid by employers earmarked for the safety and loss prevention activities performed by the Safety & Hygiene Division.

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.

Continued

The GASB has recently issued the following new accounting pronouncement that will be effective in future years and may be relevant to BWC/IC:

- GASB No. 45, “Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions”,
- GASB No. 47, “Accounting for Termination Benefits”, and
- GASB No. 50, “Pensions Disclosures, An Amendment of GASB Statements No. 25 and No. 27”.

Management has not yet determined the impact that these new GASB Pronouncements will have on BWC/IC’s financial statements.

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. Cash equivalents are stated at amortized cost, which approximates fair value.

Investments

BWC/IC’s investments consist of fixed maturities, domestic equity securities, international securities, collateral on securities lending, investments in limited partnerships, and an investment in a bond index fund.

Prior to the third quarter of the fiscal year ended June, 30, 2007, approximately 96% of BWC/IC’s invested assets were in a passively managed index fund that replicated the medium duration Lehman Aggregate Bond Index (bond index fund). In January and February, 2007 the bond index fund units held by SIF were liquidated and assets were transitioned to long-duration fixed income securities, treasury inflation protected securities, and domestic equity securities that are managed by three external money managers. At June 30, 2007, approximately 8% of BWC/IC’s invested assets remained in the bond index fund.

Investments in the bond index fund, 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. Fair values of domestic and international equity securities are based on quotations from national or international exchanges and are valued at the last reported sales price at current exchange rates. The fair value of the bond index fund is based on the value of the underlying net assets of the fund. 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 as accrued. 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, through the use of 68 outside money managers, participates as a limited partner in partnerships investing in equities, bonds, notes, and other assets. Investments in limited partnerships are stated at fair value. Limited partnerships are generally valued based on March 31st net asset values plus or minus purchases, sales, and cash flows from April 1st

Continued

through June 30th of the reporting year. BWC/IC has unfunded commitments to the limited partnerships at June 30, 2007 amounting to $165.1 million.

Restricted Cash

Restricted cash balances are maintained in accordance with the 2003 bond agreement for special obligation bonds issued through the Ohio Building Authority.

Premium Income

SIF, CWPF, PWREF, and MIF premium income is recognized over the coverage period and is collected in subsequent periods for all accounts except MIF, which collects premiums in advance of the coverage period. Premiums earned but not yet invoiced 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 assessments, 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 businesses 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 9) 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. 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 are reflected as a reduction to unbilled premiums receivable.

The Code permits employers to pay into DWRF and SIEGF on a terminal funding (pay-as-you-go) basis. As BWC has the statutory authority to assess employers in future periods, an unbilled premiums receivable equal to the discounted reserve for compensation and compensation adjustment expenses for DWRF and SIEGF, less BWC/IC's portion of the discounted reserve, is reflected in the statements of net assets (see Note 2).

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 $1,000. The deposit is applied to outstanding premiums or refunded to the employer upon cancellation of coverage.

Allowance for Uncollectible Accounts

BWC/IC provides an allowance for uncollectible 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 and historical loss experience.

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 statements of revenues, expenses, and changes in net assets. 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 reserve for compensation is based on the estimated ultimate cost of settling the claims, including the effects of inflation and other societal and economic factors 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

Continued

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 are discounted at 5.0% at June 30, 2007 and 5.25% at June 30, 2006 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.

Management believes that the recorded reserves for compensation and compensation adjustment expenses make for a reasonable and appropriate provision for expected future losses. 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 department 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 amounts of revenues and expenses for the reporting period. Actual results could differ from those estimates.

Reclassification

Certain 2006 financial statement amounts have been reclassified in order to conform to their 2007 presentation.

2. Statutory Change

House Bill 100 passed in June 2007, granted BWC/IC the authority to assess employers in future periods for amounts needed to fund DWRF, thus an unbilled receivable equal to DWRF's 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. The net impact of this change is a $1.9 billion increase to net assets during fiscal year 2007.

3. 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,

Continued

skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims, and by diversifying the investments of the assets so as to minimize the risk of large losses, unless under the circumstances it is clearly prudent not to do so.

Custodial Credit Risk – Deposits

The custodial credit risk for deposits is the risk that in the event of a bank failure, BWC/IC's deposits may not be recovered. Banks must provide security for all public funds on deposit. These institutions may either specifically collateralize individual accounts in addition to amounts insured by the Federal Deposit Insurance Corporation (FDIC), or may pledge a pool of government securities valued at least 105% of the total value of public monies on deposit at the institution. At June 30, 2007 and 2006, the carrying amount of BWC/IC's cash deposits was $17.554 million and $14.982 million, respectively, and the bank balances were $12.949 million and $14.895 million, respectively. Of the bank balance, $100 thousand was insured by the FDIC. The remaining cash balance on deposit with the bank was collateralized by a pool of government securities held by the pledging financial institution's trust department and was not exposed to custodial credit risk.

Custodial Credit Risk – Investments

Custodial credit risk for investments is the risk that, in the event of a failure of a counter party, BWC/IC will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. At June 30, 2007, BWC/IC had $1.4 billion held by the investments' counterparty.

Continued

As indicated in Note 1, the majority of BWC's investments were held in a passively managed bond index fund at June 30, 2006. The fixed maturities presented as of June 30, 2007 are primarily held by the custodian on behalf of BWC/IC, while only $1.4 billion represent the underlying securities held in the passively managed bond index fund. The fixed maturities as of June 30, 2006 represent the underlying securities held in the passively managed bond index fund. The composition of investments held at June 30, 2007 and 2006 is presented below.

	2007 Fair Value	2006 Fair Value
Fixed maturities:		
Corporate bonds	$3,727,176	$3,224,526
Government agency obligations	1,400,974	6,415,795
Corporate mortgage backed securities	224	747,747
U.S. government obligations	5,138,917	4,532,768
Treasury inflationary index notes	3,004,523	-
State Street money market fund	42,137	1,705,935
Net trade payable bond index fund	15,510	(1,036,616)
Total fixed maturities	13,329,461	15,590,155
Domestic equity securities:		
Common stocks	2,626,001	1,241
Preferred stocks	5,509	9,822
International securities:	1,096	922
Securities lending short-term collateral	6,801	6,285
Investments in limited partnerships	456,346	427,339
Cash and cash equivalents	327,915	193,606
	$16,753,129	$16,229,370

During fiscal year 2006, the outside manager of the bond index fund periodically engaged in securities lending activities. The fair value of the bond index fund reflects the ownership of the securities out on loan but does not reflect the market value of the collateral associated with those securities. The market value of the collateral was approximately $5.3 billion on June 30, 2006. At June 30, 2007, there were no securities out on loan.

Net investment income for the years ended June 30, 2007 and 2006 is summarized as follows (000's omitted):

	2007	2006
Fixed maturities	$237,343	$333,481
Bond index fund	503,949	230,379
Equity securities	26,434	60,177
Investments in limited partnerships	15,881	6,092
Cash equivalents	24,422	57,972
Securities lending	3,730	55,472
Increase in fair value of investments	109,160	104,946
Investment expenses	(9,489)	(84,707)
	$911,430	$763,812

Continued

Interest Rate Risk – Fixed-Income Securities

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. BWC/IC manages the exposure to fair value loss arising from increasing interest rates by requiring that each fixed-income portfolio be invested with duration characteristics that are within a range from a maximum of the OBWC Custom Benchmark to a minimum duration equal to the Lehman Brothers Government and Corporate Intermediate Index.

Duration is a measure of a debt investment's exposure to fair value changes arising from changing interest rates. It uses the present value of cash flow, weighted for those cash flows as a percentage of the investment's full price. Effective duration makes assumptions regarding the most likely timing and amounts of variable cash flows arising from such investments such as callable bonds, prepayments, and variable-rate debt. The effective duration measures the sensitivity of the market price to parallel shifts in the yield curve.

At June 30, 2007 and 2006, the effective duration of BWC's fixed-income portfolio is as follows:

	2007	2006
Corporate bonds	11.35	5.78
Government agency obligations	8.27	3.90
Corporate mortgage backed securities	0.19	4.62
U.S. government obligations	10.20	4.97
Treasury inflationary index notes	8.11	-

Continued

Credit Risk – Fixed-Income Securities

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation to the holder of the investment. BWC/IC manages the exposure to investment credit risk by requiring an average credit quality no lower than an A rating. Government agency obligations have an implied AAA rating. Obligations of the U.S. government are explicitly guaranteed by the U.S. government and are not considered to have credit risk.

BWC/IC's fixed-income securities were rated by Standard and Poor's (S&P) and/or an equivalent national rating organization and the ratings are presented below using the S&P rating scale (000's omitted). As indicated previously, the 2006 fair value shown represents the underlying securities in a passively managed bond index fund, while those presented as of June 30, 2007 were primarily held by the custodian on behalf of BWC/IC.

Quality Rating	2007 Fair Value	2006 Fair Value
AAA	$195,944	$888,834
AA+	31,986	24,880
AA	155,921	177,534
AA-	257,147	377,537
A+	467,957	444,591
A	652,626	475,450
A-	517,625	333,793
BBB+	541,511	380,234
BBB	638,639	469,592
BBB-	246,422	167,735
BB+	3,473	13,902
BB	8,617	-
BB-	-	2,688
Not rated	9,532	215,503
Total credit risk debt securities	3,727,400	3,972,273
Government agency obligations	1,400,974	6,415,795
U.S. government obligations	5,138,917	4,532,768
Treasury inflationary index notes	3,004,523	
State Street money market fund	42,137	1,705,935
Net trade payable bond index fund	15,510	(1,036,616)
Total fixed maturities	$13,329,461	$15,590,155

Concentration of Credit Risk

Concentration of credit risk is the risk of loss that may be attributed to the magnitude of a government's investment in a single issuer. In 2007 and 2006, there is no single issuer that comprises 5% or more of the overall portfolio.

Continued

Foreign Currency Risk – Investments

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. BWC's exposure to foreign currency risk as of June 30, 2007 and 2006 is as follows (000's omitted):

Currency	2007 Fair Value	2006 Fair Value
euro	$ 1,096	$ 922

Securities Lending

BWC/IC had no securities under loan at June 30, 2007 and 2006. BWC/IC has been allocated with cash collateral of $7 million in 2007 and $6 million in 2006 from the securities lending program administered through the Treasurer of State's Office based on the amount of cash equity in the State's common cash and investment account.

4. Capital Assets

Capital asset activity and balances as of and for the years ended June 30, 2007 and 2006 is summarized as follows (000's omitted):

	Balance at 6/30/2005	Increases	Decreases	Balance at 6/30/2006	Increases	Decreases	Balance at 6/30/2007
Capital assets not being depreciated							
Land	$ 11,994	$ -	$ -	$ 11,994	$ -	$ -	$ 11,994
Capital assets being depreciated							
Buildings	205,189	-	-	205,189	-	-	205,189
Furniture and equipment	51,354	3,739	(2,614)	52,479	5,157	(2,950)	54,686
Land improvements	66	-	-	66	-	-	66
Subtotal	256,609	3,739	(2,614)	257,734	5,157	(2,950)	259,941
Accumulated depreciation							
Buildings	(97,876)	(6,787)	-	(104,663)	(6,787)	-	(111,450)
Furniture and equipment	(42,608)	(2,031)	2,567	(42,072)	(4,084)	2,650	(43,506)
Land improvements	(50)	(1)	-	(51)	(1)	-	(52)
Subtotal	(140,534)	(8,819)	2,567	(146,786)	(10,872)	2,650	(155,008)
Net capital assets	$128,069	$ (5,080)	$ (47)	$122,942	$(5,715)	$ (300)	$116,927

Continued

5. 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 compensation and compensation adjustment expenses is based on an estimate by BWC/IC's independent consulting actuary. Management believes that the recorded liability makes for a reasonable and appropriate provision for expected future losses; however, the ultimate liability may vary from the amounts provided.

All reserves have been discounted at 5.0% at June 30, 2007 and 5.25% at June 30, 2006. A decrease in the discount rate to 4.0% would result in the reserves for compensation and compensation adjustment expenses increasing to $21.3 billion at June 30, 2007, while an increase in the rate to 6.0% would result in the reserves for compensation and compensation adjustment expenses decreasing to $17.6 billion. A decrease in the discount rate to 4.25% would result in the reserves for compensation and compensation adjustment expenses increasing to $21 billion at June 30, 2006, while an increase in the rate to 6.25% would result in the reserves for compensation and compensation adjustment expenses decreasing to $17.2 billion. The undiscounted reserves for compensation and compensation adjustment expenses were $37.0 billion at June 30, 2007 and $37.7 billion at June 30, 2006. The net operating income would have been $1.1 billion lower in fiscal year 2007 and $463 million lower in fiscal year 2006, if the reserves for compensation and compensation adjustment expenses were not discounted.

Continued

The changes in the reserves for compensation and compensation adjustment expenses for the years ended June 30, 2007 and 2006 are summarized as follows (in millions):

	2007	2006
Reserves for compensation and compensation adjustment expenses, beginning of period	$18,927	$19,299
Incurred:		
Provision for insured events of current period	2,282	2,270
Net (decrease) increase in provision for insured events of prior periods net of discount accretion of $946 in 2007 and $1,013 in 2006	(72)	(336)
Decrease in discount rate	457	-
Total incurred	2,667	1,934
Payments:		
Compensation and compensation adjustment expenses attributable to insured events of current period	423	417
Compensation and compensation adjustment expenses attributable to insured events of prior periods	1,900	1,889
Total payments	2,323	2,306
Reserves for compensation and compensation adjustment expenses, end of period	$19,271	$18,927

As a result of changes in estimates of insured events of prior years, the provision for compensation and compensation adjustment expenses decreased $72 million in 2007 and increased $336 million in 2006. These decreases are primarily due to lower-than-expected medical payments due to reductions in pharmacy benefits and lower hospital costs.

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6. Bonds Payable

On April 22, 2003, BWC/IC issued special obligation bonds through the Ohio Building Authority (OBA) to refund the 1993 William Green Building Series A bonds. The 2003 bonds bear predetermined interest rates ranging from 1.61% to 3.95%, compared to interest rates ranging from 3.25% to 5.125% on the 1993 bonds. The reacquisition price exceeded the net carrying amount of the old debt by $5.1 million. This amount is netted against the new debt and amortized over the life of the new debt. As a result of the refunding, BWC/IC reduced its total debt service requirements by $9.8 million, which resulted in an economic gain of $8.9 million.

The bonds are collateralized by lease rental payments pledged by BWC/IC to OBA. 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 $20.1 million and $19.7 million for the years ended June 30, 2007 and 2006, respectively. These payments included interest of $5.9 million and $6.5 million for the years ended June 30, 2007 and 2006, 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
2008	15,055	5,307	20,362
2009	16,005	4,606	20,611
2010	15,930	3,867	19,797
2011	15,865	3,109	18,974
2012	15,890	2,326	18,216
2013-2014	31,115	2,294	33,409
Deferred loss on refunding	(1,856)	-	(1,856)
Unamortized bond premium and issuance costs	5,072	-	5,072
Total	$ 113,076	$21,509	$ 134,585

Continued

7. 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, 2007 and 2006, is summarized as follows (000's omitted):

	Balance at 6/30/2005	Increases	Decreases	Balance at 6/30/2006	Due Within One Year
Premium payment security deposits	$ 86,992	$ 3,464	$ (2,763)	$ 87,693	$ -
Deferred revenue	389,332	47,334	(63,819)	372,847	17,925
Bonds payable	142,202	7,338	(21,488)	128,052	14,150
Other liabilities	90,358	42,738	(44,022)	89,074	64,232
	$708,884	$100,874	$(132,092)	$677,666	$96,307

	Balance at 6/30/2006	Increases	Decreases	Balance at 6/30/2007	Due Within One Year
Premium payment security deposits	$ 87,693	$ 3,372	$ (3,257)	$ 87,808	$ -
Deferred revenue	372,847	47,671	(420,518)	-	-
Bonds payable	128,052	6,633	(21,609)	113,076	15,055
Other liabilities	89,074	48,816	(89,058)	48,832	18,494
	$677,666	$106,492	$(534,442)	$249,716	$33,549

8. Benefit Plans

Pension Plans

BWC/IC contributes to the Ohio Public Employees Retirement System of Ohio (OPERS). OPERS administers three separate pension plans:

- The Traditional Plan - a cost-sharing, multiple-employer defined benefit pension plan.
- The Member-Directed Plan – a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under this plan, members accumulate retirement assets equal to the value of member and vested employer contributions plus any investment earnings thereon.
- The Combined Plan – a cost-sharing, multiple-employer defined benefit pension plan. Under the Combined Plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar in nature to the Traditional Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.

OPERS provides retirement, disability, survivor and death benefits, and annual cost-of-living adjustments to members of the Traditional Plan and Combined Plans. Members of the

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Member-Directed Plan do not qualify for ancillary benefits. Benefits are established and may be amended by State statute. OPERS 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, 2007, the most recent report issued by OPERS is as of December 31, 2006.

Chapter 145 of The Code provides OPERS statutory authority for employee and employer contributions. For the year ended December 31, 2006, the employee contribution rate was 9.0% and the employer contribution rate was 13.54% of covered payroll. For the year ended December 31, 2005, the employee contribution rate was 8.5% and 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, 2007	$23,179
Twelve months ended June 30, 2006	$22,444
Twelve months ended June 30, 2005	$21,569

Post-Retirement Health Care

OPERS provides retirement, disability, survivor, and post-retirement health care benefits to qualifying members of both the Traditional and the Combined Plans; however, health care benefits are not statutorily guaranteed. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage. To qualify for post-retirement health care coverage, age and service retirees must have 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 Post-Employment Benefit (OPEB) as described in GASB Statement No. 12, "Disclosure of Information on Post-Employment 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 OPERS. The portion of the employer's contribution to OPERS set aside for the funding of OPEB was 4.5% during calendar year 2006 and 4.0% during calendar year 2005.

OPEBs are advanced-funded on an actuarially determined basis. Significant actuarial assumptions for latest actuarial reviews performed as of December 31, 2005 and December 31, 2004 include: a rate of return on investments of 6.5% in 2005 and 8.0% in 2004; and salary increases of 4.0% compounded annually. The 2005 and 2004 actuarial reviews assumed health care costs will increase at the projected wage inflation rate plus an additional factor ranging from 0.5% to 6% for the next 9 years. In subsequent years, health care costs were assumed to increase at 4%.

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.

Continued

Based upon the portion of each employer's contribution to OPERS set aside for funding OPEB as described above, BWC/IC's contribution for the 12 months ended June 30, 2007 allocated to OPEB was approximately $7.7 million and $6.7 million for the 12 months ended June 30, 2006. The plan's net assets available to fund future health care benefits totaled $11.1 billion as of December 31, 2005 and $10.8 billion as of December 31, 2004. The number of active contributing participants in the Traditional and Combined Plans at December 31, 2006 was 369,214 and 358,804 at December 31, 2005. The actuarially accrued liability and the unfunded actuarially accrued liability as of December 31, 2005, based on the actuarial cost method used, were $31.3 billion and $20.2 billion, respectively. The actuarially accrued liability and the unfunded actuarially accrued liability as of December 31, 2004, based on the actuarial cost method used, were $29.5 billion and $18.7 billion, respectively.

On September 9, 2004, the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS's health care coverage to improve the financial solvency of the fund in response to skyrocketing health care costs. Under HCPP, retirees eligible for health care coverage will receive a graded monthly allocation based on their years of service at retirement. The HCPP incorporates a cafeteria approach, offering a broad range of health care options that allow benefit recipients to use their monthly allocation to purchase health care coverage customized to meet their individual needs. If the monthly allocation exceeds the cost of the options selected, the excess is deposited into a Retiree Medical Account that can be used to fund future health care expenses. In addition to the HCPP, OPERS has taken additional action to improve the solvency of the Health Care Fund by creating a separate investment pool for health care assets.

9. 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.

10. 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.

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11. Premium Reductions and Refunds

On December 16, 2004, private employers were awarded a one-time 20% premium reduction for the July 1, 2004 through December 31, 2004 policy period, which was expected to produce estimated savings of $176 million to these employers for the year ended June 30, 2005. Such estimates are adjusted based on actual activity at the conclusion of the reporting period. The actual reported activity for the July 1, 2004 through December 31, 2004 policy period produced premium reductions that were approximately $4.3 million more than the estimated savings. This adjustment has been reflected in the statement of revenues, expenses, and changes in net assets for the year ended June 30, 2005. Additionally, premium reductions were applied to the annual claim evaluations for employers participating in retrospective rating plans for the January 1, 2004 policy year, producing a reduction of $1.2 million, which has been reflected in the statement of revenues, expenses, and changes in net assets for the year ended June 30, 2006.

On December 16, 2004, public employer taxing districts were awarded a one-time 20% premium reduction for the January 1, 2004 through December 31, 2004 policy period, which was expected to produce estimated savings of $61 million to these employers through December 31, 2004. This premium reduction has been reflected in the statement of revenues, expenses, and changes in net assets for the year ended June 30, 2005. Such estimates will be adjusted based on actual activity at the conclusion of the reporting period. The actual reported activity for the January 2004 policy period produced premium reductions that were approximately $9.4 million less than the estimated savings. This adjustment has been reflected in the statement of revenues, expenses and changes in net assets for the year ended June 30, 2006.

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 2006 or 2005. 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 legal proceedings, which normally occur as part of BWC/IC's operations.

A class action complaint pending in the 8th District Court of Appeals contends that subrogation allowed under Ohio Revised Code 4123.931 is unconstitutional. The Ohio Supreme Court in Holeton v. Crouse Cartage declared the subrogation statute unconstitutional. The trial court certified the class, granted summary judgment to the plaintiffs, and awarded attorney fees. BWC/IC has appealed and the appeal is currently pending. A contingent liability of $50 million

Continued

has been accrued as of June 30, 2005. This case was settled in July 2006, with payments of $46.9 million being made during fiscal year 2007. Management does not expect the ultimate payments to be materially different than the amount accrued.

Litigation is also currently pending before the Ohio Supreme Court relating to premium dividend credits that were denied to previously active participants in BWC's retrospective rating plan (RRP) and then changed to other plans. This action was filed on behalf of all employers that paid premiums under a RRP during any year from 1995 through 2002, and any subsequent year in which premium dividend credits were granted. After three of the plaintiffs became self-insured, they continued to pay dollar-for-dollar claims costs under their continuing RRP obligations, but did not pay premiums. The premium credit was also denied to a fourth plaintiff that left the RRP and went to a group-rated state plan. This plaintiff received credits for paid premiums during the years it was group-rated, but did not receive credit for paid claims costs. The trial court denied class certification in this case. In February 2007, the 10th District Court of Appeals affirmed the trial court's ruling for BWC. The plaintiffs have filed an appeal. The ultimate outcome of the litigation cannot presently be determined. Accordingly, no provision for any liability has been reported in the financial statements for this matter. Management is vigorously defending this case.

Litigation involving a constitutional challenge to the 2003 workers' compensation subrogation statute is pending before the Ohio Supreme Court. The 4th District Court of Appeals has found the statute to be constitutional. The ultimate outcome of the litigation cannot presently be determined. Accordingly, no provision for any liability has been reported in the financial statements for this matter. Management is vigorously defending this case.

A class action case has been filed alleging that BWC/IC identifies PTD recipients not represented by counsel and encourages them to settle their PTD claims for substantially less than their actuarial present value. The plaintiffs contend that BWC refuses to conduct good-faith settlement negotiations with PTD recipients represented by counsel. The trial court denied BWC's motion to dismiss and/or change of venue, and granted class certification. The 8th District Court of Appeals has issued a ruling affirming the trial court's rulings. BWC has appealed to the Ohio Supreme Court. The ultimate outcome of the litigation cannot presently be determined. Accordingly, no provision for any liability has been reported in the financial statements for this matter. Management is vigorously defending this case.

BWC/IC was also involved in litigation in which the plaintiff argued that BWC can only change reimbursement rates by promulgating a rule under ORC Chapter 119. The trial court issued a declaration that BWC improperly reduced reimbursement fees to the hospitals. BWC appealed to the 10th District Court of Appeals. A decision was issued in March 2007 affirming the decision of the trial court. BWC did not appeal the decision to the Ohio Supreme Court. No liability has been recorded in the financial statements as no restitution was ordered by the Court.

BWC/IC is involved in litigation challenging policies related to lump sum advancements made to PTD recipients. This action alleges that BWC/IC has improperly recouped monies from PTD recipients by continuing to deduct monies from the plaintiff's benefits in an amount greater than the advance plus interest. The ultimate outcome of the litigation cannot presently

Continued

be determined. Accordingly, no provision for any liability has been reported in the financial statements for this matter. Management is vigorously defending this case.

BWC/IC is also involved in other claims and legal actions arising in the ordinary course of business. In the opinion of management, after consultation with the Attorney General, the ultimate disposition of these matters will not likely have a material adverse effect on BWC/IC's financial position.

14. Net Assets

Individual fund net asset (deficit) balances at June 30, 2007 and 2006 were as follows (000's omitted):

	2007	2006
SIF	$3,511,722	$2,555,772
SIF Surplus Fund	(1,540,025)	(1,394,378)
SIF Premium Payment Security Fund	108,348	117,451
Total SIF Net Assets	2,080,045	1,278,845
DWRF	800,185	(960,065)
CWPF	171,741	160,138
PWREF	18,295	16,146
MIF	13,802	12,158
SIEGF	6,208	3,472
ACF	(784,730)	(637,315)
Total Net Assets (Deficit)	$ 2,305,546	$ (126,621)

The ACF fund deficit is a result of recognizing the actuarially estimated liabilities in accordance with accounting principles generally accepted in the United States of America, even though the funding for ACF is on a terminal funding basis in accordance with the Code. Consequently, the incurred expenses are not fully funded.

The DWRF net assets at June 30, 2007, reflect a $1.9 billion increase resulting from statutory changes contained in House Bill 100 that granted BWC/IC the authority to assess employers in future periods for the amounts needed to fund DWRF (see Note 2).

OHIO BUREAU OF WORKERS' COMPENSATION
AND
INDUSTRIAL COMMISSION OF OHIO

(A DEPARTMENT OF THE STATE OF OHIO)

REQUIRED SUPPLEMENTAL REVENUE AND RESERVE DEVELOPMENT INFORMATION, UNAUDITED

(See Accompanying Independent Auditors' Report)

June 30, 2007 and 2006

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. (5) This section of ten rows shows how each period's incurred compensation increased or decreased as of the end of successive periods. (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 for the fiscal years ended June 30, 1997 through 2007.

Continued

OHIO BUREAU OF WORKERS' COMPENSATION
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(A DEPARTMENT 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										
	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
1. Gross premiums, assessments, and investment income	5,251	3,015	3,272	3,558	2,886	2,032	2,535	4,344	3,609	5,092	4,933
2. Unallocated expenses	109	170	179	188	169	194	292	258	273	323	273
3. Estimated incurred compensation and compensation adjustment expense, end of period	2,327	2,270	2,392	2,335	2,405	2,233	2,109	2,052	1,891	2,078	2,102
Discount	2,099	2,147	2,227	2,447	2,544	2,374	2,443	2,274	2,576	3,115	3,069
Gross liability as originally estimated	4,426	4,417	4,619	4,782	4,949	4,607	4,552	4,326	4,467	5,193	5,171
4. Paid (cumulative) as of :											
End of period	423	417	449	449	485	456	434	404	422	389	321
One year later		743	795	843	872	853	821	757	809	673	434
Two years later			979	1,037	1,096	1,063	1,038	967	984	1,038	611
Three years later				1,181	1,248	1,230	1,194	1,122	1,122	1,155	1,085
Four years later					1,371	1,351	1,325	1,245	1,232	1,252	1,171
Five years later						1,459	1,423	1,355	1,325	1,335	1,245
Six years later							1,518	1,439	1,411	1,408	1,309
Seven years later								1,519	1,479	1,475	1,366
Eight years later									1,542	1,530	1,420
Nine years later										1,581	1,466
Ten years later											1,513
5. Re-estimated incurred compensation and compensation adjustment expenses (gross):											
One year later		3,670	4,007	4,155	4,183	4,028	4,022	3,953	3,612	3,575	4,332
Two years later			3,636	3,920	4,027	3,943	4,007	3,818	3,695	3,272	3,410
Three years later				3,689	3,827	3,787	3,856	3,880	3,534	3,326	3,069
Four years later					3,638	3,639	3,617	3,680	3,453	3,071	2,999
Five years later						3,376	3,441	3,448	3,183	2,930	2,600
Six years later							3,119	3,222	3,001	2,691	2,489
Seven years later								2,936	2,807	2,542	2,302
Eight years later									2,584	2,352	2,196
Nine years later										2,191	2,073
Ten years later											1,960
6. Decrease in gross estimated incurred compensation and compensation adjustment expenses from end of period		(747)	(983)	(1,093)	(1,311)	(1,231)	(1,433)	(1,390)	(1,883)	(3,002)	(3,211)

Incurred compensation and compensation adjustment expenses have been restated to include reserves for DWRF and SIEGF.

OHIO BUREAU OF WORKERS' COMPENSATION
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(A DEPARTMENT OF THE STATE OF OHIO)
SUPPLEMENTAL SCHEDULE OF NET ASSETS
(See Accompanying Independent Auditors' Report)
June 30, 2007
(000's omitted)

	State Insurance Fund Account	Disabled Workers' Relief Fund Account	Coal-Workers Pneumoconiosis Fund Account	Public Work-Relief Employees' Fund Account	Marine Industry Fund Account	Self-Insuring Employers' Guaranty Fund Account	Administrative Cost Fund Account	Eliminations	Totals
ASSETS									
Current assets:									
Cash and cash equivalents	$ 260,954	$ 6,974	$ 1,110	$ 328	$ 738	$ 46,518	$ 11,293	$ -	$ 327,915
Collateral on loaned securities	-	-	-	-	-	-	6,801	-	6,801
Premiums in course of collection	851,099	-	-	192	-	-	-	-	851,291
Assessments in course of collection	-	51,562	-	-	-	-	170,106	-	221,668
Accounts receivable, net of allowance for uncollectibles	142,018	20,915	-	96	-	1,440	6,412	-	170,881
Interfund receivables	13,238	47,002	8	152	87	900	55,396	(116,783)	-
Investment trade receivables	187,946	-	-	-	-	-	-	-	187,946
Accrued investment income	183,202	8	5	1	3	199	-	-	183,418
Other current assets	2,376	-	-	-	-	-	760	-	3,136
Total current assets	1,640,833	126,461	1,123	769	828	49,057	250,768	(116,783)	1,953,056
Non-current assets:									
Fixed maturities	11,956,476	-	-	-	-	-	-	-	11,956,476
Bond index fund		1,102,897	233,639	21,318	15,131	-	-	-	1,372,985
Domestic equity securities:									
Common stocks	2,626,001	-	-	-	-	-	-	-	2,626,001
Preferred stocks	5,509	-	-	-	-	-	-	-	5,509
International securities	1,096	-	-	-	-	-	-	-	1,096
Investments in limited partnerships	456,346	-	-	-	-	-	-	-	456,346
Unbilled premiums receivable	961,896	-	-	-	-	-	-	-	961,896
Unbilled assessments receivable	-	1,581,683	-	-	-	704,052	113,145	-	2,398,880
Retrospective premiums receivable	290,050	-	-	-	-	-	-	-	290,050
Capital assets	23,253	22	-	-	-	-	93,652	-	116,927
Restricted cash	-	-	-	-	-	-	1,564	-	1,564
Total noncurrent assets	16,320,627	2,684,602	233,639	21,318	15,131	704,052	208,361	-	20,187,730
Total assets	$ 17,961,460	$ 2,811,063	$ 234,762	$ 22,087	$ 15,959	$ 753,109	$ 459,129	$ (116,783)	$ 22,140,786

OHIO BUREAU OF WORKERS' COMPENSATION
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INDUSTRIAL COMMISSION OF OHIO
(A DEPARTMENT OF THE STATE OF OHIO)
SUPPLEMENTAL SCHEDULE OF NET ASSETS, Continued
(See Accompanying Independent Auditors' Report)
June 30, 2007
(000's omitted)

	State Insurance Fund Account	Disabled Workers' Relief Fund Account	Coal-Workers Pneumoconiosis Fund Account	Public Work-Relief Employees' Fund Account	Marine Industry Fund Account	Self-Insuring Employers' Guaranty Fund Account	Administrative Cost Fund Account	Eliminations	Totals
LIABILITIES									
Current liabilities:									
Reserve for compensation	$ 1,726,676	$117,890	$ 1,396	$ 198	$ 229	$22,072	$ -	$ -	$ 1,868,461
Reserve for compensation adjustment expenses	171,410	488	67	-	43	907	308,595	-	481,510
Warrants payable	45,539	-	-	-	-	-	-	-	45,539
Bonds payable	-	-	-	-	-	-	15,055	-	15,055
Investment trade payables	252,525	-	-	-	-	-	-	-	252,525
Accounts payable	773	-	-	-	-	-	8,692	-	9,465
Interfund payables	101,721	11,813	109	7	12	3,121	-	(116,783)	-
Obligations under securities lending	-	-	-	-	-	-	6,801	-	6,801
Other current liabilities	3,157	18	5	-	179	-	15,135	-	18,494
Total current liabilities	2,301,801	130,209	1,577	205	463	26,100	354,278	(116,783)	2,697,850
Noncurrent liabilities:									
Reserve for compensation	12,946,324	1,822,957	56,703	3,587	1,608	713,025	-	-	15,544,204
Reserve for compensation adjustment expenses	540,507	57,712	4,033	-	86	7,776	766,905	-	1,377,019
Premium payment security deposits	87,100	-	708	-	-	-	-	-	87,808
Bonds payable	-	-	-	-	-	-	98,021	-	98,021
Other noncurrent liabilities	5,683	-	-	-	-	-	24,655	-	30,338
Total noncurrent liabilities	13,579,614	1,880,669	61,444	3,587	1,694	720,801	889,581	-	17,137,390
Total liabilities	15,881,415	2,010,878	63,021	3,792	2,157	746,901	1,243,859	(116,783)	19,835,240
NET ASSETS (DEFICIT)									
Invested in capital assets, net of related debt	23,253	22	-	-	-	-	(18,096)	-	5,179
Restricted for Surplus Fund	(1,540,025)	-	-	-	-	-	-	-	(1,540,025)
Restricted for Premium Payment Security Fund	108,348	-	-	-	-	-	-	-	108,348
Unrestricted net assets	3,488,469	800,163	171,741	18,295	13,802	6,208	(766,634)	-	3,732,044
Total net assets (deficit)	$ 2,080,045	$ 800,185	$ 171,741	$ 18,295	$ 13,802	$ 6,208	$ (784,730)	$ -	$ 2,305,546

OHIO BUREAU OF WORKERS' COMPENSATION
AND
INDUSTRIAL COMMISSION OF OHIO
(A DEPARTMENT 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, 2007
(000's omitted)

	State Insurance Fund Account	Disabled Workers' Relief Fund Account	Coal-Workers Pneumoconiosis Fund Account	Public Work-Relief Employees' Fund Account	Marine Industry Fund Account	Self-Insuring Employers' Guaranty Fund Account	Administrative Cost Fund Account	Eliminations	Totals
Operating revenues:									
Premium income	$1,800,637	$ -	$887	$371	$739	$ -	$ -	$ -	$1,802,634
Assessment income	-	130,790	-	-	-	135,416	385,010	-	651,216
Assessment income due to statutory change	-	1,875,512	-	-	-	-	-	-	1,875,512
Provision for uncollectibles	(52,564)	(2,198)	-	-	-	113	(3,780)	-	(58,429)
Other income	10,653	-	-	-	-	-	7,050	-	17,703
Total operating revenues	1,758,726	2,004,104	887	371	739	135,529	388,280	-	4,288,636
Operating expenses:									
Workers' compensation benefits	1,597,752	302,808	1,435	(521)	(91)	129,213	-	-	2,030,596
Compensation adjustment expenses	157,923	6,098	861	-	51	5,716	465,903	-	636,552
Premium reductions and refunds	-	-	-	-	-	-	-	-	-
Personal services	-	59	14	-	9	-	48,892	-	48,974
Other administrative expenses	23,539	28	540	-	30	-	27,416	-	51,553
Total operating expenses	1,779,214	308,993	2,850	(521)	(1)	134,929	542,211	-	2,767,675
Net operating income (loss) before operating transfers in (out)	(20,488)	1,695,111	(1,963)	892	740	600	(153,931)	-	1,520,961
Operating transfers in (out)	(3,472)	-	-	-	-	-	3,472	-	-
Net operating income (loss)	(23,960)	1,695,111	(1,963)	892	740	600	(150,459)	-	1,520,961
Non-operating revenues:									
Net investment income	825,160	65,139	13,566	1,257	904	2,136	3,268	-	911,430
Loss on disposal of capital assets	-	-	-	-	-	-	(224)	-	(224)
Total non-operating revenues	825,160	65,139	13,566	1,257	904	2,136	3,044	-	911,206
Increase (decrease) in net assets (deficit)	801,200	1,760,250	11,603	2,149	1,644	2,736	(147,415)	-	2,432,167
Net assets (deficit), beginning of year	1,278,845	(960,065)	160,138	16,146	12,158	3,472	(637,315)	-	(126,621)
Net assets (deficit), end of year	$2,080,045	$800,185	$171,741	$18,295	$13,802	$6,208	$(784,730)	$ -	$2,305,546

OHIO BUREAU OF WORKERS' COMPENSATION
AND INDUSTRIAL COMMISSION OF OHIO
(A DEPARTMENT OF THE STATE OF OHIO)
Columbus, Ohio

Independent Auditors' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in
Accordance With Government Auditing Standards
For the years ended June 30, 2007 and 2006

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Ohio Bureau of Workers' Compensation and Industrial Commission of Ohio
(A Department of the State of Ohio)
Columbus, Ohio

We have audited the financial statements of the Ohio Bureau of Workers' Compensation and Industrial Commission of Ohio (BWC/IC) as of and for the years ended June 30, 2007 and 2006, and have issued our report thereon dated October 1, 2007. 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.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the BWC/IC's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the BWC/IC's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the BWC/IC's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the BWC/IC's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of BWC/IC's financial statements that is more than inconsequential will not be prevented or detected by BWC/IC's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting, which are identified as Significant Deficiency Numbers 07-1, 07-2, and 07-3.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the BWC/IC's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies noted above is a material weakness.

<u>Compliance and Other Matters</u>

As part of obtaining reasonable assurance about whether the BWC/IC's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, 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 or other matters that are required to be reported under *Government Auditing Standards*.

We also noted certain additional matters that we reported to management of the BWC/IC in a separate letter dated October 1, 2007.

This report is intended solely for the information and use of the management, the Ohio Bureau of Workers' Compensation Board of Directors, and the Auditor of State and is not intended to be and should not be used by anyone other than these specified parties.

Schneider Downs & Co., Inc.

Columbus, Ohio
October 1, 2007

OHIO BUREAU OF WORKERS' COMPENSATION
AND
INDUSTRIAL COMMISSION OF OHIO

(A DEPARTMENT OF THE STATE OF OHIO)

Schedule of Findings and Responses

June 30, 2007

Significant Deficiency No. 07-1, Manual Override Processes in the Rates and Payments System

Criteria: Effective internal controls over manual overrides of established data processing functions would require appropriate segregation of duties between authorization and execution of such overrides. In addition, overrides should be supported by documentation evidencing appropriateness and supervisory approval.

Condition: We noted that a special audit conducted by the BWC Internal Audit Division revealed deficiencies in internal controls over manual override processes in the Rates and Payments system. These control deficiencies principally center on the lack of policies, procedures and system documentation, inadequate segregation of duties, and insufficient oversight.

Effect: Inadequate internal controls over the manual override processes can create an environment that;

- Increases the potential for inappropriate and unauthorized transactions;
- Increases the potential of noncompliance with laws and regulations; and
- Compromises management's ability to identify, investigate and resolve override transactions in a timely manner.

Management Response:

BWC has strengthened internal controls over the manual override process by developing written policies and procedures for these processes. These procedures include standard forms and documentation requirements for the request and approval of manual overrides. To address inadequate segregation of duties, responsibility for processing these transactions has been moved from Employer Operations to the Actuarial Department. The ability to perform override transactions has been limited to three employees in the Actuarial Rate Unit. Management personnel are responsible for reviewing and approving staff transactions to ensure appropriateness, validity, and accuracy of the overrides processed. Further, monthly system generated reports are reviewed to provide quality assurance and oversight for these transactions.

Significant Deficiency No. 07-2, Issue, Service and Maintain Policies

Criteria: Effective internal controls over approval for refunds in excess of $5,000 includes appropriate segregation of duties between authorization and execution of such refunds.

Condition: When performing testing over the controls associated with review, approval and initiation of policies with over $5,000 available for refund reporting, we noted that the Manager of Accounts Receivable reviews, approves and initiates the refund with no secondary review of the transaction. This comment was also identified in our audits of the fiscal year 2005 and 2006 financial statements and was communicated to management in early 2007.

Effect: The inadequate monitoring of refunds could result in unrecorded receivables not being prevented or timely detected and increases the potential for inappropriate and unauthorized transactions. It is our understanding that management implemented corrective measures in June 2007.

Management Response:

BWC has strengthened internal controls over the approval process for refunds over $5,000. All refunds over $5,000 are first reviewed by Accounts Receivable staff and then forwarded to the Accounts Receivable Manager for approval.

Significant Deficiency No. 07-3, Managed Care Organization (MCO) SAS 70 Reviews

Criteria: A significant portion of the BWC/IC control environment related to payments resides with the managed care organizations (MCO) that process certain claims for BWC/IC. MCO's are required to have Type II SAS 70 reviews performed annually as a contractual condition for performing this function for the BWC/IC.

Condition: We noted that management held a SAS 70 Type II training session for all MCO finance staff in the Fall of 2006. The objectives of the training were to clarify the purposes of the report, establish expectations with respect to testing requirements, and provide guidelines on corrective action plans. However, a review of the SAS 70 Type II reports received by BWC/IC management appears to indicate that several MCO's have not designed and/or implemented internal control systems that meet the standards established by the BWC/IC. Specifically, we noted that 4 of the 25 MCO's received a qualified opinion from their independent auditors.

In addition, management's review of the SAS 70 reports seems to indicate that the procedures performed by several of the independent auditors were inadequate, and thus unable to satisfy the overall objectives established by the BWC/IC with respect to testing the operating effectiveness of the control environments.

Effect: Inadequate internal controls at the MCOs can create an environment that;

- Increases the potential for inappropriate and unauthorized transactions;
- Increases the potential of noncompliance with laws and regulations.

Management Response:

Management agrees that the control environments in place at MCOs have a significant impact to BWC's overall control environment. As such, management will be discussing various methods that could be employed to ensure MCOs have the appropriate control environments in place and that adequate testing is performed during the SAS 70 audits. Additionally, MCOs will be required to provide corrective action plans for identified SAS 70 issues.

Mary Taylor, CPA
Auditor of State

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
NOVEMBER 29, 2007

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