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, 2006 and 2005

And Independent Auditors' Report Thereon

Mary Taylor, CPA
Auditor of State

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

We have reviewed the *Independent 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, 2004 though June 30, 2006. 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

March 26, 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, 2006, 2005, and 2004. 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, 2006 were $19.6 billion, a decrease of $3.2 billion or 13.9 percent compared to June 30, 2005.
- BWC/IC's total liabilities at June 30, 2006 were $19.7 billion, a decrease of $4.0 billion or 17.0 percent compared to June 30, 2005.
- BWC/IC's operating revenues for fiscal year 2006 were $2.1 billion, a decrease of $103 million or 4.7 percent compared to fiscal year 2005.
- BWC/IC's operating expenses for fiscal year 2006 were $2.0 billion, a decrease of $1.2 billion or 37.9 percent from fiscal year 2005.
- BWC/IC's total net deficit decreased by $863 million in fiscal year 2006, compared to a $34 million increase in the net deficit in fiscal year 2005.

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, compensation adjustment expenses and premium reductions and refunds. Revenues and expenses related to capital and investing activities are reflected in the non-operating component of this statement.
- Statement of Cash Flows - The statement of cash flows is presented using the direct method of reporting, which reflects cash flows from operating, 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.

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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, 2006, June 30, 2005, and June, 30, 2004 (as restated), and for the years then ended were as follows (000's omitted):

	2006	2005	2004 (Restated)
Current assets	$ 1,307,535	$ 5,076,805	$ 5,141,435
Noncurrent assets	18,257,316	17,656,714	16,880,271
Total assets	$19,564,851	$22,733,519	$22,021,706
Current liabilities	$ 2,485,055	$ 6,112,358	$ 5,776,162
Noncurrent liabilities	17,206,417	17,611,005	17,201,400
Total liabilities	$19,691,472	$23,723,363	$22,977,562
Net assets invested in capital assets, net of related debt	$ (3,965)	$ (13,143)	$ (5,537)
Unrestricted net deficit	(122,656)	(976,701)	(950,319)
Total net deficit	$ (126,621)	$ (989,844)	$ (955,856)
Net premium and assessment income, including provision for uncollectibles	$2,095,060	$2,201,134	$2,300,661
Other income	15,326	11,987	11,852
Total operating revenues	$2,110,386	$2,213,121	$2,312,513
Workers' compensation benefits and compensation adjustment expenses	$1,933,813	$2,916,837	$2,338,833
Premium reductions and refunds	(8,229)	232,836	415,523
Other expenses	85,452	90,564	113,801
Total operating expenses	$2,011,036	$3,240,237	$2,868,157
Net investment income	$ 763,812	$ 988,440	$1,249,889
Gain (loss) on disposal of capital assets	61	4,688	(1,667)
Decrease (increase) in net deficit	$ 863,223	$ (33,988)	$ 692,578

During the year ended June 30, 2005, management determined that a reserve for compensation and compensation adjustment expenses should have been recorded for claims related to the Disabled Workers' Relief Fund and the Self-Insuring Employers' Guaranty Fund. Accordingly, net assets at June 30, 2004 have been restated for this change. The impact of the change resulted in a decrease to net assets of approximately $1.8 billion.

BWC/IC's total net deficit decreased by $863 million during fiscal year 2006 compared to a $34 million increase in the net deficit during fiscal year 2005.

- Net premium and assessment income exceeded workers' compensation benefits and compensation adjustment expenses by $161 million in fiscal year 2006. In fiscal year 2005, workers' compensation benefits and compensation adjustment expenses exceeded net premium and assessment income by $716 million.
- Workers' compensation benefits and compensation adjustment expenses were $1.9 billion in fiscal year 2006 compared to $2.9 billion in fiscal year 2005. The decrease in

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workers' compensation benefits is due largely to continuing favorable improvements in medical payments during fiscal year 2006. These improvements are primarily due to reductions in the cost of pharmacy benefits and lower hospital costs. Medical reserves for claims occurring on or before June 30, 2005 declined by $755 million in fiscal year 2006. In fiscal year 2005, the medical reserves for claims occurring on or before June 30, 2004 declined by $225 million. Continuing favorable improvements in the number of newly awarded permanent total disability (PTD) claims and the elimination of the Price case reserves based on Ohio Supreme Court rulings in fiscal year 2006 reduced PTD reserves by $155 million in fiscal year 2006. Lower-than-expected payments combined with assumptions for future payments on claims occurring on or before June 30, 2005 reduced reserves for death claims by $160 million in fiscal year 2006 compared to an $83 million decrease in fiscal year 2005.

- 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 year 2006.

- In fiscal year 2006, BWC/IC earned net investment income of $764 million, compared to net investment income of $988 million in fiscal year 2005. A change in the investment strategy and asset allocations contributed to the decrease in net investment income. Prior to the third quarter of fiscal year 2006, BWC/IC invested in fixed maturities, domestic equity securities, and international securities with 77 external managers. These contracts were terminated, and substantially all assets were transitioned to a passively managed bond index fund that replicates the medium duration Lehman Aggregate Bond Index.

- During fiscal year 2006, BWC developed a strategic plan to improve financial performance and service to our customers. Results of these efforts are published on a monthly basis to ensure that our customers and other interested parties can monitor our progress.

- 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, 2006 and June 30, 2005, BWC/IC had debt in special obligation bonds of $128.1 million and $142.2 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.

Conditions expected to affect financial position or results of operations

Private employer rates increased an average of 4.4 percent for premiums effective July 1, 2005 followed by a 3.9 percent premium rate increase effective July 1, 2006. Even with these rate increases, rates remain 26.5 percent lower than they were in 1995. Due to the increasing cost

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and number of workers' compensation claims in the public sector, BWC raised public employer taxing district premiums by an average of 2.0 percent for the January 1, 2005 policy year followed by a 1.0 percent decrease for policy year 2006. Rates for public employer taxing district are 9.0 percent lower than in 1996.

Paid medical costs for workers' compensation claims were 10 percent, or nearly $93 million, lower than expected medical costs for fiscal year 2006. 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 58 percent of the total benefits for private employers and almost 69 percent for public taxing district employers, compared to approximately 47.4 percent for private employers and 51.9 percent for public taxing district employers for injuries occurring during 1994.

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 will implement 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, 2006 include medical inflation plus utilization rates ranging from 9 percent for physician services to 16 percent for pharmacy 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, which will save an estimated $16.5 million.

The Workers' Compensation Oversight Commission approved a new investment policy with a target asset allocation of 60% passive index management, 39% active management, and 1% cash equivalents. The portfolio will be allocated to the following asset classes:

- U.S. Equity 15%
- Non-U.S. Equity 5%
- Fixed Income – Long Duration 54%
- High-Yield Bonds 5%
- Inflation-Protected Securities 20%
- Cash Equivalents 1%

The transitioning of the investment portfolio began in January 2007.

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, 2006 and 2005 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 audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits 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, 2006 and 2005 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.

As discussed in Note 2 to the financial statements, management did not provide reserves for estimated future liabilities associated with the Disabled Workers' Relief Fund or the Self-Insuring Employers' Guaranty Fund in the financial statements issued for the fiscal year ended June 30, 2004 and prior. Management has determined this accounting treatment to be inappropriate. We have audited the adjustment that was applied to restate the beginning net assets as of July 1, 2004 financial statements to correct this error, and, in our opinion, such adjustment is appropriate and has been properly applied. We were not engaged to audit, review or apply procedures to the June 30, 2004 financial statements of the BWC/IC other than with respect to the adjustment and, accordingly, we do not express an opinion or any other form of assurance on the June 30, 2004 financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 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 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 revenues and reserve development information on Pages 1 through 4 and 33 through 34, 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 35 through 40 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
January 31, 2007, except for Note 2
as to which the date is February 28, 2007

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

STATEMENTS OF NET ASSETS

June 30, 2006 and 2005

(000's omitted)

	2006	2005
ASSETS		
Current assets:		
Cash and cash equivalents (Note 3)	$193,606	$1,282,641
Collateral on loaned securities (Note 3)	6,285	1,727,955
Premiums in course of collection	754,272	844,554
Assessments in course of collection	196,578	204,505
Accounts receivable, net of allowance for uncollectibles of $811,499 in 2006; $819,608 in 2005	151,210	171,921
Investment trade receivables	-	770,993
Accrued investment income	2,421	72,094
Other current assets	3,163	2,142
Total current assets	1,307,535	5,076,805
Noncurrent assets:		
Bond index fund, at fair value (Note 3)	15,590,155	-
Fixed maturities, at fair value (Note 3)	-	8,182,952
Domestic equity securities:		
Common stocks, at fair value (Note 3)	1,241	4,299,694
Preferred stocks, at fair value (Note 3)	9,822	53,502
International securities, at fair value (Note 3)	922	1,995,648
Investments in limited partnerships, at fair value (Note 3)	427,339	940,083
Unbilled premiums receivable	1,831,803	1,802,628
Retrospective premiums receivable	271,552	252,463
Capital assets (Notes 4 and 6)	122,942	128,069
Restricted cash (Note 3)	1,540	1,675
Total noncurrent assets	18,257,316	17,656,714
Total assets	$ 19,564,851	$ 22,733,519

	2006	2005
LIABILITIES		
Current liabilities:		
Reserve for compensation (Note 5)	$ 1,886,938	$ 1,888,471
Reserve for compensation adjustment expenses (Note 5)	420,856	467,213
Warrants payable	44,390	42,701
Deferred revenue (Note 7)	39,396	17,181
Bonds payable (Notes 6 and 7)	14,150	13,190
Investment trade payables	-	1,933,453
Accounts payable	8,808	10,688
Obligations under securities lending (Note 3)	6,285	1,727,955
Other current liabilities (Note 7)	64,232	11,506
Total current liabilities	2,485,055	6,112,358
Noncurrent liabilities:		
Reserve for compensation (Note 5)	15,363,740	15,610,671
Reserve for compensation adjustment expenses (Note 5)	1,255,642	1,333,327
Premium payment security deposits (Note 7)	87,693	86,992
Deferred revenue (Note 7)	360,598	372,151
Bonds payable (Notes 6 and 7)	113,902	129,012
Other noncurrent liabilities (Note 7)	24,842	78,852
Total noncurrent liabilities	17,206,417	17,611,005
Total liabilities	19,691,472	23,723,363
NET DEFICIT		
Invested in capital assets, net of related debt	(3,965)	(13,143)
Unrestricted net deficit	(122,656)	(976,701)
Total net deficit (Notes 9, 10, and 14)	$ (126,621)	$ (989,844)

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
INDUSTRIAL COMMISSION OF OHIO
(A DEPARTMENT OF THE STATE OF OHIO)

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

For the years ended June 30, 2006 and 2005

(000's omitted)

	2006	2005
Operating revenues:		
Premium income	$1,754,594	$ 1,732,563
Assessment income	410,504	536,641
Provision for uncollectibles	(70,038)	(68,070)
Other income	15,326	11,987
Total operating revenues	2,110,386	2,213,121
Operating expenses:		
Workers' compensation benefits (Note 5)	1,609,421	2,422,108
Compensation adjustment expenses (Note 5)	324,392	494,729
Premium reductions and refunds (Note 11)	(8,229)	232,836
Personal services	44,970	52,112
Other administrative expenses	40,482	38,452
Total operating expenses	2,011,036	3,240,237
Net operating income (loss)	99,350	(1,027,116)
Non-operating revenues:		
Net investment income (Note 3)	763,812	988,440
Gain on disposal of capital assets	61	4,688
Total non-operating revenues	763,873	993,128
Decrease (increase) in net deficit	863,223	(33,988)
Net deficit, beginning of year (as restated) (Note 2)	(989,844)	(955,856)
Net deficit, end of year	$ (126,621)	$ (989,844)

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 CASH FLOWS

For the years ended June 30, 2006 and 2005

(000's omitted)

	2006	2005
Cash flows from operating activities:		
Cash receipts from premiums and assessments	$ 2,315,107	$ 1,879,934
Cash receipts - other	27,274	20,219
Cash disbursements for claims	(2,105,501)	(2,149,666)
Cash disbursements to employees for services	(242,185)	(236,290)
Cash disbursements for maintenance and equipment	(88,735)	(83,403)
Cash disbursements for employer refunds	(85,127)	(84,847)
Net cash used for operating activities	(179,167)	(654,053)
Cash flows from capital and related financing activities:		
(Purchase) sale of capital assets, net of retirements	(3,631)	15,189
Principal and interest payments on bonds	(19,662)	(11,878)
Net cash (used in) provided by capital and related financing activities	(23,293)	3,311
Cash flows from investing activities:		
Investments sold	61,413,959	33,275,793
Investments matured	985,385	1,381,362
Investments purchased	(64,014,458)	(34,843,384)
Interest and dividends received	813,246	590,785
Investment expenses	(84,707)	(89,080)
Net cash (used in) provided by investing activities	(886,575)	315,476
Net decrease in cash and cash equivalents	(1,089,035)	(335,266)
Cash and cash equivalents, beginning of year	1,282,641	1,617,907
Cash and cash equivalents, end of year	$ 193,606	$ 1,282,641

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, Continued

For the years ended June 30, 2006 and 2005

(000's omitted)

	2006	2005
Reconciliation of net operating income (loss) to net cash used for operating activities:		
Net operating income (loss)	$ 99,350	$ (1,027,116)
Adjustments to reconcile net operating income (loss) to net cash used for operating activities:		
Provision for uncollectible accounts	70,038	68,070
Depreciation	8,819	3,472
Amortization of discount and issuance costs on bonds payable	5,512	5,690
(Increases) decreases in assets and increases (decreases) in liabilities:		
Premiums and assessments in course of collection	98,209	(158,050)
Unbilled premiums receivable	(29,175)	(49,204)
Accounts receivable	(49,327)	(75,595)
Retrospective premiums receivable	(19,089)	(5,142)
Other assets	(1,021)	517
Restricted cash	135	93
Reserves for compensation and compensation adjustment expenses	(372,506)	526,214
Premium payment security deposits	701	1,313
Warrants payable	1,689	6,668
Accounts payable	(1,880)	2,874
Deferred revenue	10,662	(4,987)
Other liabilities	(1,284)	51,130
Net cash used for operating activities	$ (179,167)	$ (654,053)

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

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2006 and 2005

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.

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.

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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.

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.

Effective July 1, 2004, BWC/IC adopted the provisions of GASB Statement No. 40, "Deposit and Investment Risk Disclosures" (GASB 40). GASB 40 addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency. Additionally, GASB 40 modifies some of the custodial risk disclosures established by GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements."

Continued

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, 2006, BWC/IC invested in fixed maturities and domestic equity securities through the use of 68 external money managers. The portfolios ranged in size from $5.8 million to $2.0 billion. In November and December, 2005, contracts with these outside money managers were terminated and substantially all assets were transitioned to a passively managed index fund that replicates the medium duration Lehman Aggregate Bond Index (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 or, in the event such quotations are not available, from "matrixed" prices which are calculated using the coupon interest rate, maturity date, credit rating, market indices, and other market data as it relates to the issue being valued. Fair values of 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 invested in international securities through the use of 9 outside money managers. The contracts with these outside money managers were terminated November 2005. Assets were transitioned to a passively managed index fund that replicates the medium duration Lehman Aggregate Bond Index. It was the intent of BWC/IC and the international money managers to be fully invested in non-cash equivalent international securities; however, cash and cash equivalents were often held temporarily. Accrued investment income and investment trade receivables and payables for international securities are included in the international securities balance reported in the statements of net assets.

BWC/IC, through the use of 69 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

Continued

March 31st net asset values plus or minus purchases, sales, and cash flows from April 1st through June 30th of the reporting year. BWC/IC has unfunded commitments to the limited partnerships at June 30, 2006 amounting to $296.3 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 business during the coverage period. Retrospective rating adjustments related to the coverage period are collected in subsequent periods, as experience develops on injuries incurred during the coverage period. The estimated future retrospective rating adjustments are reflected in the statements of net assets as retrospective premiums receivable.

The Code permits State employers to pay into SIF on a terminal funding (pay-as-you-go) basis. Additionally, certain benefits are paid from the SIF Surplus Fund (see Note 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. Deferred revenue in the statements of net assets represents DWRF II (DWRF benefits awarded for injuries incurred on or after January 1, 1987) and SIEGF assessments received or in the course of collection, but not yet recognized. DWRF II and SIEGF assessments are recognized as revenues at such time and to the extent that DWRF II and SIEGF claims are paid (terminal funding basis).

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

Continued

assessments of self-insured employers, which are based on paid workers' compensation benefits. SIEGF assessments are based on the financial strength of self-insured employers and paid workers' compensation benefits with the exception of new self-insured employers, which are based on a percentage of base-rated premium.

Premium Payment Security Deposits

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

Allowance for 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 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

Continued

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 5.25% as of June 30, 2006 and 2005 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 and integral part of the State, the income of BWC/IC is not subject to federal or state income tax.

Use of Estimates

In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses for the reporting period. Actual results could differ from those estimates.

2. Restatement

During the year ended June 30, 2005, management determined that a reserve for compensation and compensation adjustment expenses should have been recorded for claims related to the DWRF and SIEGF funds. Accordingly, net asset at June 30, 2004 have been restated for this change. The net impact of the change resulted in a decrease to net assets of approximately $1.8 billion as of June 30, 2004. The following is a summary of the line items impacted by restatement of net assets as of June 30, 2004:

Net Assets as of June 30, 2004, As Previously Reported	$ 860,770
Prior Period Adjustments that Increased (Decreased) Net Assets:	
Unbilled Premiums Receivable	689,770
Reserves for Compensation	(2,416,596)
Reserves for Compensation Adjustment Expenses	(89,800)
Net Deficit as of June 30, 2004, As Restated	$ (955,856)

Continued

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, 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, 2006 and 2005, the carrying amount of BWC/IC's cash deposits was $14.982 million and $8.621 million, respectively, and the bank balances were $14.895 million and $7.182 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, 2006 BWC/IC had $15.6 billion held by the investments' counterparty.

Continued

As indicated in Note 1, the majority of investments were transferred to a passively managed bond index fund during the fiscal year ended June 30, 2006. The composition of investments held at June 30, 2006 and 2005 is presented below. The fixed maturities presented as of June 30, 2006 represent the underlying securities held in the passively managed bond index fund, while those presented as of June 30, 2005 were held by the custodian on behalf of BWC/IC.

	2006 Fair Value	2005 Fair Value
Fixed maturities:		
Corporate bonds	$2,612,359	$2,510,705
Government agency obligations	6,415,795	2,323,372
Corporate mortgage backed securities	747,747	1,475,041
Foreign bonds not on securities loan	612,167	126,215
U.S. government obligations	4,532,768	1,432,809
Treasury inflationary index notes	-	222,749
U.S. treasury strips	-	92,061
State Street money market fund	1,705,935	-
Net trade payable bond index fund	(1,036,616)	-
Total fixed maturities	15,590,155	8,182,952
Domestic equity securities:		
Common stocks	1,241	4,299,694
Preferred stocks	9,822	53,502
International securities:	922	1,995,648
Securities lending short-term collateral	6,285	1,727,955
Investments in limited partnerships	427,339	940,083
	$16,035,764	$17,199,834

The outside manager of the bond index fund periodically engages 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.

Continued

Net investment income for the years ended June 30, 2006 and 2005 is summarized as follows (000's omitted):

	2006	2005
Fixed maturities	$333,481	$353,597
Bond index fund	230,379	-
Equity securities	60,177	128,762
Investments in limited partnerships	6,092	26,801
Cash equivalents	57,972	31,696
Securities lending	55,472	48,551
Increase in fair value of investments	104,946	488,113
Investment expenses	(84,707)	(89,080)
	$763,812	$988,440

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, 2006 and 2005, the effective duration of BWC's fixed-income portfolio is as follows:

	2006	2005
Corporate bonds	5.78	6.49
Government agency obligations	3.90	5.05
Corporate mortgage backed securities	4.62	5.28
Foreign bonds	-	8.74
U.S. government obligations	4.97	5.24
Treasury inflationary index notes	-	10.28
U.S. treasury strips	-	11.44

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, 2005 were held by the custodian on behalf of BWC/IC.

Quality Rating	2006 Fair Value	2005 Fair Value
AAA	$888,834	$1,171,290
AA+	24,880	30,465
AA	177,534	71,421
AA-	377,537	73,040
A+	444,591	314,209
A	475,450	418,908
A-	333,793	232,966
BBB+	380,234	248,533
BBB	469,592	398,673
BBB-	167,735	309,890
BB+	13,902	253,058
BB	-	135,258
BB-	2,688	67,266
B+	-	43,581
B	-	33,889
B-	-	21,114
CCC+	-	6,131
CCC-	-	328
Not rated	215,503	281,941
Total credit risk debt securities	3,972,273	4,111,961
Government agency obligations	6,415,795	2,323,372
U.S. government obligations	4,532,768	1,747,619
State Street money market fund	1,705,935	-
Net trade payable bond index fund	(1,036,616)	-
Total fixed maturities	$15,590,155	$8,182,952

Continued

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 2006, there is no single issuer that comprises 5% or more of the overall portfolio. In 2005, BWC/IC held $1.5 billion in securities issued by the Federal National Mortgage Association, representing 8.9% of the total investment portfolio.

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/IC manages exposure to fair value loss by requiring international securities investment managers to maintain diversified portfolios. Equity securities of any one industry category shall not exceed 10% of the total value of all the investments in international equity securities. Equity holdings of international equity securities in any single industry category shall not exceed 25% of the total value of all investments in international equity securities. No more than 40% of the total value of all investments in international equity securities shall be invested in any one country. BWC's exposure to foreign currency risk as of June 30, 2006 and 2005 is as follows (000's omitted):

Currency	2006 Fair Value	2005 Fair Value
Australian dollar	$ -	$ 27,581
Canadian dollar	-	166,954
Danish krone	-	21,298
Euro	922	675,394
Hong Kong dollar	-	50,830
Japanese yen	-	418,069
Mexican peso	-	2,173
New Zealand dollar	-	631
Norwegian krone	-	10,273
Pound sterling	-	288,925
Singapore dollar	-	11,011
South African rand	-	1,477
Swedish krona	-	28,408
Swiss franc	-	153,466
Thailand baht	-	3,789
Total securities subject to foreign currency risk	922	1,860,279
U.S. dollars (securities and cash held by international investment managers	-	135,369
Total international securities	$ 922	$1,995,648
Foreign bonds issued in U.S. dollars	$ 612,167	$126,215

Continued

The fair value of international securities held at June 30, 2006 and 2005, is summarized as follows (000's omitted):

	2006	2005
Cash and cash equivalents	$ -	$42,151
Accrued income receivable	-	6,928
Net foreign currency exchange contracts receivable	-	259
Net investment trade payable	-	(2,381)
Equity securities	922	1,948,691
Total international securities	$ 922	$1,995,648

Securities Lending

Prior to the transition of investments to the passively managed index fund, BWC/IC participated in a securities lending program, administered by the custodial agent bank, whereby certain securities were transferred to an approved independent broker/dealer (borrower) in exchange for collateral. Securities under loan are included with fixed maturities and equity securities in the statements of net assets. BWC/IC minimized its exposure to credit risk due to borrower default by requiring the custodial agent to ensure that BWC/IC's loaned securities are collateralized at 102% of the fair value. Securities received as collateral cannot be sold by BWC/IC unless the borrower defaults; as such, these amounts are not reflected in the accompanying financial statements. Cash received as collateral, as well as the related liability, is reflected in the accompanying statements of net assets. Cash received as collateral is invested in short-term obligations, which must have an average weighted maturity of 45 days or less. The contract with the custodial agent bank does not provide indemnification in cases of borrower default; however, BWC/IC has not experienced any losses due to credit or market risk on securities lending activity since the implementation of the program in November 1993. BWC/IC had no securities under loan at June 30, 2006. BWC/IC has been allocated with cash collateral of $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.

At June 30, 2005, the fair value of securities on loan was $1.9 billion. Associated collateral was comprised of $1.7 billion in cash, $79 million in letters of credit, and $151 million in broker-provided collateral.

Continued

4. Capital Assets

Capital asset activity and balances as of and for the years ended June 30, 2006 and 2005 is summarized as follows (000's omitted):

	Balance at 6/30/2004	Increases	Decreases	Balance at 6/30/2005	Increases	Decreases	Balance at 6/30/2006
Capital assets not being depreciated							
Land	$ 12,631	$ -	$ (637)	$ 11,994	$ -	$ -	$ 11,994
Capital assets being depreciated							
Buildings	241,080	81	(35,972)	205,189	-	-	205,189
Furniture and equipment	58,705	3,874	(11,225)	51,354	3,739	(2,614)	52,479
Land improvements	66	-	-	66	-	-	66
Subtotal	299,851	3,955	(47,197)	256,609	3,739	(2,614)	257,734
Accumulated depreciation							
Buildings	(114,304)	(7,463)	23,892	(97,876)	(6,787)	-	(104,663)
Furniture and equipment	(56,087)	3,992	9,486	(42,608)	(2,031)	2,567	(42,072)
Land improvements	(49)	(1)	-	(50)	(1)	-	(51)
Subtotal	(170,440)	(3,472)	33,378	(140,534)	(8,819)	2,567	(146,786)
Net capital assets	$142,042	$ 483	$(14,456)	$128,069	$(5,080)	$ (47)	$122,942

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 5.25% as of June 30, 2006 and 2005. A decrease in the discount rate to 4.25% would result in the reserves for compensation and compensation adjustment expenses increasing to $21.0 billion at June 30, 2006 and $21.4 billion at June 30, 2005, 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 at June 30, 2006 and $17.6 billion at June 30, 2005. The undiscounted reserves for compensation and compensation adjustment expenses were $37.7 billion at June 30, 2006 and $38.6 billion at June 30, 2005. The net operating income would have been $463 million higher in fiscal year 2005, and the net operating loss would have been $632 million lower in fiscal year 2005 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, 2006 and 2005 are summarized as follows (in millions):

	2006	2005
Reserves for compensation and compensation adjustment expenses, beginning of period (restated for 2005, see Note 2)	$19,299	$18,773
Incurred:		
Provision for insured events of current period	2,270	2,250
Net (decrease) increase in provision for insured events of prior periods net of discount accretion of $1,013 in 2006 and $986 in 2005	(336)	205
Decrease in discount rate	-	461
Total incurred	1,934	2,916
Payments:		
Compensation and compensation adjustment expenses attributable to insured events of current period	417	449
Compensation and compensation adjustment expenses attributable to insured events of prior periods	1,889	1,941
Total payments	2,306	2,390
Reserves for compensation and compensation adjustment expenses, end of period	$18,927	$19,299

As a result of changes in estimates of insured events of prior years, the provision for compensation and compensation adjustment expenses decreased $336 million in 2006 and increased $205 million in 2005. The decrease in 2006 is primarily due to lower-than-expected medical payments due to reductions in pharmacy benefits and lower hospital costs. The increase in 2005 is primarily due to the accretion of interest on prior years' reserves. Partially offsetting the interest accretion are continuing declines in the number of newly awarded permanent total disability claims and lower-than-expected medical payments on June 30, 2005 and prior years' claims.

The reserves for compensation as of June 30, 2005 included an additional reserve of $200 million resulting from an Ohio Supreme Court ruling in fiscal year 2003, providing that the wage level at the time of the last day worked should be used in determining benefit levels for permanent total disability awards rather than the wage level at the time of injury. This reserve estimate is based upon consideration of the applicable law and coverage litigation. Based on Ohio Supreme Court rulings in fiscal year 2006, the additional $200 million reserve is no longer necessary, and thus reserves were reduced by $200 million.

Continued

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 $19.7 million and $11.9 million for the years ended June 30, 2006 and 2005, 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
2007	$ 14,150	$ 5,901	$ 20,051
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
2012-2014	47,005	4,621	51,626
Deferred loss on refunding	(2,522)	-	(2,522)
Unamortized bond premium and issuance costs	6,564	-	6,564
Total	$ 128,052	$27,411	$ 155,463

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, 2006 and 2005, is summarized as follows (000's omitted):

	Balance at 6/30/2004	Increases	Decreases	Balance at 6/30/2005	Due Within One Year
Premium payment security deposits	$ 85,679	$ 3,516	$ (2,203)	$ 86,992	$ -
Deferred revenue	394,319	11,348	(16,335)	389,332	17,181
Bonds payable	148,390	7,616	(13,804)	142,202	13,190
Other liabilities	39,228	92,861	(41,731)	90,358	11,506
	$667,616	$115,341	$(74,073)	$708,884	$41,877

	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	(36,672)	399,994	39,396
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	$(104,945)	$704,813	$117,778

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

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, 2006, the most recent report issued by OPERS is as of December 31, 2005.

Chapter 145 of The Code provides OPERS statutory authority for employee and employer contributions. For the years ended December 31, 2005 and 2004, the employee contribution rate was 8.5%, while the employer contribution rate was 13.31% of covered payroll. BWC/IC's contributions, representing 100% of the dollar amount billed, are as follows (000's omitted):

Twelve months ended June 30, 2006	$22,444
Twelve months ended June 30, 2005	$21,569
Twelve months ended June 30, 2004	$22,105

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 4.0% during calendar year 2005 and 2004.

OPEBs are advanced-funded on an actuarially determined basis. Significant actuarial assumptions for latest actuarial reviews performed as of December 31, 2004 and December 31, 2003 include: a rate of return on investments of 8.0%; salary increases of 4.0% compounded annually. The 2004 and 2003 actuarial reviews assumed health care costs will increase at the projected wage inflation rate plus an additional factor ranging from 1% to 6% for the next 8 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.

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, 2006 allocated to OPEB was approximately $6.7 million and $6.5 million for the 12 months ended June 30, 2005. The plan's net assets available to fund future health care benefits totaled

Continued

$10.8 billion as of December 31, 2004 and $10.5 billion as of December 31, 2003. The number of active contributing participants in the Traditional and Combined Plans at December 31, 2005 was 376,109 and 355,287 at December 31, 2004. 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. The actuarially accrued liability and the unfunded actuarially accrued liability as of December 31, 2003, based on the actuarial cost method used, were $26.9 billion and $16.4 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.

Continued

11. Premium Reductions and Refunds

On November 20, 2003, private employers were awarded a one-time 20% premium reduction for the July 1, 2003 through December 31, 2003 policy period, which was expected to produce estimated savings of $180 million to these employers for the year ended June 30, 2004. Such estimates are adjusted based on actual activity at the conclusion of the reporting period. The actual reported activity for the July 1, 2003 through December 31, 2003 policy period produced premium reductions that were approximately $10 million less than the estimated savings. This net premium reduction has been reflected in the statement of revenues, expenses and changes in net assets for the year ended June 30, 2004. Additionally, premium reductions were applied to the annual claim evaluations for employers participating in retrospective rating plans for the July 1, 2003 policy year, producing a reduction of $2.7 million, which has been reflected in the statement of revenues, expenses, and changes in net assets for the year ended June 30, 2005.

On November 20, 2003, public employer taxing districts were awarded a one-time 20% premium reduction for the January 1, 2003 through December 31, 2003 policy period, which was expected to produce estimated savings of $60 million to these employers through December 31, 2003. Such estimates are adjusted based on actual activity at the conclusion of the reporting period. The actual reported activity for the January 1, 2003 policy period produced premium reductions that were approximately $8.4 million less than the expected 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, 2003 policy year, producing a reduction of $8.5 million, which has been reflected in the statement of revenues, expenses, and changes in net assets for the year ended June 30, 2005.

On May 20, 2004, private employers were awarded a one-time 20% premium reduction for the January 1, 2004 through June 30, 2004 policy period, which was expected to produce estimated savings of $170 million to these employers for the year ended June 30, 2004. Such estimates are adjusted based on actual activity at the conclusion of the reporting period. The actual reported activity for the January 1, 2004 through June 30, 2004 policy period produced premium reductions that were approximately $11.3 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, 2005.

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

Continued

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 has been accrued as of June 30, 2005. This case was settled in July 2006 with payments to the eligible injured worker class to be made during fiscal year 2007. Management does not expect the actual payments to be materially different than the amount accrued.

Litigation is also currently pending in the 10th District Court of Appeals 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

Continued

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. 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 a decision from the Ohio Supreme Court as to whether or not it will accept the case. The 4th District Court of Appeals has found the statute to be constitutional. No liability has been reported in the financial statements for this matter.

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 will appeal 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 is also involved in litigation in which the plaintiff is arguing 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 has appealed to the 10th District Court of Appeals and is awaiting a decision. 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 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 are not likely to have a material adverse effect on BWC/IC's financial position.

Continued

14. Net Assets

Individual fund net asset (deficit) balances at June 30, 2006 and 2005 were as follows (000's omitted):

	2006	2005
SIF	$2,555,772	$1,627,313
SIF Surplus Fund	(1,394,378)	(1,236,953)
SIF Premium Payment Security Fund	117,451	117,131
Total SIF Net Assets	1,278,845	507,491
DWRF	(960,065)	(943,473)
CWPF	160,138	161,419
PWREF	16,146	15,571
MIF	12,158	11,727
SIEGF	3,472	1,559
ACF	(637,315)	(744,138)
Total Net Deficit	$ (126,621)	$ (989,844)

The DWRF and ACF fund deficits are 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 DWRF and ACF is on a terminal funding basis in accordance with the Code. Consequently, the incurred expenses are not fully funded.

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, 2006 and 2005

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

The table on the following page illustrates how BWC/IC's gross premium revenues and investment income compare to related costs of workers' compensation benefits (compensation) and other expenses incurred by BWC/IC as of the end of each of the last ten and one-half reporting periods. The rows of the table are defined as follows: (1) This line shows the total of each period's gross premium revenues and investment income. (2) This line shows each period's operating expenses, including overhead and compensation adjustment expenses not allocable to individual claims. (3) This line shows incurred compensation and allocated compensation adjustment expenses (both paid and accrued) as originally reported at the end of the first period in which the injury occurred. (4) This section of eleven rows shows the cumulative amounts paid as of the end of successive periods for each period. The diagonal for the period ended June 30, 1996 represents six months of paid development. The diagonals for subsequent years represent paid development one and one-half years later. (5) This section of ten rows shows how each period's incurred compensation increased or decreased as of the end of successive periods. The diagonal for the period ended June 30, 1996 represents six months of incurred compensation development. The diagonals for subsequent years represent incurred compensation development one and one-half years later. (6) This line compares the latest re-estimated incurred compensation amount to the amount originally established (line 3) and shows whether this latest estimate of compensation cost is greater or less than originally estimated. As data for individual periods mature, the correlation between original estimates and re-estimated amounts is commonly used to evaluate the accuracy of incurred compensation currently recognized in less mature periods. The columns of the table show data for successive periods on an undiscounted basis. The 1996 period is for the six months ended June 30, 1996; and periods 1997 through 2006 are for the fiscal years ended June 30, 1997 through 2006.

Continued

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, Continued
(See Accompanying Independent Auditors' Report)
(In Millions of Dollars)

	Fiscal years ended June 30										Six months ended June 30
	2006	2005	2004 Restated	2003 Restated	2002 Restated	2001 Restated	2000 Restated	1999 Restated	1998 Restated	1997 Restated	1996 Restated
1. Gross premiums, assessments, and investment income	3,015	3,272	3,558	2,886	2,032	2,535	4,344	3,609	5,092	4,933	1,795
2. Unallocated expenses	170	179	188	169	194	292	258	273	323	273	186
3. Estimated incurred compensation and compensation adjustment expense, end of period	2,270	2,392	2,335	2,405	2,233	2,109	2,052	1,891	2,078	2,102	1,104
Discount	2,147	2,227	2,447	2,544	2,374	2,443	2,274	2,576	3,115	3,069	605
Gross liability as originally estimated	4,417	4,619	4,782	4,949	4,607	4,552	4,326	4,467	5,193	5,171	1,709
4. Paid (cumulative) as of :											
End of period	417	449	449	485	456	434	404	422	389	321	75
One or one-half year later		795	843	872	853	821	757	809	673	434	176
Two or one and one-half years later			1,037	1,096	1,063	1,038	967	984	1,038	611	274
Three or two and one-half years later				1,248	1,230	1,194	1,122	1,122	1,155	1,085	344
Four or three and one-half years later					1,351	1,325	1,245	1,232	1,252	1,171	468
Five or four and one-half years later						1,423	1,355	1,325	1,335	1,245	506
Six or five and one-half years later							1,439	1,411	1,408	1,309	538
Seven or six and one-half years later								1,479	1,475	1,366	567
Seven and one-half years later									1,530	1,420	593
Eight and one-half years later										1,466	617
Nine and one-half years later											638
5. Re-estimated incurred compensation and compensation adjustment expenses (gross):											
One or one-half year later		4,007	4,155	4,183	4,028	4,022	3,953	3,612	3,575	4,332	2,314
Two or one and one-half years later			3,920	4,027	3,943	4,007	3,818	3,695	3,272	3,410	2,134
Three or two and one-half years later				3,827	3,787	3,856	3,880	3,534	3,326	3,069	1,808
Four or three and one-half years later					3,639	3,617	3,680	3,453	3,071	2,999	1,605
Five or four and one-half years later						3,441	3,448	3,183	2,930	2,600	1,539
Six or five and one-half years later							3,222	3,001	2,691	2,489	1,316
Seven or six and one-half years later								2,807	2,542	2,302	1,282
Seven and one-half years later									2,352	2,196	1,188
Eight and one-half years later										2,073	1,144
Nine and one-half years later											1,091
6. Decrease in gross estimated incurred compensation and compensation adjustment expenses from end of period		(612)	(862)	(1,122)	(968)	(1,111)	(1,104)	(1,660)	(2,841)	(3,098)	(618)

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

OHIO BUREAU OF WORKERS' COMPENSATION
AND
INDUSTRIAL COMMISSION OF OHIO
(A DEPARTMENT OF THE STATE OF OHIO)
SUPPLEMENTAL SCHEDULE OF NET ASSETS
(See Accompanying Independent Auditors' Report)
June 30, 2006
(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	$ 141,423	$ 6,154	$ 1,762	$ 113	$ 267	$ 32,819	$ 11,068	$ -	$ 193,606
Collateral on loaned securities	-	-	-	-	-	-	6,285	-	6,285
Premiums in course of collection	754,175	-	-	97	-	-	-	-	754,272
Assessments in course of collection	-	50,096	-	-	-	-	146,482	-	196,578
Accounts receivable, net of allowance for uncollectibles	126,679	19,576	1	75	-	725	4,154	-	151,210
Interfund receivables	19,159	43,562	(1)	252	178	931	66,348	(130,429)	-
Accrued investment income	2,254	29	7	-	1	130	-	-	2,421
Other current assets	1,713	-	-	-	-	-	1,450	-	3,163
Total current assets	1,045,403	119,417	1,769	537	446	34,605	235,787	(130,429)	1,307,535
Non-current assets:									
Bond index fund	14,285,602	1,050,088	220,125	20,085	14,255	-	-	-	15,590,155
Domestic equity securities:									
Common stocks	1,241	-	-	-	-	-	-	-	1,241
Preferred stocks	9,822	-	-	-	-	-	-	-	9,822
International securities	922	-	-	-	-	-	-	-	922
Investments in limited partnerships	427,339	-	-	-	-	-	-	-	427,339
Unbilled premiums receivable	1,049,182	64,107	-	-	-	626,778	91,736	-	1,831,803
Retrospective premiums receivable	271,552	-	-	-	-	-	-	-	271,552
Capital assets	23,695	22	-	-	-	-	99,225	-	122,942
Restricted cash	-	-	-	-	-	-	1,540	-	1,540
Total noncurrent assets	16,069,355	1,114,217	220,125	20,085	14,255	626,778	192,501	-	18,257,316
Total assets	$ 17,114,758	$ 1,233,634	$ 221,894	$ 20,622	$ 14,701	$ 661,383	$ 428,288	$ (130,429)	$ 19,564,851

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, 2006
(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	$ 1,748,743	$114,783	$ 1,226	$ 188	$ 380	$21,618	$ -	$ -	$ 1,886,938
Reserve for compensation adjustment expenses	172,429	694	55	-	35	-	247,643	-	420,856
Warrants payable	44,390	-	-	-	-	-	-	-	44,390
Deferred revenue	-	17,925	-	-	-	21,471	-	-	39,396
Bonds payable	-	-	-	-	-	-	14,150	-	14,150
Accounts payable	1,046	-	-	-	-	-	7,762	-	8,808
Interfund payables	109,509	16,787	124	7	16	3,986	-	(130,429)	-
Obligations under securities lending	-	-	-	-	-	-	6,285	-	6,285
Other current liabilities	50,019	17	5	-	324	-	13,867	-	64,232
Total current liabilities	2,126,136	150,206	1,410	195	755	47,075	289,707	(130,429)	2,485,055
Noncurrent liabilities:									
Reserve for compensation	13,059,257	1,636,765	56,574	4,281	1,703	605,160	-	-	15,363,740
Reserve for compensation adjustment expenses	557,671	51,806	3,245	-	85	-	642,835	-	1,255,642
Premium payment security deposits	87,166	-	527	-	-	-	-	-	87,693
Deferred revenue	-	354,922	-	-	-	5,676	-	-	360,598
Bonds payable	-	-	-	-	-	-	113,902	-	113,902
Other noncurrent liabilities	5,683	-	-	-	-	-	19,159	-	24,842
Total noncurrent liabilities	13,709,777	2,043,493	60,346	4,281	1,788	610,836	775,896	-	17,206,417
Total liabilities	15,835,913	2,193,699	61,756	4,476	2,543	657,911	1,065,603	(130,429)	19,691,472
NET ASSETS (DEFICIT)									
Invested in capital assets, net of related debt	23,696	22	-	-	-	-	(27,683)	-	(3,965)
Restricted for Surplus Fund	(1,394,378)	-	-	-	-	-	-	-	(1,394,378)
Restricted for Premium Payment Security Fund	117,451	-	-	-	-	-	-	-	117,451
Unrestricted net assets	2,532,076	(960,087)	160,138	16,146	12,158	3,472	(609,632)	-	1,154,271
Total net assets (deficit)	$ 1,278,845	$ (960,065)	$ 160,138	$ 16,146	$ 12,158	$ 3,472	$ (637,315)	$ -	$ (126,621)

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, 2006
(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	$1,752,108	$ -	$921	$811	$754	$ -	$ -	$ -	$1,754,594
Assessment income	-	130,644	-	-	-	(17,179)	297,039	-	410,504
Provision for uncollectibles	(62,164)	(3,713)	-	-	-	638	(4,799)	-	(70,038)
Other income	8,830	-	-	-	-	-	6,496	-	15,326
Total operating revenues	1,698,774	126,931	921	811	754	(16,541)	298,736	-	2,110,386
Operating expenses:									
Workers' compensation benefits	1,475,907	145,222	5,025	414	504	(17,651)	-	-	1,609,421
Compensation adjustment expenses	185,523	1,000	(147)	-	33	-	137,983	-	324,392
Premium reductions and refunds	(8,229)	-	-	-	-	-	-	-	(8,229)
Personal services	-	354	32	-	20	-	44,564	-	44,970
Other administrative expenses	22,999	157	-	-	4	-	17,322	-	40,482
Total operating expenses	1,676,200	146,733	4,910	414	561	(17,651)	199,869	-	2,011,036
Net operating income (loss) before operating transfers in (out)	22,574	(19,802)	(3,989)	397	193	1,110	98,867	-	99,350
Operating transfers in (out)	(3,399)	-	-	-	-	-	3,399	-	-
Net operating income (loss)	19,175	(19,802)	(3,989)	397	193	1,110	102,266	-	99,350
Non-operating revenues:									
Net investment income	752,179	3,210	2,708	178	238	803	4,496	-	763,812
Gain on disposal of capital assets	-	-	-	-	-	-	61	-	61
Total non-operating revenues	752,179	3,210	2,708	178	238	803	4,557	-	763,873
Increase (decrease) in net assets (deficit)	771,354	(16,592)	(1,281)	575	431	1,913	106,823	-	863,223
Net assets (deficit), beginning of year	507,491	(943,473)	161,419	15,571	11,727	1,559	(744,138)	-	(989,844)
Net assets (deficit), end of year	$1,278,845	$(960,065)	$160,138	$16,146	$12,158	$3,472	$(637,315)	$ -	$(126,621)

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, 2005
(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	$ 1,149,128	$ 92,007	$ 17,647	$ 5,413	$ 4,969	$ 6,727	$ 6,750	$ -	$ 1,282,641
Collateral on loaned securities	1,565,393	152,469	5,188	-	868	-	4,037	-	1,727,955
Premiums in course of collection	844,690	-	-	(136)	-	-	-	-	844,554
Assessments in course of collection	-	48,891	-	-	-	-	155,614	-	204,505
Accounts receivable, net of allowance for uncollectibles	141,472	21,267	-	247	-	2,073	6,862	-	171,921
Interfund receivables	18,437	38,202	-	313	65	1,129	93,358	(151,504)	-
Investment trade receivables	770,914	67	5	3	4	-	-	-	770,993
Accrued investment income	60,371	9,444	1,969	156	154	-	-	-	72,094
Other current assets	2,142	-	-	-	-	-	-	-	2,142
Total current assets	4,552,547	362,347	24,809	5,996	6,060	9,929	266,621	(151,504)	5,076,805
Noncurrent assets:									
Fixed maturities	7,032,342	934,278	193,784	13,781	8,767	-	-	-	8,182,952
Domestic equity securities:									
Common stocks	4,299,694	-	-	-	-	-	-	-	4,299,694
Preferred stocks	22,429	24,927	6,146	-	-	-	-	-	53,502
International securities	1,995,648	-	-	-	-	-	-	-	1,995,648
Investments in limited partnerships	940,083	-	-	-	-	-	-	-	940,083
Unbilled premiums receivable	977,147	57,653	-	-	-	665,429	102,399	-	1,802,628
Retrospective premiums receivable	252,463	-	-	-	-	-	-	-	252,463
Capital assets	24,138	22	-	-	-	-	103,909	-	128,069
Restricted cash	-	-	-	-	-	-	1,675	-	1,675
Total noncurrent assets	15,543,944	1,016,880	199,930	13,781	8,767	665,429	207,983	-	17,656,714
Total assets	$ 20,096,491	$ 1,379,227	$ 224,739	$ 19,777	$ 14,827	$ 675,358	$ 474,604	$ (151,504)	$ 22,733,519

OHIO BUREAU OF WORKERS' COMPENSATION
AND
INDUSTRIAL COMMISSION OF OHIO
(A DEPARTMENT OF THE STATE OF OHIO)
SUPPLEMENTAL SCHEDULE OF NET ASSETS, Continued
(See Accompanying Independent Auditors' Report)
June 30, 2005
(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	$ 1,745,142	$120,349	$ 1,157	$ 200	$ 392	$21,231	$ -	$ -	$ 1,888,471
Reserve for compensation adjustment expenses	171,034	693	61	-	41	-	295,384	-	467,213
Warrants payable	42,701	-	-	-	-	-	-	-	42,701
Deferred revenue	-	17,181	-	-	-	-	-	-	17,181
Bonds payable	-	-	-	-	-	-	13,190	-	13,190
Investment trade payables	1,933,453	-	-	-	-	-	-	-	1,933,453
Accounts payable	598	-	-	-	-	-	10,090	-	10,688
Interfund payables	131,297	16,259	103	25	27	3,793	-	(151,504)	-
Obligations under securities lending	1,565,393	152,469	5,188	-	868	-	4,037	-	1,727,955
Other current liabilities	-	18	4	-	252	-	11,232	-	11,506
Total current liabilities	5,589,618	306,969	6,513	225	1,580	25,024	333,933	(151,504)	6,112,358
Noncurrent liabilities:									
Reserve for compensation	13,310,858	1,597,350	52,843	3,981	1,441	644,198	-	-	15,610,671
Reserve for compensation adjustment expenses	546,366	50,807	3,439	-	79	-	732,636	-	1,333,327
Premium payment security deposits	86,467	-	525	-	-	-	-	-	86,992
Deferred revenue	-	367,574	-	-	-	4,577	-	-	372,151
Bonds payable	-	-	-	-	-	-	129,012	-	129,012
Other noncurrent liabilities	55,691	-	-	-	-	-	23,161	-	78,852
Total noncurrent liabilities	13,999,382	2,015,731	56,807	3,981	1,520	648,775	884,809	-	17,611,005
Total liabilities	19,589,000	2,322,700	63,320	4,206	3,100	673,799	1,218,742	(151,504)	23,723,363
NET ASSETS (DEFICIT)									
Invested in capital assets, net of related debt	24,138	22	-	-	-	-	(37,303)	-	(13,143)
Restricted for Surplus Fund	(1,236,953)	-	-	-	-	-	-	-	(1,236,953)
Restricted for Premium Payment Security Fund	117,131	-	-	-	-	-	-	-	117,131
Unrestricted net assets	1,603,175	(943,495)	161,419	15,571	11,727	1,559	(706,835)	-	143,121
Total net assets (deficit)	$ 507,491	$ (943,473)	$ 161,419	$ 15,571	$ 11,727	$ 1,559	$ (744,138)	$ -	$ (989,844)

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, 2005
(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	$1,730,396	$ -	$824	$478	$865	$ -	$ -	$ -	$1,732,563
Assessment income	-	115,933	-	-	-	102,931	317,777	-	536,641
Provision for uncollectibles	(63,893)	(1,738)	-	-	-	(551)	(1,888)	-	(68,070)
Other income	8,689	-	-	-	-	-	3,298	-	11,987
Total operating revenues	1,675,192	114,195	824	478	865	102,380	319,187	-	2,213,121
Operating expenses:									
Workers' compensation benefits	2,317,277	10,839	2,808	(1,245)	(2,802)	95,231	-	-	2,422,108
Compensation adjustment expenses	161,289	(3,200)	266	-	(137)	-	336,511	-	494,729
Premium reductions and refunds	232,836	-	-	-	-	-	-	-	232,836
Personal services	-	376	18	-	11	-	51,707	-	52,112
Other administrative expenses	17,618	105	-	-	103	71	20,555	-	38,452
Total operating expenses	2,729,020	8,120	3,092	(1,245)	(2,825)	95,302	408,773	-	3,240,237
Net operating income (loss) before operating transfers out	(1,053,828)	106,075	(2,268)	1,723	3,690	7,078	(89,586)	-	(1,027,116)
Operating transfers out	(3,841)	-	-	-	-	-	3,841	-	-
Net operating income (loss)	(1,057,669)	106,075	(2,268)	1,723	3,690	7,078	(85,745)	-	(1,027,116)
Non-operating revenues (expenses):									
Net investment income	914,607	54,586	11,969	915	319	50	5,994	-	988,440
Gain (loss) on disposal of capital assets	6,108	-	-	-	-	-	(1,420)	-	4,688
Total non-operating revenues, net	920,715	54,586	11,969	915	319	50	4,574	-	993,128
Increase (decrease) in net assets (deficit)	(136,954)	160,661	9,701	2,638	4,009	7,128	(81,171)	-	(33,988)
Net assets (deficit), beginning of year (as restated)	644,445	(1,104,134)	151,718	12,933	7,718	(5,569)	(662,967)	-	(955,856)
Net assets (deficit), end of year	$507,491	$(943,473)	$161,419	$15,571	$11,727	$1,559	$(744,138)	$ -	$(989,844)

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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, 2006 and 2005

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, 2006 and 2005, and have issued our report thereon dated January 31, 2007, except for Note 2, as to which the date is February 28, 2007. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audits, we considered the BWC/IC's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation over financial reporting that, in our judgment, could adversely affect BWC/IC's ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Responses as Items 1, 2 and 3.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

Compliance and Other Matters

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 audits, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards,* and which are described in the accompanying Schedule of Findings and Responses as Items 2 and 4.

We also noted certain additional matters that we reported to management of the BWC/IC in a separate letter dated January 31, 2007.

This report is intended solely for the information and use of the management, the Ohio Bureau of Workers' Compensation Oversight Commission 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
January 31, 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, 2006 and 2005

Internal Control Over Financial Reporting

Reportable Condition No. 1, Investments

Criteria: In order to enhance the reliability of financial reporting, effective internal controls over investments would dictate that investments with external managers be monitored on a regular basis. Effective monitoring would ensure that transactions executed by the external managers are appropriate and would allow for accurate and timely recording of investment transactions and changes in fair value.

Condition: During the execution of our audit, we noted instances whereby investments in private equity securities were not timely and effectively monitored by management.

Effect: The inadequate monitoring of private equity investments resulted in inappropriate transactions by external investment managers not being prevented or timely detected. This situation compromised management's ability to accurately track the fair value of these investments in its accounting system.

Management Response:

Internal controls have been significantly improved with respect to the monitoring of private equity investments by BWC. Written policies and procedures approved by the BWC Internal Audit Division have been instituted under the direction of the Investment Division. Financial documents and correspondence on partnership activities from each of the current 68 private equity limited partnerships are obtained, reviewed and filed both electronically and in secure paper files within the Investment Division. A log is updated to reflect the current inventory of documents and missing documents are requested. BWC exercises oversight of private equity fund managers by approving, settling, and reconciling both capital call and distribution transactions. Separation of duties is employed by having the BWC Finance Division post transactions and update/adjust respective account values in the accounting system. Payment requests from private equity managers are reviewed by the investment consultant of the Workers' Compensation Oversight Committee (WCOC) and BWC Senior Investment Manager for compliance to the limited partnership agreement. The BWC Chief Financial Officer and the BWC Chief Investment Officer each must approve all monetary payments (capital calls, management fees) to the investment managers. The WCOC investment consultant and the BWC custodian both monitor and report on performance to BWC management and the WCOC.

No new private equity funds have been added to the BWC portfolio since 2005. BWC has engaged UBS as a sale advisor for its 68 owned private equity funds with the intention of selling all funds at acceptable values.

Reportable Condition No. 2, 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.

Reportable Condition No. 3, Inadequate Interdepartmental Communication

Criteria: An effective internal control system must ensure that pertinent information is identified, captured and communicated in a form and time frame that enables management as a whole to fulfill its responsibilities. This includes the dissemination of information about external events, activities and conditions that is necessary for complete and accurate financial reporting.

Condition: During our audit, we noted that the Financial Reporting Department was not made aware of several significant legal issues that merited financial statement disclosure.

Effect: The lack of communication between the Legal Department and the Financial Reporting Department could potentially lead to omissions of required financial reporting or disclosures.

Management Response:

Financial Reporting will work with the Legal Department to obtain quarterly updates on legal issues. These issues will be reviewed by Financial Reporting and after consultation with the Controller, Chief Financial Officer, and Chief Legal Officer a determination will be made regarding whether the issue requires the recording of a contingent liability or footnote disclosure in the financial statements.

Compliance and Other Matters

Reportable Condition No. 4, Abuse by Senior Manager

Criteria: Organizations such as the BWC/IC are expected to demonstrate an inherent responsibility to promote ethical conduct among all of its employees. Senior financial officers hold an important role in organizational governance. Accordingly, it is imperative that such individuals act with honesty, integrity and responsibility.

Condition: A former chief financial officer for the BWC was charged in June 2006 with entering into transactions with external financial managers in which he received cash and other personal benefits in exchange for using his position and authority to affect investment decisions that inured to their benefit.

Effect: This individual was directly responsible for initiating transactions in violation of the investment policy. His actions resulted in financial losses and negative publicity to the BWC/IC.

Management Response:

BWC has implemented tools to stress the importance of ethical conduct in state business. All BWC staff members are required to attend annual ethics training with this training reinforced by reminders and examples posted on BWC's internal website. BWC has also adopted a zero-tolerance gift acceptance policy. Additionally, a Chief Ethics Officer has been named who will work with the governor's chief legal counsel, the Ohio Ethics Commission, and the ethics officers of other state agencies in the development of training programs for state employees.

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
MARCH 26, 2007

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