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, 2010 and 2009

And Independent Auditors' Report Thereon

Mary Taylor, CPA
Auditor of State

Board of Directors
Ohio Bureau of Workers' Compensation and Industrial Commission of Ohio
30 W. Spring Street, 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, 2009 through June 30, 2010. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

November 12, 2010

88 E. Broad St. / Fifth Floor / Columbus, OH 43215-3506
Telephone: (614) 466-4514 (800) 282-0370 Fax: (614) 466-4490
www.auditor.state.oh.us

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MANAGEMENT'S DISCUSSION AND ANALYSIS

This section presents management's discussion and analysis of the Ohio Bureau of Workers' Compensation's (BWC's) and the Industrial Commission of Ohio's (IC's) financial performance for fiscal years ended June 30, 2010, 2009, and 2008. BWC and IC are collectively referred to as BWC/IC. This information is based on BWC/IC's financial statements, which begin on Page 8.

Financial highlights

- BWC/IC's total assets at June 30, 2010 were $24.1 billion, an increase of $1.7 billion or 7.5 percent compared to June 30, 2009.
- BWC/IC's total liabilities at June 30, 2010 were $20.3 billion, an increase of $366 million or 1.8 percent compared to June 30, 2009.
- BWC/IC's operating revenues for fiscal year 2010 were $2.1 billion, a decrease of $245 million or 10.3 percent compared to fiscal year 2009.
- BWC/IC's operating expenses for fiscal year 2010 were $2.9 billion, an increase of $703 million or 32.4 percent from fiscal year 2009.
- BWC's non-operating revenues for fiscal year 2010 were $2.0 billion, compared to a non-operating loss of $195 million for fiscal year 2009.
- BWC/IC's total net assets increased by $1.3 billion in fiscal year 2010, compared to a $12 million increase in fiscal year 2009.

Financial statement overview

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

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

Continued

Financial analysis

Components of BWC/IC's Statements of Net Assets and Statements of Revenues, Expenses and Changes in Net Assets as of June 30, 2010, June 30, 2009, and June 30, 2008, and for the years then ended were as follows (000's omitted):

	2010	2009	2008
Current assets	$ 1,752,331	$ 2,260,793	$ 1,921,520
Noncurrent assets	22,343,577	20,159,556	20,460,454
Total assets	$24,095,908	$22,420,349	$22,381,974
Current liabilities	$ 2,664,100	$ 2,791,337	$ 2,625,578
Noncurrent liabilities	17,606,729	17,113,670	17,253,107
Total liabilities	$20,270,829	$19,905,007	$19,878,685
Net assets invested in capital assets, net of related debt	$ 35,275	$ 24,058	$ 18,368
Unrestricted net assets	3,789,804	2,491,284	2,484,921
Total net assets	$ 3,825,079	$ 2,515,342	$ 2,503,289
Net premium and assessment income, including provision for uncollectibles	$2,118,421	$2,360,930	$ 2,138,402
Other income	15,018	17,197	22,247
Total operating revenues	$2,133,439	$2,378,127	$ 2,160,649
Workers' compensation benefits and compensation adjustment expenses	$2,736,984	$2,073,534	$ 2,587,483
Other expenses	131,634	92,536	94,364
Total operating expenses	$2,868,618	$2,166,070	$ 2,681,847
Operating transfers out	$ (4,527)	$ (5,049)	$ -
Net investment income (loss)	2,049,621	(194,735)	719,160
Loss on disposal of capital assets	(178)	(220)	(219)
Increase in net assets	$ 1,309,737	$ 12,053	$ 197,743

BWC/IC's total net assets increased by $1.3 billion during fiscal year 2010, compared to a $12 million increase during fiscal year 2009.

- In fiscal year 2010, BWC/IC recorded net investment income of $2.1 billion, compared to net investment losses of $0.2 billion in fiscal year 2009. The increase in net investment income was primarily attributable to a $1.3 billion increase in the fair value of the investment portfolio in fiscal year 2010. The investment portfolio earned an unaudited net return of 12 percent, after management fees during fiscal year 2010. These returns follow several actions taken by the Board of Directors over the last two years, which included implementation of a strategy to diversify fixed and equity investments within the State Insurance Fund; a comprehensive update to the investment policy statement; and the selection of investment managers to execute BWC's passive investment strategy.

Continued

- Workers' compensation benefits and compensation adjustment expenses exceeded net premium and assessment income by $619 million in fiscal year 2010. In fiscal year 2009, net premium and assessment income exceeded workers' compensation benefits and compensation adjustment expenses by $287 million.
- Premium and assessment income for fiscal year 2010 reflects a 12 percent overall premium reduction for the majority of Ohio's private employers. Premium rates have been the subject of a three year rate reform initiative that has reduced private employer base rates by 35 percent since July 1, 2007.
- Effective April 1, 2010, BWC/IC secured reinsurance as a risk management strategy to protect our assets in the event of a catastrophic event. Premium and assessment income has been reduced by $1.1 million for the accrual of the ceded reinsurance premiums.
- Workers' compensation benefits and compensation adjustment expenses were $2.7 billion in fiscal year 2010, compared to $2.1 billion in fiscal year 2009. This increase is primarily attributable to the lowering of the discount rate from 4.5 percent to 4.0 percent. However, the financial effect of lowering the discount rate on the reserves for compensation and compensation adjustment expenses was lessened due to lower estimates for future medical expenses. The decrease in these estimates was primarily attributable to lower claims frequencies and a decrease in the medical inflation rate. In 2009, the medical inflation rate was assumed to be 6.0 percent in the first year of development, increasing by 1.0 percent in each of the next two years, with a long-term inflation assumption of 9.0 percent. In 2010 the long term inflation rates varied from 6.0 to 7.0 percent for all years. If future medical inflation is 1.0 percent higher than historical medical inflation for all future years combined, reserves for compensation would increase by approximately $919 million.
- A study of administrative expenses to determine costs related to claims management resolutions resulted in a reduction of the compensation adjustment expense allocation from 82 percent to 68.8 percent. This change is the primary reason for the $39 million increase in other expenses during fiscal year 2010.

As of June 30, 2010 and June 30, 2009, BWC/IC had debt in special obligation bonds of $64.2 million and $80.7 million, respectively. These bonds were issued in 2003, through the Ohio Building Authority (OBA) to refund the 1993 William Green Building Series A bonds. The bonds are collateralized by lease rental payments pledged by BWC/IC to OBA. These bonds were rated Aa3 by Moody's Investors Service, Inc.

Continued

Conditions expected to affect financial position or results of operations

BWC/IC has identified four areas of focus for comprehensive improvements to the workers' compensation system:

- Make Ohio's workers' compensation system more competitive;
- Maintain the highest level of quality care and loss protection for workers;
- Reinforce the BWC brand of excellence thru efficiency, improved customer service and expanded capabilities; and
- Develop and implement strategies to improve financial and operational soundness.

The BWC Board of Directors approved a comprehensive rate reform plan to bring more equity and actuarial soundness to premium rates. The goals of the rate reform plan include:

- Maintaining stable, equitable, and actuarially sound rates;
- Achieving fiscally sound base rates at the lowest levels for all manual classifications;
- Offering rating programs that encourage workplace safety and allow employers to achieve lower workers' compensation costs; and
- Creating an attractive environment for future business investment.

Three years of rate reform efforts have dropped Ohio's workers' compensation average base rates to their lowest levels in 20 years. Private employer base rates decreased an average of 3.9 percent for premiums effective July 1, 2010 preceded by a 12 percent premium rate decrease effective July 1, 2009. BWC/IC decreased public employer taxing district premiums by an average of 17 percent for the January 1, 2010 policy year preceded by a 5 percent premium rate decrease for the January 1, 2009 policy year. Premium rates for state agencies, universities, and university hospitals decreased by 3.75 percent effective July 1, 2009 followed by a 4.33 percent reduction for July 1, 2010. The maximum discount for group rated employers has been reduced from 90 percent in 2007 to 51 percent in 2010. The current maximum discount rate for group rated employers will be in effect for the policy year beginning July 1, 2011.

New insurance industry-standard programs designed to lower out-of-pocket costs for employers and to improve safety for workers have been introduced. The new deductible programs give employers the opportunity to lower their workers' compensation premiums in exchange for paying a deductible. The group retrospective rating plan offers employers the opportunity to have their premium adjusted after the policy year ends based on performance in controlling the frequency of injuries and managing claims for injuries that did occur.

In the coming year, BWC/IC will begin transition to the split-experience rating plan, or split plan. This plan is a standard used in 38 states that places more emphasis on claim frequency than claim severity when calculating an employer's premium rates. The split plan will not affect premium rates until July 1, 2012. However, the plan will be launched as a "beta" version in July 2011 so employers will have information to determine how this plan will affect their workers' compensation costs.

Paid medical costs for workers' compensation claims were almost $78 million, or 9.2 percent, lower than expected medical costs for fiscal year 2010. These reduced costs are a result of declines in claim frequency and the implementation of containment measures designed to curb increasing medical costs. Medical costs now account for approximately 45.5 percent of the total benefits for private employers and almost 50.2 percent for public taxing district employers, compared to approximately 48.7 percent for private employers and 50.6 percent for public taxing district employers for injuries occurring during 1997.

Continued

BWC/IC is committed to ensuring that prompt, quality, cost-effective healthcare is provided to injured workers to facilitate their early, safe return to work and quality of life. Injured worker access to high-quality medical care is accomplished by establishing appropriate benefit plans and terms of service with competitive fee schedules which, in turn, enhances the medical provider network. BWC/IC has begun to improve the medical, vocational rehabilitation and pharmaceutical benefits plans by revising the benefit plan and corresponding fee schedules. A formulary schedule is being developed that will be the basis for a revised outpatient medication benefit plan. Medical resources and research will be expanded through a partnership with The Ohio State University's College of Public Health. Research programs engaging Ohio's colleges and universities in providing comparative effectiveness data for the clinical services provided to injured workers are ongoing. BWC/IC is also partnering with federal safety organizations to share and analyze data and research to improve occupational health and safety in Ohio workplaces.

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. During fiscal year 2008, BWC/IC settled a lawsuit with the Ohio Hospital Association disputing fee schedules that were not adopted through the Ohio Revised Code Chapter 119 rules process. A total of $72.4 million has been paid in settlement of this lawsuit with an approximately $828 thousand liability accrued and remaining to be paid as of June 30, 2010.

SCHNEIDER DOWNS

INSIGHT • INNOVATION • EXPERIENCE

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, 2010 and 2009 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, 2010 and 2009 and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2010 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

Schneider Downs & Co., Inc.
www.schneiderdowns.com
IGAF

1133 Penn Avenue
Pittsburgh, PA 15222-4205
TEL 412.261.3644
FAX 412.261.4876

41 S. High Street
Suite 2100
Columbus, OH 43215-6102
TEL 614.621.4060
FAX 614.621.4062

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

The Management's Discussion and Analysis and required supplemental revenue and reserve development information on Pages 1 through 5 and 33 through 34, respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. 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 37 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
September 30, 2010

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

STATEMENTS OF NET ASSETS

June 30, 2010 and 2009

(000's omitted)

	2010	2009
ASSETS		
Current assets:		
Cash and cash equivalents (Note 2)	$435,892	$504,313
Collateral on loaned securities (Note 2)	4,615	6,076
Premiums in course of collection	702,643	812,831
Assessments in course of collection	170,007	186,906
Accounts receivable, net of allowance for uncollectibles of $1,016,902 in 2010; $988,162 in 2009	143,752	211,042
Investment trade receivables	126,696	346,239
Accrued investment income	161,171	186,206
Other current assets	7,555	7,180
Total current assets	1,752,331	2,260,793
Noncurrent assets:		
Fixed maturities, at fair value (Note 2)	13,380,808	13,050,126
Domestic equity securities:		
Common stocks, at fair value (Note 2)	3,636,608	3,512,366
Preferred stocks, at fair value (Note 2)	3,846	3,841
International securities, at fair value (Note 2)	1,509,190	-
Investments in limited partnerships, at fair value (Note 2)	35	161
Unbilled premiums receivable	3,423,147	3,205,975
Retrospective premiums receivable	290,467	282,372
Capital assets (Notes 3 and 5)	99,383	103,737
Restricted cash (Note 2)	93	978
Total noncurrent assets	22,343,577	20,159,556
Total assets	$ 24,095,908	$ 22,420,349

	2010	2009
LIABILITIES		
Current liabilities:		
Reserve for compensation (Note 4)	$ 1,966,452	$ 1,823,493
Reserve for compensation adjustment expenses (Note 4)	393,273	479,038
Warrants payable	25,337	32,371
Bonds payable (Notes 5 and 6)	15,865	15,930
Investment trade payables	229,448	401,074
Accounts payable	5,189	3,649
Obligations under securities lending (Note 2)	4,615	6,076
Other current liabilities (Note 6)	23,921	29,706
Total current liabilities	2,664,100	2,791,337
Noncurrent liabilities:		
Reserve for compensation (Note 4)	15,911,948	15,602,880
Reserve for compensation adjustment expenses (Note 4)	1,532,927	1,340,961
Premium payment security deposits (Note 6)	87,974	88,474
Bonds payable (Notes 5 and 6)	48,335	64,727
Other noncurrent liabilities (Note 6)	25,545	16,628
Total noncurrent liabilities	17,606,729	17,113,670
Total liabilities	20,270,829	19,905,007
Commitments and contingencies (Note 10)		
NET ASSETS		
Invested in capital assets, net of related debt	35,275	24,058
Unrestricted net assets	3,789,804	2,491,284
Total net assets (Note 11)	$ 3,825,079	$ 2,515,342

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

OHIO BUREAU OF WORKERS' COMPENSATION
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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, 2010 and 2009

(000's omitted)

	2010	2009
Operating revenues:		
Premium income net of ceded premium (Note 7)	$1,417,613	$ 1,896,525
Assessment income	730,667	573,025
Provision for uncollectibles	(29,859)	(108,620)
Other income	15,018	17,197
Total operating revenues	2,133,439	2,378,127
Operating expenses:		
Workers' compensation benefits (Note 4)	2,254,613	1,667,092
Compensation adjustment expenses (Note 4)	482,371	406,442
Personal services	75,564	44,284
Other administrative expenses	56,070	48,252
Total operating expenses	2,868,618	2,166,070
Net operating (loss) income	(735,179)	212,057
Non-operating revenues:		
Net investment income (loss) (Note 2)	2,049,621	(194,735)
Loss on disposal of capital assets	(178)	(220)
Total non-operating revenues (loss)	2,049,443	(194,955)
Net transfers out	(4,527)	(5,049)
Increase in net assets	1,309,737	12,053
Net assets, beginning of year	2,515,342	2,503,289
Net assets, end of year	$ 3,825,079	$ 2,515,342

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, 2010 and 2009

(000's omitted)

	2010	2009
Cash flows from operating activities:		
Cash receipts from premiums and assessments net of reinsurance	$ 2,198,317	$ 2,510,392
Cash receipts - other	54,107	35,611
Cash disbursements for claims	(2,057,557)	(2,128,360)
Cash disbursements to employees for services	(232,117)	(246,428)
Cash disbursements for other operating expenses	(60,820)	(77,984)
Cash disbursements for employer refunds	(99,747)	(102,196)
Net cash used for operating activities	(197,817)	(8,965)
Cash flows from noncapital financing activities:		
Operating transfers in	150	3,289
Operating transfers out	(4,677)	(8,338)
Net cash used by noncapital financing activities	(4,527)	(5,049)
Cash flows from capital and related financing activities:		
Purchase of capital assets, net of retirements	(7,207)	(2,013)
Principal and interest payments on bonds	(19,796)	(20,601)
Net cash used in capital and related financing activities	(27,003)	(22,614)
Cash flows from investing activities:		
Investments sold	48,949,035	3,561,024
Investments purchased	(49,530,877)	(4,145,874)
Interest and dividends received	747,565	752,293
Investment expenses	(5,682)	(4,818)
Net cash provided by investing activities	160,041	162,625
Net (decrease) increase in cash, cash equivalents and restricted cash	(69,306)	125,997
Cash, cash equivalents and restricted cash, beginning of year	505,291	379,294
Cash, cash equivalents and restricted cash, end of year	$ 435,985	$ 505,291

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, 2010 and 2009

(000's omitted)

	2010	2009
Reconciliation of net operating (loss) to net cash used for operating activities:		
Net operating (loss) income	$ (735,179)	$ 212,057
Adjustments to reconcile net operating (loss) income to net cash used for operating activities:		
Provision for uncollectible accounts	29,859	108,620
Depreciation	11,383	12,586
Amortization of discount and issuance costs on bonds payable	3,339	3,972
(Increases) decreases in assets and increases (decreases) in liabilities:		
Premiums and assessments in course of collection	127,087	71,774
Unbilled premiums receivable	(217,172)	(48,396)
Accounts receivable	37,431	(135,079)
Retrospective premiums receivable	(8,095)	1,348
Other assets	(375)	(4,494)
Reserves for compensation and compensation adjustment expenses	558,228	(188,967)
Premium payment security deposits	(500)	(444)
Warrants payable	(7,034)	(4,793)
Accounts payable	1,540	(4,038)
Other liabilities	1,671	(33,111)
Net cash used for operating activities	$ (197,817)	$ (8,965)

Noncash investing, capital, and financing activities

	2010	2009
Change in fair values of investments	$ 1,334,234	$ (928,019)

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

1. Background and Summary of Significant Accounting Policies

Organization

The Ohio Bureau of Workers' Compensation (BWC) and the Industrial Commission of Ohio (IC) were created in 1912 and 1925, respectively, and are the exclusive providers of workers' compensation insurance to private and public employers in Ohio 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 and the three members of the IC. In June 2007, House Bill 100 created a new 11-member BWC Board of Directors (Board), which replaced the Workers' Compensation Oversight Commission. All members have full voting rights. On July 31, 2007, the Governor named the members to the Board, effectively abolishing the Workers' Compensation Oversight Commission. The BWC Administrator, with the advice and consent of the Board, 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, since the individual accounts do not have external financial reporting accountability requirements. All significant interaccount balances and transactions have been eliminated.

Continued

Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting," BWC/IC follows GASB guidance as applicable to proprietary funds and Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements. As permitted by Generally Accepted Accounting Standards, BWC/IC has elected not to apply Financial Accounting Standards Board Statements and Interpretations issued after November 30, 1989.

BWC/IC administers the following accounts:

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

Description of the Accounts

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

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

SIEGF provides for the payment of compensation and medical benefits to employees of self-insured employers that are bankrupt or in default.

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

Operating revenues and expenses generally result from providing services in connection with ongoing operations. Operating revenues are primarily derived from premiums and assessments. Operating expenses include the costs of claims and related administrative expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Continued

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

- GASB No. 54, "Fund Balance Reporting"
- GASB No. 59, "Financial Instruments Omnibus"

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

Cash and Cash Equivalents

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

Investments

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

Investments in fixed maturities, domestic equity securities, commingled international securities, commingled equity funds, and commingled bond index funds are stated at fair value. Fair values of fixed maturities are based on quotations from national security exchanges. Fair values of domestic and international equity securities are based on quotations from national or international exchanges and are valued at the last reported sales price at current exchange rates. The fair value of the commingled bond index funds and commingled equity funds are 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. The cost of securities sold is determined using the average cost method. Purchases and sales of investments are recorded as of the trade date.

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

Continued

rates that are approved by the Board and on the employers' payroll, except self-insured employer assessments, which are based on paid compensation. SIF rates for private and public taxing district employers meeting certain size criteria are adjusted automatically based on their own claims experience.

Retrospective rating plans and group rating plans are offered to qualified employers. SIF recognizes estimated ultimate premium income on retrospectively rated businesses during the coverage period. Retrospective rating adjustments related to the coverage period are collected in subsequent periods, as experience develops related to 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 11) for self-insured employers. Since BWC/IC has the statutory authority to assess premiums against the State and self-insured employers in future periods, an unbilled premiums receivable equal to their share of the discounted reserve for compensation and compensation adjustment expenses, less BWC/IC's portion of the discounted reserve, is reflected in the statements of net assets.

Assessment Income

DWRF I (DWRF benefits awarded for injuries incurred prior to January 1, 1987) and ACF assessment income is recognized over the period for which the assessment applies and is collected in subsequent periods. These amounts are reflected as assessments in course of collection in the statements of net assets. DWRF II (DWRF benefits awarded for injuries incurred on or after January 1, 1987) and SIEGF assessments received or in the course of collection, but not yet recognized, are reflected as a reduction to unbilled premiums receivable.

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

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

Premium Payment Security Deposits

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

Allowance for 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 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 4.0% at June 30, 2010 and 4.5% at June 30, 2009 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.

Continued

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.

Reinsurance

Effective April 1, 2010, BWC/IC purchased workers' compensation catastrophic excess of loss reinsurance coverage for terrorist events, including those stemming from nuclear, chemical, radiological and biological origin. Ceded reinsurance transactions are accounted for based on estimates of their ultimate cost. Reserves for compensation and compensation adjustment expenses are reported gross of reinsured amounts. Reinsurance premiums are reflected as a reduction of premium income (see note 7).

Income Taxes

As a department of the State, the income of BWC/IC is not subject to federal or state income tax.

Use of Estimates

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

Reclassification

Certain 2009 financial statement amounts have been reclassified in order to conform to their 2010 presentation.

Continued

2. Cash and Investments

BWC/IC is authorized by Section 4123.44 of the Code to invest using an investment policy established by the Board, 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 might 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, 2010 and 2009, the carrying amount of BWC/IC's cash deposits were $6.922 million and $15.133 million, respectively, and the bank balances were $12.760 million and $12.213 million, respectively. At June 31, 2010, bank balances of $250 thousand were 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 for these bank deposits. At June 30, 2009, the entire bank balance was insured since BWC/IC's financial institution participated in the FDIC Temporary Liquidity Guarantee Program.

Custodial Credit Risk – Investments

Custodial credit risk for investments is the risk that, in the event of a failure of a counter party to a transaction, 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, 2010, BWC/IC has $1.848 billion held by the investments' counterparties and thus exposed to custodial credit risk. The Board approved the use of commingled passively managed equity, international equity, and bond index funds for portions of State Insurance Fund and the ancillary account investment portfolios. These commingled funds are held in BWC's name at the respective counterparties. At June 30, 2009, BWC/IC's had $304 million held by the investments' counterparty and thus exposed to custodial credit risk.

Continued

The composition of investments held at June 30, 2010 and 2009 is presented below (000's omitted):

	2010 Fair Value	2009 Fair Value
Fixed maturities:		
Corporate bonds	$4,464,964	$4,136,273
U.S. government agency obligations	1,037,443	545,146
Asset-backed securities	8,143	-
Corporate mortgage-backed securities	79,107	-
U.S. government obligations	2,523,888	3,968,766
U.S. state and local government agency	544,384	283,375
Treasury inflationary index notes	3,338,935	3,455,575
Yankee bonds	773,920	238,765
Sovereign bonds	499,459	347,744
Supranational issues	67,106	34,288
Commingled bond index	43,459	40,194
Total fixed maturities	13,380,808	13,050,126
Domestic equity securities:		
Common stocks	3,636,608	3,512,366
Preferred stocks	3,846	3,841
International securities:	1,509,190	-
Securities lending short-term collateral	4,615	6,076
Investments in limited partnerships	35	161
Cash and cash equivalents:		
Cash	6,922	15,133
Short-term money market fund	428,970	489,180
Total cash and cash equivalents	435,892	504,313
	$18,970,994	$17,076,883

Net investment (loss) income for the years ended June 30, 2010 and 2009 is summarized as follows (000's omitted):

	2010	2009
Fixed maturities	$637,614	$648,265
Commingled bond index fund	1,288	382
Equity securities	82,453	84,060
Cash equivalents	1,175	5,378
Total interest and dividends	722,530	738,085
Increase (decrease) in fair value of investments	1,334,234	(928,019)
Investment expenses	(7,143)	(4,801)
	$2,049,621	$(194,735)

Continued

Short-Term Money Market Fund

The underlying securities in the short-term money market fund are high-quality; short-term debt securities issued or guaranteed by the U.S. government or by U.S. government agencies or instrumentalities and repurchase agreements fully collateralized by U.S. Treasury and U.S. government securities. This U.S. Government Money Market Fund carries a AAA credit rating. Although the Fund is generally less sensitive to interest rate changes than are funds that invest in longer-term securities, changes in short-term interest rates will cause changes to the Fund's yield resulting in some interest rate risk.

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, 2010 and 2009, the effective duration of BWC's fixed-income portfolio is as follows (000's omitted):

	June 30, 2010		June 30, 2009	
Investment Type	Fair Value	Effective Duration	Fair Value	Effective Duration
Corporate bonds	$4,464,964	11.22	$4,136,273	11.22
Yankee bonds	773,920	11.16	238,765	11.04
U.S. government agency obligations	1,037,443	3.86	545,146	8.77
Asset-backed securities	8,143	3.60	-	-
Corporate mortgage-backed securities	79,107	3.70	-	-
U.S. government obligations	2,523,888	9.82	3,968,766	11.32
Sovereign bonds	499,459	9.42	347,744	7.75
Supranational issues	67,106	7.62	34,288	11.51
Commingled bond index	43,459	3.92	40,194	3.86
U.S. state and local government agencies	544,384	12.24	283,375	11.57
Treasury inflationary index notes	3,338,935	5.28	3,455,575	4.00
Total Fixed Maturities	$13,380,808		$13,050,126	

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). At June 30, 2010 and 2009, fixed maturities held in a commingled bond index fund in the custody of State Street were $43 million and $40 million, respectively. The remaining balance presented as of June 30, 2010 was held by the custodian on behalf of BWC/IC.

Quality Rating	2010 Fair Value	2009 Fair Value
AAA	$ 336,407	$ 193,956
AA	898,162	619,068
A	2,671,463	2,188,753
BBB	2,485,194	2,001,417
BB	86,695	74,812
B	682	-
Not rated	1,939	2,633
Total credit risk debt securities	6,480,542	5,080,639
Government agency obligations	1,037,443	545,146
U.S. government obligations	2,523,888	3,968,766
Treasury inflationary index notes	3,338,935	3,455,575
Total fixed maturities	$13,380,808	$13,050,126

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 2010 and 2009, there is no single issuer that comprises 5% or more of the overall portfolio.

Continued

Foreign Currency Risk – Investments

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. In fiscal year 2009 BWC had no exposure to foreign currency risk. BWC's exposure to foreign currency risk as of June 30, 2010 is as follows (000's omitted):

Currency	2010 Fair Value
Australian Dollar	$83,677
Brazilian Real	53,619
Canadian Dollar	117,809
Chilean Peso	5,396
Chinese Renminbi	852
Colombian Peso	2,811
Czech Koruna	1,399
Danish Krone	10,378
Egyptian Pound	1,780
European Euro	305,298
Hong Kong Dollar	92,102
Hungarian Forint	1,416
Indian Rupee	25,273
Indonesian Rupiah	8,502
Israeli New Sheqel	9,261
Japanese Yen	239,980
Malaysian Ringgit	10,271
Mexican Peso	15,281
Moroccan Dirham	694
New Zealand Dollar	1,055
Norwegian Krone	7,342
Philippine Peso	1,691
Polish Zloty	4,601
Russian Ruble	18,492
Singapore Dollar	17,651
South African Rand	25,086
South Korean Won	47,406
Swedish Krona	30,265
Swiss Franc	82,919
New Taiwan Dollar	37,890
Thai Baht	5,339
Turkish New Lira	5,721
British Pound	219,474
United States Dollar	18,459
Total International Securities	$1,509,190

Continued

Securities Lending

At June 30, 2010 and 2009, BWC/IC had no securities out on loan. BWC/IC has been allocated with cash collateral of $5 million in 2010 and $6 million in 2009 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.

3. Capital Assets

Capital asset activity and balances as of and for the years ended June 30, 2010 and 2009 are summarized as follows (000's omitted):

	Balance at 6/30/2008	Increases	Decreases	Balance at 6/30/2009	Increases	Decreases	Balance at 6/30/2010
Capital assets not being depreciated							
Land	$ 11,994	$ -	$ -	$ 11,994	$ -	$ -	$11,994
Capital assets being depreciated							
Buildings	205,562	209	-	205,771	-	-	205,771
Building Improvements	-	-	-	-	2,185	-	2,185
Furniture and equipment	45,154	1,829	(12,258)	34,725	5,072	(4,715)	35,082
Land improvements	66	-	-	66	-	-	66
Subtotal	250,782	2,038	(12,258)	240,562	7,257	(4,715)	243,104
Accumulated depreciation							
Buildings	(118,237)	(6,787)	-	(125,024)	(6,787)	-	(131,811)
Furniture and equipment	(29,956)	(5,798)	12,013	(23,741)	(4,595)	4,487	(23,849)
Land improvements	(53)	(1)	-	(54)	(1)	-	(55)
Subtotal	(148,246)	(12,586)	12,013	(148,819)	(11,383)	4,487	(155,715)
Net capital assets	$114,530	$(10,548)	$ (245)	$103,737	$(4,126)	$(228)	$99,383

4. Reserves for Compensation and Compensation Adjustment Expenses

The reserve for compensation consists of reserves for indemnity and medical claims resulting from work-related injuries or illnesses. The recorded liability for 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 4.0% at June 30, 2010 and 4.5% at June 30, 2009. A decrease in the discount rate to 3.0% would result in the reserves for compensation and compensation adjustment expenses increasing to $21.9 billion at June 30, 2010, while an increase in the rate to 5.0% would result in the reserves for compensation and compensation adjustment expenses decreasing to $18.0 billion. A decrease in the discount rate to 3.5% would result in the reserves for compensation and compensation adjustment expenses increasing to $21.2 billion at June 30, 2009, while an increase in the rate to 5.5% would result in the reserves for compensation and compensation adjustment expenses decreasing to $17.6 billion. The undiscounted reserves for compensation and compensation adjustment expenses were $32.2 billion at June 30, 2010 and $33.7 billion at June 30, 2009.

Continued

The changes in the reserves for compensation and compensation adjustment expenses for the years ended June 30, 2010 and 2009 are summarized as follows (in millions):

	2010	2009
Reserves for compensation and compensation adjustment expenses, beginning of period	$19,246	$19,435
Incurred:		
Provision for insured events of current period	1,802	2,064
Net (decrease) increase in provision for insured events of prior periods net of discount accretion of $770 in 2010 and $875 in 2009	1	(790)
Decrease in discount rate	934	859
Total incurred	2,737	2,133
Payments:		
Compensation and compensation adjustment expenses attributable to insured events of current period	384	458
Compensation and compensation adjustment expenses attributable to insured events of prior periods	1,795	1,864
Total payments	2,179	2,322
Reserves for compensation and compensation adjustment expenses, end of period	$19,804	$19,246

Continued

5. 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 $19.8 million and $20.6 million for the years ended June 30, 2010 and 2009, respectively. These payments included interest of $3.9 million and $4.6 million for the years ended June 30, 2010 and 2009, 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
2011	$15,865	$3,109	$18,974
2012	15,890	2,326	18,216
2013	15,915	1,543	17,458
2014	15,200	751	15,951
Deferred loss on refunding	(543)	-	(543)
Unamortized bond premium and issuance costs	1,873	-	1,873
Total	$64,200	$7,729	$71,929

Continued

6. Long-Term Obligations

Activity for long-term obligations (excluding the reserves for compensation and compensation adjustment expenses – see Note 4) for the years ended June 30, 2010 and 2009, is summarized as follows (000's omitted):

	Balance at 6/30/2008	Increases	Decreases	Balance at 6/30/2009	Due Within One Year
Premium payment security deposits	$ 88,918	$ 1,826	$ (2,270)	$ 88,474	$ -
Bonds payable	97,286	4,994	(21,623)	80,657	15,930
Other liabilities	79,462	44,571	(77,699)	46,334	29,706
	$265,666	$51,391	$(101,592)	$215,465	$45,636

	Balance at 6/30/2009	Increases	Decreases	Balance at 6/30/2010	Due Within One Year
Premium payment security deposits	$ 88,474	$ 1,919	$ (2,419)	$87,974	$ -
Bonds payable	80,657	4,126	(20,583)	64,200	15,865
Other liabilities	46,334	59,893	(56,761)	49,466	23,921
	$215,465	$65,938	$(79,763)	$201,640	$39,786

7. Reinsurance

BWC/IC purchases catastrophic reinsurance for risks in excess of its retention limits on workers' compensation insurance policies written. Management is not aware of any catastrophes during the coverage periods listed below. Coverage for policies is provided under the following terms:

Period: April 1, 2010 to March 31, 2011

Reinsurance Coverage:

- Section One – Other than Acts of Terrorism 100% of $250,000,000 multiplied times $250,000,000 per Loss Occurrence - Maximum loss of $5,000,000 of any one person
- Section Two – Only for Acts of Terrorism 15% of $560,000,000 multiplied times $440,000,000 per Loss Occurrence - Maximum loss of $5,000,000 of any one person

Continued

The following reinsurance activity has been recorded in the accompanying basic financial statements for the year ended June 30, 2010 (in thousands):

	2010
Premium Income	$1,418,669
Ceded Premiums	(1,056)
Total Premium Income net of Ceded Premiums	$1,417,613

Should the reinsurers be unable to meet their obligations under the reinsurance contracts, BWC/IC would remain liable for amounts ceded to its reinsurers. Reinsurance contracts do not relieve BWC/IC of its obligations, and a failure of the reinsurer to honor its obligations could result in losses to BWC/IC. BWC/IC evaluates and monitors the financial condition of its reinsurers to minimize its exposure to loss from reinsurer insolvency. BWC/IC management believes its reinsurers are financially sound and will continue to meet their contractual obligations.

BWC's reinsurers had the following AM Best ratings at June 30, 2010:

Reinsurer	AM Best Rating
Allied World Assurance Company	A
Aspen Insurance UK LTD	A
Axis Specialty LTD	A
Hannover Re (Bermuda) LTD	A
Odyssey America Reinsurance Corporation	A
Max Demark APS	A
The Underwriters at Lloyds	A

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

Continued

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 Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642. As of June 30, 2010, the most recent report issued by OPERS is as of December 31, 2009.

Chapter 145 of the Ohio Revised Code provides OPERS statutory authority for employee and employer contributions. For the year ended December 31, 2009 and 2008, the employee contribution rate was 10% and the employer contribution rate was 14% 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, 2010	$22,784
Twelve months ended June 30, 2009	$24,113
Twelve months ended June 30, 2008	$23,179

Post-Retirement Health Care

OPERS provides retirement, disability, survivor, and post-retirement health care benefits, which includes a medical plan, prescription drug program, and Medicare Part B premium reimbursement, 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 Code provides statutory authority for employer contributions and requires public employers to fund post-retirement health care through their contributions to OPERS.

The health care coverage provided by the retirement system is considered an Other Post-Employment Benefit (OPEB) as described in GASB Statement No. 45, "Accounting and Financial Reporting by Employers for Post-employment Benefits Other than Pension." The Code provides statutory authority for employer contributions and requires public employers to fund post-retirement health care through their contributions to OPERS.

OPERS' Post Employment Health Care plan was established under, and is administered in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post-employment health care benefits. The portion of the employer's contribution to OPERS set aside for the funding of OPEB was 7.0% from January 1 through March 31, 2009 and 5.5% from April 1 through December 31, 2009 compared to 7.0% for calendar year 2008.

Continued

Active members do not make contributions to the OPEB Plan. The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care benefits provided, by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

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, 2010 allocated to OPEB was approximately $11.4 million and $12.1 million for the 12 months ended June 30, 2009.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, was effective January 1, 2007. Member and employer contribution rates increased as of January 1, 2006, 2007, and 2008, which allowed additional funds to be allocated to the health care plan.

9. <u>Risk Management</u>

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 2010 or 2009. 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.

10. <u>Contingent Liabilities</u>

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 <u>Holeton v. Crouse Cartage</u> declared the subrogation statute unconstitutional. The trial court certified the class, granted summary judgment to the plaintiffs, and awarded attorney fees. A liability of $50 million was accrued as of June 30, 2005. This case was settled in July 2006, with payments of $46.9 million being made during fiscal year 2007, $1.9 million during fiscal year 2008, $1.1 million during fiscal year 2009, and $296 thousand in fiscal year 2010. Claimants have until July 2011 to file notice of repayment with BWC/IC. Management does not expect the ultimate payments to be materially different than the amount accrued.

A class action case was filed alleging that BWC/IC identifies permanent total disability (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/IC refuses to conduct good-faith settlement negotiations with PTD recipients represented by counsel. The trial court denied BWC/IC's motion to dismiss and/or change of venue, and granted class certification. The 8th District Court of Appeals issued a ruling affirming the trial court's rulings. BWC/IC appealed to the Ohio Supreme Court. In May 2008, the Ohio

Continued

Supreme Court reversed the Court of Appeals' decision and held that, because this matter is a claim against the state for money due under a contract, and not a claim of equitable restitution, it must be brought before the Ohio Court of Claims. Plaintiffs filed action in the Court of Claims in November 2008. On July 7, 2009, the court granted a partial dismissal of this case. The court dismissed the claims of breach of duty, fraud, unjust enrichment, and violation of constitutional and statutory rights. Accordingly, no provision for any liability has been reported in the financial statements for this matter.

BWC/IC was also involved in litigation in which the plaintiff argued that BWC/IC can only change reimbursement rates by promulgating a rule under ORC Chapter 119. The trial court issued a declaration that BWC/IC improperly reduced reimbursement fees to the hospitals. BWC appealed to the 10th District Court of Appeals. A decision was issued in March 2007 affirming the decision of the trial court. BWC/IC did not appeal the decision to the Ohio Supreme Court. BWC/IC has offered to settle with hospitals that may be impacted by this case. In February 2008, BWC/IC sent settlement release agreements to 274 affected hospitals. An estimated liability of $73.7 million was accrued with payments of $33.1 million made during fiscal year 2008, $30.3 million during fiscal year 2009, and $9.4 million during fiscal year 2010.

BWC/IC is involved in litigation challenging policies related to lump-sum advancements made to PTD recipients. This action alleges that BWC/IC has improperly recouped monies from PTD recipients by continuing to deduct monies from the plaintiff's benefits in an amount greater than the advance plus interest. The ultimate outcome of the litigation cannot presently be determined. Accordingly, no provision for any liability has been reported in the financial statements for this matter. Management is vigorously defending this case.

A class action case was filed against BWC/IC alleging that non-group-rated employers subsidize group-rated employers, and that this bias in premiums violates various provisions of the Ohio Constitution. Plaintiffs have asked the court to declare the group rating plan unconstitutional and require BWC/IC to repay to the class members all excessive premiums collected by BWC/IC, with interest and attorney fees. In April 2008, plaintiffs filed a motion for a preliminary injunction enjoining BWC/IC from enforcing the group rating statutes during pendency of the action (beginning July 1, 2008). A hearing was held on the injunction request in August 2008. In December 2008 the Cuyahoga County Common Pleas Court issued the requested preliminary injunction restraining BWC from continuing its current group rating plan for the policy year beginning July 1, 2009. At the same time, the common pleas court ordered that BWC enact a group retrospective rating plan for the policy year beginning July 1, 2009. BWC filed an appeal and a motion for stay with the common pleas court. On December 17, 2008, the General Assembly passed House Bill 79 clarifying that Ohio's group rating program was not intended to be retrospective only. On January 6, 2009 the Governor signed the bill making it effective immediately. On January 7, 2009 BWC filed a motion to dissolve the preliminary injunction and in March 2009 the common pleas court issued an order vacating the preliminary injunction. Plaintiff has filed a motion for class certification and BWC filed a response in opposition. In January 2010, the common pleas court granted class certification and BWC has appealed. 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.

Continued

Although the outcome of these cases is not quantifiable or determinable at this time, an unfavorable outcome in any one of them could have a material effect of the financial position of BWC/IC.

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 is not likely to have a material adverse effect on BWC/IC's financial position.

11. Net Assets

Individual fund net asset (deficit) balances at June 30, 2010 and 2009 were as follows (000's omitted):

	2010	2009
SIF	$3,151,349	$3,986,476
SIF Surplus Fund Account	23,795	(1,918,671)
SIF Premium Payment Security Fund	130,402	124,083
Total SIF Net Assets	3,305,546	2,191,888
DWRF	1,044,635	835,859
CWPF	193,297	166,383
PWREF	22,568	19,406
MIF	16,398	15,570
SIEGF	7,025	6,935
ACF	(764,390)	(720,699)
Total Net Assets (Deficit)	$ 3,825,079	$ 2,515,342

As mandated by the Code, SIF net assets are separated into three separate funds; the main fund, the Surplus Fund Account (Surplus Fund), and the Premium Payment Security Fund (PPSF).

The SIF Surplus Fund is established by the Code and is financed by a portion of all SIF premiums paid by private, self-insured, and public employers (excluding State employers). The 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 Surplus Fund may also be charged on a discretionary basis as ordered by BWC/IC, as permitted by the Code. Prior to the passage of House Bill 15 in 2009, contributions to the Surplus Fund were limited to 5% of premiums. The BWC administrator now has the authority to transfer money from SIF necessary to meet the needs of the Surplus Fund.

Continued

The SIF 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.

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

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, 2010 and 2009

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 ten rows shows the cumulative amounts paid as of the end of successive periods for each period. (5) This section of ten rows shows how each period's incurred compensation increased or decreased as of the end of successive periods. (6) This line compares the latest re-estimated incurred compensation amount to the amount originally established (line 3) and shows whether this latest estimate of compensation cost is greater or less than originally estimated. As data for individual periods mature, the correlation between original estimates and re-estimated amounts is commonly used to evaluate the accuracy of incurred compensation currently recognized in less mature periods. The columns of the table show data for successive periods on an undiscounted basis for the fiscal years ended June 30, 2000 through 2010.

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										
	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
1. Gross premiums, assessments, and investment income	$ 4,206	$ 2,296	$ 2,968	$ 5,251	$ 3,015	$ 3,272	$ 3,558	$ 2,886	$ 2,032	$ 2,535	$ 4,344
2. Unallocated expenses	139	97	108	109	170	179	188	169	194	292	258
3. Estimated incurred compensation and compensation adjustment expense, end of period	1,870	2,139	2,219	2,327	2,270	2,392	2,335	2,405	2,233	2,109	2,052
Discount	985	1,472	1,892	2,099	2,147	2,227	2,447	2,544	2,374	2,443	2,274
Gross liability as originally estimated	2,855	3,611	4,111	4,426	4,417	4,619	4,782	4,949	4,607	4,552	4,326
4. Paid (cumulative) as of :											
End of period	384	458	415	423	417	449	449	485	456	434	404
One year later		711	755	747	743	795	843	872	853	821	757
Two years later			920	926	927	979	1,037	1,096	1,063	1,038	967
Three years later				1,048	1,066	1,121	1,181	1,248	1,230	1,194	1,122
Four years later					1,172	1,238	1,302	1,371	1,351	1,325	1,245
Five years later						1,336	1,408	1,485	1,459	1,423	1,355
Six years later							1,498	1,570	1,559	1,518	1,439
Seven years later								1,653	1,645	1,605	1,519
Eight years later									1,714	1,680	1,597
Nine years later										1,742	1,665
Ten years later											1,725
5. Re-estimated incurred compensation and compensation adjustment expenses (gross):											
One year later		2,865	3,607	3,946	4,087	4,456	4,604	4,653	4,469	4,443	4,344
Two years later			2,948	3,460	3,879	4,085	4,369	4,497	4,384	4,428	4,209
Three years later				2,909	3,410	3,929	4,138	4,297	4,228	4,277	4,271
Four years later					2,899	3,502	3,842	4,108	4,080	4,038	4,071
Five years later						2,977	3,489	3,772	3,817	3,862	3,839
Six years later							3,042	3,479	3,565	3,540	3,613
Seven years later								3,106	3,340	3,403	3,327
Eight years later									3,055	3,202	3,245
Nine years later										2,995	3,050
Ten years later											2,861
6. Decrease in gross estimated incurred compensation and compensation adjustment expenses from end of period		(746)	(1,163)	(1,517)	(1,518)	(1,642)	(1,740)	(1,843)	(1,552)	(1,557)	(1,465)

Note
Ultimate incurred loss and LAE excludes liability associated with active working miners within the CWPF since they are not yet assignable to fiscal accident year.
The June 30, 2010 active miners discounted liability is approximately $31.1 million.

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, 2010
(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	$ 365,620	$ 8,598	$ 1,878	$ 91	$ 503	$ 47,332	$ 11,870	$ -	$ 435,892
Collateral on loaned securities	-	-	-	-	-	-	4,615	-	4,615
Premiums in course of collection	702,470	-	-	173	-	-	-	-	702,643
Assessments in course of collection	-	40,557	-	-	-	-	129,450	-	170,007
Accounts receivable, net of allowance for uncollectibles	120,851	16,967	171	69	2	(396)	6,088	-	143,752
Interfund receivables	12,807	51,371	-	275	24	(373)	135,440	(199,544)	-
Investment trade receivables	122,184	2,844	1,668	-	-	-	-	-	126,696
Accrued investment income	145,847	12,595	2,725	-	-	4	-	-	161,171
Other current assets	3,277	-	-	-	-	-	4,278	-	7,555
Total current assets	1,473,056	132,932	6,442	608	529	46,567	291,741	(199,544)	1,752,331
Non-current assets:									
Fixed maturities	12,138,528	987,878	210,943	24,874	18,585	-	-	-	13,380,808
Domestic equity securities:									
Common stocks	3,340,919	243,925	51,764	-	-	-	-	-	3,636,608
Preferred stocks	3,846	-	-	-	-	-	-	-	3,846
International securities	1,509,190	-	-	-	-	-	-	-	1,509,190
Investments in limited partnerships	35	-	-	-	-	-	-	-	35
Unbilled premiums receivable	724,761	1,742,966	-	-	-	859,074	96,346	-	3,423,147
Retrospective premiums receivable	290,467	-	-	-	-	-	-	-	290,467
Capital assets	21,926	22	-	-	-	-	77,435	-	99,383
Restricted cash	-	-	-	-	-	-	93	-	93
Total noncurrent assets	18,029,672	2,974,791	262,707	24,874	18,585	859,074	173,874	-	22,343,577
Total assets	$ 19,502,728	$ 3,107,723	$ 269,149	$ 25,482	$ 19,114	$ 905,641	$ 465,615	$ (199,544)	$ 24,095,908

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, 2010
(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	$ 1,811,745	$130,901	$ 1,116	$ 315	$ 255	$22,120	$ -	$ -	$ 1,966,452
Reserve for compensation adjustment expenses	163,828	339	63	-	37	1,115	227,891	-	393,273
Warrants payable	25,337	-	-	-	-	-	-	-	25,337
Bonds payable	-	-	-	-	-	-	15,865	-	15,865
Investment trade payables	218,920	7,951	2,577	-	-	-	-	-	229,448
Accounts payable	973	-	-	-	-	-	4,216	-	5,189
Interfund payables	184,848	10,248	136	12	184	4,116	-	(199,544)	-
Obligations under securities lending	-	-	-	-	-	-	4,615	-	4,615
Other current liabilities	3,025	89	44	2	132	-	20,629	-	23,921
Total current liabilities	2,408,676	149,528	3,936	329	608	27,351	273,216	(199,544)	2,664,100
Noncurrent liabilities:									
Reserve for compensation	13,079,455	1,903,699	66,284	2,585	1,945	857,980	-	-	15,911,948
Reserve for compensation adjustment expenses	621,772	9,861	4,937	-	163	13,285	882,909	-	1,532,927
Premium payment security deposits	87,279	-	695	-	-	-	-	-	87,974
Bonds payable	-	-	-	-	-	-	48,335	-	48,335
Other noncurrent liabilities	-	-	-	-	-	-	25,545	-	25,545
Total noncurrent liabilities	13,788,506	1,913,560	71,916	2,585	2,108	871,265	956,789	-	17,606,729
Total liabilities	16,197,182	2,063,088	75,852	2,914	2,716	898,616	1,230,005	(199,544)	20,270,829
NET ASSETS (DEFICIT)									
Invested in capital assets, net of related debt	21,926	22	-	-	-	-	13,327	-	35,275
Restricted for Surplus Fund	23,795		-	-	-	-	-	-	23,795
Restricted for Premium Payment Security Fund	130,402	-	-	-	-	-	-	-	130,402
Unrestricted net assets (deficit)	3,129,423	1,044,613	193,297	22,568	16,398	7,025	(777,717)	-	3,635,607
Total net assets (deficit)	$ 3,305,546	$ 1,044,635	$ 193,297	$ 22,568	$ 16,398	$ 7,025	$ (764,390)	$ -	$ 3,825,079

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, 2010
(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 net of ceded premium	$1,414,639	$ -	$1,977	$476	$521	$ -	$ -	$ -	$1,417,613
Assessment income	-	281,778	-	-	-	155,462	293,427	-	730,667
Provision for uncollectibles	(41,942)	13,784	(57)	-	(3)	(205)	(1,436)	-	(29,859)
Other income	8,917	-	-	-	-	-	6,101	-	15,018
Total operating revenues	1,381,614	295,562	1,920	476	518	155,257	298,092	-	2,133,439
Operating expenses:									
Workers' compensation benefits	1,809,615	289,022	4,117	(818)	916	151,761	-	-	2,254,613
Compensation adjustment expenses	283,548	(45,810)	554	-	114	3,459	240,506	-	482,371
Personal services	-	69	25	-	15	-	75,455	-	75,564
Other administrative expenses	24,966	18	4	1	41	1	31,039	-	56,070
Total operating expenses	2,118,129	243,299	4,700	(817)	1,086	155,221	347,000	-	2,868,618
Net operating (loss) income	(736,515)	52,263	(2,780)	1,293	(568)	36	(48,908)	-	(735,179)
Non-operating revenues:									
Net investment income	1,850,323	156,513	33,471	1,869	1,396	54	5,995	-	2,049,621
Loss on disposal of capital assets	-	-	-	-	-	-	(178)	-	(178)
Total non-operating revenues	1,850,323	156,513	33,471	1,869	1,396	54	5,817	-	2,049,443
Net transfers out	(150)	-	(3,777)	-	-	-	(600)	-	(4,527)
Increase (decrease) in net assets (deficit)	1,113,658	208,776	26,914	3,162	828	90	(43,691)	-	1,309,737
Net assets (deficit), beginning of year	2,191,888	835,859	166,383	19,406	15,570	6,935	(720,699)	-	2,515,342
Net assets (deficit), end of year	$3,305,546	$1,044,635	$193,297	$22,568	$16,398	$7,025	$(764,390)	$ -	$3,825,079

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, 2010 and 2009

SCHNEIDER DOWNS

INSIGHT • INNOVATION • EXPERIENCE

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, 2010 and 2009, and have issued our report thereon dated September 30, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a deficiency in internal control over financial reporting, described in the accompanying schedule of findings and responses that we consider to be a significant deficiency in internal control over financial reporting, which is identified as Significant Deficiency Number 10-1. A *significant*

Schneider Downs & Co., Inc.
www.schneiderdowns.com

IGAF

1133 Penn Avenue
Pittsburgh, PA 15222-4205
TEL 412.261.3644
FAX 412.261.4876

41 S. High Street
Suite 2100
Columbus, OH 43215-6102
TEL 614.621.4060
FAX 614.621.4062

deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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 audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the BWC/IC in a separate letter dated September 30, 2010.

BWC/IC's response to the finding identified in our audit is described in the accompanying schedule of finding and response. We did not audit management's response and, accordingly, we express no opinion on it.

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

Schneider, Downs & Co., Inc.

Columbus, Ohio
September 30, 2010

OHIO BUREAU OF WORKERS' COMPENSATION
AND
INDUSTRIAL COMMISSION OF OHIO

(A DEPARTMENT OF THE STATE OF OHIO)

Schedule of Findings and Responses

June 30, 2010

Significant Deficiency No. 10-1, Managed Care Organization (MCO) Departures

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

Condition: We noted that one of the MCO's merged with another MCO approximately eight months into the fiscal year. This MCO did not obtain a Type II SAS 70 covering the time period prior to the merger. A review was performed by BWC/IC prior to the merger, but it did not cover the entire control environment of the MCO for the eight months where they initiated transactions with BWC/IC.

Effect: Inadequate review of the transactions and the control environment for an MCO increases the potential that inappropriate and unauthorized transactions will not be detected.

Management Response:

Management acknowledges that the condition noted above is accurate. However, management does not believe that the noted condition presents a significant risk of financial misstatement. The user control considerations in place at BWC provide mitigating controls that would help to detect inappropriate and unauthorized transactions.

Gates McDonald Health Plus, a Nationwide Company, was the MCO giving rise to this condition. During BWC's review of the 2009 SAS 70 reports received from all MCOs, BWC identified several areas where additional documentation was required to ensure that adequate testing had been performed and controls were functioning as expected. A reissued SAS 70 report for 2009 was received from Gates McDonald Health Plus in response to this review.

In the regular course of business and as a part of BWC's control environment, all MCO activities are monitored to ensure MCO's are operating in compliance with the contract. Significant attention and resources are devoted to ensuring that all transactions are for approved claims and paid in accordance with established fee schedules. BWC worked closely with and closely monitored this MCO three months post its final day of business. Any significant control issues would have been identified and immediate corrective action required.

Any issues identified in a 2010 SAS 70 report for an MCO that is no longer in operation would be moot. Of importance is the control environment of the surviving MCO. This is one reason that all MCO mergers are subject to BWC review and approval. As a part of the approval process, the surviving MCO submitted a transition plan to BWC on July 20, 2009 documenting how the services provided by the MCO ceasing operations would be assumed by the surviving MCO. A multi-disciplinary team at BWC reviewed the plan before submitting the proposed merger to BWC executive staff for final approval on January 26, 2010. This merger received final BWC executive approval on January 28, 2010. Additionally, if the surviving MCO had identified issues with the departing MCO that would impact its ability to meet BWC contractual requirements, the surviving MCO would likely bring these issues to BWC's attention. No such issues arose in this transition.

The current BWC/MCO contract does not provide that the MCO's SAS 70 review requirement outlives the contract. BWC is preparing to negotiate the 2011-2012 contract with the MCOs. As part of that contract, BWC will consider establishing minimum criteria (size, length of time in business, date of proposed mergers) under which a SAS 70 report may be required in the event an MCO is contemplating a merger.

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Mary Taylor, CPA
Auditor of State

OHIO BUREAU OF WORKERS COMPENSATION AND INDUSTRIAL COMMISSION OF OHIO

FRANKLIN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
NOVEMBER 18, 2010

88 E. Broad St. / Fourth Floor / Columbus, OH 43215-3506
Telephone: (614) 466-4514 (800) 282-0370 Fax: (614) 466-4490
www.auditor.state.oh.us