

**OHIO BUREAU OF WORKERS'
COMPENSATION AND INDUSTRIAL
COMMISSION OF OHIO**

Combined Financial Statements

June 30, 2001 and 2000

(With Independent Auditors' Report Thereon)



STATE OF OHIO
OFFICE OF THE AUDITOR
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We have reviewed the independent auditor's report of the Ohio Bureau of Workers' Compensation and Industrial Commission of Ohio, Franklin County, prepared by KPMG LLP, for the audit period July 1, 2000 through June 30, 2001. 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.

JIM PETRO
Auditor of State

November 21, 2001

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Independent Auditors' Report

The Honorable Jim Petro
Auditor of the State of Ohio,
Workers' Compensation Oversight Commission and
Industrial Commission of Ohio:

We have audited the accompanying combined balance sheets of the Ohio Bureau of Workers' Compensation and Industrial Commission of Ohio (BWC/IC), a component unit of the State of Ohio, as of June 30, 2001 and 2000, and the related combined statements of operations and changes in fund balance, and cash flows for the years then ended. These combined financial statements are the responsibility of BWC/IC's management. Our responsibility is to express an opinion on these combined 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 combined financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the combined 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.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of BWC/IC as of June 30, 2001 and 2000, and the combined results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 21, 2001 on our consideration of BWC/IC's internal control over financial reporting and on our tests of their compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

Our audits were conducted for the purpose of forming an opinion on the combined financial statements taken as a whole. The supplemental combining schedules included on pages 21 through 23 are presented for purposes of additional analysis of the combined financial statements rather than to present the financial position and results of operations of the individual funds comprising BWC/IC. Such information is not a required part of the combined financial statements. The supplemental combining information has been subjected to the auditing procedures applied in the audits of the combined financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the combined financial statements taken as a whole.

The supplemental revenue and reserve development information included on pages 24 and 25 is not a required part of the combined financial statements of BWC/IC, but is supplementary information required by the Governmental Accounting Standards Board. As discussed in the note to the supplemental revenue and reserve development information, it has been presented by BWC/IC on a calendar-year-basis prior to January 1, 1996 and on a fiscal-year-basis thereafter. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit this information and express no opinion on it.

KPMG LLP

September 21, 2001

**OHIO BUREAU OF WORKERS' COMPENSATION
AND
INDUSTRIAL COMMISSION OF OHIO
(A COMPONENT UNIT OF THE STATE OF OHIO)
COMBINED BALANCE SHEETS
JUNE 30, 2001 AND 2000
(000's omitted)**

ASSETS			LIABILITIES AND FUND BALANCE		
	<u>2001</u>	<u>2000</u>		<u>2001</u>	<u>2000</u>
Cash and investments (Note 2):					
Fixed maturities, at fair value (cost \$10,039,404 in 2001; \$10,298,399 in 2000)	\$10,089,088	\$10,055,421	Reserve for compensation (Note 4)	\$12,504,943	\$12,044,911
Equity securities, at fair value (cost \$4,813,481 in 2001; \$6,223,498 in 2000)	5,099,458	7,347,581	Reserve for compensation adjustment expenses (Note 4)	<u>1,606,719</u>	<u>1,592,753</u>
Preferred stocks, at fair value (cost \$59,921 in 2001; \$63,814 in 2000)	44,260	51,397		14,111,662	13,637,664
International securities, at fair value (cost \$1,808,334 in 2001)	1,713,685	-	Special premiums credit payable (Note 10)	-	575,989
Investments in limited partnerships, at fair value	247,483	185,690	Premium payment security deposits	80,081	78,452
Collateral on loaned securities, at fair value	1,972,713	2,327,772	Obligations under securities lending	1,972,713	2,327,772
Cash and cash equivalents	<u>1,686,131</u>	<u>1,734,022</u>	Warrants payable	28,748	28,104
Total cash and investments	20,852,818	21,701,883	Interfund payables	54,492	60,946
Premiums in course of collection	65,338	858,981	Investment trade payables	1,538,047	1,286,871
Assessments in course of collection	205,583	201,363	Accounts payable	14,442	5,837
Special premiums receivable (Note 10)	-	575,989	Deferred revenue	428,017	435,841
Unbilled premiums receivable	641,300	606,700	Bonds payable (Note 5)	177,472	185,155
Accounts receivable, net of allowance for uncollectible accounts of \$514,504 in 2001; \$455,766 in 2000	155,874	161,742	Other	<u>91,551</u>	<u>88,752</u>
Retrospective premiums receivable	226,502	304,075	Total liabilities	<u>18,497,225</u>	<u>18,711,383</u>
Interfund receivables	54,492	60,946	Fund balance (Notes 7, 8, and 9)	<u>4,516,018</u>	<u>6,449,322</u>
Property and equipment, less accumulated depreciation (Notes 3 and 5)	170,642	182,535	Commitments and contingencies (Notes 4, 5, 10, and 12)		
Investment trade receivables	506,890	368,174			
Accrued investment income	119,352	121,621			
Other assets	<u>14,452</u>	<u>16,696</u>			
Total assets	<u>\$ 23,013,243</u>	<u>\$ 25,160,705</u>	Total liabilities and fund balance	<u>\$23,013,243</u>	<u>\$25,160,705</u>

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

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

**COMBINED STATEMENTS OF OPERATIONS AND
CHANGES IN FUND BALANCE**

**For the years ended June 30, 2001 and 2000
(000's omitted)**

	<u>2001</u>	<u>2000</u>
Operating revenues:		
Premium income	\$1,597,489	\$1,711,895
Special premium income (Note 10)	8,634	575,989
Assessment income	414,935	432,398
Investment income (Note 2)	514,570	1,624,008
Other	<u>13,599</u>	<u>17,221</u>
	<u>2,549,227</u>	<u>4,361,511</u>
Operating expenses:		
Workers' compensation benefits	2,064,473	952,046
Compensation adjustment expenses	434,026	535,182
Premium credits and rebates (Note 10)	1,624,921	1,328,207
Provision for uncollectible accounts	65,454	77,270
Personal services	48,484	48,038
General and administrative	15,353	14,131
Investment expense	200,573	167,150
Other	<u>29,247</u>	<u>28,852</u>
	<u>4,482,531</u>	<u>3,150,876</u>
Net (loss) earnings	(1,933,304)	1,210,635
Fund balance, beginning of year	<u>6,449,322</u>	<u>5,238,687</u>
Fund balance, end of year	<u>\$4,516,018</u>	<u>\$6,449,322</u>

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

**OHIO BUREAU OF WORKERS' COMPENSATION
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COMBINED STATEMENTS OF CASH FLOWS
For the years ended June 30, 2001 and 2000
(000's omitted)**

	<u>2001</u>	<u>2000</u>
Cash flows from operating activities:		
Cash receipts from premiums and assessments	\$ 1,453,693	\$ 750,664
Cash receipts - other	28,541	32,800
Cash disbursements for claims	(1,816,226)	(1,727,401)
Cash disbursements to employees for services	(252,170)	(235,930)
Cash disbursements for maintenance and equipment	(105,893)	(99,608)
Cash disbursements for employer refunds and rebates	<u>(268,957)</u>	<u>(250,962)</u>
Net cash used for operating activities	<u>(961,012)</u>	<u>(1,530,437)</u>
Cash flows from capital and related financing activities:		
Purchase of property and equipment, net of retirements	(2,590)	(9,560)
Sale of property	-	14,435
Construction in progress	(672)	-
Principal payments on bonds	<u>(8,000)</u>	<u>(7,000)</u>
Net cash used for capital and related financing activities	<u>(11,262)</u>	<u>(2,125)</u>
Cash flows from investing activities:		
Investments sold	37,140,855	31,353,171
Investments matured	963,739	799,501
Investments purchased	(38,071,074)	(31,596,847)
Interest and dividends received	<u>890,863</u>	<u>809,711</u>
Net cash provided by investing activities	<u>924,383</u>	<u>1,365,536</u>
Net decrease in cash and cash equivalents	(47,891)	(167,026)
Cash and cash equivalents, beginning of year	<u>1,734,022</u>	<u>1,901,048</u>
Cash and cash equivalents, end of year	<u>\$ 1,686,131</u>	<u>\$ 1,734,022</u>

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

Continued

**OHIO BUREAU OF WORKERS' COMPENSATION
AND
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(A COMPONENT UNIT OF THE STATE OF OHIO)
COMBINED STATEMENTS OF CASH FLOWS, Continued**

**For the years ended June 30, 2001 and 2000
(000's omitted)**

	<u>2001</u>	<u>2000</u>
Reconciliation of net earnings to net cash used for operating activities:		
Net (loss) earnings	\$ (1,933,304)	\$ 1,210,635
Adjustments to reconcile net (loss) earnings to net cash and cash equivalents used for operating activities:		
Interest and dividends received	(890,863)	(809,711)
Provision for uncollectible accounts	65,454	77,270
Depreciation	13,685	13,179
Depreciation (appreciation) of fair value of investments, net	525,055	(663,962)
Amortization of discount on bonds payable	317	291
Loss on sale of property and equipment	1,470	2,328
(Increases) decreases in assets and increases (decreases) in liabilities:		
Premiums and assessments in course of collection	789,423	(695,646)
Special premiums receivable	575,989	(575,989)
Unbilled premiums receivable	(34,600)	(3,200)
Accounts receivable	(59,586)	(90,103)
Retrospective premiums receivable	77,573	8,117
Interfund receivables	6,454	3,613
Accrued investment income	2,269	(24,625)
Other assets	2,244	5,243
Reserves for compensation and compensation adjustment expenses	473,998	(402,991)
Special premiums credit payable	(575,989)	575,989
Premium payment security deposits	1,629	(26,566)
Warrants payable	644	(5,934)
Interfund payables	(6,454)	(3,613)
Accounts payable	8,605	(115,911)
Deferred revenue	(7,824)	(8,304)
Other	<u>2,799</u>	<u>(547)</u>
Net cash used for operating activities	<u>\$ (961,012)</u>	<u>\$ (1,530,437)</u>

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

OHIO BUREAU OF WORKERS' COMPENSATION
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NOTES TO THE COMBINED FINANCIAL STATEMENTS

June 30, 2001 and 2000

1. Background and Summary of Significant Accounting Policies

Organization

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

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

Basis of Presentation

The accompanying combined financial statements include all funds, activities, and functions of BWC/IC as a component unit of the State in accordance with Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity". The individual funds, activities, and functions of BWC/IC are not deemed to be legally separate organizations requiring discrete presentation in separate columns. The individual funds do not have separate financial accountability warranting inclusion as separate component units of the reporting entity.

The BWC/IC administers the following funds:

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

The accompanying combined financial statements represent the aggregate total of the individual funds' data. Interfund eliminations have not been made in the aggregation of this data and the combined financial statements do not present consolidated financial data.

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NOTES TO THE COMBINED FINANCIAL STATEMENTS, Continued

Description of the Funds

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

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

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

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

ITF was established to provide for the payment of punitive damages to employees and employer legal fees in intentional tort actions filed by employees having rights to receive workers' compensation benefits where such benefits result from an intentional tort of the employer. In August 1991, the Ohio Supreme Court declared the ITF unconstitutional. As a result of this decision, the related unpaid intentional tort benefits may not be paid. The cumulative assessments collected from employers were expected to be prorated as a credit to the administrative assessment of the participants for the rating year beginning July 1, 1993. However, on September 24, 1992, the United States District Court issued an order prohibiting BWC/IC from disbursing ITF assets until such order is lifted or amended by the court. As of June 30, 2001, no such action has taken place.

OSLF was established to make low-interest loans available to employers to improve, install, or erect equipment that reduces hazards to the health and safety of workers. A \$1 million transfer in November 1995 from Safety & Hygiene assessments provided funding for the OSLF. A portion of premiums paid by employers is earmarked for safety and loss prevention activities performed by the Safety & Hygiene Division. Amended Substitute House Bill 75 signed into law on April 10, 2001 provides for the cash balance of OSLF to be transferred to Safety & Hygiene prior to January 1, 2002.

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

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NOTES TO THE COMBINED FINANCIAL STATEMENTS, Continued

Cash and Cash Equivalents

Cash and cash equivalents in the accompanying combined balance sheets include all highly liquid debt instruments purchased with a maturity of three months or less, except for cash and cash equivalents included in international investments. Cash equivalents are stated at amortized cost, which approximates fair value.

Investments

Investments in fixed maturities include bonds and notes. Fixed maturities and equity securities (including preferred stocks and international securities) are stated at fair value on a trade date basis. Fair values of fixed maturities are estimated based on quotations from national security exchanges or, in the event such quotations are not available, "matrixed" prices which are calculated using the coupon interest rate, maturity date, credit rating, market indices, and other market data as it relates to the issue being valued. Fair values of equity securities, based on quotations from national or international exchanges, are valued at the last reported sales price at current exchange rates. Dividends, interest earnings, and changes in the fair value of investments are reported as investment income in the combined statements of operations.

During fiscal year 2001, BWC/IC began investing in international equity investments through the use of outside money managers. It is the intent of BWC/IC and the international money managers to be fully invested in non-cash equivalent international securities, however cash is often held temporarily.

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

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

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

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NOTES TO THE COMBINED FINANCIAL STATEMENTS, Continued

Mortgage and Asset-Backed Securities – As of June 30, 2001 and 2000, BWC/IC held the following mortgage and asset backed securities which are categorized as derivative securities:

- GNMA, FNMA, and FHLMC pass-throughs with amortization terms of 15 and 30 years;
- Collateralized mortgage obligation securities backed by FNMA and FHLMC 15 and 30 year pass-throughs;
- Commercial mortgage backed securities backed by commercial mortgages and leases on a variety of property types; and
- Asset-backed securities backed by auto loans, credit card receivables, home equity loans, and electric-utility receivables.

The overall return or yield on mortgage-backed securities depends on the amount of interest collected over the life of the security and the change in the fair value. Although BWC/IC will receive the full amount of principal, if prepaid, the interest income that would have been collected during the remaining period to maturity is lost. Accordingly, the yields and maturities of mortgage-backed securities generally depend on when the underlying mortgage loan principal and interest are repaid. If market rates fall below a mortgage loan's contractual rate, it is generally to the borrower's advantage to repay the existing loan and obtain new lower financing. The fair value of mortgage and asset-backed securities was \$6.0 billion and \$5.9 billion as of June 30, 2001 and 2000, respectively.

BWC/IC through the use of international money managers enters into various forward currency contracts to manage exposure to changes in foreign currency exchange rates on its foreign portfolio holdings. The international money managers may also enter into forward currency exchange contracts to provide a quantity of foreign currency needed at a future time at the current exchange rates, if rates are expected to change dramatically. A forward exchange contract is a commitment to purchase or sell a foreign currency at a future date at a negotiated rate. Risk associated with such contracts includes movement in the value of foreign currency relative to the U.S. dollar and the ability of the counterparty to perform. The fair value of the forward currency contracts payable by BWC/IC was \$39,000 as of June 30, 2001. No forward currency contracts were held as of June 30, 2000.

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NOTES TO THE COMBINED FINANCIAL STATEMENTS, Continued

Premium Income

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

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

The Code permits State agencies 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 7) for self-insured employers. As BWC/IC has the statutory authority to assess premiums against the State and self-insured employers in future periods, an unbilled premium receivable equal to their share of the discounted reserve for compensation and compensation adjustment expenses is reflected in the combined balance sheets.

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 combined financial statements. Deferred revenue in the combined balance sheets represents DWRF II (DWRF benefits awarded for injuries incurred on or after January 1, 1987) and SIEGF assessments received or in the course of collection, but not yet recognized. DWRF II and SIEGF assessments are recognized as revenues at such time and to the extent that DWRF II and SIEGF claims are paid (terminal funding basis).

DWRF I assessments are based on employers' payroll and a statutorily determined rate. DWRF II and ACF assessments are based on rates that are approved by the Workers' Compensation Oversight Commission and on employers' payroll, except for ACF 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.

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NOTES TO THE COMBINED FINANCIAL STATEMENTS, Continued

Property and Equipment

Property and equipment 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:

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

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

A reserve is not provided in DWRF I and II or SIEGF for workers' compensation benefit awards granted or IBNR as both funds are operated on a terminal funding basis and, as such, are not required to match revenues and expenses but rather to match assessments to claims disbursements. Future DWRF benefits to be paid for injuries, which have occurred, as of June 30, 2001 are estimated to be \$6.9 billion undiscounted and \$2.7 billion discounted at 6.0%. These same DWRF benefits were estimated to be \$7.8 billion undiscounted and \$3.0 billion discounted at June 30, 2000. Future assessments and transfers of investment income from SIF will fund future DWRF benefits. Future SIEGF benefits to be paid for injuries, which have occurred, as of June 30, 2001 are estimated to be \$243 million undiscounted and \$145 million discounted at 6.0%. The liability for SIEGF benefits as of June 30, 2000 was estimated to be \$186 million undiscounted and \$118 million discounted. Future SIEGF benefits will be funded by future assessments from self-insured employers.

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NOTES TO THE COMBINED FINANCIAL STATEMENTS, Continued

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

Use of Estimates

In preparing the combined 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 combined financial statements and the reported amounts of revenues and expenses for the reporting period. Actual results could differ from those estimates.

Reclassification

Certain 2000 financial statement amounts have been reclassified in order to conform to their 2001 presentation.

2. Cash and Investments

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

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NOTES TO THE COMBINED FINANCIAL STATEMENTS, Continued

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

	<u>2001</u>			<u>2000</u>		
	Category		Total Carrying/Fair Value	Category		Total Carrying/Fair Value
	1	3		1	3	
Cash balance per bank	\$ 100	\$ 6,663	\$ 6,763	\$ 100	\$ 6,790	\$ 6,890
Net reconciling items	<u> </u>	<u>957</u>	<u>957</u>	<u> </u>	<u>2,975</u>	<u>2,975</u>
Cash balance included in cash and cash equivalents in the combined balance sheets	100	7,620	7,720	100	9,765	9,865
Investments:						
Fixed maturities:						
Not on securities loan		8,180,887	8,180,887	5,339	8,008,613	8,013,952
On loan for broker provided collateral		281,298	281,298		147,233	147,233
On loan for letters of credit collateral		140,280	140,280		102,654	102,654
Equity securities:						
Not on securities loan		4,663,010	4,663,010		6,831,476	6,831,476
On loan for letters of credit collateral					19,955	19,955
Preferred stocks		44,260	44,260		51,397	51,397
International securities		1,713,685	1,713,685			
Commercial paper		1,678,411	1,678,411		1,724,157	1,724,157
Securities lending short-term collateral		<u>1,972,713</u>	<u>1,972,713</u>		<u>2,327,772</u>	<u>2,327,772</u>
Total	<u>\$ 100</u>	<u>\$18,682,164</u>	<u>18,682,264</u>	<u>\$5,439</u>	<u>\$19,223,022</u>	<u>19,228,461</u>
Investments – Not Categorized:						
Securities on loan with cash collateral:						
Fixed maturities			1,486,623			1,791,582
Equity securities			436,448			496,150
Investments in limited partnerships			<u>247,483</u>			<u>185,690</u>
			<u>\$20,852,818</u>			<u>\$21,701,883</u>

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

GASB Statement No. 3, "Deposits with Financial Institutions, Investments, and Reverse Repurchase Agreements," requires governmental entities to categorize investments to give an

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indication of the level of risk assumed by the entity at year-end. Investments that are insured or registered for which the securities are held by BWC/IC or by its agent in the name of BWC/IC are included in Category 1. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent, but not in BWC/IC's name. Securities on loan with cash collateral and investments in limited partnerships are investments that, by their nature, are not required to be categorized.

Gross investment income is summarized as follows (000's omitted):

	<u>2001</u>	<u>2000</u>
Fixed maturities	\$ 659,840	\$ 636,530
Equity securities	94,112	87,855
Investments in limited partnership	18,136	7,220
Cash equivalents	104,612	91,319
Securities lending	162,925	137,122
Increase (decrease) in fair value of investments	<u>(525,055)</u>	<u>663,962</u>
	<u>\$ 514,570</u>	<u>\$1,624,008</u>

The allocation and fair value of international investments held at June 30, 2001 is:

Cash and cash equivalents		\$ 23,494
Netted receivable (payable) interest		2,022
Netted receivable (payable) currency contracts		(39)
International stock		<u>1,688,208</u>
Total international securities		<u>\$1,713,685</u>

3. Property and Equipment

The major classifications of property and equipment at June 30 are as follows (000's omitted):

	<u>2001</u>	<u>2000</u>
Land and land improvements	\$ 12,697	\$ 12,697
Buildings	228,606	227,934
Furniture, fixtures, vehicles and equipment	<u>79,191</u>	<u>84,399</u>
	320,494	325,030
Less accumulated depreciation	<u>149,852</u>	<u>142,495</u>
	<u>\$170,642</u>	<u>\$182,535</u>

Depreciation expense totaled \$13.7 million and \$13.2 million for the years ended June 30, 2001 and 2000, respectively.

4. Reserves for Compensation and Compensation Adjustment Expenses

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The reserve for compensation consists of reserves for indemnity and medical claims resulting from work related injuries or illnesses. Management believes that the liability recorded is adequate; however, the ultimate liability may vary from the amounts provided.

All reserves have been discounted at 6.0%. A decrease in the discount rate to 5.0% would result in reserves for compensation and compensation adjustment expenses increasing to approximately \$15.5 billion at June 30, 2001 and \$15.0 billion at June 30, 2000 while an increase in the rate to 7.0% would result in reserves for compensation and compensation adjustment expenses decreasing to approximately \$12.9 billion at June 30, 2001 and \$12.5 billion at June 30, 2000. The undiscounted reserves for compensation and compensation adjustment expenses were approximately \$29.5 billion at June 30, 2001 and \$28.5 billion at June 30, 2000. The net loss would have been approximately \$0.6 billion higher in fiscal year 2001 and the net earnings would have been \$1.4 billion higher in fiscal year 2000 if the reserves for compensation and compensation adjustment expenses were not discounted.

The schedule below presents the changes in compensation and compensation adjustment liabilities for the past period:

	<u>2001</u> (In Millions)	<u>2000</u> (In Millions)
Reserves for compensation and compensation adjustment expenses, beginning of period	\$13,638	\$14,041
Incurred:		
Provision for insured events of current period	2,039	1,936
Net increase (decrease) in provision for insured events of prior periods net of discount accretion of \$818 in 2001 and \$842 in 2000, respectively	<u>455</u>	<u>(759)</u>
Total incurred	<u>2,494</u>	<u>1,177</u>
Payments:		
Compensation and compensation adjustment expenses attributable to insured events of current period	434	404
Compensation and compensation adjustment expenses attributable to insured events of prior periods	<u>1,586</u>	<u>1,482</u>
Total payments	<u>2,020</u>	<u>1,886</u>
Decrease in discount rate	<u>-</u>	<u>306</u>
Reserves for compensation and compensation adjustment expenses, end of period	<u>\$14,112</u>	<u>\$13,638</u>

As a result of changes in estimates of insured events of prior years, the provision for compensation and compensation adjustment expenses increased \$455 million in 2001 and

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decreased \$759 million in 2000, primarily due to the impact of changes in claims management, medical cost containment programs, and increased fraud detection and prosecution.

5. Bonds Payable

In 1993, BWC/IC financed the William Green Building through the issuance of bonds by the Ohio Building Authority (OBA). These special obligation bonds are collateralized by lease rental payments pledged by BWC/IC to OBA and bear a predetermined interest rate ranging from 3.25% to 5.125%. The lease period coincides with the State's biennial budget and is renewable for successive two-year periods until the bonds are retired. Lease payments are based on the estimated debt service of the bonds, but are limited to an amount appropriated by the Ohio General Assembly in BWC/IC's biennial budget. Lease rental payments totaled \$16.9 million and \$16.2 million for the years ended June 30, 2001 and 2000, respectively.

The building continues to be reflected in property and equipment and the related obligation has been reflected as bonds payable on the combined balance sheet. Future principal and interest payments are as follows (000's omitted):

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2002	\$ 9,000	\$ 8,571	\$ 17,571
2003	10,000	8,175	18,175
2004	11,000	7,734	18,734
2005	12,000	7,240	19,240
2006	13,000	6,688	19,688
After 2006	124,255	27,390	151,645
Unamortized bond discount and issuance costs	<u>(1,783)</u>		<u>(1,783)</u>
Total	<u>\$177,472</u>	<u>\$65,798</u>	<u>\$243,270</u>

6. Defined Benefit Pension Plan

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

The Code provides PERS statutory authority for employee and employer contributions. A temporary 20% employer contribution rate rollback was instituted for calendar year 2000. The required, actuarially determined contribution rates for PERS plan members, including BWC/IC, are 8.5% and 10.65% of covered payroll, respectively. BWC/IC's contributions representing 100% of the dollar amount billed are as follows (000's omitted):

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Twelve months ended June 30, 2001	\$15,511
Twelve months ended June 30, 2000	\$20,959
Twelve months ended June 30, 1999	\$20,571

Post-Retirement Health Care

PERS provides post-retirement health care coverage to age and service retirants with 10 or more years of qualifying Ohio service credit. Health care coverage for disabled recipients and primary survivor recipients is available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12, "Disclosure of Information on Postemployment Benefits other than Pension Benefits by State and Local Governmental Employers." The Code provides statutory authority for employer contributions and requires public employers to fund post-retirement health care through their contributions to PERS. The portion of the PERS contribution set aside for the funding of OPEB was 4.3% during calendar year 2000.

OPEBs are advanced-funded on an actuarially determined basis. Significant actuarial assumptions for the latest actuarial review performed December 31, 1999 include: a rate of return on investments of 7.75%; salary increases of 4.75% compounded annually; and health care increases of 4.75% annually.

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

Based upon the portion of each employer's contribution to PERS set aside for funding OPEB as described above, BWC/IC's contribution for the twelve months ended June 30, 2001 allocated to OPEB was approximately \$6.3 million. The plan's net assets available to fund future health care benefits totaled \$10.8 billion as of December 31, 1999. The number of active participants at December 31, 1999 was 401,339. The actuarially accrued liability and the unfunded actuarially accrued liability as of December 31, 1999, based on the actuarial cost method used, were \$12.5 billion and \$1.7 billion, respectively.

7. Surplus Fund

The SIF Surplus Fund is established by the Code and is financed by a percentage of all SIF premiums paid by private, self-insured, and public employers (excluding state employers). The SIF Surplus Fund has been appropriated for specific charges, including compensation related to claims of handicapped persons or employees of noncomplying employers, and the expense of providing rehabilitation services, counseling, training, living maintenance payments, and other related charges to injured workers. The SIF Surplus Fund may also be charged on a discretionary or contingent basis as ordered by BWC/IC, as permitted by the Code. See Note 9.

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8. Premium Payment Security Fund

The SIF Premium Payment Security Fund (PPSF) is established by the Code and is financed by a percentage of premiums paid by private employers. Amounts are charged to the PPSF when the employer's premium due for a payroll period is determined to be uncollectible by the Attorney General of Ohio and the employer's premium payment security deposit is not sufficient to cover the premiums due for the payroll period. See Note 9.

9. Fund Balance

Individual fund balances (deficit) at June 30 were as follows (000's omitted):

	<u>2001</u>	<u>2000</u>
SIF	\$5,166,949	\$6,974,462
SIF Surplus Fund	(635,940)	(438,066)
SIF Premium Payment Security Fund	<u>112,342</u>	<u>108,431</u>
Total SIF Fund Balance	4,643,351	6,644,827
DWRF	539,842	446,209
PWREF	12,902	10,841
CWPF	134,241	114,077
MIF	7,010	6,947
SIEGF	12,277	10,294
OSLF	1,358	1,279
ACF	<u>(834,963)</u>	<u>(785,152)</u>
Total Fund Balance	<u>\$4,516,018</u>	<u>\$6,449,322</u>

The ACF fund deficit is a result of recording reserves of \$993 million in 2001 and \$979 million in 2000 for compensation adjustment expenses in accordance with accounting principles generally accepted in the United States, even though funding for ACF is on a terminal funding basis in accordance with the Code. Consequently, incurred compensation adjustment expenses are not fully funded.

10. Premium Credits, Rebates and Special Premium Income

On November 23, 1999 the Workers' Compensation Oversight Commission approved a 75% premium credit for private employers for the policy period July 1, 1999 through December 31, 1999, returning an estimated \$619 million to these employers. Additionally, on October 21, 1999, a 75% premium credit was approved for public taxing district employers for the January 1, 1999 policy year, returning an estimated \$133 million to these employers.

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Pending appeal of a court order vacating the private employer premium credit for the January 1, 1999 through June 30, 1999 policy period, BWC/IC has taken steps to comply with the Court of Appeals' ruling. In fiscal year 2001, employers were billed an estimated \$576 million as a result of this ruling. On the same invoice, employers received a one-time premium reduction approved by the Workers' Compensation Oversight Commission on June 28, 2000. A special premium assessment and premium credit expense of \$576 million has been accrued as of June 30, 2000.

On June 28, 2000, the Workers' Compensation Oversight Commission approved a 75% premium credit for private employers for the policy periods July 1, 2000 through December 31, 2000 and January 1, 2001 through June 30, 2001, returning an estimated \$1.3 billion to these employers. This premium credit has been reflected in the accompanying combined statement of operations for the year ended June 30, 2001.

On December 14, 2000 public employer taxing districts were awarded a \$180 million refund of excess premiums and a one-time 75% premium reduction for the January 2001 policy period producing estimated savings of \$200 million. These refunds and reductions have been reflected in the accompanying combined statement of operations for the year ended June 30, 2001.

On April 24, 2001 private employers were awarded a one-time 75% premium reduction for the July 1, 2001 through December 31, 2001 and January 1, 2002 through June 30, 2002 policy periods, returning an estimated \$1.3 billion to these employers in the year ended June 30, 2002.

11. Risk Management

BWC/IC is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To cover these risks BWC/IC maintains commercial insurance and property insurance. There were no reductions in coverage in either fiscal year 2001 or 2000. 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.

12. Contingent Liabilities

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

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SUPPLEMENTAL COMBINING SCHEDULE - BALANCE SHEET INFORMATION

(See Accompanying Independent Auditors' Report)

June 30, 2001

(000's omitted)

	State Insurance Fund	Disabled Workers' Relief Fund	Public Work Relief Employees' Fund	Coal - Workers Pneumoconiosis Fund	Marine Industry Fund	Intentional Tort Fund	Self-Insuring Employers' Guaranty Fund	Occupational Safety Loan Fund	Administrative Cost Fund	Combined Totals
ASSETS										
Cash and investments:										
Fixed maturities	\$ 9,089,127	\$827,777	\$515	\$157,971	\$1,610	\$ -	\$12,088	\$ -	\$ -	\$ 10,089,088
Equity securities	5,099,458	-	-	-	-	-	-	-	-	5,099,458
Preferred stocks	33,580	6,585	-	4,095	-	-	-	-	-	44,260
International securities	1,713,685	-	-	-	-	-	-	-	-	1,713,685
Investments in limited partnerships	247,483	-	-	-	-	-	-	-	-	247,483
Collateral on loaned securities	1,893,844	58,879	-	15,991	971	-	738	-	2,290	1,972,713
Cash and cash equivalents	<u>1,533,913</u>	<u>37,899</u>	<u>15,776</u>	<u>6,895</u>	<u>9,851</u>	<u>64,116</u>	<u>11,207</u>	<u>1,358</u>	<u>5,116</u>	<u>1,686,131</u>
Total cash and investments	19,611,090	931,140	16,291	184,952	12,432	64,116	24,033	1,358	7,406	20,852,818
Premiums in course of collection	64,807	-	531	-	-	-	-	-	-	65,338
Assessments in course of collection	-	51,724	-	-	-	-	-	-	153,859	205,583
Unbilled premiums receivable	594,000	-	-	-	-	-	-	-	47,300	641,300
Accounts receivable, net of allowance for uncollectible accounts	127,487	22,211	(143)	-	-	15	869	-	5,435	155,874
Retrospective premiums receivable	226,502	-	-	-	-	-	-	-	-	226,502
Interfund receivables	19,831	20,537	(141)	2	24	2	15	-	14,222	54,492
Property and equipment, less accumulated depreciation	29,565	22	-	-	-	-	-	-	141,055	170,642
Investment trade receivables	506,651	173	8	14	10	-	34	-	-	506,890
Accrued investment income	104,526	12,122	24	2,544	55	-	81	-	-	119,352
Other assets	<u>762</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>13,690</u>	<u>14,452</u>
Total assets	<u>\$ 21,285,221</u>	<u>\$ 1,037,929</u>	<u>\$ 16,570</u>	<u>\$ 187,512</u>	<u>\$ 12,521</u>	<u>\$ 64,133</u>	<u>\$ 25,032</u>	<u>\$ 1,358</u>	<u>\$ 382,967</u>	<u>\$ 23,013,243</u>

Continued

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SUPPLEMENTAL COMBINING SCHEDULE - BALANCE SHEET INFORMATION, Continued

(See Accompanying Independent Auditors' Report)

June 30, 2001

(000's omitted)

	State Insurance <u>Fund</u>	Disabled Workers' <u>Relief Fund</u>	Public Work Relief Employees' <u>Fund</u>	Coal - Workers Pneumoconiosis <u>Fund</u>	Marine Industry <u>Fund</u>	Intentional Tort <u>Fund</u>	Self-Insuring Employers' <u>Guaranty Fund</u>	Occupational Safety Loan <u>Fund</u>	Administrative Cost <u>Fund</u>	Combined <u>Totals</u>
LIABILITIES AND FUND BALANCE										
(DEFICIT)										
Reserve for compensation	\$12,462,968	\$ -	\$3,649	\$34,326	\$4,000	\$ -	\$ -	\$ -	\$ -	\$12,504,943
Reserve for compensation adjustment expenses	610,900	-	-	2,700	319	-	-	-	992,800	1,606,719
Premium payment security deposits	79,930	-	-	151	-	-	-	-	-	80,081
Obligations under securities lending	1,893,844	58,879	-	15,991	971	-	738	-	2,290	1,972,713
Warrants payable	28,748	-	-	-	-	-	-	-	-	28,748
Interfund payables	33,282	12,113	19	103	13	32	1,582	-	7,348	54,492
Investment trade payable	1,528,534	9,513	-	-	-	-	-	-	-	1,538,047
Accounts payable	3,664	-	-	-	-	-	-	-	10,778	14,442
Deferred revenue	-	417,582	-	-	-	-	10,435	-	-	428,017
Bonds payable	-	-	-	-	-	-	-	-	177,472	177,472
Other	-	-	-	-	208	64,101	-	-	27,242	91,551
Total liabilities	<u>16,641,870</u>	<u>498,087</u>	<u>3,668</u>	<u>53,271</u>	<u>5,511</u>	<u>64,133</u>	<u>12,755</u>	<u>-</u>	<u>1,217,930</u>	<u>18,497,225</u>
Fund balance (deficit):										
Surplus Fund (deficit)	(635,940)	-	-	-	-	-	-	-	-	(635,940)
Premium Payment Security Fund	112,342	-	-	-	-	-	-	-	-	112,342
Fund balance (deficit)	<u>5,166,949</u>	<u>539,842</u>	<u>12,902</u>	<u>134,241</u>	<u>7,010</u>	<u>-</u>	<u>12,277</u>	<u>1,358</u>	<u>(834,963)</u>	<u>5,039,616</u>
Total fund balance (deficit)	<u>4,643,351</u>	<u>539,842</u>	<u>12,902</u>	<u>134,241</u>	<u>7,010</u>	<u>-</u>	<u>12,277</u>	<u>1,358</u>	<u>(834,963)</u>	<u>4,516,018</u>
Total liabilities and fund balance	<u>\$21,285,221</u>	<u>\$1,037,929</u>	<u>\$16,570</u>	<u>\$187,512</u>	<u>\$12,521</u>	<u>\$64,133</u>	<u>\$25,032</u>	<u>\$1,358</u>	<u>\$382,967</u>	<u>\$23,013,243</u>

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SUPPLEMENTAL COMBINING SCHEDULE - OPERATIONS AND CHANGES IN
FUND BALANCE (DEFICIT) INFORMATION**

(See Accompanying Independent Auditors' Report)

For the year ended June 30, 2001

(000's omitted)

	State Insurance Fund	Disabled Workers' Relief Fund	Public Work Relief Employees' Fund	Coal - Workers Pneumoconiosis Fund	Marine Industry Fund	Intentional Tort Fund	Self-Insuring Employers' Guaranty Fund	Occupational Safety Loan Fund	Administrative Cost Fund	Combined Totals
Operating revenues:										
Premium income	\$1,596,385	\$ -	\$358	\$ -	\$746	\$ -	\$ -	\$ -	\$ -	\$1,597,489
Special premium income	8,634	-	-	-	-	-	-	-	-	8,634
Assessment income	-	112,218	-	-	-	-	5,382	-	297,335	414,935
Investment income	392,957	94,389	949	20,458	778	-	2,031	79	2,929	514,570
Other	7,832	-	-	-	-	-	-	-	5,767	13,599
	<u>2,005,808</u>	<u>206,607</u>	<u>1,307</u>	<u>20,458</u>	<u>1,524</u>	<u>-</u>	<u>7,413</u>	<u>79</u>	<u>306,031</u>	<u>2,549,227</u>
Operating expenses:										
Workers' compensation benefits	1,928,138	130,378	(761)	122	1,214	-	5,382	-	-	2,064,473
Compensation adjustment expenses	149,079	-	-	(200)	66	-	-	-	285,081	434,026
Premium credits and rebates	1,624,921	-	-	-	-	-	-	-	-	1,624,921
Provision for uncollectible accounts	58,002	6,660	-	-	-	-	-	-	792	65,454
Personal services	-	439	-	77	45	-	-	-	47,923	48,484
General and administrative	-	182	-	-	-	-	-	-	15,171	15,353
Investment expense	197,482	2,691	7	295	50	-	48	-	-	200,573
Other	12,018	-	-	-	86	-	-	-	17,143	29,247
	<u>3,969,640</u>	<u>140,350</u>	<u>(754)</u>	<u>294</u>	<u>1,461</u>	<u>-</u>	<u>5,430</u>	<u>-</u>	<u>366,110</u>	<u>4,482,531</u>
Operating earnings (loss) before operating transfers	(1,963,832)	66,257	2,061	20,164	63	-	1,983	79	(60,079)	(1,933,304)
Operating transfers	(37,644)	27,376	-	-	-	-	-	-	10,268	-
Net earnings (loss)	<u>(2,001,476)</u>	<u>93,633</u>	<u>2,061</u>	<u>20,164</u>	<u>63</u>	<u>-</u>	<u>1,983</u>	<u>79</u>	<u>(49,811)</u>	<u>(1,933,304)</u>
Fund balance (deficit), beginning of year	<u>6,644,827</u>	<u>446,209</u>	<u>10,841</u>	<u>114,077</u>	<u>6,947</u>	<u>-</u>	<u>10,294</u>	<u>1,279</u>	<u>(785,152)</u>	<u>6,449,322</u>
Fund balance (deficit), end of year	<u>\$4,643,351</u>	<u>\$539,842</u>	<u>\$12,902</u>	<u>\$134,241</u>	<u>\$7,010</u>	<u>\$ -</u>	<u>\$12,277</u>	<u>\$1,358</u>	<u>\$(834,963)</u>	<u>\$4,516,018</u>

OHIO BUREAU OF WORKERS' COMPENSATION
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REQUIRED SUPPLEMENTAL REVENUE AND RESERVE
DEVELOPMENT INFORMATION, UNAUDITED

(See Accompanying Independent Auditors' Report)

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

The table on the following page illustrates how BWC/IC's earned revenues and investment income compare to related costs of workers' compensation benefits (compensation) and other expenses assumed by BWC/IC as of the end of each of the last ten and one-half periods. The rows of the table are defined as follows: (1) This line shows the total of each period's operating revenues. (2) This line shows each period's operating expenses including overhead and compensation adjustment expense not allocable to individual claims. (3) This line shows incurred compensation and allocated compensation adjustment expense (both paid and accrued) as originally reported at the end of the first period in which the injury occurred. (4) This section of eleven rows shows the cumulative amounts paid as of the end of successive periods for each period. The diagonal for the period ended June 30, 1996 represents six months of paid development. The diagonals for subsequent years represent paid development one and one-half years later. (5) This section of ten rows shows how each period's incurred compensation increased or decreased as of the end of successive periods. The diagonal for the period ended June 30, 1996 represents six months of incurred compensation development. The diagonals for subsequent years represent incurred compensation development one and one-half years later. (6) This line compares the latest re-estimated incurred compensation amount to the amount originally established (line 3) and shows whether this latest estimate of compensation cost is greater or less than originally thought. As data for individual periods mature, the correlation between original estimates and re-estimated amounts is commonly used to evaluate the accuracy of incurred compensation currently recognized in less mature periods. The columns of the table show data for successive periods on an undiscounted basis. Periods 1991 through 1995 are for the years ended December 31, 1991 through 1995; the 1996 period is for the six months ended June 30, 1996; and periods 1997 through 2001 are for the fiscal years ended June 30, 1997 through 2001.

Continued

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

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

	Fiscal years ended June 30					Six months ended June 30	Years ended December 31				
	2001	2000	1999	1998	1997	1996	1995	1994	1993	1992	1991
1. Operating revenues	2,549	4,361	3,625	5,116	4,958	1,795	3,366	3,161	3,159	3,502	2,988
2. Unallocated expenses	293	258	274	461	1,017	186	345	265	561	263	356
3. Estimated incurred compensation and compensation adjustment expense, end of period	1,604	1,571	1,540	1,633	1,709	925	1,795	1,826	2,094	2,103	2,001
Discount	1,715	1,672	1,821	2,580	2,498	1,203	2,421	2,615	2,971	2,933	2,962
Gross liability as originally estimated	3,319	3,243	3,361	4,213	4,207	2,128	4,216	4,441	5,065	5,036	4,963
4. Paid (cumulative) as of :											
End of period	434	404	422	389	321	75	276	247	227	213	200
One or one-half year later		757	809	673	434	176	477	561	552	555	529
Two or one and one-half years later			984	1,038	611	274	677	659	734	739	732
Three or two and one-half years later				1,155	1,085	344	817	810	801	883	874
Four or three and one-half years later					1,171	468	920	923	919	938	994
Four and one-half years later						506	1,004	1,015	1,009	1,035	1,039
Five and one-half years later							1,069	1,090	1,079	1,115	1,127
Six and one-half years later								1,149	1,140	1,182	1,201
Seven and one-half years later									1,188	1,231	1,255
Eight and one-half years later										1,286	1,300
Nine and one-half years later											1,347
5. Re-estimated incurred compensation and compensation adjustment expenses:											
One or one-half year later		3,243	3,111	2,603	3,461	1,707	3,790	3,954	4,062	4,525	4,505
Two or one and one-half years later			3,059	3,032	2,899	1,611	3,627	3,486	3,607	3,620	4,169
Three or two and one-half years later				2,763	2,878	1,544	3,475	3,423	3,157	3,271	3,370
Four or three and one-half years later					2,516	1,388	2,973	3,347	3,199	2,957	3,115
Four and one-half years later						1,317	2,627	3,002	3,040	3,013	2,810
Five and one-half years later							2,501	2,592	2,698	2,941	2,897
Six and one-half years later								2,479	2,257	2,654	2,861
Seven and one-half years later									2,180	2,273	2,647
Eight and one-half years later										2,211	2,312
Nine and one-half years later											2,253
6. Decrease in estimated incurred compensation and compensation adjustment expenses from end of period		-	(302)	(1,450)	(1,691)	(811)	(1,715)	(1,962)	(2,885)	(2,825)	(2,710)

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

The Honorable Jim Petro
Auditor of the State of Ohio,
Workers' Compensation Oversight Commission and
Industrial Commission of Ohio:

We have audited the combined financial statements of the Ohio Bureau of Workers' Compensation and Industrial Commission of Ohio (BWC/IC), a component unit of the State of Ohio, as of and for the year ended June 30, 2001, and have issued our report thereon dated September 21, 2001. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether BWC/IC's combined financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted an immaterial instance of noncompliance, which we have reported to management of BWC/IC in a separate letter dated September 21, 2001.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered BWC/IC's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the combined financial statements and not to provide assurance on internal control over financial reporting. Our consideration of internal control over financial reporting would not necessarily disclose all matters in internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving internal control over financial reporting, which we have reported to management of BWC/IC in a separate letter dated September 21, 2001.

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

KPMG LLP

September 21, 2001



STATE OF OHIO
OFFICE OF THE AUDITOR

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OHIO BUREAU OF WORKERS' COMPENSATION & 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
DECEMBER 4, 2001**