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, 2008 and 2007

And Independent Auditors' Report Thereon

Mary Taylor, CPA
Auditor of State

Ohio Bureau of Workers' Compensation
and Industrial Commission of Ohio
30 West Spring Street
Columbus, Ohio 43215

We have reviewed the *Independent Auditor's Report* of the Ohio Bureau of Workers' Compensation and Industrial Commission of Ohio, Franklin County, prepared by Schneider Downs & Co., Inc., for the audit period July 1, 2007 through June 30, 2008. 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 10, 2008

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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, 2008, 2007, and 2006. 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, 2008 were $22.4 billion, an increase of $241 million or 1.1 percent compared to June 30, 2007.
- BWC/IC's total liabilities at June 30, 2008 were $19.9 billion, an increase of $44 million or 0.2 percent compared to June 30, 2007.
- BWC/IC's operating revenues for fiscal year 2008 were $2.2 billion, a decrease of $2.1 billion or 49.6 percent compared to fiscal year 2007. Included in fiscal year 2007 operating revenues is a one-time adjustment of $1.9 billion related to an accounting change for the Disabled Workers' Relief Fund (DWRF).
- BWC/IC's operating expenses for fiscal year 2008 were $2.7 billion, a decrease of $85 million or 3.1 percent from fiscal year 2007.
- BWC/IC's total net assets increased by $198 million in fiscal year 2008, compared to a $2.4 billion increase in fiscal year 2007. The fiscal year 2007 increase in net assets is significantly impacted by the $1.9 billion one-time accounting change for DWRF.

Financial statement overview

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

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

Continued

required supplemental information that presents 10 years of revenue and reserve development information.

Financial analysis

Components of BWC/IC's Statements of Net Assets and Statements of Revenues, Expenses and Changes in Net Assets as of June 30, 2008, June 30, 2007, and June, 30, 2006, and for the years then ended were as follows (000's omitted):

	2008	2007	2006
Current assets	$ 1,921,520	$ 1,953,056	$ 1,307,535
Noncurrent assets	20,460,454	20,187,730	18,230,169
Total assets	$22,381,974	$22,140,786	$19,537,704
Current liabilities	$ 2,625,578	$ 2,697,850	$ 2,463,584
Noncurrent liabilities	17,253,107	17,137,390	17,200,741
Total liabilities	$19,878,685	$19,835,240	$19,664,325
Net assets invested in capital assets, net of related debt	$ 18,368	$ 5,179	$ (3,965)
Unrestricted net assets (deficit)	2,484,921	2,300,367	(122,656)
Total net assets (deficit)	$ 2,503,289	$ 2,305,546	$ (126,621)
Net premium and assessment income, including provision for uncollectibles	$2,138,402	$ 2,395,421	$ 2,095,060
Assessment income due to statutory change	-	1,875,512	-
Other income	22,247	17,703	15,326
Total operating revenues	$2,160,649	$ 4,288,636	$ 2,110,386
Workers' compensation benefits and compensation adjustment expenses	$2,587,483	$ 2,667,148	$ 1,933,813
Premium reductions and refunds	-	-	(8,229)
Other expenses	95,074	100,527	85,452
Total operating expenses	$2,682,557	$ 2,767,675	$ 2,011,036
Net investment income	$ 719,870	$ 911,430	$ 763,812
(Loss) gain on disposal of capital assets	(219)	(224)	61
Increase in net assets	$ 197,743	$ 2,432,167	$ 863,223

BWC/IC's total net assets increased by $198 million during fiscal year 2008, compared to a $2.4 billion increase during fiscal year 2007.

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

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- Workers' compensation benefits and compensation adjustment expenses exceeded net premium and assessment income by $449 million in fiscal year 2008 and $272 million in fiscal year 2007.

- Workers' compensation benefits and compensation adjustment expenses were $2.6 billion in fiscal year 2008, compared to $2.7 billion in fiscal year 2007. While medical payments have increased, medical inflation has been lower than expected, leading to favorable reserve development. Medical reserves for claims occurring on or before June 30, 2007 declined by $701 million in fiscal year 2008. In fiscal year 2007, the medical reserves for claims occurring on or before June 30, 2006 declined by $995 million.

- In fiscal year 2008, BWC/IC earned net investment income of $720 million, compared to net investment income of $911 million in fiscal year 2007. At fiscal year-end 2006, approximately 96% of BWC's invested assets were held in a passively managed bond index fund that replicated the medium duration Lehman Aggregate Bond Index. During the third quarter of fiscal year 2007, the bond index fund units held by the State Insurance Fund were liquidated. At June 30, 2007, approximately 8% of BWC's invested assets remained in the bond index fund. The remaining bond index fund units were liquidated in July and September 2007. As the bond index fund units were liquidated, assets were transitioned to long-duration fixed-income securities, treasury inflation protected securities, large-cap domestic equity securities, and short-term government money market investments.

- In fiscal year 2008, a total of 66 private equity partnerships were sold for total proceeds of $393 million. Net losses of $51.2 million from the private equity partnerships were recognized during fiscal year 2008. Proceeds from the private equity sales were reinvested in the passively managed large-cap domestic equity portfolio. At June 30, 2008, there are two remaining private equity fund investments owned by BWC/IC, one of which is expected to be sold to an outside buyer and the second of which is anticipated to be liquidated from portfolio asset sales.

As of June 30, 2008 and June 30, 2007, BWC/IC had debt in special obligation bonds of $97.3 million and $113.1 million, respectively. These bonds were issued in 2003, through the Ohio Building Authority (OBA) to refund the 1993 William Green Building Series A bonds. The bonds are collateralized by lease rental payments pledged by BWC/IC to OBA. These bonds were rated Aa3 by Moody's Investors Service, Inc.

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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:

- Provide stable costs to avoid unexpected financial hardship for employers;
- Develop better services to clearly demonstrate BWC/IC's value and enhance Ohio's quality of life;
- Establish accurate rates to fairly match rates with risks and to ensure proper distribution of costs among all employers; and
- Create safe workplaces by promoting safety awareness to prevent claims that cause loss.

Private employer base rates decreased an average of 5 percent for premiums effective July 1, 2008 preceded by a 0 percent premium rate change effective July 1, 2007. BWC/IC decreased public employer taxing district premiums by an average of 3.2 percent for the January 1, 2007 policy year followed by a 0 percent increase for policy year 2008.

Ohio House Bill 100 directed BWC/IC to change to a new reserving system. On July 1, 2008, BWC/IC transitioned to Micro Insurance Reserving Analysis (MIRA) II. This new system produces more accurate reserves on each claim and provides greater transparency for Ohio's employers by allowing them to see what factors impact reserves for the injuries their employees sustain, resulting in the development of more accurate premium charges.

BWC/IC will work with internal and external customers in the next two years to create new, responsive rating plans that promote employer/employment growth in Ohio, including implementing a split rating plan and capping of employer's premium as directed by the Board.

Paid medical costs for workers' compensation claims were almost 6 percent, or nearly $48 million, lower than expected medical costs for fiscal year 2008. The reduced costs continue a positive trend by BWC/IC and other Ohio stakeholders to implement containment measures designed to curb increasing medical costs. Medical costs now account for approximately 54.4 percent of the total benefits for private employers and almost 65 percent for public taxing district employers, compared to approximately 46.8 percent for private employers and 50.7 percent for public taxing district employers for injuries occurring during 1996.

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. This includes instituting annual reviews, expanding prior authorization drug categories for those drugs not typically used to treat workers' compensation injuries, and limiting coverage of certain drugs to their FDA approved uses. These programs will take on added importance in reducing costs, as actuarial assumptions as of June 30, 2008 include an annual medical inflation rate of 9 percent.

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 $33 million has been paid in settlement of this lawsuit with an approximately $40 million liability accrued and remaining to be paid as of June 30, 2008.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

The global financial markets became increasingly unsettled in September 2008 as several very prominent U.S. financial institutions became insolvent and either failed or were taken over by the federal government. A number of large U.S. financial institutions have significant ownership of loosely underwritten illiquid mortgage-related assets that have declined sharply in value from accelerated mortgage payment delinquencies and reduced housing values.

The weakness of the U.S. fixed-income and equity markets for September 2008 resulted in a significant decline in net market value through September 29, 2008 of the BWC/IC portfolio of fixed-income and equity securities. These declines resulted in a total estimated portfolio return of negative 4.1 percent for the month of September 2008 through September 29 on BWC/IC's total invested assets including cash. The estimated decline in net market value for the first quarter of Fiscal Year 2009 through September 29, 2008 was estimated at $608 million. Such valuations resulted in an estimated negative rate of return of 3.5 percent for the BWC total portfolio over this period.

SCHNEIDER DOWNS

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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, 2008 and 2007 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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

In our opinion, the financial statements referred to above present fairly, in all material aspects, the financial position of the BWC/IC as of June 30, 2008 and 2007 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 29, 2008 on our consideration of the BWC/IC's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of

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that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for 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 31 through 32, respectively, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that comprise BWC/IC's basic financial statements. The supplemental schedule of net assets and schedule of revenues, expenses, and changes in net assets included in Pages 33 through 35 are presented for purposes of additional analysis and are not a required part of the basic financial statements. This supplemental information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Schneider Downs & Co., Inc.

Columbus, Ohio
September 29, 2008

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

STATEMENTS OF NET ASSETS

June 30, 2008 and 2007

(000's omitted)

	2008	2007
ASSETS		
Current assets:		
Cash and cash equivalents (Note 3)	$378,078	$327,915
Collateral on loaned securities (Note 3)	2,933	6,801
Premiums in course of collection	858,949	851,291
Assessments in course of collection	212,562	221,668
Accounts receivable, net of allowance for uncollectibles of $882,730 in 2008; $795,631 in 2007	184,583	170,881
Investment trade receivables	81,315	187,946
Accrued investment income	200,414	183,418
Other current assets	2,686	3,136
Total current assets	1,921,520	1,953,056
Noncurrent assets:		
Fixed maturities, at fair value (Note 3)	13,723,521	11,956,476
Bond index fund, at fair value (Note 3)	-	1,372,985
Domestic equity securities:		
Common stocks, at fair value (Note 3)	3,158,589	2,626,001
Preferred stocks, at fair value (Note 3)	5,794	5,509
International securities, at fair value (Note 3)	78	1,096
Investments in limited partnerships, at fair value (Note 3)	15,427	456,346
Unbilled premiums receivable	880,345	961,896
Unbilled assessments receivable	2,277,234	2,398,880
Retrospective premiums receivable	283,720	290,050
Capital assets (Notes 4 and 6)	114,530	116,927
Restricted cash (Note 3)	1,216	1,564
Total noncurrent assets	20,460,454	20,187,730
Total assets	$ 22,381,974	$ 22,140,786

	2008	2007
LIABILITIES		
Current liabilities:		
Reserve for compensation (Note 5)	$ 1,892,226	$ 1,868,461
Reserve for compensation adjustment expenses (Note 5)	481,030	481,510
Warrants payable	37,164	45,539
Bonds payable (Notes 6 and 7)	16,005	15,055
Investment trade payables	129,896	252,525
Accounts payable	7,687	9,465
Obligations under securities lending (Note 3)	2,933	6,801
Other current liabilities (Note 7)	58,637	18,494
Total current liabilities	2,625,578	2,697,850
Noncurrent liabilities:		
Reserve for compensation (Note 5)	15,708,119	15,544,204
Reserve for compensation adjustment expenses (Note 5)	1,353,964	1,377,019
Premium payment security deposits (Note 7)	88,918	87,808
Bonds payable (Notes 6 and 7)	81,281	98,021
Other noncurrent liabilities (Note 7)	20,825	30,338
Total noncurrent liabilities	17,253,107	17,137,390
Total liabilities	19,878,685	19,835,240
Commitments and contingencies (Notes 10 and 12)		
NET ASSETS		
Invested in capital assets, net of related debt	18,368	5,179
Unrestricted net assets	2,484,921	2,300,367
Total net assets (Note 11)	$ 2,503,289	$ 2,305,546

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

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

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

For the years ended June 30, 2008 and 2007

(000's omitted)

	2008	2007
Operating revenues:		
Premium income	$1,851,763	$ 1,802,634
Assessment income	383,329	651,216
Assessment income due to statutory change (Note 2)	-	1,875,512
Provision for uncollectibles	(96,690)	(58,429)
Other income	22,247	17,703
Total operating revenues	2,160,649	4,288,636
Operating expenses:		
Workers' compensation benefits (Note 5)	2,180,823	2,030,596
Compensation adjustment expenses (Note 5)	406,660	636,552
Personal services	50,564	48,974
Other administrative expenses	44,510	51,553
Total operating expenses	2,682,557	2,767,675
Net operating (loss) income	(521,908)	1,520,961
Non-operating revenues:		
Net investment income (Note 3)	719,870	911,430
Loss on disposal of capital assets	(219)	(224)
Total non-operating revenues	719,651	911,206
Increase in net assets	197,743	2,432,167
Net assets (deficit), beginning of year	2,305,546	(126,621)
Net assets, end of year	$ 2,503,289	$ 2,305,546

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

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

STATEMENTS OF CASH FLOWS

For the years ended June 30, 2008 and 2007

(000's omitted)

	2008	2007
Cash flows from operating activities:		
Cash receipts from premiums and assessments	$ 2,538,165	$ 2,365,616
Cash receipts - other	32,489	31,122
Cash disbursements for claims	(2,237,987)	(2,122,099)
Cash disbursements to employees for services	(244,568)	(247,020)
Cash disbursements for other operating expenses	(83,005)	(88,426)
Cash disbursements for Santos settlement	-	(46,895)
Cash disbursements for employer refunds	(127,852)	(138,935)
Net cash used for operating activities	(122,758)	(246,637)
Cash flows from capital and related financing activities:		
Purchase of capital assets, net of retirements	(9,401)	(5,081)
Principal and interest payments on bonds	(20,346)	(20,051)
Net cash used in capital and related financing activities	(29,747)	(25,132)
Cash flows from investing activities:		
Investments sold	7,017,302	21,216,513
Investments matured	6,037	8,358
Investments purchased	(7,667,843)	(21,440,066)
Interest and dividends received	859,795	630,762
Investment expenses	(12,623)	(9,489)
Net cash provided by investing activities	202,668	406,078
Net increase in cash and cash equivalents	50,163	134,309
Cash and cash equivalents, beginning of year	327,915	193,606
Cash and cash equivalents, end of year	$ 378,078	$ 327,915

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, Continued

For the years ended June 30, 2008 and 2007

(000's omitted)

	2008	2007
Reconciliation of net operating (loss) income to net cash used for operating activities:		
Net operating (loss) income	$ (521,908)	$ 1,520,961
Adjustments to reconcile net operating (loss) income to net cash used for operating activities:		
Assessment income due to statutory change	-	(1,875,512)
Provision for uncollectible accounts	96,690	58,429
Depreciation	11,579	10,872
Amortization of discount and issuance costs on bonds payable	4,556	5,075
Unclaimed Intentional Tort Fund premiums	(5,687)	-
(Increases) decreases in assets and increases (decreases) in liabilities:		
Premiums and assessments in course of collection	1,448	(122,109)
Unbilled premiums receivable	203,197	319,392
Accounts receivable	(110,392)	(78,100)
Retrospective premiums receivable	6,330	(18,498)
Other assets	450	27
Restricted cash	348	(24)
Reserves for compensation and compensation adjustment expenses	164,145	344,018
Premium payment security deposits	1,110	115
Warrants payable	(8,375)	1,149
Accounts payable	(1,778)	657
Deferred revenue	-	(372,847)
Other liabilities	35,529	(40,242)
Net cash used for operating activities	$ (122,758)	$ (246,637)
Noncash investing, capital, and financing activities		
Change in fair values of investments	$ (143,510)	$ 109,160

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, as the individual accounts do not have external financial reporting accountability requirements. All significant interaccount balances and transactions have been eliminated.

Continued

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2008 and 2007

Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting," BWC/IC follows GASB guidance as applicable to proprietary funds and Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements. As permitted by Generally Accepted Accounting Standards, BWC/IC has elected not to apply Financial Accounting Standards Board Statements and Interpretations issued after November 10, 1989.

BWC/IC administers the following accounts:

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

Description of the Accounts

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

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

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

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

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

Continued

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

- GASB No. 51, "Accounting and Financial Reporting for Intangible Assets"

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

Cash and Cash Equivalents

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

Investments

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

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

Investments in the bond index fund, fixed maturities, domestic equity securities, and international securities are stated at fair value. Fair values of fixed maturities are based on quotations from national security exchanges. Fair values of domestic and international equity securities are based on quotations from national or international exchanges and are valued at the last reported sales price at current exchange rates. The fair value of the bond index fund is based on the value of the underlying net assets of the fund. Dividends, interest earnings, the net increase (decrease) in the fair value of investments (which includes both the change in fair value and realized gains and losses), and investment expenses are aggregated and reported as net investment income in the statements of revenues, expenses and changes in net assets. The cost of securities sold is determined using the average cost method. Purchases and sales of investments are recorded as of the trade date.

BWC/IC, through the use of 68 outside money managers, participated as a limited partner in partnerships investing in equities, bonds, notes, and other assets. Investments in limited partnerships are stated at fair value. Limited partnerships are generally valued based on March 31st net asset values plus or minus purchases, sales, and cash flows from April 1st through June 30th of the reporting year. During fiscal year 2008, 66 of the 68 private equity partnerships were sold. Net losses of $51.2 million from the private equity partnerships were

Continued

recognized during fiscal year 2008. BWC/IC had no unfunded commitments to the limited partnerships at June 30, 2008.

Restricted Cash

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

Premium Income

SIF, CWPF, PWREF, and MIF premium income is recognized over the coverage period and is collected in subsequent periods for all accounts except MIF, which collects premiums in advance of the coverage period. Premiums earned but not yet invoiced are reflected as premiums in course of collection in the statements of net assets. Premiums are based on rates that are approved by the 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 on injuries incurred during the coverage period. The estimated future retrospective rating adjustments are reflected in the statements of net assets as retrospective premiums receivable.

The Code permits State employers to pay into SIF on a terminal funding (pay-as-you-go) basis. Additionally, certain benefits are paid from the SIF Surplus Fund (see Note 11) for self-insured employers. As BWC/IC has the statutory authority to assess premiums against the State and self-insured employers in future periods, an unbilled premiums receivable equal to their share of the discounted reserve for compensation and compensation adjustment expenses, less BWC/IC's portion of the discounted reserve, is reflected in the statements of net assets.

Assessment Income

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

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

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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

Continued

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 5.0% at June 30, 2008 and 2007 to reflect the present value of future benefit payments. The selected discount rate approximates an average yield on United States government securities with a duration similar to the expected claims underlying BWC/IC's reserves.

Management believes that the recorded reserves for compensation and compensation adjustment expenses make for a reasonable and appropriate provision for expected future losses. While management uses available information to estimate the reserves for compensation and compensation adjustment expenses, future changes to the reserves for compensation and compensation adjustment expenses may be necessary based on claims experience and changing claims frequency and severity conditions.

Income Taxes

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

Use of Estimates

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

2. Statutory Change

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

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3. 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 may not be recovered. Banks must provide security for all public funds on deposit. These institutions may either specifically collateralize individual accounts in addition to amounts insured by the Federal Deposit Insurance Corporation (FDIC), or may pledge a pool of government securities valued at least 105% of the total value of public monies on deposit at the institution. At June 30, 2008 and 2007, the carrying amount of BWC/IC's cash deposits was $13.263 million and $17.554 million, respectively, and the bank balances were $12.085 million and $12.949 million, respectively. Of the bank balance, $100 thousand was insured by the FDIC. The remaining bank deposits are covered by collateral held in the name of BWC/IC's pledging financial institution, as required by state statute. BWC/IC is not exposed to custodial credit risk for these bank deposits.

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, 2007, BWC/IC had $1.4 billion held by the investments' counterparty and thus exposed to custodial credit risk. At June 30, 2008, BWC/IC's investments are not exposed to custodial credit risk, as all investments are held in the name of BWC/IC by the Treasurer of the State of Ohio as custodian.

Continued

The composition of investments held at June 30, 2008 and 2007 is presented below.

	2008 Fair Value	2007 Fair Value
Fixed maturities:		
Corporate bonds	$4,406,190	$3,509,905
U.S. government agency obligations	777,250	1,222,208
Corporate mortgage backed securities	246	224
U.S. government obligations	4,061,015	5,138,917
U.S. state and local government agency	226,004	186,772
Treasury inflationary index notes	3,663,090	3,004,523
Yankee bonds	207,874	209,265
Sovereign bonds	340,162	-
Supranational Issues	41,690	-
State Street money market fund	-	42,137
Net trade payable bond index fund	-	15,510
Total fixed maturities	13,723,521	13,329,461
Domestic equity securities:		
Common stocks	3,158,589	2,626,001
Preferred stocks	5,794	5,509
International securities:	78	1,096
Securities lending short-term collateral	2,933	6,801
Investments in limited partnerships	15,427	456,346
Cash and cash equivalents:		
Cash	13,263	17,554
Short-term money market fund	364,815	310,361
Total cash and cash equivalents	378,078	327,915
	$17,284,420	$16,753,129

Net investment income for the years ended June 30, 2008 and 2007 is summarized as follows (000's omitted):

	2008	2007
Fixed maturities	$779,549	$237,343
Bond index fund	11,603	503,949
Equity securities	63,525	26,434
Investments in limited partnerships	4,621	15,881
Cash equivalents	17,493	24,422
Securities lending	-	3,730
Total interest and dividends	876,791	811,759
(Decrease) increase in fair value of investments	(143,510)	109,160
Investment expenses	(13,411)	(9,489)
	$719,870	$911,430

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, 2008 and 2007, the effective duration of BWC's fixed-income portfolio is as follows ($ in thousands):

	June 30, 2008		June 30, 2007	
Investment Type	Fair Value	Effective Duration	Fair Value	Effective Duration
Corporate bonds	$4,406,190	11.33	$3,509,905	11.35
Yankee bonds	207,874	11.00	209,265	11.92
U.S. government agency obligations	777,250	8.59	1,222,208	8.27
Corporate mortgage backed securities	246	4.14	224	0.19
U.S. government obligations	4,061,015	10.58	5,138,917	10.20
Sovereign bonds	340,162	8.24	-	
Supranational issues	41,690	11.64	-	
U.S. state and local government agencies	226,004	12.05	186,772	13.48
Treasury inflationary index notes	3,663,090	7.33	3,004,523	8.11
State Street money market fund	-		42,137	
Net trade payable bond index fund	-		15,510	
Total fixed maturities	$13,723,521		$13,329,461	

Continued

Credit Risk – Fixed-Income Securities

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

BWC/IC's fixed-income securities were rated by Standard and Poor's (S&P) and/or an equivalent national rating organization and the ratings are presented below using the S&P rating scale (000's omitted). As indicated previously, a portion of the 2007 fair value shown represents the underlying securities in a passively managed bond index fund, while those presented as of June 30, 2008 were held by the custodian on behalf of BWC/IC.

Quality Rating	2008 Fair Value	2007 Fair Value
AAA	$ 311,321	$ 195,944
AA	545,132	445,054
A	2,306,172	1,638,208
BBB	2,000,690	1,426,572
BB	58,851	12,090
Not rated	-	9,532
Total credit risk debt securities	5,222,166	3,727,400
Government agency obligations	777,250	1,400,974
U.S. government obligations	4,061,015	5,138,917
Treasury inflationary index notes	3,663,090	3,004,523
State Street money market fund	-	42,137
Net trade payable bond index fund	-	15,510
Total fixed maturities	$13,723,521	$13,329,461

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 2008 and 2007, there is no single issuer that comprises 5% or more of the overall portfolio.

Foreign Currency Risk – Investments

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. BWC's exposure to foreign currency risk as of June 30, 2008 and 2007 is as follows (000's omitted):

Currency	2008 Fair Value	2007 Fair Value
Euro	$ 78	$ 1,096

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Securities Lending

At June 30, 2008 and 2007, BWC/IC had no securities out on loan. BWC/IC has been allocated with cash collateral of $3 million in 2008 and $7 million in 2007 from the securities lending program administered through the Treasurer of State's Office based on the amount of cash equity the State's common cash and investment account.

4. Capital Assets

Capital asset activity and balances as of and for the years ended June 30, 2008 and 2007 are summarized as follows (000's omitted):

	Balance at 6/30/2006	Increases	Decreases	Balance at 6/30/2007	Increases	Decreases	Balance at 6/30/2008
Capital assets not being depreciated							
Land	$ 11,994	$ -	$ -	$ 11,994	$ -	$ -	$11,994
Capital assets being depreciated							
Buildings	205,189	-	-	205,189	373	-	205,562
Furniture and equipment	52,479	5,157	(2,950)	54,686	9,148	(18,680)	45,154
Land improvements	66	-	-	66	-	-	66
Subtotal	257,734	5,157	(2,950)	259,941	9,521	(18,680)	250,782
Accumulated depreciation							
Buildings	(104,663)	(6,787)	-	(111,450)	(6,787)	-	(118,237)
Furniture and equipment	(42,072)	(4,084)	2,650	(43,506)	(4,791)	18,341	(29,956)
Land improvements	(51)	(1)	-	(52)	(1)	-	(53)
Subtotal	(146,786)	(10,872)	2,650	(155,008)	(11,579)	18,341	(148,246)
Net capital assets	$122,942	$(5,715)	$ (300)	$116,927	$(2,058)	$ (339)	$114,530

5. Reserves for Compensation and Compensation Adjustment Expenses

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

All reserves have been discounted at 5.0% at June 30, 2008 and 2007. A decrease in the discount rate to 4.0% would result in the reserves for compensation and compensation adjustment expenses increasing to $21.4 billion at June 30, 2008, while an increase in the rate to 6.0% would result in the reserves for compensation and compensation adjustment expenses decreasing to $17.8 billion. A decrease in the discount rate to 4.0% would result in the reserves for compensation and compensation adjustment expenses increasing to $21.3 billion at June 30, 2007, while an increase in the rate to 6.0% would result in the reserves for compensation and compensation adjustment expenses decreasing to $17.6 billion. The undiscounted reserves for compensation and compensation adjustment expenses were $36.4 billion at June 30, 2008 and $37.0 billion at June 30, 2007. The net operating income would

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have been $697 million lower in fiscal year 2008 and $1.1 billion lower in fiscal year 2007, if the reserves for compensation and compensation adjustment expenses were not discounted.

The changes in the reserves for compensation and compensation adjustment expenses for the years ended June 30, 2008 and 2007 are summarized as follows (in millions):

	2008	2007
Reserves for compensation and compensation adjustment expenses, beginning of period	$19,271	$18,927
Incurred:		
Provision for insured events of current period	2,219	2,282
Net (decrease) increase in provision for insured events of prior periods net of discount accretion of $964 in 2008 and $946 in 2007	368	(72)
Decrease in discount rate	-	457
Total incurred	2,587	2,667
Payments:		
Compensation and compensation adjustment expenses attributable to insured events of current period	415	423
Compensation and compensation adjustment expenses attributable to insured events of prior periods	2,008	1,900
Total payments	2,423	2,323
Reserves for compensation and compensation adjustment expenses, end of period	$19,435	$19,271

Continued

6. Bonds Payable

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

The bonds are collateralized by lease rental payments pledged by BWC/IC to OBA. The lease period coincides with the State's biennial budget and is renewable for successive two-year periods until the bonds are retired. Lease payments are based on the estimated debt service of the bonds, but are limited to an amount appropriated by the Ohio General Assembly in BWC/IC's biennial budget. Lease rental payments totaled $20.4 million and $20.1 million for the years ended June 30, 2008 and 2007, respectively. These payments included interest of $5.3 million and $5.9 million for the years ended June 30, 2008 and 2007, 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
2009	$ 16,005	$ 4,606	$ 20,611
2010	15,930	3,867	19,797
2011	15,865	3,109	18,974
2012	15,890	2,326	18,216
2013	15,915	1,543	17,458
2014	15,200	751	15,951
Deferred loss on refunding	(1,307)	-	(1,307)
Unamortized bond premium and issuance costs	3,788	-	3,788
Total	$ 97,286	$16,202	$ 113,488

Continued

7. Long-Term Obligations

Activity for long-term obligations (excluding the reserves for compensation and compensation adjustment expenses – see Note 4) for the years ended June 30, 2008 and 2007, is summarized as follows (000's omitted):

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

	Balance at 6/30/2007	Increases	Decreases	Balance at 6/30/2008	Due Within One Year
Premium payment security deposits	$ 87,808	$ 4,007	$ (2,897)	$88,918	$ -
Bonds payable	113,076	5,848	(21,638)	97,286	16,005
Other liabilities	48,832	113,937	(83,307)	79,462	58,637
	$249,716	$123,792	$(107,842)	$265,666	$74,642

8. Benefit Plans

Pension Plans

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

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

OPERS provides retirement, disability, survivor and death benefits, and annual cost-of-living adjustments to members of the Traditional Plan and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Benefits are established and may

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be amended by State statute. OPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Public Employees Retirement System of Ohio, 277 East Town Street, Columbus, Ohio 43215. As of June 30, 2008, the most recent report issued by OPERS is as of December 31, 2007.

Chapter 145 of The Code provides OPERS statutory authority for employee and employer contributions. For the year ended December 31, 2007, the employee contribution rate was 9.5% and the employer contribution rate was 13.77% of covered payroll. For the year ended December 31, 2006, the employee contribution rate was 9.0% and the employer contribution rate was 13.54% of covered payroll. BWC/IC's contributions, representing 100% of the dollar amount billed, are as follows (000's omitted):

Twelve months ended June 30, 2008	$23,606
Twelve months ended June 30, 2007	$23,179
Twelve months ended June 30, 2006	$22,444

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. The provisions of the GASB statement were implemented prospectively for the fiscal year ended June 30, 2008.

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 5.0% from January 1 through June 30, 2007, 6.0% from July 1 through December 31, 2007, and 4.5% during calendar year 2006. 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.

Continued

Based upon the portion of each employer's contribution to OPERS set aside for funding OPEB as described above, BWC/IC's contribution for the 12 months ended June 30, 2008 allocated to OPEB was approximately $10.3 million and $7.7 million for the 12 months ended June 30, 2007.

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. 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 2008 or 2007. 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. Contingent Liabilities

BWC/IC is a party in various legal proceedings, which normally occur as part of BWC/IC's operations.

A class action complaint pending in the 8th District Court of Appeals contends that subrogation allowed under Ohio Revised Code 4123.931 is unconstitutional. The Ohio Supreme Court in Holeton v. Crouse Cartage declared the subrogation statute unconstitutional. The trial court certified the class, granted summary judgment to the plaintiffs, and awarded attorney fees. 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 and $1.9 million during fiscal year 2008. Management does not expect the ultimate payments to be materially different than the amount accrued.

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

Continued

A class action case was filed alleging that BWC/IC identifies PTD recipients not represented by counsel and encourages them to settle their PTD claims for substantially less than their actuarial present value. The plaintiffs contend that BWC/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 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. To date, plaintiffs have not filed action in the Court of Claims. 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.

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. Parties are awaiting the court decision on the motion for injunction. 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.

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

Continued

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, 2008 and 2007 were as follows (000's omitted):

	2008	2007
SIF	$3,799,897	$3,511,722
SIF Surplus Fund	(1,708,959)	(1,540,025)
SIF Premium Payment Security Fund	115,984	108,348
Total SIF Net Assets	2,206,922	2,080,045
DWRF	848,727	800,185
CWPF	179,339	171,741
PWREF	19,350	18,295
MIF	13,431	13,802
SIEGF	8,919	6,208
ACF	(773,399)	(784,730)
Total Net Assets (Deficit)	$ 2,503,289	$ 2,305,546

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

The SIF Surplus Fund is established by the Code and is financed by a percentage of all SIF premiums paid by private, self-insured, and public employers (excluding State employers). The SIF Surplus Fund has been appropriated for specific charges, including compensation related to claims of handicapped persons or employees of noncomplying employers, and the expense of providing rehabilitation services, counseling, training, living maintenance payments, and other related charges to injured workers. The SIF Surplus Fund may also be charged on a discretionary basis as ordered by BWC/IC, as permitted by the Code. The Code limits contributions to the SIF Surplus Fund to 5% of premiums. This allocation of premiums is insufficient to fund the charges to the SIF Surplus Fund.

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.

Continued

12. Subsequent Event

The global financial markets became increasingly unsettled in September 2008 as several very prominent U.S. financial institutions became insolvent and either failed or were taken over by the federal government. A number of large U.S. financial institutions have significant ownership of loosely underwritten illiquid mortgage-related assets that have declined sharply in value from accelerated mortgage payment delinquencies and reduced housing values.

The weakness of the U.S. fixed-income and equity markets for September 2008 resulted in a significant decline in net market value through September 29, 2008 of the BWC/IC portfolio of fixed-income and equity securities. These declines resulted in a total estimated portfolio return of negative 4.1 percent for the month of September 2008 through September 29 on BWC/IC's total invested assets including cash. The estimated decline in net market value for the first quarter of Fiscal Year 2009 through September 29, 2008 was estimated at $608 million. Such valuations resulted in an estimated negative rate of return of 3.5 percent for the BWC total portfolio over this period.

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, 2008 and 2007

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, 1998 through 2008.

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										
	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
1. Gross premiums, assessments, and investment income	$ 2,968	$ 5,251	$ 3,015	$ 3,272	$ 3,558	$ 2,886	$ 2,032	$ 2,535	$ 4,344	$ 3,609	$ 5,092
2. Unallocated expenses	108	109	170	179	188	169	194	292	258	273	323
3. Estimated incurred compensation and compensation adjustment expense, end of period	2,219	2,327	2,270	2,392	2,335	2,405	2,233	2,109	2,052	1,891	2,078
Discount	1,892	2,099	2,147	2,227	2,447	2,544	2,374	2,443	2,274	2,576	3,115
Gross liability as originally estimated	4,111	4,426	4,417	4,619	4,782	4,949	4,607	4,552	4,326	4,467	5,193
4. Paid (cumulative) as of :											
End of period	415	423	417	449	449	485	456	434	404	422	389
One year later		747	743	795	843	872	853	821	757	809	673
Two years later			927	979	1,037	1,096	1,063	1,038	967	984	1,038
Three years later				1,121	1,181	1,248	1,230	1,194	1,122	1,122	1,155
Four years later					1,302	1,371	1,351	1,325	1,245	1,232	1,252
Five years later						1,485	1,459	1,423	1,355	1,325	1,335
Six years later							1,559	1,518	1,439	1,411	1,408
Seven years later								1,605	1,519	1,479	1,475
Eight years later									1,597	1,542	1,530
Nine years later										1,605	1,581
Ten years later											1,682
5. Re-estimated incurred compensation and compensation adjustment expenses (gross):											
One year later		3,523	3,670	4,007	4,155	4,183	4,028	4,022	3,953	3,612	3,575
Two years later			3,462	3,636	3,920	4,027	3,943	4,007	3,818	3,695	3,272
Three years later				3,480	3,689	3,827	3,787	3,856	3,880	3,534	3,326
Four years later					3,393	3,638	3,639	3,617	3,680	3,453	3,071
Five years later						3,302	3,376	3,441	3,448	3,183	2,930
Six years later							3,124	3,119	3,222	3,001	2,691
Seven years later								2,982	2,936	2,807	2,542
Eight years later									2,854	2,584	2,352
Nine years later										2,495	2,191
Ten years later											2,163
6. Decrease in gross estimated incurred compensation and compensation adjustment expenses from end of period		(903)	(955)	(1,139)	(1,389)	(1,647)	(1,483)	(1,570)	(1,472)	(1,972)	(3,030)

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, 2008
(000's omitted)

	State Insurance Fund Account	Disabled Workers' Relief Fund Account	Coal-Workers Pneumoconiosis Fund Account	Public Work-Relief Employees' Fund Account	Marine Industry Fund Account	Self-Insuring Employers' Guaranty Fund Account	Administrative Cost Fund Account	Eliminations	Totals
ASSETS									
Current assets:									
Cash and cash equivalents	$ 260,173	$ 8,535	$ 2,536	$ 22,540	$ 16,713	$ 56,554	$ 11,027	$ -	$ 378,078
Collateral on loaned securities	-	-	-	-	-	-	2,933	-	2,933
Premiums in course of collection	858,772	-	-	177	-	-	-	-	858,949
Assessments in course of collection	-	48,537	-	-	-	-	164,025	-	212,562
Accounts receivable, net of allowance for uncollectibles	156,014	20,979	-	29	-	1,143	6,418	-	184,583
Interfund receivables	12,435	52,891	-	99	69	629	81,950	(148,073)	-
Investment trade receivables	72,069	8,265	981	-	-	-	-	-	81,315
Accrued investment income	184,013	13,441	2,787	40	30	103	-	-	200,414
Other current assets	2,686	-	-	-	-	-	-	-	2,686
Total current assets	1,546,162	152,648	6,304	22,885	16,812	58,429	266,353	(148,073)	1,921,520
Non-current assets:									
Fixed maturities	12,618,730	912,448	192,343	-	-	-	-	-	13,723,521
Domestic equity securities:									
Common stocks	2,911,769	201,010	45,810	-	-	-	-	-	3,158,589
Preferred stocks	5,794	-	-	-	-	-	-	-	5,794
International securities	78	-	-	-	-	-	-	-	78
Investments in limited partnerships	15,427	-	-	-	-	-	-	-	15,427
Unbilled premiums receivable	880,345	-	-	-	-	-	-	-	880,345
Unbilled assessments receivable	-	1,498,560	-	-	-	672,838	105,836	-	2,277,234
Retrospective premiums receivable	283,720	-	-	-	-	-	-	-	283,720
Capital assets	22,811	22	-	-	-	-	91,697	-	114,530
Restricted cash	-	-	-	-	-	-	1,216	-	1,216
Total noncurrent assets	16,738,674	2,612,040	238,153	-	-	672,838	198,749	-	20,460,454
Total assets	$ 18,284,836	$ 2,764,688	$ 244,457	$ 22,885	$ 16,812	$ 731,267	$ 465,102	$ (148,073)	$ 22,381,974

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, 2008
(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	$ 1,753,452	$116,684	$ 1,336	$ 159	$ 335	$20,260	$ -	$ -	$ 1,892,226
Reserve for compensation adjustment expenses	170,524	492	66	-	41	905	309,002	-	481,030
Warrants payable	37,164	-	-	-	-	-	-	-	37,164
Bonds payable	-	-	-	-	-	-	16,005	-	16,005
Investment trade payables	118,322	10,079	1,495	-	-	-	-	-	129,896
Accounts payable	1,544	-	-	-	-	-	6,143	-	7,687
Interfund payables	133,861	10,743	75	13	16	3,365	-	(148,073)	-
Obligations under securities lending	-	-	-	-	-	-	2,933	-	2,933
Other current liabilities	42,518	88	34	-	183	-	15,814	-	58,637
Total current liabilities	2,257,385	138,086	3,006	172	575	24,530	349,897	(148,073)	2,625,578
Noncurrent liabilities:									
Reserve for compensation	13,232,548	1,723,167	57,364	3,363	2,639	689,038	-	-	15,708,119
Reserve for compensation adjustment expenses	499,777	54,708	4,034	-	167	8,780	786,498	-	1,353,964
Premium payment security deposits	88,204	-	714	-	-	-	-	-	88,918
Bonds payable	-	-	-	-	-	-	81,281	-	81,281
Other noncurrent liabilities	-	-	-	-	-	-	20,825	-	20,825
Total noncurrent liabilities	13,820,529	1,777,875	62,112	3,363	2,806	697,818	888,604	-	17,253,107
Total liabilities	16,077,914	1,915,961	65,118	3,535	3,381	722,348	1,238,501	(148,073)	19,878,685
NET ASSETS (DEFICIT)									
Invested in capital assets, net of related debt	22,811	22	-	-	-	-	(4,465)	-	18,368
Restricted for Surplus Fund	(1,708,959)	-	-	-	-	-	-	-	(1,708,959)
Restricted for Premium Payment Security Fund	115,984	-	-	-	-	-	-	-	115,984
Unrestricted net assets	3,777,086	848,705	179,339	19,350	13,431	8,919	(768,934)	-	4,077,896
Total net assets (deficit)	$ 2,206,922	$ 848,727	$ 179,339	$ 19,350	$ 13,431	$ 8,919	$ (773,399)	$ -	$ 2,503,289

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, 2008
(000's omitted)

	State Insurance Fund Account	Disabled Workers' Relief Fund Account	Coal-Workers Pneumoconiosis Fund Account	Public Work-Relief Employees' Fund Account	Marine Industry Fund Account	Self-Insuring Employers' Guaranty Fund Account	Administrative Cost Fund Account	Eliminations	Totals
Operating revenues:									
Premium income	$1,849,610	$ -	$1,249	$118	$786	$ -	$ -	$ -	$1,851,763
Assessment income	-	23,389	-	-	-	(3,029)	362,969	-	383,329
Provision for uncollectibles	(84,820)	(3,685)	-	-	(8)	227	(8,404)	-	(96,690)
Other income	16,278	-	-	-	-	-	5,969	-	22,247
Total operating revenues	1,781,068	19,704	1,249	118	778	(2,802)	360,534	-	2,160,649
Operating expenses:									
Workers' compensation benefits	2,171,298	11,813	1,621	(77)	1,626	(5,458)	-	-	2,180,823
Compensation adjustment expenses	125,710	(2,652)	65	-	113	2,003	281,421	-	406,660
Personal services	-	51	14	-	7	-	50,492	-	50,564
Other administrative expenses	20,396	64	21	2	35	3	23,989	-	44,510
Total operating expenses	2,317,404	9,276	1,721	(75)	1,781	(3,452)	355,902	-	2,682,557
Net operating income (loss) before operating transfers in (out)	(536,336)	10,428	(472)	193	(1,003)	650	4,632	-	(521,908)
Operating transfers in (out)	(3,179)	-	-	-	-	-	3,179	-	-
Net operating income (loss)	(539,515)	10,428	(472)	193	(1,003)	650	7,811	-	(521,908)
Non-operating revenues:									
Net investment income	666,392	38,114	8,070	862	632	2,061	3,739	-	719,870
Loss on disposal of capital assets	-	-	-	-	-	-	(219)	-	(219)
Total non-operating revenues	666,392	38,114	8,070	862	632	2,061	3,520	-	719,651
Increase (decrease) in net assets (deficit)	126,877	48,542	7,598	1,055	(371)	2,711	11,331	-	197,743
Net assets (deficit), beginning of year	2,080,045	800,185	171,741	18,295	13,802	6,208	(784,730)	-	2,305,546
Net assets (deficit), end of year	$2,206,922	$848,727	$179,339	$19,350	$13,431	$8,919	$(773,399)	$ -	$2,503,289

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

Independent Auditors' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in
Accordance With Government Auditing Standards
For the years ended June 30, 2008 and 2007

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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, 2008 and 2007, and have issued our report thereon dated September 29, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the BWC/IC's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of BWC/IC's financial statements that is more than inconsequential will not be prevented or detected by BWC/IC's internal control. We consider the deficiency described in the accompanying schedule of findings and responses to be a significant deficiency in internal control over financial reporting, which is identified as Significant Deficiency Number 08-1.

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IGAF

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency noted above is not a material weakness.

Compliance and Other Matters

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

We also noted certain additional matters that we reported to management of the BWC/IC in a separate letter dated September 29, 2008.

This report is intended solely for the information and use of 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 29, 2008

OHIO BUREAU OF WORKERS' COMPENSATION
AND
INDUSTRIAL COMMISSION OF OHIO

(A DEPARTMENT OF THE STATE OF OHIO)

Schedule of Findings and Responses

June 30, 2008

Significant Deficiency No. 08-1, Managed Care Organization (MCO) SAS 70 Reviews

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

Condition: We noted that management held a SAS 70 Type II training session for all MCO finance staff during fiscal year 2007. The objectives of the training were to clarify the purposes of the report, establish expectations with respect to testing requirements, and provide guidelines on corrective action plans. However, a review of the SAS 70 Type II reports received by BWC/IC management appears to indicate that several MCOs have not designed and/or implemented internal control systems that meet the standards established by the BWC/IC. Specifically, we noted that three of the 25 MCOs received a qualified opinion from their independent auditors.

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

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

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

Management Response:

Management agrees that the control environments in place at MCOs have a significant impact to BWC's overall control environment. Management is currently reviewing and updating the stated control objectives and as such, additional training will be designed and provided to the MCOs to further clarify our expectations regarding the expected testing requirements. Additionally management is considering the addition of financial penalties for the submission of a SAS 70 Report that is judged as being substandard by BWC.

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 20, 2008

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