

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, 2014 and 2013  
and Independent Auditors' Report Thereon



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# Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditors' Report* of the Ohio Bureau of Workers' Compensation and Industrial Commission of Ohio, Franklin County, prepared by Schneider Downs & Co., Inc., for the audit period July 1, 2013 through June 30, 2014. 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.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost  
Auditor of State

November 3, 2014

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**OHIO BUREAU OF WORKERS' COMPENSATION  
AND  
INDUSTRIAL COMMISSION OF OHIO  
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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, 2014, 2013, and 2012. BWC and IC are collectively referred to as BWC/IC. This information is based on BWC/IC's financial statements, which begin on Page 11.

***Financial highlights***

- BWC/IC's total assets at June 30, 2014 were \$30.3 billion, an increase of \$2.1 billion or 7.4 percent compared to June 30, 2013.
- BWC/IC's total liabilities at June 30, 2014 were \$20.9 billion, a decrease of \$582 million or 2.7 percent compared to June 30, 2013.
- BWC/IC's operating revenues for fiscal year 2014 were \$2.1 billion, an increase of \$590 million or 39.2 percent compared to fiscal year 2013.
- BWC/IC's operating expenses for fiscal year 2014 were \$1.6 billion, an increase of \$24 million or 1.5 percent from fiscal year 2013.
- BWC/IC had \$1.2 billion in transition credit expenses and reduced the loss contingency expense by \$439 million in fiscal year 2014.
- BWC's non-operating revenues for fiscal year 2014 were \$3.0 billion, compared to \$901 million for fiscal year 2013.
- BWC/IC's net position increased by \$2.7 billion in fiscal year 2014, compared to a \$1.0 billion decrease in fiscal year 2013.

***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 Position** - This statement is a point-in-time snapshot of BWC/IC's assets, liabilities and net position at fiscal year end. Net position represents 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 Position** - 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.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS**

- Supplemental Information - This section includes supplemental schedules presenting the statement of net position and the statement of revenues, expenses and changes in net position for the individual accounts administered by BWC/IC. This section also includes required supplemental information that presents 10 years of revenue and reserve development information.

**Financial analysis**

Components of BWC/IC's Statements of Net Position and Statements of Revenues, Expenses and Changes in Net Position as of June 30, 2014, June 30, 2013, and June 30, 2012, and for the years then ended were as follows (000's omitted):

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Current assets	\$ 1,980,409	\$ 2,935,812	\$ 1,813,133
Noncurrent assets	28,361,299	25,306,277	26,203,374
Total assets	<u>\$ 30,341,708</u>	<u>\$ 28,242,089</u>	<u>\$ 28,016,507</u>
Current liabilities	\$ 3,867,108	\$ 3,713,761	\$ 2,779,729
Noncurrent liabilities	17,014,387	17,749,251	17,419,039
Total liabilities	<u>\$ 20,881,495</u>	<u>\$ 21,463,012</u>	<u>\$ 20,198,768</u>
Net investment in capital assets	\$ 125,998	\$ 88,663	\$ 57,105
Unrestricted net position	9,334,215	6,690,414	7,760,634
Total net position	<u>\$ 9,460,213</u>	<u>\$ 6,779,077</u>	<u>\$ 7,817,739</u>
Net premium and assessment income, including provision for uncollectibles	\$ 2,085,821	\$ 1,492,389	\$ 1,944,478
Other income	8,141	11,723	14,115
Total operating revenues	<u>\$ 2,093,962</u>	<u>\$ 1,504,112</u>	<u>\$ 1,958,593</u>
Workers' compensation benefits and compensation adjustment expenses	\$ 1,519,175	\$ 1,491,515	\$ 1,832,992
Other expenses	117,277	120,741	120,228
Total operating expenses	<u>\$ 1,636,452</u>	<u>\$ 1,612,256</u>	<u>\$ 1,953,220</u>
Transition credit expense	\$ (1,229,000)	\$ -	\$ -
Premium rebate	(45)	(965,636)	-
Legal settlement / loss contingency	439,440	(859,440)	-
Operating transfers out	(425)	(6,365)	(3,390)
Net investment income	3,013,608	900,854	2,043,644
Gain on disposal of capital assets	48	69	110
(Decrease) increase in net position	<u>\$ 2,681,136</u>	<u>\$ (1,038,662)</u>	<u>\$ 2,045,737</u>

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**MANAGEMENT'S DISCUSSION AND ANALYSIS**

BWC/IC's net position increased by \$2.7 billion during fiscal year 2014, compared to a \$1.0 billion decrease during fiscal year 2013.

- Premium and assessment income exceeded workers' compensation benefits and compensation adjustment expenses by \$567 million in fiscal year 2014 and \$874 thousand in fiscal year 2013.
- Over the past two years, the net position of the State Insurance Fund (SIF) had grown to the degree that it exceeded the guidelines in the Net Asset Policy established by the BWC Board of Directors (the Board). A rebate to reduce the net position in SIF was approved by the Board on May 30, 2013. Private employers were granted a rebate equivalent to 56 percent of premiums for the July 1, 2011 through June 30, 2012 policy period, while public taxing district employers were granted a rebate equivalent to 56 percent of premiums for the January 1, 2011 through December 31, 2011 policy period. This action resulted in premium rebate expense of \$45 thousand in fiscal year 2014 and \$966 million in fiscal year 2013.
- On April 23, 2014, the Board approved a transition credit of \$1.2 billion for private and public taxing district employers to minimize the cash flow impacts of transitioning from collecting premiums in arrears (or after the coverage period) to prospective billing where premiums are collected in advance of the coverage period. The transition credit will cover 100 percent of private employer premiums for the January 1, 2015 through August 31, 2015 policy periods and 50 percent of the public employer taxing district premiums for the January 1, 2015 through December 31, 2016 policy periods. While the transition credit applies to future policy periods, the transition credit is reflected in the fiscal year 2014 financial statements when the Board committed funds for paying these premiums.
- Premium and assessment income for fiscal year 2014 reflects 2.1 percent reduction in the overall premium rates for the majority of Ohio's private employers and a 1.6 percent reduction for public employer taxing districts (PECs) for the policy period that began on January 1, 2014. PECs include cities, counties, townships, villages, schools, libraries, and special taxing districts. Even with these rate decreases, premium and assessment income increased during fiscal year 2014 as the private employer payroll base increased to \$98.6 billion for the twelve months ended December 31, 2013 compared to \$94.9 billion for the twelve month period ended December 31, 2012. During fiscal year 2013, the change in the methodology to exclude the provision for future employer defaults from the estimated self-insured employer default liabilities resulted in a corresponding decrease of \$458 million to unbilled premium receivables.
- As part of Destination: Excellence, savings were available to employers for effective policy maintenance such as reporting payroll and paying premiums online and keeping current on their premiums. The Go Green program rewards employers for reporting payroll and paying premiums on-line with a discount of one percent of premium up to a maximum discount of \$1,000 per six month reporting cycle. In fiscal year 2014, over 41 percent of the employer population chose to Go Green, earning discounts of \$3.7 million compared to \$2.4 million in fiscal year 2013. To reward timely premium payers, employers with no lapses in coverage during the past 60 months can receive a premium discount of one percent up to a maximum of \$1,000 per six month reporting cycle. Employers earned lapse-free discounts of \$6.3 million in fiscal year 2014 and \$7 million in fiscal year 2013. Employers earned discounts of \$3.8 million in fiscal year 2014 by completing requirements of the Industry-Specific Safety Program and \$3.1 million for completing the requirements to the Transitional Work Bonus Program.

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- Ohio has 80 safety councils that promote increased safety awareness in the workplace and educate businesses on occupational health and safety issues. Employers meeting safety council participation eligibility requirements and performance goals for reducing either frequency or severity earned safety council bonuses of \$9.5 million in fiscal year 2014 and \$9.8 million in fiscal year 2013.
- BWC/IC has secured reinsurance as a risk management strategy to protect our assets in the event of a catastrophic event. Premium and assessment income has been reduced by \$4.0 million in fiscal year 2014 and \$6.0 million in fiscal years 2013 and 2012 for the accrual of the ceded reinsurance premiums.
- Workers' compensation benefits and compensation adjustment expenses were \$1.5 billion in fiscal years 2014 and 2013 compared \$1.8 billion in fiscal year 2012.

(\$in millions)	2014	2013	2012
Change in reserves for compensation and			
Compensation adjustment expenses	\$ (468)	\$ (515)	\$ (245)
Net benefit payments	1,626	1,649	1,715
Payments for compensation adjustment expenses	191	188	195
Managed Care Organization administrative payments	170	170	168
	\$ 1,519	\$ 1,492	\$ 1,833

- The discounted liabilities for workers' compensation benefits and compensation adjustment expenses as of June 30, 2014 are \$468 million lower than the June 30, 2013 discounted liabilities. Although there was a change in the consulting firm providing the unpaid loss estimates, there were no material changes in the methodology to determine unpaid loss estimates other than for the Coal Workers' Pneumoconiosis Fund (CWPF). The changes in estimates for the other Funds are derived primarily from different actuarial assumptions with respect to the payment time horizon or duration which impacts the discounted value of the unpaid losses. The methodology used for the CWPF unpaid loss estimates has been developed by the consultant for use in other similar projects and uses both BWC and national data and assumptions to estimate the expected future Black Lung claim filings and awards to the CWPF.
- SIF benefit payments for all accident years emerged \$70 million or 4.3 percent lower than expected during fiscal year 2014. Approximately \$66 million of the lower than expected paid development is associated with medical benefits, while indemnity benefits were \$4 million lower than expected. During the past 14 years, annual payments have remained steady, ranging from a low of \$1.5 billion in fiscal year 2001 to a high of \$1.9 billion in fiscal year 2008. Fiscal year 2014 payments totaling \$1.6 billion is the lowest annual total since fiscal year 2001.
- The fiscal year 2013 loss contingency of \$859 million resulting from the adverse decision issued by the Cuyahoga County Common Pleas Court awarding damages to the plaintiff class in the San Allen group rating litigation was reduced by \$439 million when the parties agreed to a \$420 million settlement during fiscal year 2014. The settlement is expected to be paid beginning in January 2015.
- In fiscal year 2014, BWC/IC recorded net investment income of \$3.0 billion, compared to \$901 million in fiscal year 2013. The investment portfolio earned a net return of 13.4 percent, after management fees, during fiscal year 2013 compared to 3.8 percent in fiscal year 2013 and a return of 9.8 percent in fiscal year 2012.
- The Board approved the active management of all SIF long duration credit fixed income assets. The Investment Policy Statement (IPS) was revised whereby the 8 percent

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allocation of SIF invested assets targeted to passive management of long duration credit assets was eliminated and the allocation of SIF invested assets towards actively managed long duration credit assets was increased from 20 percent to 28 percent. Approximately \$1.5 billion was transitioned from SIF passively managed long credit assets to the three existing active long credit managers in December 2013.

- During January 2014, approximately \$1.9 billion was transitioned from the passively managed all-cap U.S. equity portfolio to 13 investment managers responsible for the active management of a targeted 7 percent of SIF investment portfolio in U.S. mid-cap and U.S. small cap equities. At the same time, \$3.2 billion was transitioned from the all-cap U.S. equity portfolio to the new passive large-cap U.S. equity mandate.
- The Board approved a 6 percent allocation of the SIF investment portfolio to real estate. This allocation is directed towards U.S. concentrated real estate funds divided between a targeted 4.5 percent allocation to private open-end core funds and a targeted 1.5 percent allocation to private close-ended value-added funds. As of June 30, 2014, a total of \$998.2 million has been invested in eight core real estate funds. Four value-added real estate funds, with commitments of \$50 million in each fund to be invested in stages over the next five years, have also been approved. As of June 30, 2014, capital investments totaling \$47.5 million have been made to these value-added funds. Redemptions from the SIF passively managed U.S. long government bond portfolio and the SIF U.S. TIPS fixed income portfolio have been used to fund the real estate investments.
- The special obligation bonds issued in 2003, through the Ohio Building Authority (OBA) to refund the 1993 William Green Building Series A bonds were retired during fiscal year 2014. The debt for these bonds was \$15.4 million at June 30, 2013. All matters related to the issuance of obligations for the financing of capital facilities were transferred to the Treasurer of State (TOS), effective January 1, 2012. The bonds were collateralized by lease rental payments pledged by BWC/IC. These bonds were rated Aa3 by Moody's Investors Service, Inc.

***Conditions expected to affect financial position or results of operations***

BWC/IC's guiding principles of prevention and care drive our commitment to keep Ohio workers safer on the job; help injured workers recover and return to their lives – at work and home; and to keep costs down for Ohio businesses.

- Private employer statewide average base rates will decrease an average of 6.3 percent for the July 1, 2014 policy year, producing estimated savings of \$91 million for these employers. This rate decrease combined with previous reductions over the last four years will result in combined savings of \$409 million to private employers.
- Public employer taxing district premiums decreased by an average of 1.6 percent for the January 1, 2014 policy year. Combined with rate reductions in 2012 and 2013, public employers have saved an estimated \$70 million in premiums during the last three years.
- Investments in safety create safer workplaces, prevent costly accidents and ultimately results in lower premiums for employers. The Safety Grant Program provides matching funds up to \$40 thousand for employers to purchase equipment that will substantially reduce or eliminate injuries and illnesses. The program was expanded in fiscal year 2014 with \$15 million in grants awarded to 535 employers. BWC has already committed \$15 million for fiscal year 2015 and will be committing \$15 million for each of the next two fiscal years (2016 and 2017) to continue this program. BWC also plans to invest approximately \$2 million each fiscal year to fund advanced research projects by higher-education and research organizations to promote innovation in areas of workplace safety

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- and health. Firefighter safety will be improved through BWC's partnership with the State Fire Marshal to increase funds available for fire fighter 1 training to improve safety, preparedness, and response time during emergencies. Financial resources are also being committed to implement and fund safety programming as part of required training in high-risk specialties such as carpentry, welding, and plumbing. BWC will work with two-year universities and trade schools to include this safety training as part of the education provided to those looking to attain skilled labor positions.
- The comprehensive annual actuarial analysis is indicating that the \$5.6 billion discounted liability for unpaid medical costs represents 37.1 percent of the discounted liability for SIF unpaid claims. Medical is a benefit where the cost of the claim is based on current prices for medical services and is not dependent on the year of injury like indemnity benefits. Therefore, the cost of future medical payments is dependent on future inflation and future utilization rates. The average annual medical cost trend per lost time private employer claim is 4.5 percent from 2002 through 2013. These trends show the need for BWC to remain focused on cost control and returning injured workers back to work in a timely manner. An important factor in reducing claims costs is our ability to get injured workers back to leading productive lives. The sooner an injured worker gets healthy and back on the job, the more likely it is that there will be positive outcomes and the less expensive they will be to the workers' compensation system. BWC/IC is attacking return-to-work trends by focusing on triaging of claims, vocational rehabilitation, pharmacy programs, settlements, and the transitional work bonus program.
  - Rooting out, investigating, and prosecuting cases of workers' compensation fraud is another way the BWC/IC works to control costs on behalf of our customers. Efforts in the pursuit to deter, detect, and investigate all types of workers' compensation fraud, including employer and provider fraud, resulted in the identification of more than \$60 million in savings for the State Insurance Fund after closing 2,055 cases during fiscal year 2014. Significant resources have also been deployed to combat prescription fraud. Drug utilization reviews are requested in cases when there is a question of whether BWC paid prescriptions are medically necessary. In fiscal year 2014, these reviews resulted in the termination of drugs in 152 cases, generating \$4.2 million in savings.
  - The Board has approved the active management of all SIF intermediate duration credit fixed income assets. The Investment Policy Statement (IPS) has been revised whereby the 15 percent allocation of SIF invested assets targeted to passive management of intermediate duration credit assets will be eliminated. The active investment strategy approved by the Board is a Core Plus strategy allowing each active manager to manage a bond portfolio of securities that are mostly part of the broad Barclays U.S. Aggregate fixed income benchmark but permitting the investment in securities and sectors (including below investment-grade quality high yield bonds) that are not in the index. Consideration is also being given to increasing the SIF portfolio target asset allocation to real estate assets.

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- Work continues on the Core Project to modernize BWC's technology architecture to better serve Ohio's injured workers and employers. This project will replace outdated claims, policy, and employer billing systems with a commercial product called PowerSuite. PowerSuite was scheduled to go into production in November 2014, but has been delayed because of quality concerns. BWC is in the process of reforming its contract with the vendor and will be laying out a revised approach and corresponding schedule this fall.
- Legislative approval has been obtained that will allow for modernizing how premiums are collected in Ohio by moving to a prospective payment system. This switch will result in rate reductions of 2 percent for private employers and 4 percent for public taxing district employers as premiums will be collected sooner. Management is working on the design and has presented rules to implement the prospective payment system with actual implementation beginning July 1, 2015 for private employers and January 1, 2016 for public employer taxing districts.
- BWC's net asset policy contains the business rationale, methodology, and guiding principles with respect to maintaining a prudent net position to protect SIF against financial and operational risks that may threaten the ability to meet future obligations. The Administrator, with the approval of the Board, established guidelines for a Funding Ratio (funded assets divided by funded liabilities) and a Net Leverage Ratio (premium income plus reserves for compensation and compensation adjustment expenses divided by net position). Over the past two years the net position has increased to the point these ratios are no longer within the guidelines established by the policy. As a strategy to reduce the net position, the Board approved a \$966 million cash rebate in fiscal year 2013 and a \$1.2 billion transition credit in fiscal year 2014. In September 2014, the Board approved an additional cash rebate which is estimated to return \$1.1 billion to private and public taxing district employers in October and November 2014. Since the Board did not commit to this rebate until fiscal year 2015, this rebate was not reflected in the fiscal year 2014 financial statements. While this rebate will not immediately bring the ratios to within the policy guideline ranges, BWC is following this more conservative approach until a more comprehensive study can be completed regarding the risks associated with BWC's estimated reserves for compensation and compensation adjustment expenses and potentially the correlation of this risk with the investment risk.

	2014	2013	2012	2011	Guideline
Funding Ratio	1.57	1.39	1.47	1.33	1.15 to 1.35
Net Leverage Ratio	2.02	2.93	2.47	3.45	3.0 to 7.0

- The cities of Cleveland and Parma filed separate lawsuits on June 28, 2013 and September 18, 2013, respectively, alleging that BWC overcharged public employers that were not group rated. The lawsuit filed by Parma seeks class action status for similarly situated public employers. Similar to the allegations raised in the San Allen case, the cities claim that BWC overcharged non-group rated public employers in order to unlawfully subsidize the discounts for the group rated public employers. A trial date has not been set for either case. Management does not anticipate an adverse conclusion and intends to vigorously defend these cases. Accordingly, no provision for any liability has been reported in the financial statements for these matters.

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 BWC/IC will be successful in its defense.

## INDEPENDENT AUDITORS' REPORT

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

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of the Ohio Bureau of Workers' Compensation and Industrial Commission of Ohio (BWC/IC), a department of the State of Ohio (State), as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the BWC/IC's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining of internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statements misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the entity's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our opinions.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the BWC/IC, as of June 30, 2014 and 2013, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Other Matters***

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require this presentation to include Management's discussion and analysis, supplemental revenue and reserve development information on Pages 1-7 and 39-40, listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any assurance.

### ***Supplementary and Other Information***

As discussed in Note 1, the financial statements of the BWC/IC are intended to present the financial position and changes in financial position and, where applicable, cash flows of the BWC/IC. They do not purport to, and do not, present fairly the financial position of the State as of June 30, 2014, the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted to opine on the BWC/IC's financial statements taken as a whole.

The supplemental schedule of net position and schedule of revenues, expenses and changes in net position are managements' responsibility, and derives from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected the supplemental schedule of net position and schedule of revenues, expenses and changes in net position to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling the supplemental schedule of net position and schedule of revenues, expenses and changes in net position directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves in accordance with auditing standards generally accepted in the United States of America. In our opinion, these supplemental schedules of net position and schedule of revenues, expenses and changes in net position are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2014, on our consideration of the Government'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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Government's internal control over financial reporting and compliance.

*Schneider Downs & Co., Inc.*

Columbus, Ohio  
September 26, 2014

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

**STATEMENTS OF NET POSITION**

June 30, 2014 and 2013

(000's omitted)

	<u>2014</u>	<u>2013</u>		<u>2014</u>	<u>2013</u>
<b>ASSETS</b>			<b>LIABILITIES</b>		
Current assets:			Current liabilities:		
Cash and cash equivalents (Note 2)	\$563,253	\$861,448	Reserve for compensation (Note 4)	\$ 1,826,129	\$ 2,015,531
Collateral on loaned securities (Note 2)	2,747	1,030	Reserve for compensation adjustment expenses (Note 4)	388,893	393,792
Premiums in course of collection	762,678	744,889	Transition credit liability (Note 12)	831,000	-
Assessments in course of collection	172,817	168,887	Legal settlement (Note 11)	420,000	-
Accounts receivable, net of allowance for uncollectibles of \$1,132,826 in 2014; \$1,129,328 in 2013	110,880	134,832	Warrants payable	24,396	284,820
Investment trade receivables	217,563	876,163	Bonds payable (Notes 5 and 6)	-	15,422
Accrued investment income	142,937	141,192	Investment trade payables	337,625	292,822
Other current assets	7,534	7,371	Accounts payable	14,109	9,621
Total current assets	<u>1,980,409</u>	<u>2,935,812</u>	Obligations under securities lending (Note 2)	2,747	1,030
Noncurrent assets:			Premium rebate payable (Note 8)	-	683,504
Fixed maturities, at fair value (Note 2)	15,034,289	13,916,558	Other current liabilities (Note 6)	22,209	17,219
Domestic equity securities, at fair value - common stock (Note 2)	6,060,409	5,090,287	Total current liabilities	<u>3,867,108</u>	<u>3,713,761</u>
Domestic equity securities, at fair value - preferred stock (Note 2)	1,207	1,144	Noncurrent liabilities:		
Non-U.S equity securities, at fair value - common stock (Note 2)	2,620,019	2,153,273	Reserve for compensation (Note 4)	15,042,071	15,288,626
Investments in real estate funds (Note 2)	1,187,975	853,553	Reserve for compensation adjustment expenses (Note 4)	1,464,607	1,492,108
Unbilled premiums receivable	3,079,480	2,891,821	Transition credit liability (Note 12)	398,000	-
Retrospective premiums receivable	251,922	295,555	Contingent liabilities (Note 11)	-	859,440
Capital assets (Notes 3 and 5)	125,998	104,072	Premium payment security deposits (Note 6)	86,481	86,486
Restricted cash (Note 2)	-	14	Other noncurrent liabilities (Note 6)	23,228	22,591
Total noncurrent assets	<u>28,361,299</u>	<u>25,306,277</u>	Total noncurrent liabilities	<u>17,014,387</u>	<u>17,749,251</u>
Total assets	<u>30,341,708</u>	<u>28,242,089</u>	Total liabilities	<u>20,881,495</u>	<u>21,463,012</u>
			<b>NET POSITION</b>		
			Net investment in capital assets	125,998	88,663
			Unrestricted net position	9,334,215	6,690,414
			Total net position (Note 14)	<u>\$ 9,460,213</u>	<u>\$ 6,779,077</u>

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

**OHIO BUREAU OF WORKERS' COMPENSATION  
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**STATEMENTS OF REVENUES, EXPENSES AND  
CHANGES IN NET POSITION**

**For the years ended June 30, 2014 and 2013**

**(000's omitted)**

	<b><u>2014</u></b>	<b><u>2013</u></b>
Operating revenues:		
Premium and assessment income net of ceded premium (Note 7)	\$2,142,549	\$ 1,533,153
Provision for uncollectibles	(56,728)	(40,764)
Other income	8,141	11,723
Total operating revenues	<u>2,093,962</u>	<u>1,504,112</u>
Operating expenses:		
Workers' compensation benefits (Note 4)	1,190,341	1,136,718
Compensation adjustment expenses (Note 4)	328,834	354,797
Personal services	64,157	64,810
Other administrative expenses	53,120	55,931
Total operating expenses	<u>1,636,452</u>	<u>1,612,256</u>
Net operating income (loss) before transition credits, premium rebates and loss contingencies	<u>457,510</u>	<u>(108,144)</u>
Transition credit expense (Note 12)	1,229,000	-
Premium rebate (Note 8)	45	965,636
Legal settlement / loss contingency (Note 11)	(439,440)	859,440
Total transition credits, premium rebates and legal settlement / loss contingency	<u>789,605</u>	<u>1,825,076</u>
Net operating loss	(332,095)	(1,933,220)
Non-operating revenues:		
Net investment income (Note 2)	3,013,608	900,854
Gain on disposal of capital assets	48	69
Total non-operating revenues	<u>3,013,656</u>	<u>900,923</u>
Net transfers out	<u>(425)</u>	<u>(6,365)</u>
Increase (decrease) in net position	2,681,136	(1,038,662)
Net position, beginning of year	<u>6,779,077</u>	<u>7,817,739</u>
Net position, end of year	<u><u>\$ 9,460,213</u></u>	<u><u>\$ 6,779,077</u></u>

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



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**STATEMENTS OF CASH FLOWS**

**For the years ended June 30, 2014 and 2013**

**(000's omitted)**

	<u><b>2014</b></u>	<u><b>2013</b></u>
<b>Cash flows from operating activities:</b>		
Cash receipts from premiums and assessments net of reinsurance	\$ 2,117,977	\$ 2,088,725
Cash receipts - other	37,932	55,028
Cash disbursements for claims	(1,855,158)	(1,958,567)
Cash disbursements to employees for services	(196,793)	(201,268)
Cash disbursements for other operating expenses	(80,793)	(72,811)
Cash disbursements for employer refunds	(1,105,218)	(83,022)
Net cash used for operating activities	<u>(1,082,053)</u>	<u>(171,915)</u>
<b>Cash flows from noncapital financing activities:</b>		
Operating transfers in	-	-
Operating transfers out	(425)	(6,365)
Net cash used by noncapital financing activities	<u>(425)</u>	<u>(6,365)</u>
<b>Cash flows from capital and related financing activities:</b>		
Purchase of capital assets, net of retirements	(30,623)	(25,077)
Principal and interest payments on bonds	(15,941)	(17,459)
Net cash used in capital and related financing activities	<u>(46,564)</u>	<u>(42,536)</u>
<b>Cash flows from investing activities:</b>		
Investments sold	22,497,355	8,274,646
Investments purchased	(22,334,098)	(8,317,413)
Interest and dividends received	696,201	700,117
Investment expenses	(28,625)	(17,343)
Net cash provided by investing activities	<u>830,833</u>	<u>640,007</u>
Net (decrease) increase in cash, cash equivalents and restricted cash	(298,209)	419,191
Cash, cash equivalents and restricted cash, beginning of year	<u>861,462</u>	<u>442,271</u>
Cash, cash equivalents and restricted cash, end of year	<u><u>\$ 563,253</u></u>	<u><u>\$ 861,462</u></u>

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

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**STATEMENTS OF CASH FLOWS, Continued**

**For the years ended June 30, 2014 and 2013**

(000's omitted)

	<u>2014</u>	<u>2013</u>
<b>Reconciliation of net operating loss to net cash used for operating activities:</b>		
Net operating loss	\$ (332,095)	\$ (1,933,220)
Adjustments to reconcile net operating loss to net cash used for operating activities:		
Provision for uncollectible accounts	56,728	40,764
Depreciation	8,745	9,724
Amortization of discount and issuance costs on bonds payable	519	1,248
Transition credit liability	1,229,000	-
Legal settlement / loss contingency	(439,440)	859,440
 (Increases) decreases in assets and increases (decreases) in liabilities:		
Premiums and assessments in course of collection	(21,719)	(29,287)
Unbilled premiums receivable	(187,659)	490,038
Accounts receivable	(32,776)	(45,208)
Retrospective premiums receivable	43,633	4,318
Other assets	(163)	1,913
Reserves for compensation and compensation adjustment expenses	(468,357)	(514,645)
Premium payment security deposits	(5)	201
Warrants payable	(260,424)	260,160
Accounts payable	4,488	(2,146)
Premium rebate payable	(683,504)	683,504
Other liabilities	<u>976</u>	<u>1,281</u>
Net cash used for operating activities	<u>\$ (1,082,053)</u>	<u>\$ (171,915)</u>
 <b>Noncash investing, capital, and financing activities</b>		
Change in fair values of investments	\$ 2,348,938	\$ 230,200

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**NOTES TO THE FINANCIAL STATEMENTS**

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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. House Bill 100 created an 11-member BWC Board of Directors (Board). All members have full voting rights. 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 as applicable to government organizations. Accordingly, these financial statements were prepared using the accrual basis of accounting and the economic resources measurement focus. For internal reporting purposes, BWC/IC maintains separate internal accounts as required by the Code. For external financial reporting purposes, BWC/IC has elected to report as a single column business-type activity, since the individual accounts do not have external financial reporting accountability requirements. All significant interaccount balances and transactions have been eliminated.

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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, premium rebates, and related administrative expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

- GASB No. 68, "Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27"
- GASB No. 69, "Government Combinations and Disposals of Government Operations"
- GASB No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68"

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

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Cash and Cash Equivalents

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

Investments

BWC/IC's investments consist of fixed maturities, domestic equity securities, commingled bond index funds, commingled U.S. equity index funds, commingled non-U.S. equity index funds, U.S. real estate funds, and collateral on securities lending.

Investments are stated at fair value. Fair values of fixed maturities are based on quotations from national security exchanges. Fair values of domestic securities are based on quotations from national exchanges and are valued at the last reported sales price. The fair value of the commingled bond index funds, commingled domestic equity funds, commingled non-U.S. equity funds, and U.S. real estate funds are based on the value of the underlying net position 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 position. The cost of securities sold is determined using the average cost method. Purchases and sales of investments are recorded as of the trade date.

Restricted Cash

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

Premium Income

SIF, CWPF, PWREF, and MIF premium income is recognized over the coverage period and is collected in subsequent periods for all accounts except MIF, which collects premiums in advance of the coverage period. Premiums earned but not yet invoiced are reflected as premiums in course of collection in the statement of net position. 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 based on their own claims experience.

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

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Deductible plans and group experience rating plans are offered to qualified employers. The deductible plan is similar to that of other insurance deductible plans where an employer agrees to pay the portion of a workers' compensation injury claim that falls below their selected deductible level. For taking on this degree of risk, the employer receives a premium discount. The group experience rating plan allows employers who operate similar businesses to group together to potentially achieve lower premium rates than they could individually.

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 14) for self-insured employers. Since BWC/IC has the statutory authority to assess premiums against the State and self-insured employers in future periods, an unbilled premiums receivable equal to their share of the discounted reserve for compensation and compensation adjustment expenses, less BWC/IC's portion of the discounted reserve, is reflected in the statement of net position.

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 position. 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 position (see Note 4).

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.

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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:

<u>Description</u>	<u>Estimated Useful Lives (Years)</u>
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 position. The cost of maintenance and repairs is charged to operations as incurred; significant renewals and betterments are capitalized.

In accordance with GASB Statement No. 51, a capital asset category of "intangible assets – definite useful lives" for internally generated software has been added to capital assets. When expenditures for the design, software configuration, software interfaces, coding, hardware, hardware installation, data conversion (i.e. to the extent that they are necessary for the operation of the new software), testing, and licensure on internally generated software exceed \$1 million, the costs will be capitalized as an intangible asset. Intangible assets will start being depreciated upon implementation of the software. The useful lives of intangible assets will vary and will be determined upon completion of each project.

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

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medical claim reserves. The reserve for compensation adjustment expenses is based on projected claim-related expenses, estimated costs of the managed care Health Partnership Program, and the reserve for compensation. The methods of making such estimates and for establishing the resulting liabilities are reviewed quarterly and updated based on current circumstances. Any adjustments resulting from changes in estimates are recognized in the current period. The reserves for compensation and compensation adjustment expenses are discounted at 4.0% at June 30, 2014 and 2013 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, changing claims frequency and severity conditions.

Reinsurance

BWC/IC purchases workers' compensation excess of loss reinsurance to include coverage for catastrophic events and terrorism. Ceded reinsurance transactions are accounted for based on estimates of their ultimate cost. Reserves for compensation and compensation adjustment expenses are reported gross of reinsured amounts. Reinsurance premiums are reflected as a reduction of premium income (see Note 7).

Income Taxes

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

Use of Estimates

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

Reclassification

Certain 2013 financial statement amounts have been reclassified in order to conform to their 2014 presentation.



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2. Cash and Investments

BWC/IC is authorized by Section 4123.44 of the Code to invest using an investment policy established by the Board, which uses the prudent person standard. The prudent person standard requires investments be made with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims, and by diversifying the investments of the assets so as to minimize the risk of large losses, unless under the circumstances it is clearly prudent not to do so.

Custodial Credit Risk - Deposits

The custodial credit risk for deposits is the risk that in the event of a bank failure, BWC/IC's deposits might not be recovered. Banks must provide security for all public funds on deposit. These institutions may either specifically collateralize individual accounts in addition to amounts insured by the Federal Deposit Insurance Corporation (FDIC), or may pledge a pool of government securities valued at least 105% of the total value of public monies on deposit at the institution. At June 30, 2014 and 2013, the carrying amount of BWC/IC's cash deposits were \$10.5 million and \$8.4 million, respectively, and the bank balances were \$5.8 million and \$3.3 million, respectively. Of the June 30, 2014 and 2013 bank balances, \$250 thousand were insured by the FDIC. The remaining cash balance on deposit with the bank was collateralized by pledges held by the trustee of either a surety bond or securities with a market value of at least 100 percent or 102 percent, respectively, of the total value of the public monies that are on deposit at the financial institution and was not exposed to custodial credit risk. Any pledged securities are held by the Federal Reserve, the Federal Home Loan Bank, or an insured financial institution serving as agent of the Treasurer of the State of Ohio.

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. Remaining BWC/IC's investments are not exposed to custodial credit risk and are held in BWC/IC's name at either JP Morgan, in commingled account types, or are fixed maturity bank loans, which by definition, are not exposed to custodial credit risk.

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The composition of investments held at June 30, 2014 and 2013 is presented below (000's omitted):

	<u>2014</u> <u>Fair Value</u>	<u>2013</u> <u>Fair Value</u>
Fixed maturities		
U.S. corporate bonds	\$ 5,151,891	\$ 4,555,960
U.S. treasury inflation protected securities	2,801,188	2,856,062
U.S. government obligations	2,442,096	2,279,297
Non-U.S. corporate bonds	1,258,157	1,013,696
Commingled U.S. treasury inflation protected securities	666,599	605,317
Commingled U.S. aggregate indexed fixed income	648,679	594,946
U.S. state and local government agencies	641,684	636,472
U.S. government agency mortgages	621,482	611,496
Non-U.S. government and agency bonds	391,473	390,645
U.S. government agency bonds	190,408	211,837
Commercial mortgage backed securities	54,875	46,701
Commingled U.S. intermediate duration fixed income	51,100	48,004
Supranational issues	49,378	48,028
Bank loans	27,498	6,747
Preferred securities	27,085	3,229
Asset backed securities	10,696	8,121
Total fixed maturities	<u>15,034,289</u>	<u>13,916,558</u>
Domestic equity securities - common stocks	6,060,409	5,090,287
Domestic equity securities - preferred stocks	1,207	1,144
Commingled Non-US equity securities - common stocks	2,620,019	2,153,273
Commingled investments in real estate	1,187,975	853,553
Securities lending short-term collateral	2,747	1,030
Cash and cash equivalents		
Cash	10,548	8,404
Repurchase agreements	-	6,400
Short-term money market fund	552,705	846,644
Total cash and cash equivalents	<u>563,253</u>	<u>861,448</u>
	<u>\$ 25,469,899</u>	<u>\$ 22,877,293</u>

Net investment income for the years ended June 30, 2014 and 2013 is summarized as follows (000's omitted):

	<u>2014</u>	<u>2013</u>
Fixed maturities	\$ 547,706	\$ 565,885
Equity securities	103,356	112,247
Real estate	46,827	11,596
Cash equivalents	56	68
	<u>697,945</u>	<u>689,796</u>
Increase in fair value of investments	2,348,938	230,200
Investment expenses	(33,275)	(19,142)
	<u>\$ 3,013,608</u>	<u>\$ 900,854</u>

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Real Estate Investments

In fiscal year 2013, BWC/IC began investing in real estate through limited partnerships, commingled funds, and real estate investment trusts. Core real estate funds owned are open-ended funds that offer each investor the right to redeem all or a portion of their investment ownership interest once every quarter at the stated unit net asset value of the fund. Value-added real estate funds owned are close-ended funds and do not offer such redemption rights and, therefore, can be considered to be illiquid investments. The real estate funds provide BWC/IC with quarterly valuations based on the most recent capital account balances. Individual properties owned by the funds are valued by an outside independent certified real estate appraisal firm at least once a year, and are adjusted as often as every quarter if material market or operational changes have occurred. Each asset is also valued internally on a quarterly basis by each fund. The internal and external valuations of properties owned are subject to oversight and review by an independent valuation advisor firm. Debt obligations of each fund receive market value adjustments by the fund every quarter, generally with the assumption that such positions will be held to maturity. Annual audits of the funds include a review of compliance with the fund's valuation policies. BWC/IC has entered into agreements that commit the SIF funds, upon request, to make additional investment purchases up to a predetermined amount. As of June 30, 2014 and 2013, the real estate funds have unfunded investment commitments of \$276 million and \$395 million, respectively.

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.

Repurchase Agreements

Overnight repurchase agreements are considered cash and cash equivalents. In a repurchase agreement, the lender purchases a high quality, liquid security from another firm with an agreement in place for that firm to repurchase the security back from the lender on a specific date with specified terms. At June 30, 2014 and 2013, the Ohio BWC held zero and \$6.4 million, respectively, in repurchase agreements fully collateralized by U.S. Treasuries held in the custody of JP Morgan.

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

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fixed-income portfolio be invested with duration characteristics that are within a range consistent with Barclays Fixed Income Index ranges.

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, 2014 and 2013, the effective duration of BWC's fixed-income portfolio is as follows (000's omitted):

Investment Type	June 30, 2014		June 30, 2013	
	Fair Value	Effective Duration	Fair Value	Effective Duration
U.S. state and local government agencies	\$ 641,684	13.25	\$ 636,472	12.89
U.S. corporate bonds	5,151,891	12.64	4,555,960	12.14
Non-U.S. corporate bonds	1,258,157	11.85	1,013,696	11.32
Non-U.S. government and agency bonds	391,473	11.51	390,645	10.50
U.S. government obligations	2,442,096	11.06	2,279,297	10.70
U.S. treasury inflationary protected securities	2,801,188	7.71	2,856,062	7.74
Commingled U.S. treasury inflationary protected securities	666,599	7.71	605,317	7.74
U.S. government agency bonds	190,408	7.21	211,837	6.94
Preferred securities	27,085	6.73	3,229	8.62
Commingled U.S. aggregate indexed fixed income	648,679	5.60	594,946	5.48
Supranational issues	49,378	4.07	48,028	5.26
Commingled U.S. intermediate duration fixed income	51,100	3.90	48,004	3.90
U.S. government agency mortgages	621,482	3.82	611,496	3.97
Asset backed securities	10,696	3.70	8,121	4.12
Commercial mortgage backed securities	54,875	3.29	46,701	2.90
Bank loans	27,498	1.17	6,747	0.93
Total fixed maturities	<u>\$ 15,034,289</u>		<u>\$ 13,916,558</u>	

**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. On August 5, 2011, Standard and Poor's downgraded the United States Government's credit rating from AAA to AA+. Standard and Poor's has stated that the downgrade reflects their view that the effectiveness, stability, and predictability of American policymaking and political institutions have weakened at a time of ongoing fiscal and economic challenge. Moody's and Fitch, the other two major credit rating agencies, have not downgraded the credit rating at this time. U.S. government obligations, U.S. government agency mortgages, U.S. treasury inflation protected securities, and Commingled U.S. treasury inflation protected securities are all rated AA+ by Standard and Poor's in fiscal years 2014 and 2013. Obligations of the U.S. government are explicitly guaranteed by the U.S. government.

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BWC/IC's fixed-income securities were rated by Standard and Poor's (S&P) and/or an equivalent national rating organization and the ratings are presented below using the S&P rating scale (000's omitted). At June 30, 2014 and 2013, fixed maturities held in commingled bond funds in the custody of State Street were \$1.4 billion and \$1.2 billion, respectively. In addition, in fiscal years 2014 and 2013 the \$27.5 million and \$6.7 million, respectively, in bank loans were not held by the custodian. The remaining balance presented as of June 30, 2014 was held by the custodian on behalf of BWC/IC.

<u>Quality Rating</u>	<u>2014 Fair Value</u>	<u>2013 Fair Value</u>
Credit risk debt quality		
AAA	\$ 245,046	\$ 237,806
AA	1,710,863	1,517,466
A	2,741,317	2,709,346
BBB	3,432,820	2,730,336
BB	171,209	141,121
B	11,261	16,474
Total credit risk debt securities	<u>8,312,516</u>	<u>7,352,549</u>
U.S. government agency bonds		
AAA	5,492	11,438
AA	184,916	199,559
A	-	840
Total U.S. government agency bonds	<u>190,408</u>	<u>211,837</u>
U.S. government agency mortgages	621,482	611,496
U.S. government obligations	2,442,096	2,279,297
U.S. treasury inflation protected securities	2,801,188	2,856,062
Commingled U.S. treasury inflation protected securities	666,599	605,317
Total fixed maturities	<u>\$ 15,034,289</u>	<u>\$ 13,916,558</u>

Concentration of Credit Risk

Concentration of credit risk is the risk of loss that may be attributed to the magnitude of BWC/IC's investment in a single issuer. In 2014 and 2013, there is no single issuer that comprises 5% or more of the overall portfolio with the exception of BWC/IC's investments in the U.S. government.

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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, 2014 and 2013 is as follows (000's omitted):

<u>Currency</u>	2014 <u>Fair Value</u>	2013 <u>Fair Value</u>
Australian Dollar	\$ 142,792	\$ 121,343
Brazilian Real	60,074	53,064
British Pound	400,594	331,305
Canadian Dollar	196,155	155,543
Chilean Peso	8,384	9,029
Chinese Renminbi	424	765
Colombian Peso	5,725	5,488
Czech Koruna	1,330	1,101
Danish Krone	27,583	16,847
Egyptian Pound	1,086	1,131
Euro	580,280	426,361
Hong Kong Dollar	153,243	130,521
Hungarian Forint	1,236	1,097
Indian Rupee	37,773	31,830
Indonesian Rupiah	13,600	14,940
Israeli Shekel	9,665	7,682
Japanese Yen	373,451	341,669
Malaysian Ringgit	21,442	18,897
Mexican Peso	28,284	25,406
Moroccan Dirham	-	393
New Zealand Dollar	2,540	1,861
Norwegian Krone	16,180	12,418
Philippines Peso	5,435	4,913
Polish Zloty	9,167	7,307
Qatari Rial	2,209	-
Russian Ruble	23,765	21,447
Singapore Dollar	26,247	25,024
South African Rand	41,413	33,644
South Korean Won	85,877	68,064
Swedish Krona	56,124	47,104
Swiss Franc	167,054	138,821
Taiwan Dollar	67,083	55,696
Thailand Baht	12,128	13,174
Turkish Lira	9,358	9,122
United Arab Emirates Dirham	2,623	-
Exposure to foreign currency risk	2,590,324	2,133,007
United States Dollar	29,695	20,266
Total international securities	<u>\$ 2,620,019</u>	<u>\$ 2,153,273</u>

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Securities Lending

At June 30, 2014 and 2013, BWC/IC had no securities out on loan. BWC/IC has been allocated with cash collateral of \$2.7 million in 2014 and \$1 million in 2013 from the securities lending program administered through the Treasurer of State's Office based on the amount of cash equity in the State's common cash and investment account.

3. Capital Assets

Capital asset activity and balances as of and for the years ended June 30, 2014 and 2013 are summarized as follows (000's omitted):

	Balance at 6/30/2012	Increases	Decreases	Balance at 6/30/2013	Increases	Decreases	Balance at 6/30/2014
Capital assets not being depreciated							
Land	\$ 11,994	\$ -	\$ -	\$ 11,994	\$ -	\$ -	\$ 11,994
Subtotal	11,994	-	-	11,994	-	-	11,994
Capital assets being depreciated							
Buildings	205,771	-	-	205,771	-	-	205,771
Building improvements	3,542	-	-	3,542	-	-	3,542
Furniture and equipment	29,418	1,765	(1,141)	30,042	284	(404)	29,922
Land improvements	66	-	-	66	-	-	66
Subtotal	238,797	1,765	(1,141)	239,421	284	(404)	239,301
Accumulated depreciation							
Buildings	(145,386)	(6,787)	-	(152,173)	(6,787)	-	(158,960)
Building improvements	(221)	(177)	-	(398)	(177)	-	(575)
Furniture and equipment	(23,801)	(2,759)	1,133	(25,427)	(1,780)	390	(26,817)
Land improvements	(57)	(1)	-	(58)	(1)	-	(59)
Subtotal	(169,465)	(9,724)	1,133	(178,056)	(8,745)	390	(186,411)
Capital assets being amortized							
Intangible assets - definite useful lives	7,324	23,389	-	30,713	30,401	-	61,114
Subtotal	7,324	23,389	-	30,713	30,401	-	61,114
Net capital assets	\$ 88,650	\$ 15,430	\$ (8)	\$ 104,072	\$ 21,940	\$ (14)	\$ 125,998

BWC has not started amortizing the intangible assets yet because the internally generated software project has not been placed in to service as of June 30, 2014.

4. Reserves for Compensation and Compensation Adjustment Expenses

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

All reserves have been discounted at 4.0% at June 30, 2014 and 2013. A decrease in the discount rate to 3.0% would result in the reserves for compensation and compensation adjustment expenses increasing to \$20.9 billion at June 30, 2014, while an increase in the rate to 5.0% would result in the reserves for compensation and compensation adjustment expenses decreasing to \$17 billion. The undiscounted reserves for compensation and compensation adjustment expenses were \$31.7 billion at June 30, 2014 and \$30.7 billion at June 30, 2013.

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The changes in the reserves for compensation and compensation adjustment expenses for the years ended June 30, 2014 and 2013 are summarized as follows (in millions):

	2014	2013
Reserves for compensation and compensation adjustment expenses, beginning of period	\$ 19,190	\$ 19,705
Incurred:		
Provision for insured events of current period	1,854	1,720
Net (decrease) increase in provision for insured events of prior periods net of discount accretion of \$768 in 2014 and \$788 in 2013.	(338)	(229)
Total incurred	1,516	1,491
Payments:		
Compensation and compensation adjustment expenses attributable to insured events of current period	337	380
Compensation and compensation adjustment expenses attributable to insured events of prior period	1,647	1,626
Total payments	1,984	2,006
Reserves for compensation and compensation adjustment expenses, end of period	\$ 18,722	\$ 19,190

5. Bonds Payable

On April 22, 2003, BWC/IC issued special obligation bonds through the Ohio Building Authority (OBA) to refund the 1993 William Green Building Series A bonds. Amended Substitute House Bill 153 transferred all matters related to the issuance of obligations for the financing of capital facilities to the Treasurer of State, effective January 1, 2012. At that time OBA ceased operations and the Treasurer of State's office has assumed responsibility for the administration of the 2003 agreement. 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 was 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 were collateralized by lease rental payments pledged by BWC/IC to the Ohio Treasurer of State's office. 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.



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The final bond payment was made in fiscal year 2014. Bond payments totaled \$16 million and \$17.5 million for the years ended June 30, 2014 and 2013, respectively. These payments included interest of \$751 thousand and \$1.5 million for the years ended June 30, 2014 and 2013, respectively.

**6. Long-Term Obligations**

Activity for long-term obligations (excluding the reserves for compensation and compensation adjustment expenses - see Note 4) for the years ended June 30, 2014 and 2013 is summarized as follows (000's omitted):

	Balance at 6/30/2012	Increases	Decreases	Balance at 6/30/2013	Due Within One Year
Contingent liabilities	\$ -	\$ 859,440	\$ -	\$ 859,440	\$ -
Premium payment security deposits	86,285	1,793	(1,592)	86,486	-
Bonds payable	31,633	2,237	(18,448)	15,422	15,422
Other liabilities	36,729	54,452	(51,371)	39,810	17,219
	<u>\$ 154,647</u>	<u>\$ 917,922</u>	<u>\$ (71,411)</u>	<u>\$ 1,001,158</u>	<u>\$ 32,641</u>
	Balance at 6/30/2013	Increases	Decreases	Balance at 6/30/2014	Due Within One Year
Transition credit payable	\$ -	\$ 1,229,000	\$ -	\$ 1,229,000	\$ 831,000
Contingent liabilities/legal settlement	859,440	-	(439,440)	420,000	420,000
Premium payment security deposits	86,486	1,350	(1,355)	86,481	-
Bonds payable	15,422	1,238	(16,660)	-	-
Other liabilities	39,810	82,401	(76,774)	45,437	22,209
	<u>\$ 1,001,158</u>	<u>\$ 1,313,989</u>	<u>\$ (534,229)</u>	<u>\$ 1,780,918</u>	<u>\$ 1,273,209</u>

**7. Reinsurance**

BWC/IC purchases catastrophic reinsurance for risks in excess of its retention limits on workers' compensation insurance policies written. Management is not aware of any catastrophes during the coverage periods listed below, and BWC/IC has not recorded any reinsurance recoveries.

In every policy period reported below, Section Two covers BWC's remaining liability under the Terrorism Risk Insurance Program Reauthorization Act of 2007 (TRIPRA). TRIPRA is the successor legislation to the Terrorism Risk Insurance Act (TRIA) of 2002. TRIPRA is in effect for losses up to \$1 billion. Certain provisions frame the coverage under TRIPRA and they are the following:

- The aggregate losses from an occurrence must exceed \$100 million
- Each insurer will have an annual aggregate retention equal to 20% of its prior year's direct earned premiums

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- Each insurer will be responsible for 15% of losses otherwise recoverable that exceed its TRIPRA retention

Coverage for policies is provided under the following terms:

Policy Period: April 1, 2014 to March 31, 2016

Reinsurance Coverage:

- Section One - Other than Acts of Nuclear, Biological, Chemical, or Radiological (NBCR) Terrorism - 50% of \$250 million in excess of \$100 million per Loss Occurrence - Maximum loss of \$5 million of any one person
- Section Two - Only for Acts of Terrorism including NBCR Terrorism - 15% of \$650 million (or \$97,500,000) in excess of \$350 million per Loss Occurrence - Maximum loss of \$5 million of any one person

Policy Period: April 1, 2013 to March 31, 2014

Reinsurance Coverage:

- Section One - Other than Acts of Nuclear, Biological, Chemical, or Radiological (NBCR) Terrorism - 50% of \$275 million in excess of \$125 million per Loss Occurrence - Maximum loss of \$5 million of any one person
- Section Two - Only for Acts of Terrorism including NBCR Terrorism - 15% of \$600 million (or \$90 million) in excess of \$400 million per Loss Occurrence - Maximum loss of \$5million of any one person

Policy Period: April 1, 2012 to March 31, 2013

Reinsurance Coverage:

- Section One - Other than Acts of NBCR Terrorism - 100% of \$250 million in excess of \$250 million per Loss Occurrence - Maximum loss of \$5 million of any one person
- Section Two - Only for Acts of Terrorism including NBCR Terrorism - 15% of \$615 million (or \$92,250,000) in excess of \$385 million per Loss Occurrence - Maximum loss of \$5 million of any one person

The following premiums ceded for reinsurance coverage have been recorded in the accompanying basic financial statements for the years ended June 30, 2014 and 2013 (000's omitted):

Premium and assessment income	\$ 2,146,499	\$ 1,539,301
Ceded premiums	(3,950)	(6,148)
Total premium and assessment income net of ceded premiums	\$ 2,142,549	\$ 1,533,153

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

BWC/IC's reinsurers had the following AM Best ratings at June 30, 2014 and 2013:

<u>Reinsurer</u>	<u>2014</u>	<u>2013</u>
Allied World Assurance Company	A	A
Aspen Insurance UK LTD	-	A
Axis Specialty LTD	A+	A
Hannover Re (Bermuda) LTD	A+g	A+
Odyssey America Reinsurance Corporation	-	A
Tokio Millennium Re Limited	A++	A++
Underwriters at Lloyd's	A	A
Alterra Zurich Branch of Alterra UK Underwriting Services Limited	Ag	A

8. Premium Rebate

BWC's net asset policy contains the business rationale, methodology, and guiding principles with respect to maintaining a prudent net position to protect SIF against financial and operational risks that may threaten the ability to meet future obligations. Over the past two years, the net position has increased to the point that the SIF Funding Ratio and Net Leverage Ratio were no longer within the guidelines established by the policy. In fiscal year 2013, a rebate to reduce the net position in SIF was approved by the Board on May 30, 2013. Private employers were granted a rebate equivalent to 56 percent of premiums for the July 1, 2011 through June 30, 2012 policy period, while public taxing district employers were granted a rebate equivalent to 56 percent of premiums for the January 1, 2011 through December 31, 2011 policy period. This action resulted in premium rebate expense of \$966 million in fiscal year 2013 and \$45 thousand in fiscal year 2014.

9. 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.

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- 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, but less than, the Traditional Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.

OPERS provides retirement, disability, survivor and death benefits, and annual cost-of-living adjustments to members of the Traditional Plan and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Benefits are established and may be amended by State statute. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code. OPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by visiting <https://www.opers.org/investments/cafr.shtml>, by writing to Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 614-222-5601 or 1-800-222-7377. As of June 30, 2014, the most recent report issued by OPERS is as of December 31, 2013.

Chapter 145 of the Ohio Revised Code provides OPERS statutory authority for employee and employer contributions. For 2013, member and employer contribution rates were consistent across all three plans. For the years ended December 31, 2013 and 2012, the employee contribution rate was 10% and the employer contribution rate was 14% of covered payroll. BWC/IC's contributions, representing 100% of the dollar amount billed, are as follows (000's omitted):

Twelve months ended June 30, 2014	\$19,919
Twelve months ended June 30, 2013	\$20,012
Twelve months ended June 30, 2012	\$20,617

Post-Retirement Health Care

OPERS maintains a cost-sharing multiple employer defined benefit post-employment healthcare plan, 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.

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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 Ohio Revised Code permits, but does not mandate, OPERS to provide the OPEB Plan to its eligible members and beneficiaries. The Ohio Revised Code provides statutory authority for employer contributions and requires public employers to fund post-retirement health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post retirement health care coverage.

OPERS' Post Employment Health Care plan was established under, and is administered in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Board of Trustees 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 for members in the Traditional Plan was 1% during calendar year 2013. The portion of employer contributions allocated to health care for members in the Combined Plan was 1% during calendar year 2013. Effective January 1, 2014, the portion of employer contributions allocated to healthcare was raised to 2 percent for both plans, as recommended by the OPERS actuary. The OPERS Board of Trustees is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care benefits provided. Payment amounts vary depending on the number of covered dependents and the coverage selected.

Based upon the portion of each employer's contribution to OPERS set aside for funding OPEB as described above, BWC/IC's contribution for the 12 months ended June 30, 2014 allocated to OPEB was approximately \$1.4 million and \$5.7 million for the 12 months ended June 30, 2013.

Changes to the health care plan were adopted by the OPERS Board of Trustees on September 19, 2012, with a transition plan commencing January 1, 2014. With the recent passage of pension legislation under SB 343 and the approved health care changes, OPERS expects to be able to consistently allocate 4 percent of the employer contributions toward the health care fund after the end of the transition period.

10. 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 years 2014 or 2013. 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.

11. Contingent Liabilities

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

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A class action case was filed against BWC/IC alleging that non-group-rated employers subsidize group-rated employers, and that this bias in premiums violates various provisions of the Ohio Constitution. Plaintiffs have asked the court to declare the group rating plan unconstitutional and require BWC/IC to repay to the class members all excessive premiums collected by BWC/IC, with interest and attorney fees. In April 2008, plaintiffs filed a motion for a preliminary injunction enjoining BWC/IC from enforcing the group rating statutes during pendency of the action (beginning July 1, 2008). A hearing was held on the injunction request in August 2008. In November 2008 the Cuyahoga County Common Pleas Court issued the requested preliminary injunction restraining BWC from continuing its current group rating plan for the policy year beginning July 1, 2009. At the same time, the common pleas court ordered that BWC enact a group retrospective rating plan for the policy year beginning July 1, 2009. BWC filed an appeal and a motion for stay with the common pleas court. On December 17, 2008, the General Assembly passed House Bill 79 clarifying that Ohio's group rating program was not intended to be retrospective only. On January 6, 2009 the Governor signed the bill making it effective immediately. On January 7, 2009 BWC filed a motion to dissolve the preliminary injunction and in March 2009, the common pleas court issued an order vacating the preliminary injunction. Plaintiff filed a motion for class certification and BWC filed a response in opposition. In January 2010, the common pleas court granted class certification and BWC had appealed. On April 7, 2011 the court issued its written decision affirming the trial court's decision to grant class certification, and remanding the case to the trial court. On December 28, 2012, the court issued an opinion which found that BWC unlawfully charged the class excessive premiums in violation of ORC 4123.29 and 4123.34, and that plaintiffs were entitled to restitution. On March 20, 2013, the court determined the damages and ordered that the class was entitled to restitution in the amount of \$859 million. Accordingly, a provision for this liability was reported in the 2013 financial statements for this matter. On April 15, 2013, BWC filed a notice of appeal of the judgment. On July 19, 2013, BWC filed its appeal brief. The decision from the 8<sup>th</sup> District Court of Appeals in May 2014 did remand part of the case to the trial court for potential offset of damages, which did reduce the amount of judgment against BWC. On July 23, 2014 all parties agreed to a settlement of \$420 million and the class action settlement will be paid in fiscal year 2015. The total impact to the financial statements is a decrease of \$439 million in related operating expense and corresponding liability.

The cities of Cleveland and Parma have filed separate lawsuits on June 28, 2013 and September 18, 2013, respectively, alleging that BWC overcharged public employers that were not group rated. The lawsuit filed by Parma seeks class action status for similarly situated public employers. The cities claim that BWC overcharged non-group rated public employers in order to unlawfully subsidize the discounts for the group rated public employers. A trial date has been set for February 2015, but BWC does not believe that the trial will go forward because of the complex discovery that must be completed before trial. Management does not anticipate an adverse conclusion and intends to vigorously defend these cases. Accordingly, no provision for any liability has been reported in the financial statements for these matters.

A class action case was filed alleging that BWC/IC identifies permanent total disability (PTD) recipients not represented by counsel and encourages them to settle their PTD claims for substantially less than their actuarial present value. The plaintiffs contend that BWC/IC

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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 8<sup>th</sup> 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. Plaintiffs filed action in the Court of Claims in November 2008. On July 7, 2009, the court granted a partial dismissal of this case. The court dismissed the claims of breach of duty, fraud, unjust enrichment, and violation of constitutional and statutory rights. The remaining claim is for breach of contract and associated declaratory relief. On October 22, 2011, the court issued a partial grant of BWC's motion for summary judgment, by dismissing plaintiff's breach of contract claim. On November 1, 2011, BWC filed a motion for judgment on the pleadings to dispose of the plaintiff's last remaining claim, a claim for declaratory relief, on the basis that the two year statute of limitations applies to all claims. On January 9, 2012, the court granted the motion, and entered judgment in favor of BWC. Plaintiff filed notice of appeal to the 10<sup>th</sup> District Court of Appeals on January 19, 2012. On September 27, 2012, the 10<sup>th</sup> District reversed the dismissal of the claims for fraud, unjust enrichment, and declaratory relief. However, the court affirmed the dismissal of the claims for breach of contract and breach of fiduciary duty, and the court upheld BWC's statute of limitations defense. On February 13, 2013, BWC filed another motion for summary judgment on the basis that plaintiff's claims were barred by the statute of limitations. On August 5, 2013, the court granted the motion, and rendered judgment in favor of BWC, however the plaintiff filed yet another appeal. The briefing on this appeal has not yet begun. In fiscal year 2014, BWC won at the trial court and 10<sup>th</sup> District Court of Appeals. The plaintiff filed a memorandum asking the Ohio Supreme Court to accept jurisdiction, but in September 2014 the Supreme Court denied plaintiff's request. With this denial, this case should be over. Accordingly, no provision for any liability has been reported in the financial statements for this matter.

A class action case was filed against BWC alleging violations of the Ohio Revised Code and unjust enrichment. The plaintiff asserts that BWC stopped issuing the plaintiff's temporary disability payments in the form of paper checks and instead began electronically transferring his benefits into an electronic benefits transfer debit card account. The bank charges a transaction fee if he visits a bank teller to withdraw money from the account more than once per month, regardless of the fact that his benefits are credited to the account every 14 days. Plaintiff asserts that this practice of charging transaction fees for withdrawals deprives the plaintiff and other workers' compensation claimants of 100 percent of their awarded benefits. On December 23, 2010, BWC filed a motion to dismiss for lack of subject matter jurisdiction, on the basis that plaintiff's complaint is an action in law (not an action in equity), which should be brought in the Ohio Court of Claims. This motion was denied. On August 15, 2012, BWC filed a motion for summary judgment. The plaintiff filed a motion for class certification, which BWC opposed on August 15, 2012. Effective September 2012, BWC negotiated a new fee schedule with JP Morgan Chase Bank pursuant to which the debit card now offers one free teller visit per deposit. BWC's motion for summary judgment and plaintiff's motion for class certification are still pending. Management does not anticipate an adverse conclusion and intends to vigorously defend this case. Accordingly, no provision for any liability has been reported in the financial statements for this matter.

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A class-action case was filed challenging the constitutionality of BWC's practice of reimbursing injured workers for prescriptions paid prior to the allowance of a claim or additional condition. Plaintiffs allege that BWC should repay the full cash price of prescriptions, even if such amount is in excess of the amount permissible under BWC's provider fee schedule. On February 3, 2012, BWC filed a motion to dismiss plaintiff's complaint. On August 7, 2013, the court denied the motion. Management expects this case to settle for an amount that is not material to the financial statements.

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

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

12. Transition Credit Liability

In April 2014, the Board approved a transition credit estimated to be \$1.2 billion for private and public employer taxing district policyholders to minimize the cash flow impacts of transitioning from collecting premiums in arrears (or after the coverage period) to prospective billing where premiums are collected in advance of the coverage period. The switch to prospective billing will occur for the policy period beginning July 1, 2015 for private employers and the policy period beginning January 1, 2016 for public employer taxing districts.

Private employers will receive a one hundred percent transition credit equal to \$785 million in estimated premiums for the policy period January 1 through June 30, 2015. This transition credit is reflected as a current liability in the Statement of Net Position for the year ended June 30, 2014. For the policy period beginning July 1, 2015, a transition credit equal to one sixth of the estimated annual premiums will also be granted to private employers. This credit is estimated to be \$262 million and is reflected as a noncurrent liability in the Statement of Net Position for the year ended June 30, 2014.

Public taxing district employers will receive transition credits equal to fifty percent of the billed premium for the January 1 through December 31, 2015 policy period and fifty percent of the estimated annual premium for the January 1 through December 31, 2016 policy period. The portion of the transition credit applicable to the January 1 through June 30, 2015 is estimated to \$46 million and is reflected as a current liability in the Statement of Net Position for the year ended June 30, 2014. The estimated transition credit related to the July 1, 2015 through December 31, 2016 period is \$136 million and is reflected as a noncurrent liability in the Statement of Net Position for the year ended June 30, 2014.

13. Subsequent Event

BWC's net asset policy contains the business rationale, methodology, and guiding principles with respect to maintaining a prudent net position to protect SIF against financial and operational risks that may threaten the ability to meet future obligations. Over the past two years the net position has increased to the point that the SIF Funding Ratio and Net Leverage Ratio are no longer within the guidelines established by the policy. In response, a

Continued



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rebate to reduce the net position in SIF was approved by the Board at the September 2014 board meeting. As a result, the private employers will be granted a rebate equivalent to 60 percent of billed premiums for the July 1, 2012 through June 30, 2013 policy period, while public taxing district employers will be granted a rebate equivalent to 60 percent of premiums for the January 1, 2012 through December 31, 2012 policy period. The total estimated payments will be approximately \$1.1 billion in fiscal year 2015. Ohio Revised Code 4123.32.1 and Ohio Administrative Code 4123-17-10 provide authority for the Board to return excess surplus to employers in either the form of a cash refund or reduction of premiums. The Board has discretionary authority to determine whether there is an excess surplus of premium and the rules surrounding the return of any surplus to employers. Thus the liability for any rebate is not established until approved by the Board. BWC will recognize this expense in 2015 when the Board officially approves the rebate.

14. Net Position

Individual fund net position (deficit) balances at June 30, 2014 and 2013 were as follows (000's omitted):

	<u>2014</u>	<u>2013</u>
SIF	\$ 8,044,783	\$ 5,675,398
SIF Surplus Fund Account	19,345	24,116
SIF Premium Payment Security Fund	147,245	140,693
Total SIF Net Position	8,211,373	5,840,207
DWRF	1,535,732	1,365,435
CWPF	270,446	179,139
PWREF	25,599	26,581
MIF	19,608	19,198
SIEGF	25,063	25,076
ACF	(627,608)	(676,559)
Total Net Position	9,460,213	6,779,077

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

The SIF Surplus Fund is established by the Code and is financed by a portion of all SIF premiums paid by private, self-insured, and public employers (excluding State employers). The Surplus Fund has been appropriated for specific charges, including compensation related to claims of handicapped persons or employees of noncomplying employers, and the expense of providing rehabilitation services, counseling, training, living maintenance payments, and other related charges to injured workers. The Surplus Fund may also be charged on a discretionary basis as ordered by BWC/IC, as permitted by the Code. Prior to the passage of House Bill 15 in 2009, contributions to the Surplus Fund were limited to 5% of premiums. The BWC administrator now has the authority to transfer money from SIF necessary to meet the needs of the Surplus Fund.

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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.

**SUPPLEMENTARY SCHEDULES**



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**REQUIRED SUPPLEMENTAL REVENUE AND RESERVE  
DEVELOPMENT INFORMATION, UNAUDITED**

(See Accompanying Independent Auditor's Report)

**June 30, 2014 and 2013**

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, 2004 through 2014.

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

	<b>Fiscal Years Ended June 30</b>										
	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
1. Gross premiums, assessments, and investment income	\$ 5,194	\$ 2,453	\$ 4,044	\$ 4,356	\$ 4,206	\$ 2,296	\$ 2,968	\$ 5,251	\$ 3,015	\$ 3,272	\$ 3,558
2. Unallocated expenses	150	140	129	131	139	97	108	109	170	179	188
3. Estimated incurred compensation and compensation adjustment expense, end of period	1,854	1,720	1,800	1,863	1,870	2,139	2,219	2,327	2,270	2,392	2,335
Discount	872	830	968	974	985	1,472	1,892	2,099	2,147	2,227	2,447
Gross liability as originally estimated	2,726	2,549	2,767	2,837	2,854	3,611	4,111	4,426	4,417	4,619	4,782
4. Paid (cumulative) as of :											
End of period	337	380	386	400	384	458	415	423	417	449	449
One year later		600	620	641	639	711	755	747	743	795	843
Two years later			756	773	775	868	920	926	927	979	1,037
Three years later				879	883	979	1,056	1,048	1,066	1,121	1,181
Four years later					973	1,083	1,163	1,155	1,172	1,238	1,302
Five years later						1,179	1,256	1,251	1,268	1,336	1,408
Six years later							1,350	1,336	1,355	1,425	1,498
Seven years later								1,411	1,428	1,500	1,576
Eight years later									1,496	1,565	1,643
Nine years later										1,634	1,709
Ten years later											1,775
5. Re-estimated incurred compensation and compensation adjustment expenses (gross):											
One year later		2,494	2,501	2,680	2,701	2,865	3,607	3,946	4,087	4,456	4,604
Two years later			2,450	2,471	2,596	2,794	2,948	3,460	3,879	4,085	4,369
Three years later				2,438	2,425	2,730	2,909	2,909	3,410	3,929	4,138
Four years later					2,426	2,585	2,862	2,877	2,899	3,502	3,842
Five years later						2,668	2,748	2,812	2,877	2,977	3,489
Six years later							2,846	2,738	2,839	2,984	3,042
Seven years later								2,784	2,776	2,960	3,054
Eight years later									2,813	2,908	3,032
Nine years later										2,966	2,984
Ten years later											3,048
6. Decrease in gross estimated incurred compensation and compensation adjustment expenses from end of period		(55)	(317)	(399)	(428)	(943)	(1,265)	(1,642)	(1,604)	(1,653)	(1,734)

Ultimate incurred loss and LAE excludes liability associated with active working miners within the CWPFF since they are not yet assignable to fiscal accident year. The June 30, 2014 active miners nominal and discounted liability is approximately \$55.1 million and \$12.7 million, respectively.

OHIO BUREAU OF WORKERS' COMPENSATION  
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SUPPLEMENTAL SCHEDULE OF NET POSITION  
(See Accompanying Independent Auditors' Report)  
June 30, 2014  
(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
<b>ASSETS</b>									
Current assets:									
Cash and cash equivalents	\$ 487,952	\$ 1,821	\$ 130	\$ 32	\$ 1,016	\$ 67,888	\$ 4,414	\$ -	\$ 563,253
Collateral on loaned securities	-	-	-	-	-	-	2,747	-	2,747
Premiums in course of collection	762,431	-	-	247	-	-	-	-	762,678
Assessments in course of collection	-	41,663	-	-	-	-	131,154	-	172,817
Accounts receivable, net of allowance for uncollectibles	89,835	15,850	19	1	1	201	4,973	-	110,880
Interfund receivables	10,500	88,847	(13)	448	1	107	122,353	(222,243)	-
Investment trade receivables	217,563	-	-	-	-	-	-	-	217,563
Accrued investment income	142,936	-	-	-	-	1	-	-	142,937
Other current assets	2,116	-	-	-	-	-	5,418	-	7,534
Total current assets	<u>1,713,333</u>	<u>148,181</u>	<u>136</u>	<u>728</u>	<u>1,018</u>	<u>68,197</u>	<u>271,059</u>	<u>(222,243)</u>	<u>1,980,409</u>
Non-current assets:									
Fixed maturities	13,667,911	1,061,909	253,369	29,887	21,213	-	-	-	15,034,289
Domestic equity securities:									
Common stock	5,656,260	355,562	48,587	-	-	-	-	-	6,060,409
Preferred stocks	1,207	-	-	-	-	-	-	-	1,207
Non-U.S equity securities - common stock	2,416,433	176,820	26,766	-	-	-	-	-	2,620,019
Investments in real estate funds	1,187,975	-	-	-	-	-	-	-	1,187,975
Unbilled premiums receivable	653,210	1,932,865	-	-	-	424,497	68,908	-	3,079,480
Retrospective premiums receivable	251,922	-	-	-	-	-	-	-	251,922
Capital assets	20,157	22	-	-	-	-	105,819	-	125,998
Total noncurrent assets	<u>23,855,075</u>	<u>3,527,178</u>	<u>328,722</u>	<u>29,887</u>	<u>21,213</u>	<u>424,497</u>	<u>174,727</u>	<u>-</u>	<u>28,361,299</u>
Total assets	<u>\$ 25,568,408</u>	<u>\$ 3,675,359</u>	<u>\$ 328,858</u>	<u>\$ 30,615</u>	<u>\$ 22,231</u>	<u>\$ 492,694</u>	<u>\$ 445,786</u>	<u>\$ (222,243)</u>	<u>\$ 30,341,708</u>

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SUPPLEMENTAL SCHEDULE OF NET POSITION, Continued  
(See Accompanying Independent Auditors' Report)  
June 30, 2014  
(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
<b>LIABILITIES</b>									
Current liabilities:									
Reserve for compensation	\$ 1,679,247	\$123,882	\$ 1,264	\$ 180	\$ 184	\$21,372	\$ -	\$ -	\$ 1,826,129
Reserve for compensation adjustment expenses	168,220	92	95	-	30	1,047	219,409	-	388,893
Transition credit liability	831,000	-	-	-	-	-	-	-	831,000
Legal settlement	420,000	-	-	-	-	-	-	-	420,000
Warrants payable	24,396	-	-	-	-	-	-	-	24,396
Investment trade payables	337,625	-	-	-	-	-	-	-	337,625
Accounts payable	4,857	-	-	-	-	-	9,252	-	14,109
Interfund payables	209,752	8,534	103	12	12	3,830	-	(222,243)	-
Obligations under securities lending	-	-	-	-	-	-	2,747	-	2,747
Other current liabilities	8,912	93	23	3	110	-	13,068	-	22,209
Total current liabilities	<u>3,684,009</u>	<u>132,601</u>	<u>1,485</u>	<u>195</u>	<u>336</u>	<u>26,249</u>	<u>244,476</u>	<u>(222,243)</u>	<u>3,867,108</u>
Noncurrent liabilities:									
Reserve for compensation	12,541,853	2,005,118	52,536	4,820	2,116	435,628	-	-	15,042,071
Reserve for compensation adjustment expenses	647,380	1,908	3,705	-	170	5,753	805,691	-	1,464,607
Transition credit liability	398,000	-	-	-	-	-	-	-	398,000
Premium payment security deposits	85,795	-	686	-	-	-	-	-	86,481
Other noncurrent liabilities	-	-	-	-	-	-	23,228	-	23,228
Total noncurrent liabilities	<u>13,673,028</u>	<u>2,007,026</u>	<u>56,927</u>	<u>4,820</u>	<u>2,286</u>	<u>441,381</u>	<u>828,919</u>	<u>-</u>	<u>17,014,387</u>
Total liabilities	<u>17,357,037</u>	<u>2,139,627</u>	<u>58,412</u>	<u>5,015</u>	<u>2,622</u>	<u>467,630</u>	<u>1,073,395</u>	<u>(222,243)</u>	<u>20,881,495</u>
<b>NET POSITION (DEFICIT)</b>									
Net investment in capital assets	20,157	22	-	-	-	-	105,819	-	125,998
Surplus fund	19,345	-	-	-	-	-	-	-	19,345
Premium payment security fund	147,245	-	-	-	-	-	-	-	147,245
Unrestricted net position (deficit)	8,024,626	1,535,710	270,446	25,599	19,608	25,063	(733,427)	-	9,167,625
Total net position (deficit)	<u>\$ 8,211,373</u>	<u>\$ 1,535,732</u>	<u>\$ 270,446</u>	<u>\$ 25,599</u>	<u>\$ 19,608</u>	<u>\$ 25,063</u>	<u>\$ (627,608)</u>	<u>\$ -</u>	<u>\$ 9,460,213</u>



OHIO BUREAU OF WORKERS' COMPENSATION  
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SUPPLEMENTAL SCHEDULE OF REVENUES, EXPENSES AND  
CHANGES IN NET POSITION  
(See Accompanying Independent Auditors' Report)  
For the year ended June 30, 2014  
(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 and assessment income net of ceded premium	\$1,537,849	\$298,546	\$(19)	\$437	\$644	\$(1,839)	\$306,931	\$ -	\$2,142,549
Provision for uncollectibles	(54,274)	163	(17)	-	-	(19)	(2,581)	-	(56,728)
Other income	3,331	-	-	-	-	-	4,810	-	8,141
Total operating revenues	<u>1,486,906</u>	<u>298,709</u>	<u>(36)</u>	<u>437</u>	<u>644</u>	<u>(1,858)</u>	<u>309,160</u>	<u>-</u>	<u>2,093,962</u>
Operating expenses:									
Workers' compensation benefits	968,285	283,263	(61,626)	2,235	638	(2,454)	-	-	1,190,341
Compensation adjustment expenses	162,966	(1,788)	(3,507)	-	151	615	170,397	-	328,834
Personal services	-	43	42	-	13	-	64,059	-	64,157
Other administrative expenses	22,059	9	1	1	10	1	31,039	-	53,120
Total operating expenses	<u>1,153,310</u>	<u>281,527</u>	<u>(65,090)</u>	<u>2,236</u>	<u>812</u>	<u>(1,838)</u>	<u>265,495</u>	<u>-</u>	<u>1,636,452</u>
Net operating income (loss) before transition credits, premium rebates and loss contingencies	<u>333,596</u>	<u>17,182</u>	<u>65,054</u>	<u>(1,799)</u>	<u>(168)</u>	<u>(20)</u>	<u>43,665</u>	<u>-</u>	<u>457,510</u>
Transition credit expense	1,229,000	-	-	-	-	-	-	-	1,229,000
Premium rebate	45	-	-	-	-	-	-	-	45
Legal settlement / loss contingency	(439,440)	-	-	-	-	-	-	-	(439,440)
Total transition credits, premium rebates and legal settlement/loss contingency	<u>789,605</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>789,605</u>
Net operating (loss) income	<u>(456,009)</u>	<u>17,182</u>	<u>65,054</u>	<u>(1,799)</u>	<u>(168)</u>	<u>(20)</u>	<u>43,665</u>	<u>-</u>	<u>(332,095)</u>
Non-operating revenues:									
Net investment income	2,827,175	153,115	26,253	817	578	7	5,663	-	3,013,608
Gain on disposal of capital assets	-	-	-	-	-	-	48	-	48
Total non-operating revenues	<u>2,827,175</u>	<u>153,115</u>	<u>26,253</u>	<u>817</u>	<u>578</u>	<u>7</u>	<u>5,711</u>	<u>-</u>	<u>3,013,656</u>
Net transfers out	-	-	-	-	-	-	(425)	-	(425)
Increase (decrease) in net position (deficit)	<u>2,371,166</u>	<u>170,297</u>	<u>91,307</u>	<u>(982)</u>	<u>410</u>	<u>(13)</u>	<u>48,951</u>	<u>-</u>	<u>2,681,136</u>
Net position (deficit), beginning of year	<u>5,840,207</u>	<u>1,365,435</u>	<u>179,139</u>	<u>26,581</u>	<u>19,198</u>	<u>25,076</u>	<u>(676,559)</u>	<u>-</u>	<u>6,779,077</u>
Net position (deficit), end of year	<u>\$8,211,373</u>	<u>\$1,535,732</u>	<u>\$270,446</u>	<u>\$25,599</u>	<u>\$19,608</u>	<u>\$25,063</u>	<u>\$(627,608)</u>	<u>\$ -</u>	<u>\$9,460,213</u>

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OHIO BUREAU OF WORKERS' COMPENSATION  
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(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, 2014 and 2013



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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, in accordance with the 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, 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, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the BWC/IC's basic financial statements, and have issued our report thereon dated September 26, 2014.

***Internal Control over Financial Reporting***

In planning and performing our audit of the financial statements, we considered the BWC/IC's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the BWC/IC's internal control. Accordingly, we do not express an opinion on the effectiveness of the BWC/IC's internal control.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### ***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*.

### ***Purpose of this Report***

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Schneider Downs & Co., Inc.*

Columbus, Ohio  
September 26, 2014

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# Dave Yost • 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 13, 2014**