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, 2013 and 2012

and Independent Auditors' Report Thereon

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Dave Yost • Auditor of State

Board Members
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, 2012 through June 30, 2013. 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.

Dave Yost

Dave Yost
Auditor of State

November 14, 2013

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C O N T E N T S

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section presents management's discussion and analysis of the Ohio Bureau of Workers' Compensation's (BWC's) and the Industrial Commission of Ohio's (IC's) financial performance for fiscal years ended June 30, 2013, 2012, and 2011. BWC and IC are collectively referred to as BWC/IC. This information is based on BWC/IC's financial statements, which begin on Page 9.

Financial highlights

- BWC/IC's total assets at June 30, 2013 were $28.2 billion, an increase of $226 million or 0.8 percent compared to June 30, 2012.
- BWC/IC's total liabilities at June 30, 2013 were $21.5 billion, an increase of $1.3 billion or 6.3 percent compared to June 30, 2012.
- BWC/IC's operating revenues for fiscal year 2013 were $1.5 billion, a decrease of $454 million or 23.2 percent compared to fiscal year 2012.
- BWC/IC's operating expenses for fiscal year 2013 were $1.6 billion, a decrease of $341 million or 17.5 percent from fiscal year 2012.
- BWC/IC had $966 million in rebate expenses and an $859 million loss contingency in fiscal year 2013.
- BWC's non-operating revenues for fiscal year 2013 were $901 million, compared to $2.0 billion for fiscal year 2012.
- BWC/IC's net position decreased by $1.0 billion in fiscal year 2013, compared to a $2.0 billion increase in fiscal year 2012.

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.
- Supplemental Information - This section includes supplemental schedules presenting the statement of net position and the statement of revenues, expenses and changes in net

Continued

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, 2013, June 30, 2012, and June 30, 2011, and for the years then ended were as follows (000's omitted):

	2013	2012	2011
Current assets	$ 2,935,812	$ 1,813,133	$ 1,571,167
Noncurrent assets	25,306,277	26,203,374	24,529,539
Total assets	$ 28,242,089	$ 28,016,507	$ 26,100,706
Current liabilities	$ 3,713,761	$ 2,779,729	$ 2,533,248
Noncurrent liabilities	17,749,251	17,419,039	17,795,456
Total liabilities	$ 21,463,012	$ 20,198,768	$ 20,328,704
Net position invested in capital assets, net of related debt	$ 88,663	$ 57,105	$ 43,051
Unrestricted net position	6,690,414	7,760,634	5,728,951
Total net position	$ 6,779,077	$ 7,817,739	$ 5,772,002
Net premium and assessment income, including provision for uncollectibles	$ 1,492,389	$ 1,944,478	$ 1,935,180
Other income	11,723	14,115	14,989
Total operating revenues	$ 1,504,112	$ 1,958,593	$ 1,950,169
Workers' compensation benefits and compensation adjustment expenses	$ 1,491,515	$ 1,832,992	$ 2,238,942
Other expenses	120,741	120,228	123,153
Total operating expenses	$ 1,612,256	$ 1,953,220	$ 2,362,095
Premium rebate	$ (965,636)	$ -	$ -
Expense for loss contigency	(859,440)	-	-
Operating transfers out	(6,365)	(3,390)	(5,545)
Net investment income	900,854	2,043,644	2,364,359
Gain on disposal of capital assets	69	110	35
(Decrease) increase in net position	$ (1,038,662)	$ 2,045,737	$ 1,946,923

BWC/IC's net position decreased by $1.0 billion during fiscal year 2013, compared to a $2.0 billion increase during fiscal year 2012.

Continued

- Premium and assessment income exceeded workers' compensation benefits and compensation adjustment expenses by $874 thousand in fiscal year 2013 and $111 million in fiscal year 2012.
- 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. 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.
- Premium and assessment income for fiscal year 2013 reflects no change in the overall premium rates for the majority of Ohio's private employers and a 5.0 percent reduction for public employer taxing districts (PECs) for the policy period that began on January 1, 2013. PECs include cities, counties, townships, villages, schools, libraries, and special taxing districts. 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 2013, almost 40 percent of the employer population chose to Go Green earning discounts of $2.4 million. 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 $7 million in fiscal year 2013.
- 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 $9.8 million in fiscal year 2013.
- BWC/IC has secured reinsurance as a risk management strategy to protect its assets in the event of a catastrophic event. Premium and assessment income has been reduced by $6.0 million in fiscal years 2013, 2012 and 2011 for the accrual of the ceded reinsurance premiums.

Continued

- Workers' compensation benefits and compensation adjustment expenses were $1.5 billion in fiscal year 2013, compared to $1.8 billion in fiscal year 2012 and $2.2 billion in fiscal year 2011.

($ in millions)	2013	2012	2011
Change in reserves for compensation and compensation adjustment expenses	$ (515)	$ (245)	$ 146
Net benefit payments	1,649	1,715	1,733
Payments for compensation adjustment expenses	188	195	194
Managed Care Organization administrative payments	170	168	166
	$ 1,492	$ 1,833	$ 2,239

- The discounted liabilities for workers' compensation benefits and compensation adjustment expenses as of June 30, 2013 are $515 million lower than the June 30, 2012 discounted liabilities. There were no significant changes in the methodology to determine unpaid loss estimates except for revisions to exclude the provision for future employer defaults from the estimated self-insured employer default liabilities. The June 30, 2013 estimated unpaid losses for self-insured employer default liabilities decreased by $458 million compared to the June 30, 2012 estimate. These revisions in the recognition of liabilities have no impact on net position as the changes in the liability estimates are offset by corresponding changes in unbilled premium receivables and assessment income.

- Benefit payments for all accident years emerged $219 million or 12 percent lower than expected during fiscal year 2013. Approximately $140 million of the lower than expected paid development is associated with medical benefits. Incurred losses for accident years 1977 and subsequent emerged 31 percent lower than expected. Claim frequency continued to decrease while medical severity remained stable for accident years 2008 through 2012.

- A loss contingency of $859 million was recorded in the financial statements in fiscal year 2013 as a result of the adverse decision issued by the Cuyahoga County Common Pleas Court awarding damages to the plaintiff class in the San Allen group rating litigation. It is BWC/IC's intent to vigorously defend its position and on April 15, 2013, a notice of appeal was filed. A friend of the court brief supporting BWC's position in the appeal was filed by the Ohio Chamber of Commerce, the National Federation of Independent Business/Ohio, and the Ohio AFL-CIO.

- In fiscal year 2013, BWC/IC recorded net investment income of $901 million, compared to $2.0 billion in fiscal year 2012. The investment portfolio earned an unaudited net return of 3.8 percent, after management fees, during fiscal year 2013 compared to 9.8 percent in fiscal year 2012 and a return of 12.4 percent in fiscal year 2011.

- The Board of Directors 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, 2013, a total of $807.6 million has been invested in eight core real estate funds. Two value-added real estate funds, with commitments of $50 million in each fund to be invested in stages over the next three and one-half years, have also been approved. As of June 30, 2013, initial capital investments totaling $20.8 million have been made to

Continued

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.

- As of June 30, 2013 and June 30, 2012, BWC/IC had debt in special obligation bonds of $15.4 million and $31.6 million, respectively. These bonds were issued in 2003, through the Ohio Building Authority (OBA) to refund the 1993 William Green Building Series A bonds. 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 TOS has assumed responsibility for the administration of the 2003 agreement. The bonds are 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 2.1 percent for the July 1, 2013 policy year, producing estimated savings of $29 million for these employers. Public employer taxing district premiums decreased by an average of 5.0 percent for the January 1, 2013 policy year. Average rates, based on public employer taxing district payroll, have not been this low since at least 1983.
- The Safety Grant Program has been expanded from $5 million to $15 million to support increased statewide efforts that promote workplace safety and encourage further investment in protecting Ohio's workers.
- The comprehensive annual actuarial analysis found that the average cost per private employer claim remained flat for accident years 2009 through 2012. However, through June 30, 2013, accident year 2013 is showing an increase in the average lost time medical cost per claim. The average lost time medical cost per claim as of 6 months of age is $6,040 for 2013 compared to $5,582 for accident year 2012, and $5,683 for accident year 2011. 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 $55 million in savings for the State Insurance Fund after closing more than 2,000 cases. 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. These reviews resulted in the termination of drugs in 171 cases, generating $9.5 million in savings.

Continued

- The Board of Directors has approved the active management of all SIF long-duration credit fixed income assets. The Investment Policy Statement (IPS) has been revised whereby the 8 percent allocation of SIF invested assets targeted to passive management of long-duration credit assets has been eliminated and the allocation of SIF invested assets towards actively managed long-duration credit assets has increased from 20 percent to 28 percent. The IPS has also been amended to provide for a targeted 7 percent of the SIF investment portfolio to actively managed mid-cap and small-cap U.S. equities.

- 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 is scheduled to go into production in November 2014.

- 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 pubic taxing district employers as premiums will be collected sooner. Management is working on the design and drafting of rules to implement the prospective payment system with actual implementation targeted for early 2015.

- 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. One of the options to reduce the net position and move towards compliance with the policy was the Board approval for the issuance of a cash rebate reducing the net position by $966 million. Management will be requesting Board approval for transition credits to mitigate the cost to employers for transitioning to the prospective payment system. With the approval of transition credits, it is anticipated that the net position level will be in compliance with Board policy.

	2013	2012	2011	2010	Guideline
Funding Ratio	1.39	1.47	1.33	1.22	1.15 to 1.35
Net Leverage Ratio	2.93	2.47	3.45	5.17	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. Accordingly no provision for any liability has been reported in the financial statements for this matter.

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.

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INDEPENDENT AUDITORS' REPORT

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

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), for the years ended June 30, 2013 and 2012, 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 the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers 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 for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the BWC/IC as of June 30, 2013 and 2012, and the respective changes in financial position and cash flows thereof 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 that the management's discussion and analysis and supplemental revenue and reserve development information on pages 1–6 and 36–37, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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, 2013, 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 for the purpose of forming opinions on the financial statements that collectively comprise the BWC/IC's financial statements as a whole. The supplemental schedule of net position and schedule of revenues, expenses and changes in net position included in pages 38 through 40 are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, this supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2013, 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 30, 2013

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

STATEMENTS OF NET POSITION

June 30, 2013 and 2012

(000's omitted)

	2013	2012
ASSETS		
Current assets:		
Cash and cash equivalents (Note 2)	$861,448	$442,182
Collateral on loaned securities (Note 2)	1,030	849
Premiums in course of collection	744,889	713,343
Assessments in course of collection	168,887	171,146
Accounts receivable, net of allowance for uncollectibles of $1,129,328 in 2013; $1,091,672 in 2012	134,832	130,388
Investment trade receivables	876,163	194,429
Accrued investment income	141,192	151,512
Other current assets	7,371	9,284
Total current assets	2,935,812	1,813,133
Noncurrent assets:		
Fixed maturities, at fair value (Note 2)	13,917,702	15,751,396
Domestic equity securities, at fair value - common stock (Note 2)	5,090,287	4,801,935
Non-U.S equity securities, at fair value - common stock (Note 2)	2,153,273	1,879,572
Investments in real estate funds (Note 2)	853,553	-
Unbilled premiums receivable	2,891,821	3,381,859
Retrospective premiums receivable	295,555	299,873
Capital assets (Notes 3 and 5)	104,072	88,650
Restricted cash (Note 2)	14	89
Total noncurrent assets	25,306,277	26,203,374
Total assets	$ 28,242,089	$ 28,016,507

	2013	2012
LIABILITIES		
Current liabilities:		
Reserve for compensation (Note 4)	$ 2,015,531	$ 2,024,705
Reserve for compensation adjustment expenses (Note 4)	393,792	386,954
Warrants payable	284,820	24,660
Bonds payable (Notes 5 and 6)	15,422	15,914
Investment trade payables	292,822	302,143
Accounts payable	9,621	11,767
Obligations under securities lending (Note 2)	1,030	849
Premium rebate payable (Note 8)	683,504	-
Other current liabilities (Note 6)	17,219	12,737
Total current liabilities	3,713,761	2,779,729
Noncurrent liabilities:		
Reserve for compensation (Note 4)	15,288,626	15,790,395
Reserve for compensation adjustment expenses (Note 4)	1,492,108	1,502,648
Contingent liabilities (Note 11)	859,440	-
Premium payment security deposits (Note 6)	86,486	86,285
Bonds payable (Notes 5 and 6)	-	15,719
Other noncurrent liabilities (Note 6)	22,591	23,992
Total noncurrent liabilities	17,749,251	17,419,039
Total liabilities	21,463,012	20,198,768
NET POSITION		
Invested in capital assets, net of related debt	88,663	57,105
Unrestricted net position	6,690,414	7,760,634
Total net position (Note 12)	$ 6,779,077	$ 7,817,739

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

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

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

For the years ended June 30, 2013 and 2012

(000's omitted)

	2013	2012
Operating revenues:		
Premium and assessment income net of ceded premium (Note 7)	$1,533,153	$ 1,992,018
Provision for uncollectibles	(40,764)	(47,540)
Other income	11,723	14,115
Total operating revenues	1,504,112	1,958,593
Operating expenses:		
Workers' compensation benefits (Note 4)	1,136,718	1,516,800
Compensation adjustment expenses (Note 4)	354,797	316,192
Personal services	64,810	66,081
Other administrative expenses	55,931	54,147
Total operating expenses	1,612,256	1,953,220
Net operating (loss) income before premium rebates and loss contingencies	(108,144)	5,373
Premium rebate (Note 8)	965,636	-
Expense for loss contingencies (Note 11)	859,440	-
Total premium rebates and loss contingencies	1,825,076	-
Net operating (loss) income	(1,933,220)	5,373
Non-operating revenues:		
Net investment income (Note 2)	900,854	2,043,644
Gain on disposal of capital assets	69	110
Total non-operating revenues	900,923	2,043,754
Net transfers out	(6,365)	(3,390)
(Decrease) increase in net position	(1,038,662)	2,045,737
Net position, beginning of year	7,817,739	5,772,002
Net position, end of year	$ 6,779,077	$ 7,817,739

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

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

STATEMENTS OF CASH FLOWS

For the years ended June 30, 2013 and 2012

(000's omitted)

	2013	2012
Cash flows from operating activities:		
Cash receipts from premiums and assessments net of reinsurance	$ 2,088,725	$ 2,074,006
Cash receipts - other	55,028	43,183
Cash disbursements for claims	(1,958,567)	(1,988,923)
Cash disbursements to employees for services	(201,268)	(214,655)
Cash disbursements for other operating expenses	(72,811)	(68,863)
Cash disbursements for employer refunds	(83,022)	(59,620)
Net cash used for operating activities	(171,915)	(214,872)
Cash flows from noncapital financing activities:		
Operating transfers in	-	95
Operating transfers out	(6,365)	(3,485)
Net cash used by noncapital financing activities	(6,365)	(3,390)
Cash flows from capital and related financing activities:		
Purchase of capital assets, net of retirements	(25,077)	(8,400)
Principal and interest payments on bonds	(17,459)	(18,216)
Net cash used in capital and related financing activities	(42,536)	(26,616)
Cash flows from investing activities:		
Investments sold	8,274,646	14,969,317
Investments purchased	(8,317,413)	(15,348,352)
Interest and dividends received	700,117	728,660
Investment expenses	(17,343)	(7,987)
Net cash provided by investing activities	640,007	341,638
Net increase in cash, cash equivalents and restricted cash	419,191	96,760
Cash, cash equivalents and restricted cash, beginning of year	442,271	345,511
Cash, cash equivalents and restricted cash, end of year	$ 861,462	$ 442,271

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

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

STATEMENTS OF CASH FLOWS, Continued

For the years ended June 30, 2013 and 2012

(000's omitted)

	2013	2012
Reconciliation of net operating (loss) income to net cash used for operating activities:		
Net operating (loss) income	$ (1,933,220)	$ 5,373
Adjustments to reconcile net operating (loss) income to net cash used for operating activities:		
Provision for uncollectible accounts	40,764	47,540
Depreciation	9,724	10,776
Amortization of discount and issuance costs on bonds payable	1,248	1,960
(Increases) decreases in assets and increases (decreases) in liabilities:		
Premiums and assessments in course of collection	(29,287)	(38,621)
Unbilled premiums receivable	490,038	38,177
Accounts receivable	(45,208)	(48,056)
Retrospective premiums receivable	4,318	9,737
Other assets	1,913	138
Reserves for compensation and compensation adjustment expenses	(514,645)	(245,198)
Contingent liabilities	859,440	-
Premium payment security deposits	201	(1,379)
Warrants payable	260,160	5,165
Accounts payable	(2,146)	4,048
Premium rebate payable	683,504	-
Other liabilities	1,281	(4,532)
Net cash used for operating activities	$ (171,915)	$ (214,872)
Noncash investing, capital, and financing activities		
Change in fair values of investments	230,200	1,323,434

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. 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.

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

Continued

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. 65, "Items Previously Reported as Assets and Liabilities"
- GASB No. 66, "Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62"
- 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. 70, "Accounting and Financial Reporting for Nonexchange Financial Guarantees"

Continued

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

Cash and Cash Equivalents

Cash and cash equivalents in the accompanying statements of net 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.

Continued

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.

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 12) 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.

<u>Assessment Income</u>

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.

Continued

Premium Payment Security Deposits

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

Allowance for Uncollectible Accounts

BWC/IC provides an allowance for uncollectible accounts by charging operations for estimated receivables that will not be collected. The adequacy of the allowance is determined by management based on a review of aged receivable balances and historical loss experience.

Capital Assets

Capital assets are carried at cost, net of accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows:

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

When assets are disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized in the statements of revenues, expenses, and changes in net 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

Continued

medical claim reserves. The reserve for compensation adjustment expenses is based on projected claim-related expenses, estimated costs of the managed care Health Partnership Program, and the reserve for compensation. The methods of making such estimates and for establishing the resulting liabilities are reviewed quarterly and updated based on current circumstances. Any adjustments resulting from changes in estimates are recognized in the current period. The reserves for compensation and compensation adjustment expenses are discounted at 4.0% at June 30, 2013 and 2012 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 2012 financial statement amounts have been reclassified in order to conform to their 2013 presentation.

Continued

2. Cash and Investments

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

Custodial Credit Risk – Deposits

The custodial credit risk for deposits is the risk that in the event of a bank failure, BWC/IC's deposits might not be recovered. Banks must provide security for all public funds on deposit. These institutions may either specifically collateralize individual accounts in addition to amounts insured by the Federal Deposit Insurance Corporation (FDIC), or may pledge a pool of government securities valued at least 105% of the total value of public monies on deposit at the institution. At June 30, 2013 and 2012, the carrying amount of BWC/IC's cash deposits were $8.4 million and $11.3 million, respectively, and the bank balances were $3.3 million and $8.3 million, respectively. Of the June 30, 2013 bank balance, $250 thousand was insured by the FDIC. The entire bank balance at June 30, 2012 was insured by the FDIC and that full coverage expired on December 31, 2012. The remaining cash balance on deposit with the bank was collateralized by individual accounts of either a surety bond or securities with a market value of at least 100 percent to 102 percent 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.

Continued

The composition of investments held at June 30, 2013 and 2012 is presented below (000's omitted):

	2013 Fair Value	2012 Fair Value
Fixed maturities		
U.S. corporate bonds	$ 4,559,627	$ 4,832,980
U.S. treasury inflation protected securities	2,856,062	3,377,583
U.S. government obligations	2,279,297	2,937,821
Non-U.S. corporate bonds	1,014,402	1,112,576
U.S. state and local government agencies	636,472	762,126
U.S. government agency mortgages	611,496	659,736
Commingled U.S. treasury inflation protected securities	605,317	649,128
Commingled U.S. aggregate indexed fixed income	594,946	599,102
Non-U.S. government and agency bonds	390,645	381,315
U.S. government agency bonds	211,837	281,349
Supranational issues	48,028	48,351
Commingled U.S. intermediate duration fixed income	48,004	47,912
Commercial mortgage backed securities	46,701	55,618
Asset backed securities	8,121	5,799
Bank loans	6,747	-
Total fixed maturities	13,917,702	15,751,396
Domestic equity securities - common stock	5,090,287	4,801,935
Commingled non-U.S equity securities - common stock	2,153,273	1,879,572
Investments in real estate funds	853,553	-
Securities lending short-term collateral	1,030	849
Cash and cash equivalents		
Cash	8,404	11,287
Repurchase agreements	6,400	2,100
Short-term money market fund	846,644	428,795
Total cash and cash equivalents	861,448	442,182
	$ 22,877,293	$ 22,875,934

Net investment income for the years ended June 30, 2013 and 2012 is summarized as follows (000's omitted):

	2013	2012
Fixed maturities	$ 565,940	$ 636,431
Equity securities	112,192	92,396
Real estate	11,596	-
Cash equivalents	68	41
	689,796	728,868
Increase in fair value of investments	230,200	1,323,434
Investment expenses	(19,142)	(8,658)
	$ 900,854	$ 2,043,644

Continued

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, 2013, the real estate funds have unfunded investment commitments of $395 million.

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

In fiscal year 2012, BWC began investing in overnight repurchase agreements. This type of investment is considered a cash and cash equivalent. 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, 2013 and 2012, the Ohio BWC held $6.4 million and $2.1 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

Continued

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, 2013 and 2012, the effective duration of BWC's fixed-income portfolio is as follows (000's omitted):

Investment Type	June 30, 2013 Fair Value	June 30, 2013 Effective Duration	June 30, 2012 Fair Value	June 30, 2012 Effective Duration
U.S. state and local government agencies	$ 636,472	12.89	$ 762,126	12.78
U.S. corporate bonds	4,559,627	12.14	4,832,980	11.83
Non-U.S. corporate bonds	1,014,402	11.31	1,112,576	11.29
U.S. government obligations	2,279,297	10.70	2,937,821	11.40
Non-U.S. government and agency bonds	390,645	10.50	381,315	10.47
U.S. treasury inflationary protected securities	2,856,062	7.54	3,377,583	8.18
Commingled U.S. treasury inflationary protected securities	605,317	7.17	649,128	8.27
U.S. government agency bonds	211,837	6.94	281,349	7.38
Commingled U.S. aggregate indexed fixed income	594,946	5.48	599,102	5.05
Supranational issues	48,028	5.26	48,351	5.82
Asset backed securities	8,121	4.12	5,799	2.59
U.S. government agency mortgages	611,496	3.97	659,736	2.28
Commingled U.S. intermediate duration fixed income	48,004	3.90	47,912	3.92
Bank loans	6,747	0.93	-	-
Commercial mortgage backed securities	46,701	0.12	55,618	2.99
Total fixed maturities	$ 13,917,702		$ 15,751,396	

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 2013 and 2012. Obligations of the U.S. government are explicitly guaranteed by the U.S. government.

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, 2013 and 2012, fixed maturities held in commingled bond funds in the custody of State Street were $1.2 billion and $1.3 billion, respectively. In addition, in fiscal year 2013 the $6.7 million in bank loans were not held by the custodian. The remaining balance presented as of June 30, 2013 was held by the custodian on behalf of BWC/IC.

Quality Rating	2013 Fair Value	2012 Fair Value
Credit risk debt quality		
AAA	$ 237,806	$ 273,262
AA	1,517,466	1,581,827
A	2,709,346	2,889,831
BBB	2,731,480	2,939,980
BB	141,121	142,920
B	16,474	17,959
Total credit risk debt securities	7,353,693	7,845,779
U.S. government agency bonds		
AAA	11,438	-
AA	199,559	278,055
A	840	3,294
Total U.S. government agency bonds	211,837	281,349
U.S. government agency mortgages	611,496	659,736
U.S. government obligations	2,279,297	2,937,821
U.S. treasury inflation protected securities	2,856,062	3,377,583
Commingled U.S. treasury inflation protected securities	605,317	649,128
Total fixed maturities	$ 13,917,702	$ 15,751,396

BWC/IC owned $52.5 million in Ford Motor Company fixed maturities and at June 30, 2013 these securities were rated BB by S&P. On September 6, 2013, Ford Motor was upgraded by S&P to BBB and was rated BBB by all three credit rating agencies.

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 2013 and 2012, 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.

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, 2013 and 2012 is as follows (000's omitted):

Currency	2013 Fair Value	2012 Fair Value
Australian Dollar	$ 121,343	$ 110,689
Brazilian Real	53,064	58,027
British Pound	331,305	298,378
Canadian Dollar	155,543	151,589
Chilean Peso	9,029	8,528
Chinese Renminbi	765	847
Colombian Peso	5,488	5,658
Czech Koruna	1,101	1,373
Danish Krone	16,847	14,504
Egyptian Pound	1,131	1,504
European Euro	426,361	342,565
Hong Kong Dollar	130,521	115,803
Hungarian Forint	1,097	1,277
Indian Rupee	31,830	28,510
Indonesian Rupiah	14,940	11,725
Israeli New Sheqel	7,682	7,282
Japanese Yen	341,669	276,430
Malaysian Ringgit	18,897	15,761
Mexican Peso	25,406	22,037
Moroccan Dirham	393	448
New Taiwan Dollar	55,696	48,473
New Zealand Dollar	1,861	1,552
Norwegian Krone	12,418	11,714
Peruvian Nuevo Sol	-	318
Philippine Peso	4,913	4,189
Polish Zloty	7,307	6,310
Russian Ruble	21,447	22,060
Singapore Dollar	25,024	23,674
South African Rand	33,644	35,070
South Korean Won	68,064	66,949
Swedish Krona	47,104	39,561
Swiss Franc	138,821	107,931
Thai Baht	13,174	9,612
Turkish New Lira	9,122	7,386
Exposure to foreign currency risk	2,133,007	1,857,734
United States Dollar	20,266	21,838
Total Commingled non-U.S equity securities	$ 2,153,273	$ 1,879,572

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Securities Lending

At June 30, 2013 and 2012, BWC/IC had no securities out on loan. BWC/IC has been allocated with cash collateral of $1 million in 2013 and $849 thousand in 2012 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, 2013 and 2012 are summarized as follows (000's omitted):

	Balance at 6/30/2011	Increases	Decreases	Balance at 6/30/2012	Increases	Decreases	Balance at 6/30/2013
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	29,689	1,201	(1,472)	29,418	1,765	(1,141)	30,042
Land improvements	66	-	-	66	-	-	66
Subtotal	239,068	1,201	(1,472)	238,797	1,765	(1,141)	239,421
Accumulated depreciation							
Buildings	(138,599)	(6,787)	-	(145,386)	(6,787)	-	(152,173)
Building improvements	(44)	(177)	-	(221)	(177)	-	(398)
Furniture and equipment	(21,447)	(3,811)	1,457	(23,801)	(2,759)	1,133	(25,427)
Land improvements	(56)	(1)	-	(57)	(1)	-	(58)
Subtotal	(160,146)	(10,776)	1,457	(169,465)	(9,724)	1,133	(178,056)
Capital assets to be amortized							
Intangible assets - definite useful lives	-	7,324	-	7,324	23,389	-	30,713
Net capital assets	$ 90,916	$(2,251)	$ (15)	$ 88,650	$ 15,430	$ (8)	$ 104,072

BWC has not started amortizing the Intangible assets yet because the internally generated software project is not yet been placed into service as of June 30, 2013.

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, 2013 and 2012. A decrease in the discount rate to 3.0% would result in the reserves for compensation and compensation adjustment expenses increasing to $21.3 billion at June 30, 2013, while an increase in the rate to 5.0% would result in the reserves for compensation and compensation adjustment expenses decreasing to $17.6 billion. The undiscounted reserves for compensation and compensation adjustment expenses were $30.7 billion at June 30, 2013 and $32.2 billion at June 30, 2012.

The changes in the reserves for compensation and compensation adjustment expenses for the years ended June 30, 2013 and 2012 are summarized as follows (in millions):

Continued

	2013	2012
Reserves for compensation and compensation adjustment expenses, beginning of period	$ 19,705	$ 19,950
Incurred:		
Provision for insured events of current period	1,720	1,800
Net (decrease) increase in provision for insured events of prior periods net of discount accretion of $788 in 2013 and $798 in 2012	(229)	33
Total incurred	1,491	1,833
Payments:		
Compensation and compensation adjustment expenses attributable to insured events of current period	380	386
Compensation and compensation adjustment expenses attributable to insured events of prior period	1,626	1,692
Total payments	2,006	2,078
Reserves for compensation and compensation adjustment expenses, end of period	$ 19,190	$ 19,705

There were no significant changes to the methodology to determine the reserves for compensation and compensation adjustment expenses except for revisions to exclude the provision for future employer defaults from the estimated self-insured employer default liabilities. The estimation of future defaults in future fiscal years is subject to significant uncertainty. When such future defaults occur, they will result in an increase in the liability estimate at that time. The June 30, 2013 estimated unpaid losses for self-insured employer default liabilities decreased by $458 million compared to the June 30, 2012 estimate.

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 is netted against the new debt and amortized over the life of the new debt. As a result of the refunding, BWC/IC reduced its total debt service requirements by $9.8 million, which resulted in an economic gain of $8.9 million.

The bonds are collateralized by lease rental payments pledged by BWC/IC to 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. Lease rental payments totaled $17.5 million and $18.2 million for the years ended June 30, 2013 and 2012, respectively. These payments included interest of $1.5 million and $2.3 million for the years ended June 30, 2013 and 2012, respectively.

The building continues to be reflected in capital assets and the related obligation has been reflected as bonds payable in the statements of net position. Future principal and interest payments are as follows (000's omitted):

Fiscal Year	Principal	Interest	Total
2014	$15,200	$751	$15,951
Deferred loss on refunding	(34)	-	(34)
Unamortized Bond Discount & issuance costs	256	-	256
Total	$15,422	$751	$16,173

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, 2013 and 2012, is summarized as follows (000's omitted):

	Balance at 6/30/2011	Increases	Decreases	Balance at 6/30/2012	Due Within One Year
Premium payment security deposits	$ 87,664	$ 2,029	$ (3,408)	$ 86,285	$ -
Bonds payable	47,889	2,491	(18,747)	31,633	15,914
Other liabilities	40,592	44,646	(48,509)	36,729	12,737
	$ 176,145	$ 49,166	$ (70,664)	$ 154,647	$ 28,651

	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
	$ 154,647	$ 917,922	$ (71,411)	$ 1,001,158	$ 32,641

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 $100,000,000
- Each insurer will have an annual aggregate retention equal to 20% of its prior year's direct earned premiums
- Each insurer will be responsible for 15% of losses otherwise recoverable that exceed its TRIPRA retention

Continued

Coverage for policies is provided under the following terms:

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 $275,000,000 in excess of $125,000,000 per Loss Occurrence - Maximum loss of $5,000,000 of any one person
- Section Two – Only for Acts of Terrorism including NBCR Terrorism - 15% of $600,000,000 (or $90,000,000) in excess of $400,000,000 per Loss Occurrence - Maximum loss of $5,000,000 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 $250,000,000 in excess of $250,000,000 per Loss Occurrence - Maximum loss of $5,000,000 of any one person
- Section Two – Only for Acts of Terrorism including NBCR Terrorism - 15% of $615,000,000 (or $92,250,000) in excess of $385,000,000 per Loss Occurrence - Maximum loss of $5,000,000 of any one person

Policy Period: April 1, 2011 to March 31, 2012

Reinsurance Coverage:

- Section One – Other than Acts of NBCR Terrorism - 100% of $250,000,000 in excess of $250,000,000 per Loss Occurrence - Maximum loss of $5,000,000 of any one person
- Section Two – Only for Acts of Terrorism including NBCR Terrorism - 15% of $615,000,000 (or $92,250,000) in excess of $385,000,000 per Loss Occurrence - Maximum loss of $5,000,000 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, 2013 and 2012 (000's omitted):

	2013	2012
Premium and assessment income	$ 1,539,301	$ 1,998,168
Ceded premiums	(6,148)	(6,150)
Total premium and assessment income net of ceded premiums	$ 1,533,153	$ 1,992,018

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, 2013 and 2012:

Reinsurer	2013	2012
Allied World Assurance Company	A	A
Aspen Insurance UK LTD	A	A
Axis Specialty LTD	A	A
Hannover Re (Bermuda) LTD	A+	A
Odyssey America Reinsurance Corporation	A	A
Tokio Millennium Re Limited	A++	A++
Underwriters at Lloyd's	A	A
Alterra Zurich Branch of Alterra UK Underwriting Services Limited	A	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 are no longer within the guidelines established by the policy. In response, 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.

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.
- 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.

Continued

- 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, 2013, the most recent report issued by OPERS is as of December 31, 2012.

Chapter 145 of the Ohio Revised Code provides OPERS statutory authority for employee and employer contributions. For the year ended December 31, 2012 and 2011, 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, 2013	\$20,012
Twelve months ended June 30, 2012	\$20,617
Twelve months ended June 30, 2011	\$22,264

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.

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

OPERS' Post Employment Health Care plan was established under, and is administered in accordance with, Internal Revenue Code 401(h). Each year, the OPERS 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

Continued

set aside for the funding of OPEB for members in the Traditional Plan was 4% during calendar year 2012. The portion of employer contributions allocated to health care for members in the Combined Plan was 6.05% during calendar year 2012. Effective January 2013, the portion of employer contributions allocated to healthcare was lowered to 1 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, 2013 allocated to OPEB was approximately $5.7 million and $5.9 million for the 12 months ended June 30, 2012.

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 year 2013 or 2012. 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.

A class action case was filed alleging that BWC/IC identifies permanent total disability (PTD) recipients not represented by counsel and encourages them to settle their PTD claims for substantially less than their actuarial present value. The plaintiffs contend that BWC/IC refuses to conduct good-faith settlement negotiations with PTD recipients represented by counsel. The trial court denied BWC/IC's motion to dismiss and/or change of venue, and granted class certification. The 8th District Court of Appeals issued a ruling affirming the trial court's rulings. BWC/IC appealed to the Ohio Supreme Court. In May 2008, the Ohio 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

Continued

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 10th District Court of Appeals on January 19, 2012. On September 27, 2012, the 10th 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 redered judgment in favor of BWC, however the plaintiff filed yet another appeal. The briefing on this appeal has not yet begun. Accordingly, no provision for any liability has been reported in the financial statements for this matter.

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 has been 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 appeals court will schedule an oral argument on the appeal, and will subsequently decide the outcome of the appeal. Management is vigorously defending this case.

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 not been set for either case. Accordingly, no provision for any liability has been reported in the financial statements for these matters. Management is vigorously defending these cases.

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. A trial date has not been set. Accordingly, no provision for any liability has been reported in the financial statements for this matter. Management is vigorously defending this case.

A class-action case was filed 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. A trial date has not been set. The ultimate outcome of the litigation cannot presently be determined. Accordingly, no provision for any liability has been reported in the financial statements for this matter. Management is vigorously defending this case.

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

Continued

12. Net Position

Individual fund net position (deficit) balances at June 30, 2013 and 2012 were as follows (000's omitted):

	2013	2012
SIF	$ 5,675,398	$ 6,817,487
SIF Surplus Fund Account	24,116	17,150
SIF Premium Payment Security Fund	140,693	136,776
Total SIF Net Position	5,840,207	6,971,413
DWRF	1,365,435	1,291,538
CWPF	179,139	195,181
PWREF	26,581	25,973
MIF	19,198	18,917
SIEGF	25,076	7,893
ACF	(676,559)	(693,176)
Total Net Position	$ 6,779,077	$ 7,817,739

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.

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

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

Continued

OHIO BUREAU OF WORKERS' COMPENSATION
AND
INDUSTRIAL COMMISSION OF OHIO

(A DEPARTMENT OF THE STATE OF OHIO)

REQUIRED SUPPLEMENTAL REVENUE AND RESERVE DEVELOPMENT INFORMATION, UNAUDITED

(See Accompanying Independent Auditor's Report)

June 30, 2013 and 2012

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, 2003 through 2013.

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

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

	Fiscal Years Ended June 30										
	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
1. Gross premiums, assessments, and investment income	$ 2,453	$ 4,044	$ 4,356	$ 4,206	$ 2,296	$ 2,968	$ 5,251	$ 3,015	$ 3,272	$ 3,558	$ 2,886
2. Unallocated expenses	140	129	131	139	97	108	109	170	179	188	169
3. Estimated incurred compensation and compensation adjustment expense, end of period	1,720	1,800	1,863	1,870	2,139	2,219	2,327	2,270	2,392	2,335	2,405
Discount	830	968	974	985	1,472	1,892	2,099	2,147	2,227	2,447	2,544
Gross liability as originally estimated	2,549	2,767	2,837	2,855	3,611	4,111	4,426	4,417	4,619	4,782	4,949
4. Paid (cumulative) as of :											
End of period	380	386	400	384	458	415	423	417	449	449	485
One year later		620	641	639	711	755	747	743	795	843	872
Two years later			773	775	868	920	926	927	979	1,037	1,096
Three years later				883	979	1,056	1,048	1,066	1,121	1,181	1,248
Four years later					1,083	1,163	1,155	1,172	1,238	1,302	1,371
Five years later						1,256	1,251	1,268	1,336	1,408	1,485
Six years later							1,336	1,355	1,425	1,498	1,570
Seven years later								1,428	1,500	1,576	1,653
Eight years later									1,565	1,643	1,727
Nine years later										1,709	1,795
Ten years later											1,858
5. Re-estimated incurred compensation and compensation adjustment expenses (gross):											
One year later		2,501	2,680	2,701	2,865	3,607	3,946	4,087	4,456	4,604	4,653
Two years later			2,471	2,596	2,794	2,948	3,460	3,879	4,085	4,369	4,497
Three years later				2,426	2,730	2,909	2,909	3,410	3,929	4,138	4,297
Four years later					2,585	2,862	2,877	2,899	3,502	3,842	4,108
Five years later						2,748	2,812	2,877	2,977	3,489	3,772
Six years later							2,738	2,839	2,984	3,042	3,479
Seven years later								2,776	2,960	3,054	3,106
Eight years later									2,908	3,032	3,118
Nine years later										2,984	3,096
Ten years later											3,065
6. Decrease in gross estimated incurred compensation and compensation adjustment expenses from end of period		(266)	(366)	(429)	(1,026)	(1,363)	(1,688)	(1,641)	(1,711)	(1,798)	(1,884)

Ultimate incurred loss and LAE excludes liability associated with active working miners within the CWPF since they are not yet assignable to fiscal accident year.
The June 30, 2013 active miners nominal and discounted liability is approximately $385.0 and $116.7 million, respectively.

OHIO BUREAU OF WORKERS' COMPENSATION
AND
INDUSTRIAL COMMISSION OF OHIO
(A DEPARTMENT OF THE STATE OF OHIO)
SUPPLEMENTAL SCHEDULE OF NET POSITION
(See Accompanying Independent Auditors' Report)
June 30, 2013
(000's omitted)

	State Insurance Fund Account	Disabled Workers' Relief Fund Account	Coal-Workers Pneumoconiosis Fund Account	Public Work-Relief Employees' Fund Account	Marine Industry Fund Account	Self-Insuring Employers' Guaranty Fund Account	Administrative Cost Fund Account	Eliminations	Totals
ASSETS									
Current assets:									
Cash and cash equivalents	$ 802,297	$ 292	$ 15	$ 1,340	$ 760	$ 52,705	$ 4,039	$ -	$ 861,448
Collateral on loaned securities	-	-	-	-	-	-	1,030	-	1,030
Premiums in course of collection	744,581	-	-	308	-	-	-	-	744,889
Assessments in course of collection	-	44,621	-	-	-	-	124,266	-	168,887
Accounts receivable, net of allowance									
for uncollectibles	112,614	15,836	37	4	1	135	6,205	-	134,832
Interfund receivables	19,779	81,982	-	473	12	17,194	137,718	(257,158)	-
Investment trade receivables	876,163	-	-	-	-	-	-	-	876,163
Accrued investment income	141,192	-	-	-	-	-	-	-	141,192
Other current assets	2,800	-	-	-	-	-	4,571	-	7,371
Total current assets	2,699,426	142,731	52	2,125	773	70,034	277,829	(257,158)	2,935,812
Non-current assets:									
Fixed maturities	12,669,436	964,067	236,195	27,369	20,635	-	-	-	13,917,702
Domestic equity securities - common stock	4,683,961	360,540	45,786	-	-	-	-	-	5,090,287
Non-U.S equity securities - common stock	1,985,924	145,346	22,003	-	-	-	-	-	2,153,273
Investments in real estate funds	853,553	-	-	-	-	-	-	-	853,553
Unbilled premiums receivable	657,941	1,721,261	-	-	-	444,598	68,021	-	2,891,821
Retrospective premiums receivable	295,555	-	-	-	-	-	-	-	295,555
Capital assets	20,600	22	-	-	-	-	83,450	-	104,072
Restricted cash	-	-	-	-	-	-	14	-	14
Total noncurrent assets	21,166,970	3,191,236	303,984	27,369	20,635	444,598	151,485	-	25,306,277
Total assets	$ 23,866,396	$ 3,333,967	$ 304,036	$ 29,494	$ 21,408	$ 514,632	$ 429,314	$ (257,158)	$ 28,242,089

OHIO BUREAU OF WORKERS' COMPENSATION
AND
INDUSTRIAL COMMISSION OF OHIO
(A DEPARTMENT OF THE STATE OF OHIO)
SUPPLEMENTAL SCHEDULE OF NET POSITION, Continued
(See Accompanying Independent Auditors' Report)
June 30, 2013
(000's omitted)

	State Insurance Fund Account	Disabled Workers' Relief Fund Account	Coal-Workers Pneumoconiosis Fund Account	Public Work-Relief Employees' Fund Account	Marine Industry Fund Account	Self-Insuring Employers' Guaranty Fund Account	Administrative Cost Fund Account	Eliminations	Totals
LIABILITIES									
Current liabilities:									
Reserve for compensation	$ 1,850,963	$134,664	$ 1,100	$ 352	$ 286	$28,166	$ -	$ -	$ 2,015,531
Reserve for compensation adjustment expenses	167,312	78	81	-	27	1,081	225,213	-	393,792
Warrants payable	284,820	-	-	-	-	-	-	-	284,820
Bonds payable	-	-	-	-	-	-	15,422	-	15,422
Investment trade payables	292,822	-	-	-	-	-	-	-	292,822
Accounts payable	1,634	-	-	-	-	-	7,987	-	9,621
Interfund payables	235,405	19,444	129	10	13	2,157	-	(257,158)	-
Obligations under securities lending	-	-	-	-	-	-	1,030	-	1,030
Premium rebate payable	683,504	-	-	-	-	-	-	-	683,504
Other current liabilities	4,267	88	21	3	97	-	12,743	-	17,219
Total current liabilities	3,520,727	154,274	1,331	365	423	31,404	262,395	(257,158)	3,713,761
Noncurrent liabilities:									
Reserve for compensation	12,906,337	1,810,436	115,557	2,548	1,714	452,034	-	-	15,288,626
Reserve for compensation adjustment expenses	653,888	3,822	7,319	-	73	6,119	820,887	-	1,492,108
Contingent liabilities	859,440	-	-	-	-	-	-	-	859,440
Premium payment security deposits	85,797	-	689	-	-	-	-	-	86,486
Other noncurrent liabilities	-	-	-	-	-	-	22,591	-	22,591
Total noncurrent liabilities	14,505,462	1,814,258	123,565	2,548	1,787	458,153	843,478	-	17,749,251
Total liabilities	18,026,189	1,968,532	124,896	2,913	2,210	489,557	1,105,873	(257,158)	21,463,012
NET POSITION (DEFICIT)									
Invested in capital assets, net of related debt	20,600	22	-	-	-	-	68,041	-	88,663
Restricted for surplus fund	24,116	-	-	-	-	-	-	-	24,116
Restricted for premium payment security fund	140,693	-	-	-	-	-	-	-	140,693
Unrestricted net position (deficit)	5,654,798	1,365,413	179,139	26,581	19,198	25,076	(744,600)	-	6,525,605
Total net position (deficit)	$ 5,840,207	$ 1,365,435	$ 179,139	$ 26,581	$ 19,198	$ 25,076	$ (676,559)	$ -	$ 6,779,077

OHIO BUREAU OF WORKERS' COMPENSATION

AND

INDUSTRIAL COMMISSION OF OHIO

(A DEPARTMENT OF THE STATE OF OHIO)

SUPPLEMENTAL SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

(See Accompanying Independent Auditors' Report)

For the year ended June 30, 2013

(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	$1,560,896	$96,931	$31	$603	$453	$(398,030)	$272,269	$ -	$1,533,153
Provision for uncollectibles	(37,267)	(2,315)	-	-	-	276	(1,458)	-	(40,764)
Other income	7,692	-	-	-	-	-	4,031	-	11,723
Total operating revenues	1,531,321	94,616	31	603	453	(397,754)	274,842	-	1,504,112
Operating expenses:									
Workers' compensation benefits	1,456,406	75,124	14,484	46	150	(409,492)	-	-	1,136,718
Compensation adjustment expenses	190,754	107	63	-	28	(5,439)	169,284	-	354,797
Personal services	-	40	68	-	13	-	64,689	-	64,810
Other administrative expenses	26,302	9	1	1	20	1	29,597	-	55,931
Total operating expenses	1,673,462	75,280	14,616	47	211	(414,930)	263,570	-	1,612,256
Net operating (loss) income before premium rebates and loss contingencies	(142,141)	19,336	(14,585)	556	242	17,176	11,272	-	(108,144)
Premium rebate	965,636	-	-	-	-	-	-	-	965,636
Expense for loss contingencies	859,440	-	-	-	-	-	-	-	859,440
Total premium rebates and loss contingencies	1,825,076	-	-	-	-	-	-	-	1,825,076
Net operating (loss) income	(1,967,217)	19,336	(14,585)	556	242	17,176	11,272	-	(1,933,220)
Non-operating revenues:									
Net investment income	836,011	54,561	4,483	52	39	7	5,701	-	900,854
Gain on disposal of capital assets	-	-	-	-	-	-	69	-	69
Total non-operating revenues	836,011	54,561	4,483	52	39	7	5,770	-	900,923
Net transfers out	-	-	(5,940)	-	-	-	(425)	-	(6,365)
(Decrease) increase in net position (deficit)	(1,131,206)	73,897	(16,042)	608	281	17,183	16,617	-	(1,038,662)
Net position (deficit), beginning of year	6,971,413	1,291,538	195,181	25,973	18,917	7,893	(693,176)	-	7,817,739
Net position (deficit), end of year	$5,840,207	$1,365,435	$179,139	$26,581	$19,198	$25,076	$(676,559)	$ -	$6,779,077

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

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards
For the years ended June 30, 2013 and 2012

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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, 2013 and 2012, 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 30, 2013.

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.

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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 30, 2013

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
DECEMBER 3, 2013