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

FINANCIAL STATEMENTS

June 30, 2016 and 2015

Dave Yost • Auditor of State

Board of Director
Ohio Bureau of Workers Compensation and Industrial Commission
30 West Spring Street
Columbus, Ohio 43215-2256

We have reviewed the *Independent Auditor's Report* of the Ohio Bureau of Workers Compensation and Industrial Commission, Franklin County, prepared by Crowe Horwath LLP, for the audit period July 1, 2015 through June 30, 2016. 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 is responsible for compliance with these laws and regulations.

Dave Yost

Dave Yost
Auditor of State

October 27, 2016

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Crowe Horwath LLP
Independent Member Crowe Horwath International

INDEPENDENT AUDITOR'S REPORT

Ohio Bureau of Workers' Compensation and Industrial Commission of Ohio
A Department of the State of Ohio

Report on the Financial Statements

We have audited the accompanying financial statements of the Ohio Bureau of Workers' Compensation and Industrial Commission of Ohio (BWC/IC), a department of the State of Ohio (State), as of and for the year ended June 30, 2016, 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.

Auditors' Responsibility

Our responsibility is to express an opinion 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 that 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the BWC/IC, as of June 30, 2016, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

(Continued)

Emphasis of Matters

As discussed in Note 1, the financial statements of the BWC/IC are intended to present the financial position, changes in financial position, and 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, 2016, 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 opinion is not modified with respect to this matter.

Other Matters

The financial statements of BWC/IC as of June 30, 2015, were audited by other auditors whose report dated September 30, 2015, expressed an unmodified opinion on those statements.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, supplemental revenue and reserve development information, the schedule of proportionate share of the net pension liability (asset), and the schedule of employer contributions and contributions subsequent to measurement date, on Pages 3-11, 47-48, 49, and 50, respectively, listed in the table of contents, to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by 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.

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the BWC/IC's basic financial statements. The supplemental schedule of net position and schedule of revenues, expenses and changes in net position are presented for purposes of additional analysis and are not a required part of the basic financial statements. These schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such 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, the supplemental schedule of net position and schedule of revenues, expenses and changes in net position are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards,* we have also issued our report dated September 29, 2016 on our consideration of BWC/IC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 BWC/IC's internal control over financial reporting and compliance.

Crowe Horwath LLP

Crowe Horwath LLP

Columbus, Ohio
September 29, 2016

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, 2016, 2015, and 2014. BWC and IC are collectively referred to as BWC/IC. This information is based on BWC/IC's financial statements, which begin on Page 12.

Financial highlights

- BWC/IC's total assets at June 30, 2016 were $27.4 billion, a decrease of $1.6 billion or 5.6 percent compared to June 30, 2015.
- BWC/IC's total liabilities at June 30, 2016 were $18.7 billion, a decrease of $1.1 billion or 5.3 percent compared to June 30, 2015.
- BWC/IC's total operating revenues for fiscal year 2016 were $(48) million, a decrease of $2 billion or 102 percent compared to fiscal year 2015. A reduction to Disabled Workers' Relief Fund (DWRF) II unbilled assessments of $1.5 billion contributes to the significant decrease.
- BWC/IC's total operating expenses for fiscal year 2016 were $1.3 billion, a decrease of $182 million or 12 percent from fiscal year 2015.
- BWC/IC had $15 million in premium rebate expenses, reduced transition credit expenses by $22 million, and recorded $508 million of DWRF I alterative funding expense in fiscal year 2016.
- BWC's non-operating revenues for fiscal year 2016 were $1.4 billion, compared to $510 million for fiscal year 2015.
- BWC/IC's net position decreased by $514 million in fiscal year 2016, compared to a $70 million decrease in fiscal year 2015.

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, deferred outflows of resources, liabilities, deferred inflows of resources, and net position at fiscal year end. Net position represents the amount of total assets and deferred outflows of resources less total liabilities and deferred inflows of resources. 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.

(Continued)

- 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. The notes present information about accounting policies and disclose material risks, subsequent events, and contingent liabilities, if any, that may significantly impact BWC/IC's financial position.
- Supplemental Information –The financial statements include the following supplemental information schedules:
  - Required supplemental information that presents 10 years of BWC/IC's revenue and reserve development information;
  - Required supplemental information that presents BWC/IC's proportionate share of the Ohio Public Employees Retirement System (OPERS) net pension liability;
  - Required supplemental information that presents BWC/IC's contribution to OPERS based on statutory requirements; and
  - Optional supplemental schedules presenting the statement of net position and the statement of revenues, expenses and changes in net position for the individual accounts administered by BWC/IC.

(Continued)

MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2016, 2015, and 2014, and for the years then ended were as follows (000's omitted):

	2016	2015	2014
Current assets	$ 1,192,575	$ 1,597,941	$ 1,980,409
Noncurrent assets	26,246,679	27,456,171	28,361,299
Total assets	$ 27,439,254	$ 29,054,112	$ 30,341,708
Deferred outflows of resources	63,608	16,679	-
	$ 63,608	$ 16,679	$ -
Current liabilities	$ 3,058,458	$ 3,532,668	$ 3,867,108
Noncurrent liabilities	15,683,834	16,267,360	17,014,387
Total liabilities	$ 18,742,292	$ 19,800,028	$ 20,881,495
Deferred inflows of resources	6,685	2,431	-
	$ 6,685	$ 2,431	$ -
Net investment in capital assets	$ 157,884	$ 142,347	$ 125,998
Unrestricted net position	8,596,001	9,125,985	9,334,215
Total net position	$ 8,753,885	$ 9,268,332	$ 9,460,213
Net premium and assessment income, including provision for uncollectibles	$ 1,439,143	$ 1,954,174	$ 2,085,821
DWRF II unbilled assessment	(1,499,600)	-	-
Other income	12,442	8,413	8,141
Total operating revenues	$ (48,015)	$ 1,962,587	$ 2,093,962
Workers' compensation benefits and compensation adjustment expenses	$ 1,211,609	$ 1,394,939	$ 1,519,175
Other expenses	119,419	118,372	117,277
Total operating expenses	$ 1,331,028	$ 1,513,311	$ 1,636,452
Transition credit expense	$ 22,070	$ (38,781)	$ (1,229,000)
Premium rebate	(15,396)	(1,013,171)	(45)
Legal settlement / loss contingency	-	22,938	439,440
DWRF I alternative funding expense	(507,891)	-	-
Operating transfers out	(425)	(425)	(425)
Net investment income	1,365,464	509,882	3,013,608
Gain on disposal of capital assets	774	71	48
(Decrease) increase in net position	$ (514,447)	$ (70,210)	$ 2,681,136
Prior period adjustment - pension	$ -	$ (121,671)	$ -

(Continued)

BWC/IC's net position decreased by $514 million during fiscal year 2016, compared to a $70 million decrease during fiscal year 2015.

- Premium and assessment income exceeded workers' compensation benefits and compensation adjustment expenses by $228 million in fiscal year 2016 and $559 million in fiscal year 2015.
- Fiscal year 2016 premium and assessment income reflects a 10.8 percent reduction in overall premium rates for the majority of Ohio's private employers for the policy period beginning July 1, 2015, and a 9 percent reduction for public employer taxing districts (PECs) for the policy period beginning January 1, 2016. Fiscal year 2015 premium and assessment income reflects a 6.3 percent reduction in rates for private employers for the policy period July 1, 2014, and a 9.1 percent reduction for PECs for the policy period beginning January 1, 2015. PECs include cities, counties, townships, villages, schools, libraries, and special taxing districts.
- Beginning in fiscal year 2016, premiums are collected under a prospective payment system, which allows employers more flexible payment options. Private employers transitioned to prospective billing on July 1, 2015 and PECs transitioned on January 1, 2016.
- BWC/IC has secured reinsurance as a risk management strategy to protect our assets in the event of a catastrophic event. Premium and assessment income has been reduced by $4 million in fiscal years 2016 and 2015 for the accrual of the ceded reinsurance premiums.
- Beginning in fiscal year 2016, BWC began providing optional additional insurance coverage for Ohio companies who have employees who temporarily work in other states and are in need of coverage for workers' compensation gaps and protection from penalties and stop-work orders in other states. Zurich American Insurance Company acts as the insurer of the Other States Coverage policies.
- During fiscal year 2016, the assumptions used to estimate DWRF II unbilled receivables were updated. As a result, assessment income and unbilled receivables have been reduced by $1.5 billion. Previously, DWRF II unbilled receivables were recorded in amounts equal to the DWRF II discounted reserves for compensation and compensation adjustment expenses. Beginning in fiscal year 2016, cash and investment balances are included in estimating DWRF II unbilled receivables. At June 30, 2016, the DWRF II cash and investment balances exceed DWRF II discounted reserves for compensation and compensation adjustment expenses. Accordingly, there is no need to assess employers in future periods to fund the current DWRF II estimated liabilities.
- Workers' compensation benefits and compensation adjustment expenses were as follows in fiscal years 2016, 2015, and 2014.

($ in millions)	2016	2015	2014
Change in reserves for compensation and compensation adjustment expenses	$ (702)	$ (527)	$ (468)
Net benefit payments	1,539	1,551	1,626
Payments for compensation adjustment expenses	206	200	191
Managed Care Organization administrative payments	169	171	170
	$ 1,212	$ 1,395	$ 1,519

- The discounted liabilities for workers' compensation benefits and compensation adjustment expenses as of June 30, 2016 are $702 million lower than the June 30, 2015 discounted liabilities. These liabilities are discounted using an annual interest rate of 4 percent.

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- SIF benefit payments for all accident years were $156 million or 9.7 percent lower than expected during fiscal year 2016. Approximately $92 million of the lower than expected paid development is associated with medical benefits, while indemnity benefits were $64 million lower than expected. During the past 15 years, SIF annual payments have remained reasonably steady, ranging from a low of $1.4 billion in fiscal year 2016 to a high of $1.9 billion in fiscal year 2008. Fiscal year 2016 payments are lower than fiscal year 2015 payments and are the lowest annual payments during the last 15 fiscal years.

- 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 rebate of one percent of premium up to a maximum rebate of $1,000 per six month reporting cycle. In fiscal year 2016, almost 47 percent of the employer population chose to Go Green, earning rebates of $5.7 million compared to $4.4 million in fiscal year 2015. To reward timely premium payers, employers with no lapses in coverage during the past 60 months can receive a premium rebate of one percent up to a maximum of $1,000 per six month reporting cycle. Employers earned lapse-free rebates of $3.2 million in fiscal year 2016 and $6.1 million in fiscal year 2015. Due to the recent change to prospective billing in which this rebate is earned annually instead of semi-annually, rebates for lapse-free employers were earned for only the last semi-annual period during fiscal year 2016. Employers earned rebates of $3.8 million in fiscal year 2016 and $3.6 million in fiscal year 2015 by completing requirements of the Industry-Specific Safety Program. Completing the requirements of the Transitional Work Bonus Program earned employers $7 million in fiscal year 2016 compared to $5.7 million in fiscal year 2015.

- Ohio has 83 safety councils that promote increased safety awareness in the workplace and educate businesses on occupational health, wellness, and safety issues. Employers meeting safety council participation eligibility requirements and performance goals for reducing either frequency or severity earned safety council bonuses of $8.9 million in fiscal year 2016 and $9.2 million in fiscal year 2015.

- On April 23, 2014, the BWC Board of Directors (the Board) approved a transition credit of $1.2 billion for private and public taxing district employers to minimize the cash flow impacts of transitioning from collecting premiums in arrears (or after the coverage period) to prospective billing where premiums are collected in advance of the coverage period. The transition credit covers one hundred percent of private employer premiums for the January 1 through June 30, 2015 policy period and one sixth of the annual premiums for the policy year beginning July 1, 2015. Public taxing district employers receive transition credits of 50 percent of annual premiums for each of the policy years beginning January 1, 2015 and 2016. The transition credit was reflected in the fiscal year 2014 financial statements when the Board committed funds for paying these premiums. An additional transition credit expense of $39 million was recorded in fiscal year 2015 based on the actual reporting of payroll and premiums by private employers for the January 1, 2015 through June 30, 2015 policy period. The transition credit expense was reduced by $22 million in fiscal year 2016 based on the reporting of actual payroll by public taxing district employers for the January 1, 2015 policy year and the reporting of actual payroll by private employers for the policy year beginning July 1, 2015.

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- Over the past three 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 Board. A rebate to reduce the net position in SIF was approved by the Board on September 25, 2014. Private employers were granted a rebate equivalent to 60 percent of premiums for the July 1, 2012 through June 30, 2013 policy period, while public employer taxing districts were granted a rebate equivalent to 60 percent of premiums for the January 1, 2012 through December 31, 2012 period. This action resulted in premium rebate expense of just over $1 billion in fiscal year 2015.
- In May 2016, the Board approved a one-time $15 million policy holder rebate to Ohio's 88 county governments from the Public Work-Relief Employee's Fund as a result of strong investment returns. Payments were issued to the counties in June 2016.
- During fiscal year 2014, the parties in the San Allen group rating litigation agreed to a $420 million settlement for damages awarded to the plaintiff class. In February 2015, settlement payments of $137.5 million were made to plaintiff attorneys for fees and litigation costs and $75 thousand for incentive compensation payments to the 6 named plaintiffs in the case. Payments of $255.7 million were made to the class members in June 2015. Payments of $1.6 million were made to the court appointed class administrator and special master during fiscal year 2015. As a result of actual settlement payments made in fiscal year 2015 and those anticipated to be made during fiscal year 2016, legal settlement expenses were reduced by $23 million in fiscal year 2015. An additional $3.7 million and $504 thousand were paid to class members and to the class administrator and special master, respectively, during fiscal year 2016. A liability of $4.1 million has been recognized in the fiscal year 2016 financial statements for anticipated payments to class members during fiscal year 2017.
- House Bill 52 of the 131st General Assembly amended Ohio Revised Code (ORC) 4123.411 allowing the Administrator discretionary authority to levy assessments to fund DWRF I benefits. DWRF I assessment rates were reduced to zero for public taxing district employers for the policy year beginning January 1, 2016 and the policy year beginning July 1, 2016 for private employers. ORC 4123.419 was also amended to allow the Administrator with the advice and consent of the Board the authority to transfer investment income from the SIF to cover the cost of the DWRF I benefits for private and public taxing district employers rather than levying assessments against these employers, which the Board approved in September 2015. A funding commitment of $508 million, based on the estimated DWRF I discounted reserves for compensation and compensation adjustment expenses, has been recognized in the fiscal year 2016 financial statements.
- In fiscal year 2016, BWC/IC recorded net investment income of $1.4 billion, compared to $510 million in fiscal year 2015. The investment portfolio earned a net return of 5.8 percent, after management fees, during fiscal year 2016 compared to 2.2 percent in fiscal year 2015.

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- During fiscal year 2015, the Board approved an increase in the real estate allocation for the SIF investment portfolio from a 6 percent allocation to a targeted 12 percent asset allocation. As of June 30, 2016, the real estate allocation for the SIF investment portfolio is comprised of the following:

(000's omitted)

	Targeted % of portfolio	Number of funds	Committed	Invested	Fair value
Core real estate	7%	8	$ 1,546,531	$ 1,496,531	$ 1,983,720
Core plus real estate	3%	1	700,000	125,000	127,481
Value - added real estate	2%	6	250,000	126,013	130,408
	12%	15	$ 2,496,531	$ 1,747,544	$ 2,241,609

- For the fiscal year ending June 30, 2015, BWC/IC implemented the provisions of Governmental Accounting Standards Board (GASB) Statement Number 68, as amended by GASB Statement Number 71 related to the measurement and reporting of the annual costs and long-term obligations associated with the pension benefits provided to our employees. These standards require BWC/IC to record a proportionate share of the net pension liability of OPERS. Pension expense is based on the full cost of pension benefits being provided to an employee during the year that the employee is providing services to BWC/IC. The 14 percent of covered payroll that is required by statute to be funded each year is not impacted by the GASB pronouncements.

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 8.6 percent for the July 1, 2016 policy year. This latest reduction means that private employers will pay $463 million less annually than they did at the beginning of 2011. Private employer rate levels are 28.2 percent lower than rates in 2011 and are the lowest average rate levels in 39 years.

- Investments in safety create safer workplaces, prevent costly accidents and ultimately result in lower premiums for employers. The Safety Grant Program provides matching funds up to $40 thousand for employers to purchase equipment that will substantially reduce or eliminate injuries and illnesses. In fiscal year 2016, 731 grants totaling $15 million were awarded to employers for safety intervention, wellness, and drug-free programs. BWC has committed $15 million for fiscal year 2017 to continue these programs. BWC invested approximately $2 million in fiscal year 2015 to fund 9 advanced research projects from 6 Ohio universities to promote innovation in areas of workplace safety and health. In fiscal year 2016, approximately $1 million was provided to fund 4 additional advanced research projects. Financial resources have been committed to implement and fund safety programming as part of required training in high-risk specialties such as carpentry, welding, and plumbing. BWC is working with two-year universities and trade schools to include this safety training as part of the education provided to those looking to attain skilled labor positions. BWC/IC continues to invest in safety programs.

- The annual actuarial unpaid loss and loss adjustment expense analysis includes a $4.5 billion discounted liability for unpaid medical costs which represents 32.4 percent of the discounted liability for SIF unpaid claims. The cost of medical benefits is based on current prices for medical services and is not dependent on the year of injury like indemnity benefits. Therefore, the cost of future medical payments is dependent on future inflation and future utilization rates. The average annual

(Continued)

medical cost increase per lost time private employer claim was 2.5 percent from 2004 through 2015. These trends show the need for BWC to remain focused on cost control and programs enabling injured workers to return to work in a timely manner. The sooner an injured worker gets healthy and returns to work, the more likely it is that there will be positive outcomes for the worker, and the less expensive they will be to the workers' compensation system. BWC/IC is addressing return-to-work trends by focusing on triaging of claims, vocational rehabilitation, pharmacy programs, settlements, and the transitional work bonus program.

- For the past year, BWC has been working with a team of stakeholders representing business, labor, managed care organizations, and the medical community to modernize the Bureau's healthcare delivery system. The first step was the creation of a pilot called the Enhanced Care Program (ECP). The ECP began on July 1, 2015, and continues into fiscal year 2017 to identify injured workers who are at risk for not receiving optimal outcomes in their claims. This program looks for ways to identify injured workers who might be at risk due to pre-existing conditions that may adversely impact the ability of the injured worker to return to work in a timely manner. Incentives were designed to encourage the coordination of care among workers' compensation medical providers, primary care physicians, and managed care organizations. In September 2016, BWC contracted with a healthcare consultant to evaluate the ECP and to provide guidance and recommendations regarding modifications and improvements to the overall quality of the Bureau's healthcare delivery system.
- BWC/IC's pharmacy program manages drug utilization to ensure coverage for necessary medications to allow proper care for injured workers in a fiscally responsible manner. Since 2011, many operational changes have occurred to the pharmacy program including the establishment of a closed formulary, limiting coverage of compound prescriptions, placement of 366 out 405 drug classes on a relatedness list, and requiring prior authorization for prescriptions in medical only claims after 60 days. Since 2010, total drug costs have been lowered by more than $28.1 million with prescriptions for opiates down by 38 percent. Future projects include implementation of an automated process to identify high risk medication regimens and trigger direct clinical staff contact with the prescriber and establishment of a retail pharmacy based medication therapy management program to coordinate medications in high risk claims. In May 2016, the Board approved an opioid prescribing rule based on best clinical practices for prescribing and discontinuing these drugs.
- 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 $56.6 million in savings for the State Insurance Fund after closing 1,503 cases during fiscal year 2016.
- Several new value-added real estate funds are currently under review. It is anticipated that three to four new value-added real estate funds will be recommended for approval by the Board over each of the next two fiscal years in order to build towards the 2 percent target ownership objective in the SIF portfolio. At the July 2016 Board meeting, a new value-added real estate fund with a capital investment of up to $50 million was approved.
- 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 2016.

- 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 expense divided by net position). Over the past three years, primarily as a result of excess investment returns and lower than expected claims costs, the net position has increased to the point these ratios are no longer within the guidelines established by the policy. These net position excesses have enabled the Board to approve cash rebates and the $1.2 billion transition credit, in conjunction with the move to a prospective billing system. While these rebates and transition credits did not immediately bring the ratios to within the policy guideline ranges, BWC followed this more conservative approach until a more comprehensive study was completed regarding the risks associated with BWC's estimated reserves for compensation and compensation adjustment expenses and the correlation of this risk with investment risk, pricing risk, and catastrophe risk. The economic capital modeling project was recently completed. This information will be used to develop recommendations for low end and high end funding ratio guidelines based on the probability the SIF net position could be reduced to zero in the next five years. These are the ratios at fiscal year ended 2016, 2015, and 2014:

	2016	2015	2014	Guideline
Funding Ratio	1.69	1.58	1.57	1.15 to 1.35
Net Leverage Ratio	1.65	1.98	2.02	3.0 to 7.0

- 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.

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

STATEMENTS OF NET POSITION

June 30, 2016 and 2015

(000's omitted)

	2016	2015
ASSETS		
Current assets:		
Cash and cash equivalents (Note 2)	$514,565	$796,803
Collateral on loaned securities (Note 2)	484	2,250
Premiums recorded not yet due	62,467	-
Assessments recorded not yet due	7,385	-
Premiums in course of collection	9,581	49,648
Assessments in course of collection	13,691	20,482
Accounts receivable, net of allowance for uncollectibles of $1,155,892 in 2016; $1,158,399 in 2015	266,403	105,985
Investment trade receivables	180,690	486,154
Accrued investment income	134,594	134,504
Other current assets	2,715	2,115
Total current assets	1,192,575	1,597,941
Noncurrent assets:		
Fixed maturities, at fair value (Note 2)	14,734,640	14,278,096
Domestic equity securities, at fair value - common stock (Note 2)	5,610,839	5,669,220
Domestic equity securities, at fair value - preferred stock (Note 2)	1,309	1,198
Non-U.S equity securities, at fair value - common stock (Note 2)	2,226,546	2,480,758
Investments in real estate funds (Note 2)	2,241,609	1,481,070
Unbilled premiums receivable	1,122,313	3,188,200
Retrospective premiums receivable	151,272	215,057
Capital assets (Notes 3)	157,884	142,347
Net pension asset (Note 8)	267	225
Total noncurrent assets	26,246,679	27,456,171
Total assets	$ 27,439,254	$ 29,054,112
DEFERRED OUTFLOW OF RESOURCES (Note 8)	63,608	16,679
Total assets and deferred outflow of resources	$ 27,502,862	$ 29,070,791

	2016	2015
LIABILITIES		
Current liabilities:		
Reserve for compensation (Note 4)	$ 1,636,037	$ 1,752,249
Reserve for compensation adjustment expenses (Note 4)	384,004	379,156
Unearned premium and assessments	513,089	137
Transition credit liability (Note 11)	35,437	351,902
Legal settlement (Note 10)	4,507	2,368
Premium payment security deposits	-	86,088
Warrants payable	36,219	278,363
Investment trade payables	387,057	637,652
Accounts payable	38,660	21,226
Obligations under securities lending (Note 2)	484	2,250
Other current liabilities (Note 5)	22,964	21,277
Total current liabilities	3,058,458	3,532,668
Noncurrent liabilities:		
Reserve for compensation (Note 4)	14,034,563	14,637,151
Reserve for compensation adjustment expenses (Note 4)	1,438,596	1,426,448
Transition credit liability (Note 11)	-	46,000
Net pension liability (Note 8)	187,038	134,479
Other noncurrent liabilities (Note 5)	23,637	23,282
Total noncurrent liabilities	15,683,834	16,267,360
Total liabilities	$ 18,742,292	$ 19,800,028
DEFERRED INFLOW OF RESOURCES (Note 8)	6,685	2,431
Total liabilities and deferred inflow of resources	$ 18,748,977	$ 19,802,459
NET POSITION		
Net investment in capital assets	157,884	142,347
Unrestricted net position	8,596,001	9,125,985
Total net position (Note 13)	$ 8,753,885	$ 9,268,332

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, 2016 and 2015

(000's omitted)

	2016	2015
Operating revenues:		
Premium income net of ceded premium (Note 6)	$1,456,855	$ 1,993,706
DWRF II unbilled assessment (Note 12)	(1,499,600)	-
Provision for uncollectibles	(17,712)	(39,532)
Other income	12,442	8,413
Total operating revenues	(48,015)	1,962,587
Operating expenses:		
Workers' compensation benefits (Note 4)	819,733	1,071,689
Compensation adjustment expenses (Note 4)	391,876	323,250
Personal services	69,923	61,606
Other administrative expenses	49,496	56,766
Total operating expenses	1,331,028	1,513,311
Net operating (loss) income before transition credits, premium rebates, legal settlement and DWRF I alternative	(1,379,043)	449,276
Transition credit expense (Note 11)	(22,070)	38,781
Premium rebate (Note 7)	15,396	1,013,171
Legal settlement	-	(22,938)
DWRF I alternative funding expense	507,891	-
Total transition credits, premium rebates, legal settlement and DWRF I alternative	501,217	1,029,014
Net operating loss	(1,880,260)	(579,738)
Non-operating revenues:		
Net investment income (Note 2)	1,365,464	509,882
Gain on disposal of capital assets	774	71
Total non-operating revenues	1,366,238	509,953
Transfers out	(425)	(425)
Decrease in net position	(514,447)	(70,210)
Net position, beginning of year, as originally stated	9,268,332	9,460,213
Cumulative effect of GASB68 and GASB71 Implementation (Note 8)	-	(121,671)
Net position, beginning of year, as restated	9,268,332	9,338,542
Net position, end of year	$ 8,753,885	$ 9,268,332

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

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

STATEMENTS OF CASH FLOWS

For the years ended June 30, 2016 and 2015

(000's omitted)

	2016	2015
Cash flows from operating activities:		
Cash receipts from premiums and assessments net of reinsurance	$ 1,739,145	$ 2,041,203
Cash receipts - other	28,526	36,652
Cash disbursements for claims	(1,754,292)	(1,773,525)
Cash disbursements to employees for services	(196,053)	(189,767)
Cash disbursements for other operating expenses	(94,314)	(90,224)
Cash disbursements for employer refunds	(496,628)	(1,310,018)
Net cash used for operating activities	(773,616)	(1,285,679)
Cash flows from noncapital financing activities:		
Transfers out	(425)	(425)
Net cash used by noncapital financing activities	(425)	(425)
Cash flows from capital and related financing activities:		
Purchase of capital assets, net of retirements	(23,665)	(25,139)
Net cash used in capital and related financing activities	(23,665)	(25,139)
Cash flows from investing activities:		
Investments sold	11,698,441	18,697,992
Investments purchased	(11,816,206)	(17,766,017)
Interest and dividends received	(51,614)	655,585
Investment expenses	684,847	(42,767)
Net cash provided by investing activities	515,468	1,544,793
Net (decrease) increase in cash and cash equivalents	(282,238)	233,550
Cash and cash equivalents, beginning of year	796,803	563,253
Cash and cash equivalents, end of year	$ 514,565	$ 796,803

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

(Continued)

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, 2016 and 2015

(000's omitted)

	2016	2015
Reconciliation of net operating loss to net cash used for operating activities:		
Net operating loss	$ (1,880,260)	$ (579,738)
Adjustments to reconcile net operating loss to net cash used for operating activities:		
Provision for uncollectible accounts	17,712	39,532
Depreciation	8,902	8,861
Pension	9,841	(1,665)
(Increases) decreases in assets and increases (decreases) in liabilities:		
Premiums and assessments recorded not yet due	(69,852)	-
Premiums and assessments in course of collection	46,858	865,365
Unbilled premiums receivable	2,065,888	(108,720)
Accounts receivable	(178,130)	(34,637)
Retrospective premiums receivable	63,785	36,865
Other assets	(600)	5,418
Reserves for compensation and compensation adjustment expenses	(701,804)	(526,696)
Unearned premiums and assessments	512,952	-
Transition credit liability	(362,465)	(831,098)
Legal settlement	2,139	(417,632)
Premium payment security deposits	(86,088)	(393)
Warrants payable	(242,144)	253,966
Accounts payable	17,434	7,117
Other liabilities	2,216	(2,224)
Net cash used for operating activities	$ (773,616)	$ (1,285,679)
Noncash investing, capital, and financing activities		
Change in fair values of investments	$ 731,967	$ (93,020)

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) with the advice and consent of the Senate and nominating committee appoints the BWC Administrator, the three members of the IC, and the 11-member BWC Board of Directors (Board). All members have full voting rights. The BWC Administrator, with the advice and consent of the Board, is responsible for the operations of the workers' compensation system, while the IC is responsible for administering claim appeals.

BWC/IC is a department of the primary government of the State and is a proprietary operation for purposes of financial reporting. The accompanying financial statements include all accounts, activities, and functions of BWC/IC and are not intended to present the financial position, results of operations, or cash flows of the State taken as a whole. The financial information presented herein for BWC/IC will be incorporated within the State's financial statements.

Basis of Presentation

BWC/IC has prepared its financial statements in accordance with accounting principles generally accepted in the United States of America as applicable to government organizations. Accordingly, these financial statements were prepared using the accrual basis of accounting and the economic resources measurement focus. For internal reporting purposes, BWC/IC maintains separate internal accounts as required by the Code. For external financial reporting purposes, BWC/IC has elected to report as a single column business-type activity, since the individual accounts do not have external financial reporting accountability requirements. All significant interaccount balances and transactions have been eliminated.

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

For the fiscal year ended June 30, 2016, the BWC/IC implemented the provisions of

- GASB No. 72, "Fair Value Measurement and Application."
- GASB No. 76, "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments."

GASB 72 enhances reporting of certain assets and liabilities by requiring fair value measurement that is based on a consistent and more detailed definition of fair value and accepted valuation techniques. The provisions of GASB 72 have been implemented as required in BWC/IC's financial statements and footnotes (see Note 2).

GASB 76 amends previous accounting standards to define the revised categories of authoritative generally accepted accounting principles (GAAP) and addresses the use of authoritative and nonauthoritative literature for transactions and events that are not specified within a source of authoritative GAAP. BWC/IC has applied these revised GAAP requirements for reporting financial statement balances, activities, and note disclosures. There were no changes to the fiscal year 2016 BWC/IC financial statements or note disclosures as a result of the implementation of this standard.

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. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions" (effective fiscal year 2018)
- GASB No. 82, "Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73" (effective fiscal year 2017)

Management has not yet determined the impact that these recently issued 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, bond mutual funds and collateral on securities lending.

Investments are reported at fair value, which is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fixed income securities, domestic equity securities, and bond mutual funds are valued based on published market prices and quotations from national security exchanges and securities pricing services. 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 assets of the fund. Dividends, interest earnings, the net increase (decrease) in the fair value of investments (which includes both the change in fair value and realized gains and losses), and investment expenses are aggregated and reported as net investment income in the statements of revenues, expenses and changes in net 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.

Premium Income

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.

Beginning in fiscal year 2016, SIF and PWREF premiums are collected under a prospective payment system. Private employers transitioned to prospective billing on July 1, 2015 while public employer taxing districts transitioned on January 1, 2016. Premium income for SIF, CWPF, PWREF, and MIF is recognized over the coverage period. It is billed in advance of the coverage period, except for CWPF, which is collected in subsequent periods. Prior to fiscal year 2016, SIF and PWREF premiums were also collected in subsequent periods. Premiums earned but not yet invoiced are reflected as premiums in course of collection in the statement of net position.

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 credit. 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 13) for self-insured employers. Since BWC/IC has the statutory authority to assess premiums against the State and self-insured employers in future periods, an unbilled premiums receivable equal to their share of the discounted reserve for compensation and compensation adjustment expenses, less BWC/IC's portion of the discounted reserve, is reflected in the statement of net position.

Assessment Income

DWRF I (DWRF benefits awarded for injuries incurred prior to January 1, 1987) assessments are based on employers' payroll and rates approved by the Board within a statutory range. DWRF II (DWRF benefits awarded for injuries incurred on or after January 1, 1987) and ACF assessments are based on rates that are approved by the Board and on employers' premiums, 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.

Beginning in fiscal year 2016, assessments are collected under a prospective payment system for DWRF and ACF. Private employers transitioned to prospective billing on July 1, 2015 while public employer taxing districts transitioned on January 1, 2016. Assessment income is recognized over the coverage period and is billed in advance of the coverage period. DWRF I and ACF assessment income is recognized over the period for which the assessment applies. Prior to fiscal year 2016, assessment income was collected in subsequent periods. These assessments earned but not yet invoiced were reflected as assessments in course of collection in the statements of net position.

In September 2015, the Board approved the funding of DWRF I benefits from SIF investment income for private and public taxing district employers rather than levying assessments against these employers. The funding commitment, based on the estimated DWRF I discounted reserves for compensation and compensation adjustment expenses, has been recorded in SIF as DWRF I alternative funding expense in the statements of revenue, expenses, and changes in net position.

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 I public state employers and SIEGF, less BWC/IC's portion of the discounted reserve, is reflected in the statements of net position. SIEGF assessments received or in the course of collection, but not yet recognized, are reflected as a reduction to unbilled premiums receivable.

During fiscal year 2016, assumptions used to estimate DWRF II unbilled receivables have been updated. DWRF cash and investment balances are considered in the determination of the unbilled premium receivables. At June 30, 2016, the total DWRF II cash and investment balances exceeded the DWRF II discounted reserve for compensation and compensation adjustment expenses, thereby eliminating the DWRF II unbilled premiums receivable in the statement of net position at June 30, 2016.

Premium Payment Security Deposits

Prior to fiscal year 2016, premium payment security deposits were collected in advance from private employers to reduce credit risk for premiums collected in subsequent periods. A deposit was submitted upon application for coverage and generally represented 30% of an estimated eight-month premium, with a maximum deposit of $1 thousand. The deposit was applied to outstanding premiums or refunded to the employer upon cancellation of coverage. Since these deposits are no longer required under prospective billing, each employer's deposit was applied to the initial prospective billing installment during fiscal year 2016.

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.

Expenditures for the design, software configuration, software interfaces, coding, hardware, hardware installation, data conversion to the extent necessary for the operation of the new software, testing, and licensure on internally generated software exceeding $1 million are capitalized as an intangible asset. Intangible assets are depreciated upon implementation of the software. The useful lives of intangible assets varies and is 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 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, 2016 and 2015 to reflect the present value of future benefit payments. The selected discount rate approximates an average yield on United States government securities with a duration similar to the expected claims underlying BWC/IC's reserves.

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

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 6).

Income Taxes

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

Net Pension Liability, Net Pension Asset, Deferred Outflows and Inflows of Resources

For purposes of measuring the net pension liability and net pension asset, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Ohio Public Employee's Retirement System's (OPERS) Plans and additions to / deductions from the OPERS Plans' fiduciary net position have been determined on the same basis as they are reported by OPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. OPERS investments are reported at fair value. BWC/IC records its proportionate share of OPERS net pension liability and discloses additional information regarding the net pension liability, net pension asset, deferred outflows and inflows of resources, and pension expense in the footnotes and required supplementary information sections of this report.

Use of Estimates

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

2. 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 public monies on deposit at the institution. At June 30, 2016 and 2015, the carrying amount of BWC/IC's cash deposits were $57.9 million and $20.6 million, respectively, and the bank balances were $12.8 million and $12.4 million, respectively. Differences between the carrying amount and bank balances are primarily due to in transit credit card and online payments. Of the June 30, 2016 and 2015 bank balances, $250 thousand were insured by the FDIC. The remaining cash balance on deposit with the bank was collateralized by pledges held by the trustee of either a surety bond or securities with a sufficient market value 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.

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Custodial Credit Risk – Investments

Custodial credit risk for investments is the risk that, in the event of a failure of a counterparty 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. 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. Fixed maturities held in commingled bond funds in the custody of State Street were $1.4 billion at June 30, 2016 and 2015. At June 30, 2016 and 2015, investments in open ended bond mutual funds were $21.4 million and $25.3 million, respectively, and investments in bank loans were $27.1 million and $60.5 million, respectively, and were not held by the custodian. The remaining balance presented as of June 30, 2016 was held by the custodian on behalf of BWC/IC.

The composition of investments held at June 30, 2016 and 2015 is presented below (000's omitted):

	2016 Fair Value	2015 Fair Value
Fixed maturities		
U.S. corporate bonds	$ 5,890,039	$ 5,193,347
U.S. treasury inflation protected securities	2,214,285	2,695,040
U.S. government obligations	1,898,132	1,677,093
Non-U.S. corporate bonds	1,264,891	1,252,518
Commingled U.S. aggregate indexed fixed income	693,903	660,718
Commingled U.S. treasury inflation protected securities	683,192	654,957
U.S. state and local government agencies	564,120	544,152
U.S. government agency mortgages	496,469	492,498
Asset backed securities	352,953	275,136
Commercial mortgage backed securities	254,820	242,596
Non-U.S. government and agency bonds	175,919	192,694
U.S. government agency bonds	117,672	206,777
Commingled U.S. intermediate duration fixed income	40,682	53,389
Preferred securities	36,030	48,744
Bank loans	27,098	60,484
Bond mutual fund	21,401	25,263
Supranational issues	3,034	2,690
Total fixed maturities	14,734,640	14,278,096
Domestic equity securities - common stocks	5,228,914	5,264,151
Domestic equity securities - preferred stocks	1,309	1,198
Commingled domestic equity securities - common stocks	381,925	405,069
Commingled Non-U.S. equity securities - common stocks	2,226,546	2,480,758
Commingled investments in real estate	2,241,609	1,481,070
Securities lending short-term collateral	484	2,250
Cash and cash equivalents		
Cash	57,889	20,585
Repurchase agreements	6,900	3,000
Short-term money market fund	449,776	773,218
Total cash and cash equivalents	514,565	796,803
	$ 25,329,992	$ 24,709,395

Net investment income for the years ended June 30, 2016 and 2015 is summarized as follows (000's omitted):

	2016	2015
Fixed maturities	$ 507,341	$ 482,060
Equity securities	101,232	107,633
Real estate	75,949	57,391
Cash equivalents	414	67
	684,936	647,151
Increase (decrease) in fair value of investments	731,967	(93,020)
Investment expenses	(51,439)	(44,249)
	$ 1,365,464	$ 509,882

Fair Value Measurements

BWC/IC's investments measured and reported at fair value are classified according to the following hierarchy:

Level 1 - Investments reflect prices quoted in active markets.

Level 2 - Investments reflect prices that are based on a similar observable asset either directly or indirectly, which may include inputs in markets that are not considered to be active.

Level 3 - Investments reflect prices based upon unobservable sources.

The categorization of investments within the hierarchy is based upon the pricing transparency of the instrument and should not be perceived as the particular investment's risk.

Fixed maturities and equities classified in Level 1 of the fair value hierarchy are valued directly from a primary external pricing vendor. Assets classified in Level 2 are subject to pricing by an alternative pricing source due to lack of information available by the primary vendor. Asset backed and commercial mortgage backed securities, bank loans, and commingled investments in real estate classified in Level 3 are valued using an internal fair value as provided by the investment manager or other unobservable pricing source.

The fair value measurement of investments held at June 30, 2016 and 2015 is presented below (000's omitted):

	Quoted Prices Level 1	Observable Inputs Level 2	Unobservable Inputs Level 3	2016 Fair Value Total
Fixed Maturities				
U.S. corporate bonds	$ -	$ 5,890,039	$ -	$ 5,890,039
U.S. treasury inflation protected securities	2,214,285	-	-	2,214,285
U.S. government obligations	1,820,020	78,112	-	1,898,132
Non-U.S. corporate bonds	-	1,264,891	-	1,264,891
U.S. state and local government agencies	-	564,120	-	564,120
U.S. government agency mortgages	-	496,469	-	496,469
Asset backed securities	-	347,876	5,077	352,953
Commercial mortgage backed securities	-	245,283	9,537	254,820
Non-U.S. government and agency bonds	-	175,919	-	175,919
U.S. government agency bonds	1,266	116,406	-	117,672
Preferred securities	-	36,030	-	36,030
Bank loans	-	-	27,098	27,098
Bond mutual fund	21,401	-	-	21,401
Supranational issues	-	3,034	-	3,034
Domestic equity securities - common stocks	5,228,914	-	-	5,228,914
Domestic equity securities - preferred stocks	1,309	-	-	1,309
Securities lending short-term collateral	-	484	-	484
	$ 9,287,195	$ 9,218,663	$ 41,712	$ 18,547,570
Investments measured at net asset value:				
Commingled U.S. aggregate indexed fixed income				693,903
Commingled U.S. treasury inflation protected securities				683,192
Commingled U.S. intermediate duration fixed income				40,682
Commingled domestic equity securities - common stocks				381,925
Commingled Non-U.S. equity securities - common stocks				2,226,546
Commingled investments in real estate				2,241,609
				$ 6,267,857
Cash and Cash Equivalents:				$ 514,565
Total Investments:				$ 25,329,992

	Quoted Prices Level 1	Observable Inputs Level 2	Unobservable Inputs Level 3	2015 Fair Value Total
Fixed Maturities				
U.S. corporate bonds	$ -	$ 5,193,347	$ -	$ 5,193,347
U.S. treasury inflation protected securities	2,695,040	-	-	2,695,040
U.S. government obligations	1,625,495	51,598	-	1,677,093
Non-U.S. corporate bonds	-	1,252,518	-	1,252,518
U.S. state and local government agencies	-	544,152	-	544,152
U.S. government agency mortgages	-	492,498	-	492,498
Asset backed securities	-	275,136	-	275,136
Commercial mortgage backed securities	-	242,596	-	242,596
U.S. government agency bonds	1,159	205,618	-	206,777
Non-U.S. government and agency bonds	-	192,694	-	192,694
Bank loans	-	-	60,484	60,484
Preferred securities	-	48,744	-	48,744
Bond mutual fund	25,263	-	-	25,263
Supranational issues	-	2,690	-	2,690
Domestic equity securities - common stocks	5,264,151	-	-	5,264,151
Domestic equity securities - preferred stocks	1,198	-	-	1,198
Securities lending short-term collateral	-	2,250	-	2,250
	$ 9,612,306	$ 8,503,841	$ 60,484	$ 18,176,631
Investments measured at net asset value:				
Commingled U.S. aggregate indexed fixed income				660,718
Commingled U.S. treasury inflation protected securities				654,957
Commingled U.S. intermediate duration fixed income				53,389
Commingled domestic equity securities - common stocks				405,069
Commingled Non-U.S. equity securities - common stocks				2,480,758
Commingled investments in real estate				1,481,070
				$ 5,735,961
Cash and Cash Equivalents:				$ 796,803
Total Investments:				$ 24,709,395

(Continued)

The valuation method for investments measured at the net asset value (NAV) per share, or equivalent, is presented in the tables below (000's omitted):

Investments Measured at the NAV
FY 2016

Investment Strategy	Fair Value	Unfunded Commitments	Redemption Frequency (If currently eligible)	Redemption Notice Period
Commingled U.S. aggregate indexed fixed income	693,903		Daily	5 days
Commingled U.S. treasury inflation protected securities	683,192		Daily	5 days
Commingled U.S. intermediate duration fixed income	40,682		Daily	5 days
Commingled domestic equity securities - common stocks	381,925		Daily	5 days
Commingled Non-U.S. equity securities - common stocks	2,226,546		Daily	5 days
Commingled investments in real estate:				
Core Real Estate	1,983,720	50,000	Quarterly	1 quarter
Core Plus Real Estate	127,481	575,000	Quarterly	1 quarter
Value Added Real Estate	130,408	123,987	Illiquid	
Total Commingled investments in real estates:	2,241,609	748,987		

Investments Measured at the NAV
FY 2015

Investment Strategy	Fair Value	Unfunded Commitments	Redemption Frequency (If currently eligible)	Redemption Notice Period
Commingled U.S. aggregate indexed fixed income	660,718		Daily	5 days
Commingled U.S. treasury inflation protected securities	654,957		Daily	5 days
Commingled U.S. intermediate duration fixed income	53,389		Daily	5 days
Commingled domestic equity securities - common stocks	405,069		Daily	5 days
Commingled Non-U.S. equity securities - common stocks	2,480,758		Daily	5 days
Commingled investments in real estate:				
Core Real Estate	1,434,743	200,000	Quarterly	1 quarter
Value Added Real Estate	46,327	105,852	Illiquid	
Total Commingled investments in real estates:	1,481,070	305,852		

Commingled Fixed Maturities, Domestic Equity, and Non-U.S. Equity Accounts

Two commingled U.S. aggregate indexed fixed income accounts, two commingled U.S. treasury inflation protected securities accounts, two commingled U.S. intermediate duration fixed income accounts, two commingled domestic equity securities – common stock accounts, and three commingled non-U.S. equity securities – common stock accounts are considered to be commingled in nature. Each are valued at the net asset value of units held at the end of the period based upon the fair value of the underlying investments.

Commingled Real Estate Investments

BWC/IC invests in real estate through limited partnerships, commingled funds, and real estate investment trusts. Core and Core Plus 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

(Continued)

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.

Short-Term Money Market Fund

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

Repurchase Agreements

Overnight repurchase agreements are considered cash and cash equivalents. In a repurchase agreement, the lender purchases a high quality, liquid security from another firm with an agreement in place for that firm to repurchase the security back from the lender on a specific date with specified terms. At June 30, 2016 and 2015, the BWC/IC held $6.9 million and $3 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 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, 2016 and 2015, the effective duration of BWC's fixed-income portfolio is as follows (000's omitted):

	June 30, 2016		June 30, 2015	
Investment Type	Fair Value	Effective Duration	Fair Value	Effective Duration
Supranational issues	$ 3,034	16.14	$ 2,690	15.86
U.S. government obligations	1,898,132	15.08	1,677,093	14.08
U.S. state and local government agencies	564,120	13.35	544,152	13.03
U.S. corporate bonds	5,890,039	12.81	5,193,347	12.03
Non-U.S. government and agency bonds	175,919	12.13	192,694	12.31
Non-U.S. corporate bonds	1,264,891	10.92	1,252,518	10.34
U.S. government agency bonds	117,672	9.07	206,777	5.34
U.S. treasury inflationary protected securities	2,214,285	7.96	2,695,040	7.81
Commingled U.S. treasury inflationary protected securities	683,192	7.96	654,957	7.81
Commingled U.S. aggregate indexed fixed income	693,903	5.48	660,718	5.64
Commingled U.S. intermediate duration fixed income	40,682	4.09	53,389	3.95
Preferred securities	36,030	3.18	48,744	4.82
U.S. government agency mortgages	496,469	2.94	492,498	4.16
Commercial mortgage backed securities	254,820	2.73	242,596	4.12
Bond mutual fund	21,401	1.13	25,263	0.60
Asset backed securities	352,953	0.83	275,136	0.97
Bank loans	27,098	0.75	60,484	0.79
Total fixed maturities	$ 14,734,640		$ 14,278,096	

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. U.S. government obligations, 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 2016 and 2015. 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).

Quality Rating	2016 Fair Value	2015 Fair Value
Credit risk debt quality		
AAA	$ 420,286	$ 383,409
AA	1,759,226	1,690,939
A	2,528,659	2,299,931
BBB	3,959,245	3,530,343
BB	470,569	499,353
B	170,629	133,070
CCC	16,244	14,686
D	32	-
Total credit risk debt securities	9,324,890	8,551,731
U.S. government agency bonds		
AAA	14,927	23,559
AA	102,745	183,218
Total U.S. government agency bonds	117,672	206,777
U.S. government agency mortgages		
AAA	16,132	28,463
AA	471,158	464,035
A	2,307	-
BBB	5,211	-
B	1,661	-
Total U.S. government agency mortgages	496,469	492,498
U.S. government obligations (AA)	1,898,132	1,677,093
U.S. treasury inflation protected securities (AA)	2,214,285	2,695,040
Commingled U.S. treasury inflation protected securities (AA)	683,192	654,957
Total fixed maturities	$ 14,734,640	$ 14,278,096

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 2016 and 2015, 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, 2016 and 2015 is as follows (000's omitted):

Currency	2016 Fair Value	2015 Fair Value
Australian Dollar	$ 114,013	$ 121,250
Bermudian Dollar	955	-
Brazilian Real	36,153	40,663
British Pound	264,880	367,200
Canadian Dollar	151,103	163,995
Caymanian Dollar	29	-
Chilean Peso	6,186	6,586
Chinese Renminbi	105,992	503
Colombian Peso	2,416	3,164
Czech Koruna	792	959
Danish Krone	30,974	29,414
Egyptian Pound	797	1,098
Euro	509,101	531,152
Hong Kong Dollar	72,874	191,038
Hungarian Forint	1,304	1,135
Indian Rupee	41,867	41,331
Indonesian Rupiah	13,584	12,557
Israeli Shekel	12,124	10,609
Japanese Yen	366,519	402,618
Macau Pataca	1,566	-
Malaysian Ringgit	14,776	17,073
Manx Pound	344	-
Mexican Peso	21,130	24,328
New Zealand Dollar	2,978	2,266
Norwegian Krone	10,075	11,231
Peruvian Nuevo Sol	1,684	-
Philippines Peso	7,859	7,312
Polish Zloty	5,639	7,879
Qatari Rial	4,468	5,139
Russian Ruble	18,686	10,003
Singapore Dollar	20,984	25,079
South African Rand	34,322	42,594
South Korean Won	73,114	77,341
Swedish Krona	42,706	51,598
Swiss Franc	151,197	162,383
Taiwan Dollar	60,478	68,239
Thailand Baht	11,269	12,232
Turkish Lira	6,744	7,827
United Arab Emirates Dirham	4,417	3,992
Exposure to foreign currency risk	2,226,099	2,461,788
United States Dollar	447	18,970
Total international securities	$ 2,226,546	$ 2,480,758

Securities Lending

At June 30, 2016 and 2015, BWC/IC had no securities out on loan. BWC/IC has been allocated with cash collateral of $484 thousand in 2016 and $2.3 million in 2015 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, 2016 and 2015 are summarized as follows (000's omitted):

	Balance at 6/30/2014	Increases	Decreases	Balance at 6/30/2015	Increases	Decreases	Balance at 6/30/2016
Capital assets not being depreciated							
Land	$ 11,994	$ -	$ -	$ 11,994	$ -	$ (2,528)	9,466
Subtotal	11,994	-	-	11,994	-	(2,528)	9,466
Capital assets being depreciated							
Buildings	205,771	59	-	205,830	1	-	205,831
Building improvements	3,542	-	-	3,542	37	-	3,579
Furniture and equipment	29,922	2,617	(4,757)	27,782	3,687	(1,243)	30,226
Land improvements	66	-	-	66	-	(66)	-
Subtotal	239,301	2,676	(4,757)	237,220	3,725	(1,309)	239,636
Accumulated depreciation							
Buildings	(158,960)	(6,786)	-	(165,746)	(6,787)	-	(172,533)
Building improvements	(575)	(178)	-	(753)	(177)	-	(930)
Furniture and equipment	(26,817)	(1,896)	4,733	(23,980)	(1,830)	1,218	(24,592)
Land improvements	(59)	(1)	-	(60)	(1)	61	-
Subtotal	(186,411)	(8,861)	4,733	(190,539)	(8,795)	1,279	(198,055)
Capital assets being amortized							
Intangible assets - definite useful lives	61,114	22,558	-	83,672	23,272	-	106,944
Accumulated amortization	-	-	-	-	(107)	-	(107)
Subtotal	61,114	22,558	-	83,672	23,165	-	106,837
Net capital assets	$ 125,998	$ 16,373	$ (24)	$ 142,347	$ 18,095	$ (2,558)	$ 157,884

BWC has not started amortizing the intangible asset associated with the internally generated software project yet as it has not been placed in to service as of June 30, 2016. It is anticipated this asset will be placed in service during the second quarter of fiscal year 2017.

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, 2016 and 2015. A decrease in the discount rate to 3.0% would result in the reserves for compensation and compensation adjustment expenses increasing to $19.5 billion at June 30, 2016, while an increase in the rate to 5.0% would result in the reserves for compensation and compensation adjustment expenses

(Continued)

decreasing to $15.9 billion. The undiscounted reserves for compensation and compensation adjustment expenses were $29.3 billion at June 30, 2016 and $30.7 billion at June 30, 2015.

The changes in the reserves for compensation and compensation adjustment expenses for the years ended June 30, 2016, 2015, and 2014 are summarized as follows (000,000's omitted):

	2016	2015	2014
Reserves for compensation and compensation adjustment expenses, beginning of period	$ 18,195	$ 18,722	$ 19,190
Incurred:			
Provision for insured events of current period	1,731	1,853	1,854
Net decrease in provision for insured events of prior periods net of discount accretion of $728 in 2016, $749 in 2015 and $768 in 2014.	(528)	(458)	(338)
Total incurred	1,203	1,395	1,516
Payments:			
Compensation and compensation adjustment expenses attributable to insured events of current period	327	331	337
Compensation and compensation adjustment expenses attributable to insured events of prior period	1,578	1,591	1,647
Total payments	1,905	1,922	1,984
Reserves for compensation and compensation adjustment expenses, end of period	$ 17,493	$ 18,195	$ 18,722

5. <u>Long-Term Obligations</u>

Activity for long-term obligations (excluding the reserves for compensation and compensation adjustment expenses – see Note 4) for the years ended June 30, 2016 and 2015 is summarized as follows (000's omitted):

	Balance at 6/30/2014	Increases	Decreases	Balance at 6/30/2015	Due Within One Year
Transition credit payable	$ 1,229,000	$ -	$ (831,098)	$ 397,902	$ 351,902
Net pension liability	-	134,479	-	134,479	-
Other liabilities	45,330	85,999	(86,770)	44,559	21,277
	$ 1,274,330	$ 220,478	$ (917,868)	$ 576,940	$ 373,179

	Balance at 6/30/2015	Increases	Decreases	Balance at 6/30/2016	Due Within One Year
Transition credit payable	$ 397,902	$ -	$ (362,465)	$ 35,437	$ 35,437
Net pension liability	134,479	52,559	-	187,038	-
Other liabilities	44,559	96,760	(94,718)	46,601	22,964
	$ 576,940	$ 149,319	$ (457,183)	$ 269,076	$ 58,401

(Continued)

6. 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 2015 (TRIPRA). TRIPRA is in effect for losses up to $1 billion. Certain provisions frame the coverage under TRIPRA and they are the following:

- The aggregate losses from an occurrence must exceed $100 million. This minimum increases $20 million per year from 2016 to 2020.
- 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. This percentage increases 1% per year from 2016 to 2020.

Coverage for policies is provided under the following terms:

Policy Period: April 1, 2016 to March 31, 2018

Reinsurance Coverage:

- Section One – Other than Acts of Nuclear, Biological, Chemical, or Radiological (NBCR) Terrorism - 50% of $250 million in excess of $100 million per Loss Occurrence - Maximum loss of $10 million of any one person
- Section Two – Only for Acts of Terrorism including NBCR Terrorism - $100 million in excess of $350 million per Loss Occurrence - Maximum loss of $10 million of any one person

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

Reinsurance Coverage:

- Section One – Other than Acts of Nuclear, Biological, Chemical, or Radiological (NBCR) Terrorism - 50% of $250 million in excess of $100 million per Loss Occurrence - Maximum loss of $5 million of any one person
- Section Two – Only for Acts of Terrorism including NBCR Terrorism - 15% of $650 million (or $97.5 million) in excess of $350 million per Loss Occurrence - Maximum loss of $5 million of any one person

(Continued)

The following premiums ceded for reinsurance coverage have been recorded in the accompanying basic financial statements for the years ended June 30, 2016 and 2015 (000's omitted):

	2016	2015
Premium and assessment income	$ 1,460,755	$ 1,997,601
Ceded premiums	(3,900)	(3,895)
Total premium and assessment income net of ceded premiums	$ 1,456,855	$ 1,993,706

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, 2016 and 2015:

Reinsurer	2016	2015
Allied World Assurance Company	A	A
Alterra Zurich Branch of Alterra UK Underwriting Services Limited	*	A
Axis Specialty LTD	A+	A+
Hannover Re (Bermuda) LTD	A+	A+
Markel Bermuda Ltd.	A	*
Tokio Millennium Re Limited	A++	A++
Underwriters at Lloyd's	A	A

* Reinsurer not under contract

Other States Coverage

Beginning in fiscal year 2016, BWC is providing optional additional insurance coverage for Ohio companies who have employees who temporarily work in other states. This additional policy offers coverage for workers' compensation gaps and protects employers from penalties and stop-work orders in other states. Zurich American Insurance Company acts as the insurer of the Other States Coverage policies. United States Insurance Services Inc. administers the process for issuing claim payments.

7. 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. A rebate to reduce the net position in SIF was approved by the Board at the September 2014 board meeting. As a result, the private employers were granted a rebate equivalent to 60% of billed premiums for the July 1, 2012 through June 30, 2013 policy period, while public taxing district employers were granted a rebate equivalent to 60% of premiums for the January 1, 2012 through December 31, 2012 policy period. This action resulted in premium rebate expense of $1 billion in fiscal year 2015 and $223 thousand in fiscal year 2016.

In fiscal year 2016, BWC's Board approved a three hundred percent rebate of billed premiums from the January 1, 2005 through December 31, 2014 policy years for PWREF employers. This action resulted in premium rebate expense of $15.2 million in fiscal year 2016.

These policy holder rebates reduce the SIF and PWREF net positions, but preserve prudent net positions while maintaining the ability to meet future obligations for these funds.

8. Benefit Plans

General Information about the Pension Plans

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

- The Traditional Plan - a cost-sharing, multiple-employer defined benefit pension plan.
- The Member-Directed Plan – a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under this plan, members accumulate retirement assets equal to the value of member and vested employer contributions plus any investment earnings thereon.
- The Combined Plan – a cost-sharing, multiple-employer defined benefit pension plan. Under the Combined Plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar in nature to, 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/financial/reports.shtml#CAFR, 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, 2016, the most recent report issued by OPERS is as of December 31, 2015.

Chapter 145 of the Ohio Revised Code provides OPERS statutory authority for employee and employer contributions. For 2016, member and employer contribution rates were consistent across all three plans. For the years ended December 31, 2015 and 2014, the employee contribution rate was 10% and the employer contribution rate was 14% of covered payroll. For fiscal years 2016 and 2015, BWC/IC's employer contributions were $19.8 million and $19.7 million, respectively.

Pension Assets, Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2016 and 2015, BWC/IC reported a liability of $187 million and $134 million, respectively, for its proportionate share of the Traditional Plan's net pension liability and $267 thousand and $225 thousand, respectively, for its proportionate share of the Combined Plan's net pension asset. The net pension liability and asset were measured as of December 31, 2015 and 2014, and the total pension liability used to calculate the net pension liability and asset was determined by an actuarial valuation as of these dates. BWC/IC's proportion of the net pension liability and asset was based on BWC/IC's share of contributions to the pension plan relative to the total employer contributions from all participating OPERS employers. Member and employer contributions included in OPERS' Statement of Changes in Fiduciary Net Position are used to calculate the proportionate share. At December 31, 2015 and 2014, Ohio BWC/IC's proportions were as follows:

	December 2015		December 2014	
	BWC	IC	BWC	IC
Traditional Plan	0.888733%	0.191082%	0.920909%	0.194073%
Combined Plan	0.469899%	0.078951%	0.501246%	0.084752%

For the years ended June 30, 2016 and 2015, Ohio BWC/IC recognized pension expense of $29.5 million and $18.2 million, respectively.

At June 30, 2016 and 2015, Ohio BWC/IC reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (000's omitted):

	June 2016		June 2015	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ -	$ 3,780	$ -	$ 2,431
Net difference between projected and actual earnings on pension plan investments	55,263	-	7,189	-
Changes in proportion and differences between BWC/IC contributions and proportionate share of contributions	117	2,905	-	-
BWC/IC contributions subsequent to the measurement date	8,228	-	9,490	-
Total	$ 63,608	$ 6,685	$ 16,679	$ 2,431

(Continued)

In 2016 and 2015, deferred outflows of resources related to pensions resulting from Ohio BWC/IC's contributions subsequent to the measurement date of $8.2 million and $9.5 million will be recognized as a reduction of net pension liability in the years ended June 30, 2017 and 2016, respectively. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows (000's omitted):

	Fiscal Year 2016			Fiscal Year 2015		
Year ended June 30:						
	2017	$	10,770	2016	$	699
	2018		11,678	2017		699
	2019		13,850	2018		1,607
	2020		12,453	2019		1,789
	2021		(14)	2020		(8)
	Thereafter	$	(42)	Thereafter	$	(28)

Actuarial Assumptions

The total pension liability in the December 31, 2015 and 2014 actuarial valuations were determined using the following actuarial assumptions, applied to all periods included in the measurement:

	Traditional Pension Plan	Combined Plan
Actuarial Assumptions:		
Investment Rate of Return	8.00%	8.00%
Wage Inflation	3.75%	3.75%
Projected Salary Increases	4.25% - 10.05% (includes wage inflation at 3.75%)	4.25% - 8.05% (includes wage inflation at 3.75%)
Cost of living Adjustments	Pre-1/7/2013 Retirees: 3.00% Simple Post-1/7/2013 Retirees: 3.00% Simple through 2018, then 2.80% Simple	Pre-1/7/2013 Retirees: 3.00% Simple Post-1/7/2013 Retirees: 3.00% Simple through 2018, then 2.80% Simple

Mortality rates were based on the RP-2000 mortality table projected 20 years using Projection Scale AA. For males, 105% of the combined healthy male mortality rates were used. For females, 100% of the combined healthy female mortality rates were used. The mortality rates used in evaluating disability allowances were based upon the RP-2000 mortality table with no projections. For males, 120% of the disabled female mortiliaty rates were used, set forward two years. For females, 100% of the disabled female mortality rates were used.

The actuarial assumptions used in the December 31, 2015 and 2014 valuations were based on the results of an actuarial experience study for the 5 year period ended December 31, 2010. Actuarially determined amounts are subject to continual review or modification as actual results are compared with past expectations and new estimates are made about the future.

(Continued)

The long-term expected rate of return on defined benefit investment assets was determined using a building-block method in which best estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the best estimates of arithmetical real rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adjusted for inflation. The table below displays the OPERS Board approved asset allocation policy for December 2015 and 2014 and the expected real rates of return.

	December 2015		December 2014	
Asset Class	Target Allocation	Weighted Average Expected Real Rate of Return	Target Allocation	Weighted Average Expected Real Rate of Return
Fixed income	23.00%	2.31%	23.00%	2.31%
Domestic equity	20.70%	5.84%	19.90%	5.84%
International equity	18.30%	7.40%	19.10%	7.40%
Real estate	10.00%	4.25%	10.00%	4.25%
Private equity	10.00%	9.25%	10.00%	9.25%
Other Investments	18.00%	4.59%	18.00%	4.59%
Total	100.00%	5.27%	100.00%	5.28%

Discount Rate

The discount rate used to measure the total pension liability for both 2016 and 2015 was 8% for both the Traditional Pension Plan and the Combined Plan. The projection of cashflows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the contractually required rates, as actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long term expected rate of return on pension plan investments for both the Traditional Pension Plan and the Combined Plan was applied to all periods of projected benefit payments to determine the total pension liability.

(Continued)

Sensitivity to Changes in the Discount Rate

The following presents BWC/IC's proportionate share of the net pension liability calculated using the discount rate of 8%, as well as what BWC/IC's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate (000's omitted):

December 2015

	1% Decrease - 7%	Current Discount Rate - 8%	1% Increase - 9%
Traditional Plan:			
BWC	$ 245,264	$ 153,940	$ 76,911
IC	52,733	33,098	16,536
Total Net Pension Liability	297,997	187,038	93,447
Combined Plan:			
BWC	(5)	(229)	(409)
IC	(1)	(38)	(69)
Total Net Pension (Asset)	$ (6)	$ (267)	$ (478)

December 2014

	1% Decrease - 7%	Current Discount Rate - 8%	1% Increase - 9%
Traditional Plan:			
BWC	$ 204,340	$ 111,072	$ 32,517
IC	43,063	23,407	6,853
Total Net Pension Liability	247,403	134,479	39,370
Combined Plan:			
BWC	25	(192)	(366)
IC	4	(33)	(62)
Total Net Pension (Asset)	$ 29	$ (225)	$ (428)

Defined Contribution Plans

Defined contribution plan benefits are established in the plan documents, which may be amended by the OPERS Board. Member-Directed Plan and Combined Plan members who have met the retirement eligibility requirements may apply for retirement benefits. The amount available for defined contribution benefits in the Combined Plan consists of the member's contributions plus or minus the investment gains or losses resulting from the member's investment selections. Combined Plan members wishing to receive benefits must meet the requirements for both the defined benefit and defined contribution plans. Member-Directed participants must have attained the age of 55, have money on deposit in the defined contribution plan and have terminated public service to apply for retirement benefits. The amount available for defined contribution benefits in the Member-Directed Plan consists of the members' contributions, vested employer contributions and investment gains or losses resulting from the members' investment selections. Employer contributions and associated investment earnings vest over a five year period, at a rate of 20% each year. BWC/IC recognized $606 thousand and $496 thousand in pension expense for defined contribution

(Continued)

plans in fiscal years 2016 and 2015, respectively. At retirement, members may select one of the several distribution options for payment of the vested balance of their individual OPERS accounts. Options include the purchase of a monthly annuity from OPERS (which includes joint and survivor options), partial lump sum payments (subject to limitations), a rollover of the vested account balance to another financial institution, receipt of entire account balance, net of taxes withheld, or a combination of these options.

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued OPERS financial report.

Change in Accounting Principle

In fiscal year 2015, BWC/IC adopted GASBs 68 and 71 and net position was restated at July 1, 2014. Previously, pension expense was reported equal to the amount remitted as statutory contributions. Information describing the retirement plans, contribution rates and where to find information about the plans was included in the notes to the financial statements. With the adoption of GASBs 68 and 71, BWC/IC is required to report a proportionate share of the retirement system's net pension liability and asset (or unfunded liability) and other activity, including pension expense on the BWC/IC's financial statements and also provide disclosures in the notes to the financial statements. This standard only impacts financial reporting and does not affect the amount that BWC/IC is required to fund under Ohio law. Under Ohio law, employers are not required to pay more than the current statutory contribution. The effect of this change resulted in a net decrease in net position of BWC/IC at July 1, 2014 of $121.7 million.

Post-Retirement Health Care

OPERS maintains two cost-sharing multiple employer defined benefit post-employment healthcare trusts, which fund multiple health care plans including medical coverage, prescription drug coverage, deposits to a Health Reimbursement Arrangement, and Medicare Part B premium reimbursements, to qualifying benefit recipients of both the Traditional and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including OPERS sponsored health care coverage. To qualify for post-retirement health care coverage, age and service retirees under the Traditional Pension and Combined plans must have 20 or more years of qualifying Ohio service credit. Health care coverage for disabled recipients and qualified 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 Ohio Revised Code permits, but does not require, OPERS to provide the OPEB Plan to its eligible benefit recipients. Authority to establish and amend health care coverage is provided to the Board in Chapter 145 of the Ohio Revised Code. The Ohio Revised Code provides statutory authority requiring public employers to fund health care through their contributions to

(Continued)

OPERS. A portion of each employer's contribution to OPERS is set aside to fund OPERS health care plans.

Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2015, state employers contributed at a rate of 14.0% of earnable salary. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active member contributions do not fund health care.

OPERS maintains three health care trusts. The two cost-sharing multiple employer trusts, the 401(h) Health Care Trust and the 115 Health Care Trust, work together to provide health care funding to eligible retirees of the Traditional Pension and Combined plans. The third trust is a Voluntary Employee's Beneficiary Association (VEBA) that provides funding for a Retiree Medical Account for Member-Directed Plan members. Each year, the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside to fund health care plans. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan and Combined Plan was 2.0% during calendar year 2015. As recommended by OPERS' actuary, the portion of employer contributions allocated to health care beginning January 1, 2016 remained at 2.0% for both plans. The Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The employer contribution as a percentage of covered payroll deposited to the VEBA for participants in the Member-Directed Plan for 2015 was 4.5%. 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, 2016 and 2015 allocated to OPEB was approximately $2.7 million and $2.8 million, respectively.

9. Risk Management

BWC/IC is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To cover these risks, BWC/IC maintains commercial insurance and property insurance. There were no reductions in coverage in either fiscal years 2016 or 2015. Claims experience over the past three years indicates there were no instances of losses exceeding insurance coverage. Additionally, BWC/IC provides medical benefits for its employees on a fully insured basis with independent insurance companies or the State's self-insured benefit plan.

10. Contingent Liabilities

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

A class action 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 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. On March 20, 2013, the court determined the damages and ordered that the class was entitled to restitution in the amount of $859 million. Accordingly, a provision for this liability was reported in the 2013 financial statements for this matter. On April 15, 2013, BWC filed a notice of appeal of the judgment. On July 19, 2013, BWC filed its appeal brief. The decision from the Eighth District Court of Appeals in May 2014 did remand part of the case to the trial court for potential offset of damages, which did reduce the amount of judgment against BWC. On July 23, 2014 all parties agreed to a settlement of $420 million. As of June 30, 2016 approximately $4 million remains to be paid.

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. On August 8, 2014, the City of Parma filed a motion for class certification. On August 15, 2014, the court granted the BWC indefinite leave to oppose the motion for class certification. On October 24, 2014, BWC filed a motion for partial summary judgment. The court denied this motion on January 13, 2016 and stated that Parma may assert a claim for unjust enrichment as early as 2001. Discovery is on-going and the parties are in the midst of lay witness depositions. The court has not yet set a trial date for Parma. A trial date has been set in January 2017 for Cleveland. While adverse decisions are possible for these lawsuits, the financial exposure cannot be estimated at this time. Accordingly, no provision for any liability has been reported in the financial statements for these matters.

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% of their awarded benefits. On December 23, 2010, BWC filed a motion to dismiss for lack of subject matter jurisdiction, on the basis that plaintiff's complaint is an action in law (not an action in equity), which should be brought in the Ohio Court of Claims. This motion was denied. On August 15, 2012, BWC filed a motion for summary judgment. The plaintiff filed a motion for class certification, which BWC opposed on August 15, 2012. Effective September 2012, BWC negotiated a new fee schedule with JP Morgan Chase Bank pursuant to which the debit card now offers one free teller visit per deposit. BWC provided more information in 2015 to support the agency relationship between the BWC and JP Morgan Chase. On January 13, 2016, the court granted the plaintiff's motion for class certification and denied BWC's motion for summary judgment. BWC appealed to the Eighth District Court of Appeals on February 11, 2016 and the appeal has been fully briefed. Oral arguments are scheduled for October 5, 2016. An adverse outcome is possible and any damages are estimated to be immaterial to the financial statements. Management intends to vigorously defend this case. Accordingly, no provision for any liability has been reported in the financial statements for this matter.

(Continued)

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. In fiscal year 2015 this case was settled and the impact to the financial statements was an increase of $149 thousand to operating expenses and a liability was established at June 30, 2015 for this amount. This class action settlement was paid in fiscal year 2016.

A class action case was filed challenging BWC's calculation of the statewide average weekly wage. Statute says that the rate must be adjusted to the next higher even multiple of one dollar in order to establish the maximum disability payment for the subsequent calendar year. On April 13, 2016, the Franklin County Court of Common Pleas granted summary judgment in BWC's favor and no class was certified. Plaintiff appealed to the Tenth District Court of Appeals and the matter is being briefed. No date has been scheduled for oral arguments. Management does not anticipate an adverse conclusion and intends to vigorously defend this case. Accordingly, no provision for any liability has been reported in the financial statements for this matter.

A class action case was filed claiming that BWC has included certain costs in its subrogation lien, thereby inflating the lien, and then recovering those costs through subrogation, in contravention of Ohio Revised Code. Plaintiff asserts that BWC's practices constitute an equal protection violation and that BWC has been unjustly enriched. Plaintiff seeks equitable restitution, injunctive relief, and a declaratory judgment that BWC's subrogation practices are unlawful. BWC filed a motion to dismiss the complaint on May 25, 2016 to which Plaintiff filed a memo in opposition and BWC filed a response. The court held a case management conference on September 14, 2016, and permitted the plaintiff to amend the complaint. Management does not anticipate an adverse conclusion and intends to vigorously defend this case. Accordingly, no provision for any liability has been reported in the financial statements for this matter.

Although the outcome of certain 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.

11. Transition Credit Liability

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

Private employers received a one hundred percent transition credit equal to $785 million in estimated premiums for the policy period January 1 through June 30, 2015. This transition credit was reflected as a current liability in the statement of net position for the year ended June 30, 2014 and was decreased to zero in 2015. Actual employer transition credits for this period were approximately $39 million more than the estimated credits resulting in transition credit expense in 2015.

For the policy period beginning July 1, 2015, a transition credit equal to one sixth of the estimated annual premiums was granted to private employers. This credit was estimated to be $262 million and was reflected as a current liability in the Statement of Net Position for the year ended June 30, 2015 and is now relieved as of June 30, 2016.

Final accrual to actual transactions for both impacted private employer policy periods were approximately $22 million less than the estimated credits resulting in negative transition credit expense in 2016.

Public taxing district employers received transition credits equal to fifty percent of the billed premium for the January 1 through December 31, 2015 policy period and fifty percent of the estimated annual premium for the January 1 through December 31, 2016 policy period. The portion of the transition credit applicable to the January 1 through June 30, 2015 was estimated to be $46 million and was relieved in 2015. The estimated transition credit related to the July 1, 2015 through December 31, 2016 period is $136 million and $101 million was relieved in fiscal year 2016. The remaining $35 million is reflected as a current liability in the statement of net position for the year ended June 30, 2016.

12. <u>DWRF Assessments and Unbilled Receivables</u>

House Bill 52 of the 131st General Assembly amended Ohio Revised Code (ORC) 4123.411 allowing the Administrator discretionary authority to levy assessments to fund DWRF I benefits. DWRF I assessment rates were reduced to zero for public taxing district employers for the policy year beginning January 1, 2016 and the policy year beginning July 1, 2016 for private employers. ORC 4123.419 was also amended to allow the Administrator with the advice and consent of the Board the authority to transfer investment income from the SIF to cover the cost of DWRF I benefits for private and public taxing district employers rather than levying assessments against these employers. The Board approved this alternative funding in September 2015. A liability of $508 million was recorded in SIF to recognize the long-term commitment to use SIF investment earnings to fund DWRF I benefits for private and public taxing district employer claims. This commitment is based on the estimated DWRF I discounted reserves for compensation and compensation adjustment expenses less the unspent balance of private and public taxing district employer DWRF I assessments. A receivable was recorded in DWRF to recognize the long-term commitment from SIF to cover these benefits. This receivable replaces unbilled receivables previously recorded in DWRF that recognized the ability to assess private and public taxing district employers in the future to provide funds needed to pay DWRF I benefits.

During fiscal year 2016, the assumptions used to estimate DWRF II unbilled receivables were updated. Previously, DWRF II unbilled receivables were recorded in amounts equal to the DWRF II discounted reserves for compensation and compensation adjustment expenses. Cash and investment balances are now included in estimating DWRF II unbilled receivables. At June 30, 2016, the total DWRF II cash and investment balances exceed DWRF II discounted reserves for compensation and compensation adjustment expenses. At this time, there is no need to assess employers in future periods to fund the current DWRF II estimated liabilities. Accordingly unbilled receivables and assessment income have been reduced by $1.5 billion in the statements of net position and the statements of revenues, expenses, and changes in net position.

13. Net Position

Individual fund net position (deficit) balances at June 30, 2016 and 2015 were as follows (000's omitted):

	2016	2015
SIF	$ 8,945,894	$ 7,872,340
SIF Surplus Fund Account	33,091	26,383
SIF Premium Payment Security Fund	158,049	151,720
Total SIF Net Position	9,137,034	8,050,443
DWRF	(5,472)	1,569,115
CWPF	262,792	259,762
PWREF	13,125	25,653
MIF	22,701	20,851
SIEGF	29,937	29,488
ACF	(706,232)	(686,980)
Total Net Position	$ 8,753,885	$ 9,268,332

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.

(Continued)

The SIF PPSF is established by the Code and is financed by a percentage of all premiums paid by private employers. Amounts are charged to the PPSF when the employer's premium due for a payroll period is determined to be uncollectible by the Attorney General of Ohio.

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.

DWRF is operated on a terminal funding basis in accordance with the Code, however, the actuarially estimated liabilities are recognized in accordance with accounting principles generally accepted in the United States of America. While BWC has the statutory authority to assess employers in future periods for amounts needed to fund DWRF II cost of living benefits, cash and investment balances are currently sufficient to fund the estimated DWRF II liabilities.

SUPPLEMENTARY INFORMATION

REQUIRED SUPPLEMENTAL REVENUE AND RESERVE DEVELOPMENT INFORMATION
(See Accompanying Independent Auditors' Report)
June 30, 2016 and 2015

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, 2006 through 2016.

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

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

	Fiscal Years Ended June 30										
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
1. Required premiums, assessments, and investment income earned	$ 1,378	$ 2,552	$ 5,194	$ 2,453	$ 4,044	$ 4,356	$ 4,206	$ 2,296	$ 2,968	$ 5,251	$ 3,015
Ceded premiums	4	4	4	6	6	6	1	-	-	-	-
Net earned	1,374	2,548	5,190	2,447	4,038	4,350	4,205	2,296	2,968	5,251	3,015
2. Unallocated expenses	170	163	150	140	129	131	139	97	108	109	170
3. Estimated incurred compensation and compensation adjustment expense, end of period	1,731	1,853	1,854	1,720	1,800	1,863	1,870	2,139	2,219	2,327	2,270
Discount	806	874	872	830	968	974	985	1,472	1,892	2,099	2,147
Gross liability as originally estimated	2,537	2,727	2,726	2,549	2,767	2,837	2,854	3,611	4,111	4,426	4,417
4. Net paid (cumulative) as of :											
End of period	327	331	337	380	386	400	384	458	415	423	417
One year later		548	563	600	620	641	639	711	755	747	743
Two years later			689	731	756	773	775	868	920	926	927
Three years later				822	857	879	883	979	1,056	1,048	1,066
Four years later					935	964	973	1,083	1,163	1,155	1,172
Five years later						1,040	1,055	1,179	1,256	1,251	1,268
Six years later							1,124	1,263	1,350	1,336	1,355
Seven years later								1,327	1,426	1,411	1,428
Eight years later									1,486	1,478	1,496
Nine years later										1,534	1,560
Ten years later											1,615
5. Re-estimated incurred compensation and compensation adjustment expenses (gross):											
One year later		2,346	2,476	2,494	2,501	2,680	2,701	2,865	3,607	3,946	4,087
Two years later			2,265	2,397	2,450	2,471	2,596	2,794	2,948	3,460	3,879
Three years later				2,234	2,361	2,438	2,425	2,730	2,909	2,909	3,410
Four years later					2,226	2,340	2,426	2,585	2,862	2,877	2,899
Five years later						2,236	2,342	2,668	2,748	2,812	2,877
Six years later							2,246	2,586	2,846	2,738	2,839
Seven years later								2,485	2,760	2,784	2,776
Eight years later									2,668	2,715	2,813
Nine years later										2,656	2,761
Ten years later											2,706
6. Decrease in gross estimated incurred compensation and compensation adjustment expenses from end of period		(381)	(461)	(315)	(541)	(601)	(608)	(1,126)	(1,443)	(1,770)	(1,711)

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, 2016 active miners nominal and discounted liability is approximately $202.9 million and $76.0 million, respectively.

OHIO BUREAU OF WORKERS' COMPENSATION
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(A DEPARTMENT OF THE STATE OF OHIO)
Required Supplementary Information
Schedule of BWC/IC's Proportionate Share of the Net Pension Liability (Asset)
Last 2 fiscal years*
(000's omitted)

	2016	2015
BWC/IC's Proportion of the net pension liability (asset)	1.629%	1.701%
BWC/IC's Proportionate share of the net pension liability (asset)	186,771	134,254
BWC/IC's covered employee payroll	196,276	197,260
Proportionate share of the net pension liability (asset) as a percentage of its covered employee payroll	95.157%	68.059%
Plan fiduciary net position as a percentage of the total pension liability		
Traditional Pension Plan	81.08%	86.45%
Combined Plan	116.90%	114.83%

* - The amounts presented for each fiscal year were determined as of the calendar year end that occurred within the fiscal year. This schedule is required to show information for 10 years. However, until a full 10 year trend is compiled, governments are required to only present information for those years for which information is available.

OHIO BUREAU OF WORKERS' COMPENSATION
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(A DEPARTMENT OF THE STATE OF OHIO)
Required Supplementary Information
Schedule of Employer Contributions and Contributions Subsequent to Measurement Date
(See Accompanying Independent Auditors' Report)
Last 2 fiscal years*
(000's omitted)

	2016	2015
BWC/IC's Statutorily Required Employer Contributions	$ 19,752	$ 19,688
Amount of contributions recognized by the pension plan in relation to the statutory contributions	19,752	19,688
Contribution deficiency (excess)	-	-
Employer's covered employee payroll	197,500	194,884
Amount of contributions recognized by the pension plan as a percentage of employers' covered employee payroll	10.00%	10.10%

* - This schedule is required to show information for 10 years. However, until a full 10 year trend is compiled, governments are required to only present information for those years for which information is available.

OHIO BUREAU OF WORKERS' COMPENSATION
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(A DEPARTMENT OF THE STATE OF OHIO)
SUPPLEMENTAL SCHEDULE OF NET POSITION
(See Accompanying Independent Auditors' Report)
June 30, 2016
(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	$ 426,912	$ 8,131	$ 326	$ 15,327	$ 638	$ 57,850	$ 5,381	$ -	$ 514,565
Collateral on loaned securities	-	-	-	-	-	-	484	-	484
Premiums recorded not yet due	62,357	-	-	110	-	-	-	-	62,467
Assessments recorded not yet due	-	-	-	-	-	-	7,385	-	7,385
Premiums in course of collection	9,581	-	-	-	-	-	-	-	9,581
Assessments in course of collection	-	559	-	-	-	-	13,132	-	13,691
Accounts receivable, net of allowance for uncollectibles	218,170	20,739	3	-	1	388	27,102	-	266,403
Interfund receivables	30,062	648,961	1	197	30	243	249,196	(928,690)	-
Investment trade receivables	180,690	-	-	-	-	-	-	-	180,690
Accrued investment income	134,578	3	-	-	-	13	-	-	134,594
Other current assets	2,715	-	-	-	-	-	-	-	2,715
Total current assets	1,065,065	678,393	330	15,634	669	58,494	302,680	(928,690)	1,192,575
Non-current assets:									
Fixed maturities	13,316,863	1,111,390	265,705	16,682	24,000	-	-	-	14,734,640
Domestic equity securities:									
Common stock	5,228,914	331,579	50,346	-	-	-	-	-	5,610,839
Preferred stocks	1,309	-	-	-	-	-	-	-	1,309
Non-U.S equity securities - common stock	2,053,597	150,214	22,735	-	-	-	-	-	2,226,546
Investments in real estate funds	2,241,609	-	-	-	-	-	-	-	2,241,609
Unbilled premiums receivable	603,005	17,075	-	-	-	433,051	69,182	-	1,122,313
Retrospective premiums receivable	151,272	-	-	-	-	-	-	-	151,272
Capital assets	19,853	22	-	-	-	-	138,009	-	157,884
Net pension asset	-	-	-	-	-	-	267	-	267
Total noncurrent assets	23,616,422	1,610,280	338,786	16,682	24,000	433,051	207,458	-	26,246,679
Total assets	24,681,487	2,288,673	339,116	32,316	24,669	491,545	510,138	(928,690)	27,439,254
DEFERRED OUTFLOW OF RESOURCES	-	-	-	-	-	-	63,608	-	63,608
Total assets and deferred outflow of resources	$ 24,681,487	$ 2,288,673	$ 339,116	$ 32,316	$ 24,669	$ 491,545	$ 573,746	$ (928,690)	$ 27,502,862

(Continued)

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, 2016
(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	$ 1,496,815	$113,098	$ 1,651	$ 275	$ 505	$23,693	$ -	$ -	$ 1,636,037
Reserve for compensation adjustment expenses	168,924	57	93	-	59	909	213,962	-	384,004
Unearned premium and assessments	337,603	131,634	-	95	246	-	43,511	-	513,089
Transition credit liability	35,437	-	-	-	-	-	-	-	35,437
Legal settlement	4,507	-	-	-	-	-	-	-	4,507
Warrants payable	36,219	-	-	-	-	-	-	-	36,219
Investment trade payables	387,057	-	-	-	-	-	-	-	387,057
Accounts payable	23,010	-	20	-	-	-	15,630	-	38,660
Interfund payables	896,798	12,721	153	15,192	17	3,808	1	(928,690)	-
Obligations under securities lending	-	-	-	-	-	-	484	-	484
Other current liabilities	10,222	90	51	4	5	-	12,592	-	22,964
Total current liabilities	3,396,592	257,600	1,968	15,566	832	28,410	286,180	(928,690)	3,058,458
Noncurrent liabilities:									
Reserve for compensation	11,497,685	2,034,902	69,149	3,625	1,095	428,107	-	-	14,034,563
Reserve for compensation adjustment expenses	650,176	1,643	5,207	-	41	5,091	776,438	-	1,438,596
Net pension liability	-	-	-	-	-	-	187,038	-	187,038
Other noncurrent liabilities	-	-	-	-	-	-	23,637	-	23,637
Total noncurrent liabilities	12,147,861	2,036,545	74,356	3,625	1,136	433,198	987,113	-	15,683,834
Total liabilities	15,544,453	2,294,145	76,324	19,191	1,968	461,608	1,273,293	(928,690)	18,742,292
DEFERRED INFLOW OF RESOURCES	-	-	-	-	-	-	6,685	-	6,685
Total liabilities and deferred inflow of resources	15,544,453	2,294,145	76,324	19,191	1,968	461,608	1,279,978	(928,690)	18,748,977
NET POSITION (DEFICIT)									
Net investment in capital assets	19,853	22	-	-	-	-	138,009	-	157,884
Surplus fund	33,091	-	-	-	-	-	-	-	33,091
Premium payment security fund	158,049	-	-	-	-	-	-	-	158,049
Unrestricted net position (deficit)	8,926,041	(5,494)	262,792	13,125	22,701	29,937	(844,241)	-	8,404,861
Total net position (deficit)	$ 9,137,034	$ (5,472)	$ 262,792	$ 13,125	$ 22,701	$ 29,937	$ (706,232)	$ -	$ 8,753,885

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, 2016
(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	$1,267,718	$(99,411)	$729	$137	$876	$13,447	$273,359	$ -	$1,456,855
DWRF II unbilled assessment	-	(1,499,600)	-	-	-	-	-	-	(1,499,600)
Provision for uncollectibles	(19,550)	3,941	(3)	-	-	36	(2,136)	-	(17,712)
Other income	8,324	-	-	-	-	-	4,118	-	12,442
Total operating revenues	1,256,492	(1,595,070)	726	137	876	13,483	275,341	-	(48,015)
Operating expenses:									
Workers' compensation benefits	775,204	24,561	8,280	(1,203)	(81)	12,972	-	-	819,733
Compensation adjustment expenses	174,098	(75)	839	-	50	132	216,832	-	391,876
Personal services	-	54	89	-	23	-	69,757	-	69,923
Other administrative expenses	17,717	1	1	-	22	-	31,755	-	49,496
Total operating expenses	967,019	24,541	9,209	(1,203)	14	13,104	318,344	-	1,331,028
Net operating income (loss) before transition credits, premium rebates and DWRF I alternative	289,473	(1,619,611)	(8,483)	1,340	862	379	(43,003)	-	(1,379,043)
Transition credit expense	(22,070)	-	-	-	-	-	-	-	(22,070)
Premium rebate	223	-	-	15,173	-	-	-	-	15,396
DWRF I alternative funding expense	507,891	-	-	-	-	-	-	-	507,891
Total transition credits, premium rebates and DWRF I alternative	486,044	-	-	15,173	-	-	-	-	501,217
Net operating (loss) income	(196,571)	(1,619,611)	(8,483)	(13,833)	862	379	(43,003)	-	(1,880,260)
Non-operating revenues:									
Net investment income	1,297,475	45,024	11,513	1,305	988	70	9,089	-	1,365,464
Gain on disposal of capital assets	687	-	-	-	-	-	87	-	774
Total non-operating revenues	1,298,162	45,024	11,513	1,305	988	70	9,176	-	1,366,238
Net transfers out	(15,000)	-	-	-	-	-	14,575	-	(425)
Increase (decrease) in net position (deficit)	1,086,591	(1,574,587)	3,030	(12,528)	1,850	449	(19,252)	-	(514,447)
Net position (deficit), beginning of year	8,050,443	1,569,115	259,762	25,653	20,851	29,488	(686,980)	-	9,268,332
Net position (deficit), end of year	$9,137,034	$(5,472)	$262,792	$13,125	$22,701	$29,937	$(706,232)	$ -	$8,753,885

INDEPENDENT AUDITOR'S 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

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), a department of the State of Ohio, as of and for the year ended June 30, 2016, 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 29, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of BWC/IC's internal control. Accordingly, we do not express an opinion on the effectiveness of 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 was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. 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.

(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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 over financial reporting 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.

Crowe Horwath LLP

Crowe Horwath LLP

Columbus, Ohio
September 29, 2016

Dave Yost · Auditor of State

OHIO BUREAU OF WORKERS COMPENSATION

FRANKLIN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
NOVEMBER 10, 2016

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