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

Columbus, Ohio

Financial Statements
and
Supplementary Financial Information
For the years ended June 30, 2011 and 2010

And Independent Auditors' Report Thereon

Board of Directors
Ohio Bureau of Workers' Compensation
and Industrial Commission of Ohio
30 W. Spring Street L29
Columbus, Ohio 43215

We have reviewed the *Independent Auditors' Report* of the Ohio Bureau of Workers' Compensation and Industrial Commission of Ohio, Franklin County, prepared by Schneider Downs & Co., Inc., for the audit period July 1, 2010 through June 30, 2011. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Ohio Bureau of Workers' Compensation and Industrial Commission of Ohio is responsible for compliance with these laws and regulations.

Dave Yost

Dave Yost
Auditor of State

November 8, 2011

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MANAGEMENT'S DISCUSSION AND ANALYSIS

This section presents management's discussion and analysis of the Ohio Bureau of Workers' Compensation's (BWC's) and the Industrial Commission of Ohio's (IC's) financial performance for fiscal years ended June 30, 2011, 2010 and 2009. BWC and IC are collectively referred to as BWC/IC. This information is based on BWC/IC's financial statements, which begin on Page 8.

Financial highlights

- BWC/IC's total assets at June 30, 2011 were $26.1 billion, an increase of $2.0 billion or 8.3 percent compared to June 30, 2010.
- BWC/IC's total liabilities at June 30, 2011 were $20.3 billion, an increase of $58 million or 0.3 percent compared to June 30, 2010.
- BWC/IC's operating revenues for fiscal year 2011 were $2.0 billion, a decrease of $183 million or 8.6 percent compared to fiscal year 2010.
- BWC/IC's operating expenses for fiscal year 2011 were $2.4 billion, a decrease of $507 million or 17.7 percent from fiscal year 2010.
- BWC's non-operating revenues for fiscal year 2011 were $2.4 billion, compared to $2.0 billion for fiscal year 2010.
- BWC/IC's total net assets increased by $1.9 billion in fiscal year 2011, compared to a $1.3 billion increase in fiscal year 2010.

Financial statement overview

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

- Statement of Net Assets - This statement presents information reflecting BWC/IC's assets, liabilities and net assets. Net assets represent the amount of total assets less total liabilities. The statement is categorized by current and noncurrent assets and liabilities. For the purpose of the accompanying financial statements, current assets and liabilities are generally defined as those assets and liabilities with immediate liquidity or those that are collectible or will be due within 12 months of the statement date.
- Statement of Revenues, Expenses and Changes in Net Assets - This statement reflects the operating revenues and expenses, as well as non-operating revenues and expenses, for the fiscal year. Major sources of operating revenues are premium and assessment income. Major sources of operating expenses are workers' compensation benefits and compensation adjustment expenses. Revenues and expenses related to capital and investing activities are reflected in the non-operating component of this statement.
- Statement of Cash Flows - The statement of cash flows is presented using the direct method of reporting, which reflects cash flows from operating, noncapital financing, capital and related financing, and investing activities. Cash collections and payments are reflected in this statement to arrive at the net increase or decrease in cash and cash equivalents for the fiscal year.
- Notes to the Financial Statements - The notes provide additional information that is essential to a full understanding of BWC/IC's financial position and results of operations presented in the financial statements.
- Supplemental Information - This section includes supplemental schedules presenting the statement of net assets and the statement of revenues, expenses and changes in net assets for the individual accounts administered by BWC/IC. This section also includes required supplemental information that presents 10 years of revenue and reserve development information.

Continued

Financial analysis

Components of BWC/IC's Statements of Net Assets and Statements of Revenues, Expenses and Changes in Net Assets as of June 30, 2011, June 30, 2010 and June 30, 2009 and for the years then ended were as follows (000's omitted):

	2011	2010	2009
Current assets	$ 1,571,167	$ 1,752,331	$ 2,260,793
Noncurrent assets	24,529,539	22,343,577	20,159,556
Total assets	$ 26,100,706	$ 24,095,908	$ 22,420,349
Current liabilities	$ 2,533,248	$ 2,664,100	$ 2,791,337
Noncurrent liabilities	17,795,456	17,606,729	17,113,670
Total liabilities	$ 20,328,704	$ 20,270,829	$ 19,905,007
Net assets invested in capital assets, net of related debt	$ 43,051	$ 35,275	$ 24,058
Unrestricted net assets	5,728,951	3,789,804	2,491,284
Total net assets	$ 5,772,002	$ 3,825,079	$ 2,515,342
Net premium and assessment income, including provision for uncollectibles	$ 1,935,180	$ 2,118,421	$ 2,360,930
Other income	14,989	15,018	17,197
Total operating revenues	$ 1,950,169	$ 2,133,439	$ 2,378,127
Workers' compensation benefits and compensation adjustment expenses	$ 2,238,942	$ 2,736,984	$ 2,073,534
Other expenses	123,153	131,634	92,536
Total operating expenses	$ 2,362,095	$ 2,868,618	$ 2,166,070
Operating transfers out	$ (5,545)	$ (4,527)	$ (5,049)
Net investment income (loss)	2,364,359	2,049,621	(194,735)
Gain (loss) on disposal of capital assets	35	(178)	(220)
Increase in net assets	$ 1,946,923	$ 1,309,737	$ 12,053

BWC/IC's total net assets increased by $1.9 billion during fiscal year 2011, compared to a $1.3 billion increase during fiscal year 2010.

- In fiscal year 2011, BWC/IC recorded net investment income of $2.4 billion, compared to $2.0 billion in fiscal year 2010. The investment portfolio earned an unaudited net return of 12.4 percent, after management fees during fiscal year 2011, compared to 12.0 percent in fiscal year 2010 and a negative return of 1.1 percent in fiscal year 2009. These returns follow several actions taken by the Board of Directors over the last three years, which included implementation of a strategy to diversify fixed and equity investments within the State Insurance Fund; a comprehensive update to the investment policy statement; and the selection of investment managers to execute BWC's passive investment strategy.

Continued

- Workers' compensation benefits and compensation adjustment expenses exceeded net premium and assessment income by $304 million in fiscal year 2011 and $619 million in fiscal year 2010.

- Premium and assessment income for fiscal year 2011 reflects a 3.9 percent overall premium reduction for the majority of Ohio's private employers and a 17 percent reduction for public employer taxing districts (PECs). PECs include cities, counties, townships, villages, schools, libraries and special taxing districts.

- Effective April 1, 2010 and renewed April 1, 2011, BWC/IC has secured reinsurance as a risk management strategy to protect its assets in the event of a catastrophic event. Premium and assessment income has been reduced by $6.1 million in fiscal year 2011 and $1.1 million in fiscal year 2010 for the accrual of the ceded reinsurance premiums.

- Workers' compensation benefits and compensation adjustment expenses were $2.2 billion in fiscal year 2011, compared to $2.7 billion in fiscal year 2010 and $2.1 billion in fiscal year 2009.

	2011	2010	2009
($ in millions)			
Change in reserves for compensation and compensation adjustment expenses	$ 146	$ (376)	$ (1,048)
Provision for decrease in discount rate	-	934	859
Net benefit payments	1,733	1,803	1,836
Payments for compensation adjustment expenses	194	211	260
Managed Care Organization administrative payments	166	165	167
	$ 2,239	$ 2,737	$ 2,074

- The financial effect of lowering the discount rate on the reserves for compensation and compensation adjustment expenses from 5.0 percent to 4.5 percent in fiscal year 2009 and to 4.0 percent in fiscal year 2010 was lessened due to lower estimates for future medical expenses. The decrease in these estimates was primarily attributable to lower claims frequencies and a decrease in the medical inflation rate. In 2009, the medical inflation rate was assumed to be 6.0 percent in the first year of development, increasing by 1.0 percent in each of the next two years, with a long-term inflation assumption of 9.0 percent. In fiscal years 2011 and 2010 the long term inflation rates varied from 6.0 to 7.0 percent for all years. If future medical inflation is 1.0 percent higher than historical medical inflation for all future years combined, reserves for compensation at June 30, 2011 would increase by approximately $935 million.

- A study of administrative expenses to determine costs related to claims management resolutions resulted in a reduction of the compensation adjustment expense allocation from 82 percent to 68.8 percent. This change is the primary reason for the $39 million increase in other expenses and the decrease in payments for compensation and compensation adjustment expenses during fiscal year 2010. Decreases in payroll from cost savings days and decreases in staffing to due to retirements and hiring controls further reduced administrative expenses over the last three years.

Continued

As of June 30, 2011 and June 30, 2010, BWC/IC had debt in special obligation bonds of $47.9 million and $64.2 million, respectively. These bonds were issued in 2003, through the Ohio Building Authority (OBA) to refund the 1993 William Green Building Series A bonds. The bonds are collateralized by lease rental payments pledged by BWC/IC to OBA. These bonds were rated Aa3 by Moody's Investors Service, Inc.

Conditions expected to affect financial position or results of operations

BWC/IC, always conscious of its responsibility to operate in the best interests of Ohio's employers and workforce, is focusing on three performance objectives: Service, Simplicity and Savings.

- Private employer base rates were decreased by an average of 4.0 percent beginning July 1, 2011. This reduction will save these employers approximately $65 million and will apply to all employers regardless of their participation in alternative rating programs. BWC/IC decreased public employer taxing district premiums by an average of 5.5 percent for the January 1, 2011 policy year. This is the third consecutive year of rate decreases for private and public taxing district employers.

- The Safety Council Rebate Incentive Program has been continued in fiscal year 2012. This program allows employers participating in a local safety council to receive a 2 percent rebate for attending a specified number of safety council programs. An additional 2 percent rebate can be earned for demonstrating a reduction in the frequency and/or severity of workplace accidents. This program has also been expanded to allow group-rated employers to earn a 2 percent rebate for reducing claim frequency and severity in addition to receiving their group-rating discount.

- The major focus over the coming year will be cost control and returning injured workers back to work in a timely manner. The average medical and indemnity cost per claim is rising much faster for BWC/IC than for other states across the country. Also, return-to-work numbers have fallen from 75 percent of injured workers getting back to work within a year to below 69 percent. BWC/IC is attacking these trends by addressing issues related to triaging of claims, medical management, drug utilization, vocational rehabilitation and claims settlement.

- During fiscal year 2011, the first-ever formulary of medication for the treatment of injured workers was established. This outpatient formulary is designed to improve the efficiency and effectiveness of treatment, limit the inappropriate use of medications and lower BWC/IC's prescription costs. The formulary allows for a thorough clinical review of each medication, better monitoring and control of inappropriate use, and assures access to medications that aid in the recovery of injured workers and support their return to work. The outpatient formulary which was effective September 1, 2011, is projected to save $15 million by the end of calendar year 2012.

- Routing out, investigating and prosecuting cases of workers' compensation fraud is another way the BWC/IC works to control costs on behalf of its customers. Efforts in the pursuit to deter, detect and investigate all types of workers' compensation fraud including employer and provider fraud have increased. Over the last six months of fiscal year 2011, there was an attempt to close a noncompliant business through an injunction, steps were taken to decertify a provider for inappropriately prescribing narcotics, and 43 indictments and 42 convictions were obtained against allegedly injured workers who defrauded the system.

Continued

- The Board of Directors has taken action to allow for further diversification of the investment portfolio with the addition of real estate as an asset class of the State Insurance Fund (SIF) investment portfolio. Six percent of the total SIF assets will be targeted towards investments in professionally managed private real estate funds that own commercial real estate concentrated in the United States. The Investment Policy Statement (IPS) has also been amended to provide for a 1.0 percent allocation of SIF assets to be managed by Minority-or-Women-Owned (MWBE) investment managers. The IPS has also been revised to include active manager diversification by allocating a targeted 20.0 percent of total SIF portfolio assets to be allocated to active management of long duration credit fixed income assets, with 8.0 percent of this asset class remaining passively indexed managed.

From time to time, BWC/IC is involved in judicial proceedings arising in the ordinary course of its business. BWC/IC will vigorously defend these suits and expects to prevail; however, there can be no assurance that BWC/IC will be successful in its defense.

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the Ohio Bureau of Workers' Compensation and Industrial Commission of Ohio (BWC/IC), a department of the State of Ohio (State), for the years ended June 30, 2011 and 2010, as listed in the table of contents. These financial statements are the responsibility of the BWC/IC's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the financial position of BWC/IC and do not purport to, and do not, present fairly the financial position of the State as of June 30, 2011 and 2010, and the changes in its financial position, or, where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material aspects, the financial position of the BWC/IC as of June 30, 2011 and 2010 and the changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2011 on our consideration of the BWC/IC's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

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Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and supplemental revenue and reserve development information on Pages 1 through 5 and 34 through 35, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which 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 statement, and other knowledge we obtained during our audit of the basic financial statements, as well as about the methods of measurement and presentation of the required supplementary information. 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the BWC/IC's financial statements as a whole. The supplemental schedule of net assets and schedule of revenues, expenses and changes in net assets included in Pages 36 through 38 are presented for purposes of additional analysis and are not a required part of the financial statements. This information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and accordingly, we do not express an opinion or provide any assurance on it.

Schneider, Downs & Co., Inc.

Columbus, Ohio
September 30, 2011

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

STATEMENTS OF NET ASSETS

June 30, 2011 and 2010

(000's omitted)

	2011	2010
ASSETS		
Current assets:		
Cash and cash equivalents (Note 2)	$345,487	$435,892
Collateral on loaned securities (Note 2)	1,323	4,615
Premiums in course of collection	676,069	702,643
Assessments in course of collection	169,799	170,007
Accounts receivable, net of allowance for uncollectibles of $1,047,878 in 2011; $1,016,902 in 2010	129,872	143,752
Investment trade receivables	87,889	126,696
Accrued investment income	151,306	161,171
Other current assets	9,422	7,555
Total current assets	1,571,167	1,752,331
Noncurrent assets:		
Fixed maturities, at fair value (Note 2)	13,946,998	13,380,808
Domestic equity securities:		
Common stocks, at fair value (Note 2)	4,633,603	3,636,608
Preferred stocks, at fair value (Note 2)	-	3,846
International securities, at fair value (Note 2)	2,128,352	1,509,190
Investments in limited partnerships, at fair value (Note 2)	-	35
Unbilled premiums receivable	3,420,036	3,423,147
Retrospective premiums receivable	309,610	290,467
Capital assets (Notes 3 and 5)	90,916	99,383
Restricted cash (Note 2)	24	93
Total noncurrent assets	24,529,539	22,343,577
Total assets	$ 26,100,706	$ 24,095,908

	2011	2010
LIABILITIES		
Current liabilities:		
Reserve for compensation (Note 4)	$ 1,915,283	$ 1,966,452
Reserve for compensation adjustment expenses (Note 4)	384,441	393,273
Warrants payable	19,495	25,337
Bonds payable (Notes 5 and 6)	15,890	15,865
Investment trade payables	174,122	229,448
Accounts payable	7,719	5,189
Obligations under securities lending (Note 2)	1,323	4,615
Other current liabilities (Note 6)	14,975	23,921
Total current liabilities	2,533,248	2,664,100
Noncurrent liabilities:		
Reserve for compensation (Note 4)	16,097,317	15,911,948
Reserve for compensation adjustment expenses (Note 4)	1,552,859	1,532,927
Premium payment security deposits (Note 6)	87,664	87,974
Bonds payable (Notes 5 and 6)	31,999	48,335
Other noncurrent liabilities (Note 6)	25,617	25,545
Total noncurrent liabilities	17,795,456	17,606,729
Total liabilities	20,328,704	20,270,829
Commitments and contingencies (Note 10)		
NET ASSETS		
Invested in capital assets, net of related debt	43,051	35,275
Unrestricted net assets	5,728,951	3,789,804
Total net assets (Note 11)	$ 5,772,002	$ 3,825,079

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

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

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

For the years ended June 30, 2011 and 2010

(000's omitted)

	2011	2010
Operating revenues:		
Premium income net of ceded premium (Note 7)	$1,572,603	$ 1,417,613
Assessment income	410,652	730,667
Provision for uncollectibles	(48,075)	(29,859)
Other income	14,989	15,018
Total operating revenues	1,950,169	2,133,439
Operating expenses:		
Workers' compensation benefits (Note 4)	1,864,545	2,254,613
Compensation adjustment expenses (Note 4)	374,397	482,371
Personal services	68,663	75,564
Other administrative expenses	54,490	56,070
Total operating expenses	2,362,095	2,868,618
Net operating loss	(411,926)	(735,179)
Non-operating revenues:		
Net investment income (Note 2)	2,364,359	2,049,621
Gain (loss) on disposal of capital assets	35	(178)
Total non-operating revenues	2,364,394	2,049,443
Net transfers out	(5,545)	(4,527)
Increase in net assets	1,946,923	1,309,737
Net assets, beginning of year	3,825,079	2,515,342
Net assets, end of year	$ 5,772,002	$ 3,825,079

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, 2011 and 2010

(000's omitted)

	2011	2010
Cash flows from operating activities:		
Cash receipts from premiums and assessments net of reinsurance	$ 2,084,481	$ 2,198,317
Cash receipts - other	41,471	54,107
Cash disbursements for claims	(2,001,437)	(2,057,557)
Cash disbursements to employees for services	(225,822)	(232,117)
Cash disbursements for other operating expenses	(68,234)	(60,820)
Cash disbursements for employer refunds	(72,257)	(99,747)
Net cash used for operating activities	(241,798)	(197,817)
Cash flows from noncapital financing activities:		
Operating transfers in	-	150
Operating transfers out	(5,545)	(4,677)
Net cash used by noncapital financing activities	(5,545)	(4,527)
Cash flows from capital and related financing activities:		
Purchase of capital assets, net of retirements	(2,712)	(7,207)
Principal and interest payments on bonds	(18,975)	(19,796)
Net cash used in capital and related financing activities	(21,687)	(27,003)
Cash flows from investing activities:		
Investments sold	9,031,300	48,949,035
Investments purchased	(9,626,672)	(49,530,877)
Interest and dividends received	782,313	747,565
Investment expenses	(8,385)	(5,682)
Net cash provided by investing activities	178,556	160,041
Net decrease in cash, cash equivalents and restricted cash	(90,474)	(69,306)
Cash, cash equivalents and restricted cash, beginning of year	435,985	505,291
Cash, cash equivalents and restricted cash, end of year	$ 345,511	$ 435,985

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

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

STATEMENTS OF CASH FLOWS, Continued

For the years ended June 30, 2011 and 2010

(000's omitted)

	2011	2010
Reconciliation of net operating loss to net cash used for operating activities:		
Net operating loss	$ (411,926)	$ (735,179)
Adjustments to reconcile net operating loss to net cash used for operating activities:		
Provision for uncollectible accounts	48,075	29,859
Depreciation	11,214	11,383
Amortization of discount and issuance costs on bonds payable	2,664	3,339
(Increases) decreases in assets and increases (decreases) in liabilities:		
Premiums and assessments in course of collection	26,782	127,087
Unbilled premiums receivable	3,111	(217,172)
Accounts receivable	(34,195)	37,431
Retrospective premiums receivable	(19,143)	(8,095)
Other assets	(1,867)	(375)
Reserves for compensation and compensation adjustment expenses	145,300	558,228
Premium payment security deposits	(310)	(500)
Warrants payable	(5,842)	(7,034)
Accounts payable	2,530	1,540
Other liabilities	(8,191)	1,671
Net cash used for operating activities	$ (241,798)	$ (197,817)
Noncash investing, capital, and financing activities		
Change in fair values of investments	$ 1,599,613	$ 1,334,234

1. Background and Summary of Significant Accounting Policies

Organization

The Ohio Bureau of Workers' Compensation (BWC) and the Industrial Commission of Ohio (IC) were created in 1912 and 1925, respectively, and are the exclusive providers of workers' compensation insurance to private and public employers in Ohio that have not been granted the privilege of paying compensation and medical benefits directly (self-insured employers). BWC and IC are collectively referred to herein as BWC/IC. BWC/IC was created and is operated pursuant to Chapters 4121, 4123, 4127, and 4131 of the Ohio Revised Code (the Code).

The Governor of the State of Ohio (the State) appoints the BWC Administrator and the three members of the IC. In June 2007, House Bill 100 created a new 11-member BWC Board of Directors (Board), which replaced the Workers' Compensation Oversight Commission. All members have full voting rights. On July 31, 2007, the Governor named the members to the Board, effectively abolishing the Workers' Compensation Oversight Commission. The BWC Administrator, with the advice and consent of the Board, is responsible for the operations of the workers' compensation system, while the IC is responsible for administering claim appeals.

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

Basis of Presentation

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

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

Continued

BWC/IC administers the following accounts:

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

Description of the Accounts

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

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

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

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

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

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

- GASB No. 61, "The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34"
- GASB No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements"
- GASB No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position"
- GASB No. 64, "Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment of GASB Statement No. 53"

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

Cash and Cash Equivalents

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

Investments

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

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

Restricted Cash

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

Premium Income

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

Continued

Retrospective rating plans and group retrospective rating plans are offered to qualified employers. SIF recognizes estimated ultimate premium income on retrospectively rated businesses during the coverage period. Retrospective rating adjustments related to the coverage period are collected in subsequent periods, as experience develops related to injuries incurred during the coverage period. The estimated future retrospective rating adjustments are reflected in the statement of net assets 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 will receive a premium discount. The group experience rating plan allows employers that 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 11) 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 assets.

Assessment Income

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

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

DWRF I assessments are based on employers' payroll and a statutorily determined rate. DWRF II and ACF assessments are based on rates that are approved by the Board and on employers' payroll, except for ACF assessments of self-insured employers, which are based on paid workers' compensation benefits. SIEGF assessments are based on the financial strength of self-insured employers and paid workers' compensation benefits with the exception of new self-insured employers, which are based on a percentage of base-rated premium.

Premium Payment Security Deposits

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

Allowance for Uncollectible Accounts

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

Capital Assets

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

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

When assets are disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized in the statements of revenues, expenses, and changes in net assets. The cost of maintenance and repairs is charged to operations as incurred; significant renewals and betterments are capitalized.

Reserves for Compensation and Compensation Adjustment Expenses

The reserve for compensation includes actuarial estimates for both reported claims and claims incurred but not reported (IBNR). The reserve for compensation adjustment expenses is determined by estimating future expenses to be incurred in settlement of the claims. The reserve for compensation is based on the estimated ultimate cost of settling the claims, including the effects of inflation and other societal and economic factors and projections as to future events, including claims frequency, severity, persistency and inflationary trends for 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, 2011 and 2010 to reflect the present value of future benefit

Continued

payments. The selected discount rate approximates an average yield on United States government securities with a duration similar to the expected claims underlying BWC/IC's reserves.

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

Reinsurance

Effective April 1, 2010 and renewed April 1, 2011, BWC/IC purchased workers' compensation excess of loss reinsurance to include coverage for catastrophic events and terrorism. Ceded reinsurance transactions are accounted for based on estimates of their ultimate cost. Reserves for compensation and compensation adjustment expenses are reported gross of reinsured amounts. Reinsurance premiums are reflected as a reduction of premium income (see Note 7).

Income Taxes

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

Use of Estimates

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

Reclassification

Certain 2010 financial statement amounts have been reclassified in order to conform to their 2011 presentation.

2. Cash and Investments

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

Custodial Credit Risk – Deposits

The custodial credit risk for deposits is the risk that in the event of a bank failure, BWC/IC's deposits might not be recovered. Banks must provide security for all public funds on deposit. These institutions may either specifically collateralize individual accounts in addition to amounts insured by the Federal Deposit Insurance Corporation (FDIC), or may pledge a pool of government securities valued at least 105% of the total value of public monies on deposit at the institution. At June 30, 2011 and 2010, the carrying amount of BWC/IC's cash deposits were \$5.872 million and \$6.922 million, respectively, and the bank balances were \$1.221 million and \$12.760 million, respectively. At June 30, 2011, the entire bank balance was insured by the FDIC, while at June 30, 2010 only \$250 thousand was insured by the FDIC. The remaining cash balance on deposit with the bank was collateralized by individual accounts of either a surety bond or securities with a market value of at least 100 percent to 102 percent of the total value of the public monies that are on deposit at the financial institution and was not exposed to custodial credit risk. Any pledged securities are held by the Federal Reserve, the Federal Home Loan Bank, or an insured financial institution serving as agent of the Treasurer of the State of Ohio.

Custodial Credit Risk – Investments

Custodial credit risk for investments is the risk that, in the event of a failure of a counter party to a transaction, BWC/IC will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. BWC/IC's investments are not exposed to custodial credit risk, since all BWC/IC investments are held in BWC/IC's name at either JP Morgan, BWC/IC's custodian assigned by the Treasurer of State, or in commingled account types, which by definition, are not exposed to custodial credit risk.

Continued

The composition of investments held at June 30, 2011 and 2010 is presented below (000's omitted):

	2011 Fair Value	2010 Fair Value
Fixed maturities		
Corporate bonds	$ 4,141,861	$ 4,464,964
U.S. treasury inflation protected securities	3,253,052	3,338,935
U.S. government obligations	2,273,544	2,523,888
U.S. government agency obligations	964,922	1,037,443
Yankee bonds	818,381	773,920
U.S. state and local government agencies	693,668	544,384
Commingled U.S. treasury inflation protected securities	600,817	-
Commingled U.S. aggregate indexed fixed income	557,923	-
Sovereign	462,424	499,459
Supranational issues	64,153	67,106
Commercial mortgage backed securities	62,592	79,107
Commingled U.S. intermediate duration indexed fixed income	45,501	43,459
Asset backed securities	8,160	8,143
Total fixed maturities	13,946,998	13,380,808
Domestic equity securities		
Common stocks	4,633,603	3,636,608
Preferred stocks	-	3,846
International securities	2,128,352	1,509,190
Securities lending short-term collateral	1,323	4,615
Investments in limited partnerships	-	35
Cash and cash equivalents		
Cash	5,872	6,922
Short-term money market fund	339,615	428,970
Total cash and cash equivalents	345,487	435,892
	$21,055,763	$18,970,994

Net investment income for the years ended June 30, 2011 and 2010 is summarized as follows (000's omitted):

	2011	2010
Fixed maturities	$ 686,077	$ 638,902
Equity securities	86,152	82,453
Cash equivalents	219	1,175
	772,448	722,530
Increase in fair value of investments	1,599,613	1,334,234
Investment expenses	(7,702)	(7,143)
	$ 2,364,359	$ 2,049,621

Continued

Short-Term Money Market Fund

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

Interest Rate Risk – Fixed-Income Securities

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. BWC/IC manages the exposure to fair value loss arising from increasing interest rates by requiring that each fixed-income portfolio be invested with duration characteristics that are within a range consistent with Barclays Capital 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, 2011 and 2010, the effective duration of BWC's fixed-income portfolio is as follows (000's omitted):

	June 30, 2011		June 30, 2010	
Investment Type	Fair Value	Effective Duration	Fair Value	Effective Duration
U.S. state and local government agencies	$ 693,668	11.37	$ 544,384	12.24
Corporate bonds	4,141,861	11.00	4,464,964	11.22
Yankee bonds	818,381	10.69	773,920	11.16
Sovereign bonds	462,424	9.76	499,459	9.42
U.S. government obligations	2,273,544	9.34	2,523,888	9.82
U.S. treasury inflation protected securities	3,253,052	7.65	3,338,935	7.74
Commingled U.S. treasury inflation protected securities	600,817	7.65	-	-
Supranational issues	64,153	7.00	67,106	7.62
Commingled U.S. aggregate fixed income	557,923	5.16	-	-
U.S. government agency obligations	964,922	4.29	1,037,443	3.86
Commingled U.S. intermediate duration fixed income	45,501	3.94	43,459	3.92
Commercial mortgage backed-securities	62,592	3.39	79,107	3.70
Asset-backed securities	8,160	2.86	8,143	3.60
Total fixed maturities	$ 13,946,998		$ 13,380,808	

Continued

Credit Risk – Fixed-Income Securities

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation to the holder of the investment. Government agency obligations have an implied AAA rating. Obligations of the U.S. government are explicitly guaranteed by the U.S. government and are not considered to have credit risk.

BWC/IC's fixed-income securities were rated by Standard and Poor's (S&P) and/or an equivalent national rating organization, and the ratings are presented below using the S&P rating scale (000's omitted). At June 30, 2011 and 2010, fixed maturities held in commingled bond funds in the custody of State Street were $1.2 billion and $43 million, respectively. In fiscal year 2010, the Board approved transitioning individual fixed-income securities held in DWRF and CWPF into commingled bond funds in fiscal year 2011. The remaining balance presented as of June 30, 2011 was held by the custodian on behalf of BWC/IC.

Quality Rating	2011 Fair Value	2010 Fair Value
AAA	$ 307,673	$ 336,507
AA	1,521,753	900,001
A	2,548,221	2,671,463
BBB	2,373,123	2,485,194
BB	103,893	86,695
B	-	682
Total credit risk debt securities	6,854,663	6,480,542
U.S. government agency obligations	964,922	1,037,443
U.S. government obligations	2,273,544	2,523,888
U.S. treasury inflation protected securities	3,253,052	3,338,935
Commingled U.S. treasury inflation protected securities	600,817	-
Total fixed maturities	$13,946,998	$13,380,808

The fair value of fixed-income securities rated BB shown above reflect the S&P rating only. All of these securities are rated in the BBB rating category by the two other national bond rating organizations (Moody's and Fitch).

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 2011 and 2010, 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.

Continued

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, 2011 and 2010 is as follows (000' omitted):

Currency	2011 Fair Value	2010 Fair Value
Australian Dollar	$ 124,565	$ 83,677
Brazilian Real	77,747	53,619
British Pound	311,330	219,474
Canadian Dollar	170,481	117,809
Chilean Peso	8,517	5,396
Chinese Renminbi	977	852
Colombian Peso	4,180	2,811
Czech Koruna	1,869	1,399
Danish Krone	15,287	10,378
Egyptian Pound	1,691	1,780
European Euro	453,250	305,298
Hong Kong Dollar	124,988	92,102
Hungarian Forint	2,112	1,416
Indian Rupee	35,130	25,273
Indonesian Rupiah	13,008	8,502
Israeli New Sheqel	10,219	9,261
Japanese Yen	288,808	239,980
Malaysian Ringgit	15,750	10,271
Mexican Peso	22,035	15,281
Moroccan Dirham	773	694
New Taiwan Dollar	55,694	37,890
New Zealand Dollar	1,694	1,055
Norwegian Krone	13,201	7,342
Philippine Peso	2,758	1,691
Polish Zloty	8,522	4,601
Russian Ruble	29,067	18,492
Singapore Dollar	24,710	17,651
South African Rand	36,520	25,086
South Korean Won	73,831	47,406
Swedish Krona	45,271	30,265
Swiss Franc	120,457	82,919
Thai Baht	8,381	5,339
Turkish New Lira	6,918	5,721
Exposure to foreign currency risk	2,109,741	1,490,731
United States Dollar	18,611	18,459
Total international securities	$ 2,128,352	$1,509,190

Continued

Securities Lending

At June 30, 2011 and 2010, BWC/IC had no securities out on loan. BWC/IC has been allocated with cash collateral of $1 million in 2011 and $5 million in 2010 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, 2011 and 2010 are summarized as follows (000's omitted):

	Balance at 6/30/2009	Increases	Decreases	Balance at 6/30/2010	Increases	Decreases	Balance at 6/30/2011
Capital assets not being depreciated							
Land	$ 11,994	$ -	$ -	$ 11,994	$ -	$ -	$ 11,994
Capital assets being depreciated							
Buildings	205,771	-	-	205,771	-	-	205,771
Building Improvements	-	2,185	-	2,185	1,357	-	3,542
Furniture and equipment	34,725	5,072	(4,715)	35,082	1,459	(6,852)	29,689
Land improvements	66	-	-	66	-	-	66
Subtotal	240,562	7,257	(4,715)	243,104	2,816	(6,852)	239,068
Accumulated depreciation							
Buildings	(125,024)	(6,787)	-	(131,811)	(6,788)	-	(138,599)
Building Improvements	-	-	-	-	(44)	-	(44)
Furniture and equipment	(23,741)	(4,595)	4,487	(23,849)	(4,381)	6,783	(21,447)
Land improvements	(54)	(1)	-	(55)	(1)	-	(56)
Subtotal	(148,819)	(11,383)	4,487	(155,715)	(11,214)	6,783	(160,146)
Net capital assets	$ 103,737	$ (4,126)	$ (228)	$ 99,383	$ (8,398)	$ (69)	$ 90,916

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, 2011 and 2010. A decrease in the discount rate to 3.0% would result in the reserves for compensation and compensation adjustment expenses increasing to $22.1 billion at June 30, 2011, while an increase in the rate to 5.0% would result in the reserves for compensation and compensation adjustment expenses decreasing to $18.2 billion. The undiscounted reserves for compensation and compensation adjustment expenses were $32.5 billion at June 30, 2011 and $32.2 billion at June 30, 2010.

Continued

The changes in the reserves for compensation and compensation adjustment expenses for the years ended June 30, 2011 and 2010 are summarized as follows (in millions):

	2011	2010
Reserves for compensation and compensation adjustment expenses, beginning of period	$ 19,804	$ 19,246
Incurred:		
Provision for insured events of current period	1,863	1,802
Net increase in provision for insured events of prior periods net of discount accretion of $792 in 2011 and $770 in 2010	376	1
Decrease in discount rate	-	934
Total incurred	2,239	2,737
Payments:		
Compensation and compensation adjustment expenses attributable to insured events of current period	399	384
Compensation and compensation adjustment expenses attributable to insured events of prior period	1,694	1,795
Total payments	2,093	2,179
Reserves for compensation and compensation adjustment expenses, end of period	$ 19,950	$ 19,804

5. Bonds Payable

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

The bonds are collateralized by lease rental payments pledged by BWC/IC to OBA. The lease period coincides with the State's biennial budget and is renewable for successive two-year periods until the bonds are retired. Lease payments are based on the estimated debt service of the bonds, but are limited to an amount appropriated by the Ohio General Assembly in BWC/IC's biennial budget. Lease rental payments totaled $19.0 million and $19.8 million for the years ended June 30, 2011 and 2010, respectively. These payments included interest of $3.1 million and $3.9 million for the years ended June 30, 2011 and 2010, respectively.

Continued

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

Fiscal Year	Principal	Interest	Total
2012	$ 15,890	$ 2,326	$ 18,216
2013	15,915	1,543	17,458
2014	15,200	751	15,951
Deferred loss on refunding	(297)	-	(297)
Unamortized Bond Discount & issuance costs	1,181	-	1,181
Total	$47,889	$4,620	$52,509

6. Long-Term Obligations

Activity for long-term obligations (excluding the reserves for compensation and compensation adjustment expenses – see Note 4) for the years ended June 30, 2011 and 2010 is summarized as follows (000's omitted):

	Balance at 6/30/2009	Increases	Decreases	Balance at 6/30/2010	Due Within One Year
Premium payment security deposits	$ 88,474	$ 1,919	$ (2,419)	$ 87,974	$ -
Bonds payable	80,657	4,126	(20,583)	64,200	15,865
Other liabilities	46,334	56,893	(53,761)	49,466	23,921
	$ 215,465	$ 62,938	$ (76,763)	$ 201,640	$ 39,786

	Balance at 6/30/2010	Increases	Decreases	Balance at 6/30/2011	Due Within One Year
Premium payment security deposits	$ 87,974	$ 1,093	$ (1,403)	$ 87,664	$ -
Bonds payable	64,200	3,302	(19,613)	47,889	15,890
Other liabilities	49,466	40,675	(49,549)	40,592	14,975
	$ 201,640	$ 45,070	$ (70,565)	$ 176,145	$ 30,865

7. Reinsurance

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

Continued

Policy Period: April 1, 2010 to March 31, 2011

Reinsurance Coverage:

- Section One – Other than Acts of Nuclear, Biological, Chemical or Radiological (NBCR) Terrorism 100% of $250,000,000 in excess of $250,000,000 per Loss Occurrence - Maximum loss of $5,000,000 of any one person
- Section Two – Only for Acts of Terrorism including NBCR Terrorism 15% of $560,000,000 (or $84,000,000) in excess of $440,000,000 per Loss Occurrence - Maximum loss of $5,000,000 of any one person

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

Reinsurance Coverage:

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

The following reinsurance activity has been recorded in the accompanying basic financial statements for the years ended June 30, 2011 and 2010 (000's omitted):

	2011	2010
Premium Income	$ 1,578,737	$ 1,418,669
Ceded Premiums	(6,134)	(1,056)
Total Premium Income net of Ceded Premiums	$ 1,572,603	$ 1,417,613

Should the reinsurers be unable to meet their obligations under the reinsurance contracts, BWC/IC would remain liable for amounts 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.

Continued

BWC/IC's reinsurers had the following AM Best ratings at June 30, 2011 and 2010:

Reinsurer	AM Best Rating
Allied World Assurance Company	A
Aspen Insurance UK LTD	A
Axis Specialty LTD	A
Hannover Re (Bermuda) LTD	A
Odyssey America Reinsurance Corporation	A
Max Demark APS	A
The Underwriters at Lloyds	A

8. Benefit Plans

Pension Plans

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

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

OPERS provides retirement, disability, survivor and death benefits, and annual cost-of-living adjustments to members of the Traditional Plan and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Benefits are established and may 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 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, 2011, the most recent report issued by OPERS is as of December 31, 2010.

Continued

Chapter 145 of the Ohio Revised Code provides OPERS statutory authority for employee and employer contributions. For the years ended December 31, 2010 and 2009, the employee contribution rate was 10% and the employer contribution rate was 14% of covered payroll. BWC/IC's contributions, representing 100% of the dollar amount billed, are as follows (000's omitted):

Twelve months ended June 30, 2011	$22,264
Twelve months ended June 30, 2010	$22,784
Twelve months ended June 30, 2009	$24,113

Post-Retirement Health Care

OPERS maintains a cost-sharing multiple employer defined benefit post-employment healthcare plan, which includes a medical plan, prescription drug program, and Medicare Part B premium reimbursement, to qualifying members of both the Traditional and the Combined Plans; however, health care benefits are not statutorily guaranteed. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage. To qualify for post-retirement health care coverage, age and service retirees must have 10 or more years of qualifying Ohio service credit. Health care coverage for disabled recipients and primary survivor recipients is available.

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

OPERS' Post-Employment Health Care plan was established under, and is administered in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post-employment health care benefits. The portion of the employer's contribution to OPERS set aside for the funding of OPEB for members in the Traditional Plan was 5.5% from January 1 through February 28, 2010 and 5.0% from March 1 through December 31, 2010. The portion of employer contributions allocated to health care for members in the Combined Plan was 4.73% from January 1 through February 28, 2010, and 4.23% from March 1 through December 31, 2010. This is compared to 7.0% for both plans from January 1 through March 31, 2009 and 5.5% for both plans from April 1 through December 31, 2009 in calendar year 2009. The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care benefits provided, by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

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, 2011 allocated to OPEB was approximately $11.1 million and $11.4 million for the 12 months ended June 30, 2010.

Continued

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, was effective January 1, 2007. Member and employer contribution rates increased as of January 1 of each year from 2006 to 2008. This allowed additional funds to be allocated to the health care plan.

9. Risk Management

BWC/IC is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To cover these risks, BWC/IC maintains commercial insurance and property insurance. There were no reductions in coverage in either fiscal year 2011 or 2010. Claims experience over the past three years indicates there were no instances of losses exceeding insurance coverage. Additionally, BWC/IC provides medical benefits for its employees on a fully insured basis with independent insurance companies or the State's self-insured benefit plan.

10. Contingent Liabilities

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

A class action complaint in the 8th District Court of Appeals contended that subrogation allowed under Ohio Revised Code 4123.931 was unconstitutional. The class action was filed after an earlier decision by the Ohio Supreme Court in Holeton v. Crouse Cartage, which declared the subrogation statute unconstitutional. (The subrogation statute was later amended, and in *Groch v. Gen. Motors Corp.* (2008), 117 Ohio St.3d, the Ohio Supreme Court upheld the statute as constitutional). The trial court certified the class, granted summary judgment to the plaintiffs, and awarded attorney fees. A liability of $50 million was accrued as of June 30, 2005. This case was settled in July 2006, with payments of $46.9 million being made during fiscal year 2007, $1.9 million during fiscal year 2008, $1.1 million during fiscal year 2009, $296 thousand in fiscal year 2010, and $6 thousand in fiscal year 2011. Claimants have until January 28, 2012 to file notice of repayment with BWC/IC. Management does not expect the ultimate payments to be materially different than the amount accrued.

BWC v. McKinley started as a challenge to the constitutionality of the subrogation statute. Current issues pertain to the questions of whether there is a two-year or six-year statute of limitations for BWC to file a subrogation action, and whether BWC's right to file a suit against the tortfeasor derivative or independent of the injured worker's right. In 2003, the injured worker suffered a work-related injury. BWC allowed the claim and began paying medical bills and compensation on his behalf. Thereafter, McKinley filed a third-party, personal injury lawsuit against Heritage, the alleged tortfeasor, and recovered a settlement. McKinley failed to reimburse BWC for the workers' compensation benefits paid on his behalf. McKinley then filed a declaratory judgment action in the Washington County Court of Common Pleas, and the court granted McKinley's motion and declared the subrogation statutes unconstitutional. BWC then appealed and the court reversed and held that the statutes were constitutional. McKinley voluntarily dismissed the declaratory judgment action without prejudice. BWC then filed suit naming McKinley and Heritage as defendants in the case. Heritage filed a motion to dismiss arguing that the BWC was time-barred from bringing action. BWC countered, arguing that the statute of limitations would be six years, an argument upheld on appeal by the appellate court. On September 7, 2011, the Supreme Court of Ohio ruled in favor of BWC, holding that a claim pursuant to R.C. 4123.931(G), asserted for purposes of recovering BWC's subrogation interest, is an independent right to recover, and is a claim upon a liability created by statute, which is therefore subject to the six-year statute of limitations prescribed in R.C. 2305.07. Accordingly, BWC's subrogation claims against McKinley and Heritage were not time-barred: The case will be remanded back to the Columbiana Court of Common Pleas on BWC's original subrogation complaint.

A class action case was filed alleging that BWC/IC identifies permanent total disability (PTD) recipients not represented by counsel and encourages them to settle their PTD claims for substantially less than their actuarial present value. The plaintiffs contend that BWC/IC refuses to conduct good-faith settlement negotiations with PTD recipients represented by counsel. The trial court denied BWC/IC's motion to dismiss and/or change of venue, and granted class certification. The 8th District Court of Appeals issued a ruling affirming the trial court's rulings. BWC/IC appealed to the Ohio Supreme Court. In May 2008, the Ohio Supreme Court reversed the Court of Appeals' decision and held that, because this matter is a claim against the state for money due under a contract, and not a claim of equitable restitution, it must be brought before the Ohio Court of Claims. Plaintiffs filed action in the Court of Claims in November 2008. On July 7, 2009, the court granted a partial dismissal of this case. The court dismissed the claims of breach of duty, fraud, unjust enrichment and violation of constitutional and statutory rights. The remaining claim is for breach of contract and associated declaratory relief. Plaintiff's motion to reinstate class certification is still pending. In an entry dated November 18, 2010, the court denied plaintiff's motion to reconsider its dismissal of plaintiff's motion to compel discovery. The court has limited production of documents to PTD claims settled in 1999 only. On August 12, 2011 plaintiff filed his memorandum in opposition to BWC's motion, along with a motion for reconsideration of the court's dismissal of plaintiff's claim for unjust enrichment, a motion to compel discovery, and a motion to postpone the court's ruling on BWC's motion for summary judgment. In response, on August 15 BWC's special counsel filed a brief in opposition to plaintiff's motion for an order seeking to expand the scope of discovery. On September 8, 2011, BWC filed a brief in opposition to plaintiff's motion for reconsideration of the dismissal of the unjust enrichment claim, and a memorandum in opposition to plaintiff's motion for reconsideration of the dismissal of the unjust enrichment claim, and a memorandum in opposition to plaintiff's motions to compel discovery and to postpone the court's ruling on BWC's motion for summary judgment. Accordingly, no provision for any liability has been reported in the financial statements for this matter.

BWC/IC was also involved in litigation in which the plaintiff argued that BWC/IC can only change reimbursement rates by promulgating a rule under ORC Chapter 119. The trial court issued a declaration that BWC/IC improperly reduced reimbursement fees to the hospitals. BWC appealed to the 10th District Court of Appeals. A decision was issued in March 2007 affirming the decision of the trial court. BWC/IC did not appeal the decision to the Ohio Supreme Court. BWC/IC has offered to settle with hospitals that may be impacted by this case. In February 2008, BWC/IC sent settlement release agreements to 274 affected hospitals. An estimated liability of $73.7 million was accrued with payments of $33.1 million made during fiscal year 2008, $30.3 million during fiscal year 2009, $9.4 million during fiscal year 2010, and $476 thousand during fiscal year 2011.

BWC/IC is involved in litigation challenging policies related to lump-sum advancements made to PTD recipients. This action alleges that BWC/IC has improperly recouped repayment monies from PTD recipients by continuing to deduct monies from the plaintiff's benefits in an amount greater than the advance plus interest. On April 6, 2011, the court ruled in BWC's favor, by reversing the 8th District Court of Appeals, and reinstating the trial court's dismissal of plaintiff's claims on the basis of subject matter jurisdiction. The court found that plaintiff's suit should be brought in the Ohio Court of Claims. Accordingly, no provision for any liability has been reported in the financial statements for this matter. Management is vigorously defending this case.

A class action case was filed against BWC/IC alleging that non-group-rated employers subsidize group-rated employers, and that this bias in premiums violates various provisions of the Ohio Constitution. Plaintiffs have asked the court to declare the group rating plan unconstitutional and require BWC/IC to repay to the class members all excessive premiums collected by BWC/IC, with interest and attorney fees. In April 2008, plaintiffs filed a motion for a preliminary injunction enjoining BWC/IC from enforcing the group rating statutes during pendency of the action (beginning July 1, 2008). A hearing was held on the injunction request in August 2008. In December 2008, the Cuyahoga County Common Pleas Court issued the requested preliminary injunction restraining BWC from continuing its current group rating plan for the policy year beginning July 1, 2009. At the same time, the Common Pleas Court ordered that BWC enact a group retrospective rating plan for the policy year beginning July 1, 2009. BWC filed an appeal and a motion for stay with the Common Pleas Court. On December 17, 2008, the General Assembly passed House Bill 79 clarifying that Ohio's group rating program was not intended to be retrospective only. On January 6, 2009, the Governor signed the bill, making it effective immediately. On January 7, 2009, BWC filed a motion to dissolve the preliminary injunction, and in March 2009, the Common Pleas Court issued an order vacating the preliminary injunction. Plaintiff has filed a motion for class certification and BWC filed a response in opposition. In January 2010, the Common Pleas Court granted class certification and BWC had appealed. Oral arguments on BWC's appeal of the class certification order were held on February 16, 2011. On April 7, 2011, the court issued its written decision affirming the trial court's decision to grant class certification, and remanding the case to the trial court. The parties will litigate the merits and the question of damages in the trial court. There is a second case with virtually identical claims that was consolidated with this case, but was recently voluntarily dismissed by the plaintiff. The ultimate outcome of the litigation cannot presently be determined. Accordingly, no provision for any liability has been reported in the financial statements for this matter. Management is vigorously defending this case.

A class action case was filed against BWC 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.

Continued

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. BWC filed its answer to the complaint on August 5, 2010. 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. On April 22, 2011, BWC filed a motion to extend the case schedule in consideration of the pending motion to dismiss. The ultimate outcome of the litigation cannot presently be determined. Accordingly, no provision for any liability has been reported in the financial statements for this matter. Management is vigorously defending this case.

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

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

11. Net Assets

Individual fund net asset (deficit) balances at June 30, 2011 and 2010 were as follows (000's omitted):

	2011	2010
SIF	$ 4,898,170	$ 3,151,349
SIF Surplus Fund Account	23,263	23,795
SIF Premium Payment Security	132,374	130,402
Total SIF Net Assets	5,053,807	3,305,546
DWRF	1,199,936	1,044,635
CWPF	214,074	193,297
PWREF	23,839	22,568
MIF	17,726	16,398
SIEGF	7,507	7,025
ACF	(744,887)	(764,390)
Total Net Assets	$ 5,772,002	$ 3,825,079

As mandated by the Code, SIF net assets are 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

Continued

expense of providing rehabilitation services, counseling, training, living maintenance payments and other related charges to injured workers. The Surplus Fund may also be charged on a discretionary basis as ordered by BWC/IC, as permitted by the Code. Prior to the passage of House Bill 15 in 2009, contributions to the Surplus Fund were limited to 5% of premiums. The BWC administrator now has the authority to transfer money from SIF necessary to meet the needs of the Surplus Fund.

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

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

12. Subsequent Event

On August 5, 2011, Standard and Poor's downgraded the United States Government's credit rating from AAA to AA+. Standard and Poor's has stated that the downgrade reflects its view that the effectiveness, stability and predictability of American policymaking and political institutions have weakened at a time of ongoing fiscal and economic challenge. Moody's and Fitch, the other two credit rating agencies, have not downgraded the credit rating at this time. The full impact of the credit rating downgrade cannot presently be determined, but we do not expect a material adverse effect on BWC/IC's financial position.

OHIO BUREAU OF WORKERS' COMPENSATION
AND
INDUSTRIAL COMMISSION OF OHIO

(A DEPARTMENT OF THE STATE OF OHIO)

REQUIRED SUPPLEMENTAL REVENUE AND RESERVE DEVELOPMENT INFORMATION, UNAUDITED

(See Accompanting Independent Auditor's Report)

June 30, 2011 and 2010

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, 2001 through 2011.

Continued

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

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

	Fiscal Years Ended June 30										
	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
1. Gross premiums, assessments, and investment income	$ 4,356	$ 4,206	$ 2,296	$ 2,968	$ 5,251	$ 3,015	$ 3,272	$ 3,558	$ 2,886	$ 2,032	$ 2,535
2. Unallocated expenses	131	139	97	108	109	170	179	188	169	194	292
3. Estimated incurred compensation and compensation adjustment expense, end of period	1,863	1,870	2,139	2,219	2,327	2,270	2,392	2,335	2,405	2,233	2,109
Discount	974	985	1,472	1,892	2,099	2,147	2,227	2,447	2,544	2,374	2,443
Gross liability as originally estimated	2,837	2,855	3,611	4,111	4,426	4,417	4,619	4,782	4,949	4,607	4,552
4. Paid (cumulative) as of :											
End of period	400	384	458	415	423	417	449	449	485	456	434
One year later		639	711	755	747	743	795	843	872	853	821
Two years later			868	920	926	927	979	1,037	1,096	1,063	1,038
Three years later				1,056	1,048	1,066	1,121	1,181	1,248	1,230	1,194
Four years later					1,155	1,172	1,238	1,302	1,371	1,351	1,325
Five years later						1,268	1,336	1,408	1,485	1,459	1,423
Six years later							1,425	1,498	1,570	1,559	1,518
Seven years later								1,576	1,653	1,645	1,605
Eight years later									1,727	1,714	1,680
Nine years later										1,779	1,742
Ten years later											1,801
5. Re-estimated incurred compensation and compensation adjustment expenses (gross):											
One year later		2,701	2,865	3,607	3,946	4,087	4,456	4,604	4,653	4,469	4,443
Two years later			2,794	2,948	3,460	3,879	4,085	4,369	4,497	4,384	4,428
Three years later				2,909	2,909	3,410	3,929	4,138	4,297	4,228	4,277
Four years later					2,877	2,899	3,502	3,842	4,108	4,080	4,038
Five years later						2,877	2,977	3,489	3,772	3,817	3,862
Six years later							2,984	3,042	3,479	3,565	3,540
Seven years later								3,054	3,106	3,340	3,403
Eight years later									3,118	3,055	3,202
Nine years later										3,061	2,995
Ten years later											2,994
6. Decrease in gross estimated incurred compensation and compensation adjustment expenses from end of period		(154)	(817)	(1,202)	(1,549)	(1,540)	(1,635)	(1,728)	(1,831)	(1,546)	(1,558)

Note
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, 2011 active miners discounted liability is approximately $36.5 million.

OHIO BUREAU OF WORKERS' COMPENSATION
AND
INDUSTRIAL COMMISSION OF OHIO
(A DEPARTMENT OF THE STATE OF OHIO)
SUPPLEMENTAL SCHEDULE OF NET ASSETS
(See Accompanying Independent Auditors' Report)
June 30, 2011
(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	$ 285,885	$ 4,691	$ 1,046	$ 171	$ 269	$ 51,673	$ 1,752	$ -	$ 345,487
Collateral on loaned securities	-	-	-	-	-	-	1,323	-	1,323
Premiums in course of collection	675,721	-	-	348	-	-	-	-	676,069
Assessments in course of collection	-	41,380	-	-	-	-	128,419	-	169,799
Accounts receivable, net of allowance for uncollectibles	108,914	15,331	24	68	1	53	5,481	-	129,872
Interfund receivables	11,494	53,732	1	456	34	375	145,721	(211,813)	-
Investment trade receivables	87,889	-	-	-	-	-	-	-	87,889
Accrued investment income	151,306	-	-	-	-	-	-	-	151,306
Other current assets	3,685	-	-	-	-	-	5,737	-	9,422
Total current assets	1,324,894	115,134	1,071	1,043	304	52,101	288,433	(211,813)	1,571,167
Non-current assets:									
Fixed maturities	12,742,758	932,149	226,590	25,942	19,559	-	-	-	13,946,998
Domestic equity securities:									
Common stocks	4,300,826	293,362	39,415	-	-	-	-	-	4,633,603
Preferred stocks	-	-	-	-	-	-	-	-	-
International securities	1,955,673	149,973	22,706	-	-	-	-	-	2,128,352
Investments in limited partnerships	-	-	-	-	-	-	-	-	-
Unbilled premiums receivable	728,035	1,724,808	-	-	-	870,908	96,285	-	3,420,036
Retrospective premiums receivable	309,610	-	-	-	-	-	-	-	309,610
Capital assets	21,484	22	-	-	-	-	69,410	-	90,916
Restricted cash	-	-	-	-	-	-	24	-	24
Total noncurrent assets	20,058,386	3,100,314	288,711	25,942	19,559	870,908	165,719	-	24,529,539
Total assets	$ 21,383,280	$ 3,215,448	$ 289,782	$ 26,985	$ 19,863	$ 923,009	$ 454,152	$ (211,813)	$ 26,100,706

OHIO BUREAU OF WORKERS' COMPENSATION
AND
INDUSTRIAL COMMISSION OF OHIO
(A DEPARTMENT OF THE STATE OF OHIO)
SUPPLEMENTAL SCHEDULE OF NET ASSETS, Continued
(See Accompanying Independent Auditors' Report)
June 30, 2011
(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	$ 1,764,061	$131,364	$ 1,084	$ 299	$ 259	$18,216	$ -	$ -	$ 1,915,283
Reserve for compensation adjustment expense	163,334	172	62	-	41	1,154	219,678	-	384,441
Warrants payable	19,495	-	-	-	-	-	-	-	19,495
Bonds payable	-	-	-	-	-	-	15,890	-	15,890
Investment trade payables	174,122	-	-	-	-	-	-	-	174,122
Accounts payable	2,353	-	-	-	-	-	5,366	-	7,719
Interfund payables	198,531	9,829	93	44	14	3,302	-	(211,813)	-
Obligations under securities lending	-	-	-	-	-	-	1,323	-	1,323
Other current liabilities	1,806	83	17	2	123	-	12,944	-	14,975
Total current liabilities	2,323,702	141,448	1,256	345	437	22,672	255,201	(211,813)	2,533,248
Noncurrent liabilities:									
Reserve for compensation	13,280,639	1,864,136	68,716	2,801	1,641	879,384	-	-	16,097,317
Reserve for compensation adjustment expense	638,166	9,928	5,038	-	59	13,446	886,222	-	1,552,859
Premium payment security deposits	86,966	-	698	-	-	-	-	-	87,664
Bonds payable	-	-	-	-	-	-	31,999	-	31,999
Other noncurrent liabilities	-	-	-	-	-	-	25,617	-	25,617
Total noncurrent liabilities	14,005,771	1,874,064	74,452	2,801	1,700	892,830	943,838	-	17,795,456
Total liabilities	16,329,473	2,015,512	75,708	3,146	2,137	915,502	1,199,039	(211,813)	20,328,704
NET ASSETS (DEFICIT)									
Invested in capital assets, net of related debt	21,484	22	-	-	-	-	21,545	-	43,051
Restricted for Surplus Fund	23,263	-	-	-	-	-	-	-	23,263
Restricted for Premium Payment Security Fund	132,374	-	-	-	-	-	-	-	132,374
Unrestricted net assets (deficit)	4,876,686	1,199,914	214,074	23,839	17,726	7,507	(766,432)	-	5,573,314
Total net assets (deficit)	$ 5,053,807	$ 1,199,936	$ 214,074	$ 23,839	$ 17,726	$ 7,507	$ (744,887)	$ -	$ 5,772,002

OHIO BUREAU OF WORKERS' COMPENSATION
AND
INDUSTRIAL COMMISSION OF OHIO
(A DEPARTMENT OF THE STATE OF OHIO)
SUPPLEMENTAL SCHEDULE OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
(See Accompanying Independent Auditors' Report)
For the year ended June 30, 2011
(000's omitted)

	State Insurance Fund Account	Disabled Workers' Relief Fund Account	Coal-Workers Pneumoconiosis Fund Account	Public Work-Relief Employees' Fund Account	Marine Industry Fund Account	Self-Insuring Employers' Guaranty Fund Account	Administrative Cost Fund Account	Eliminations	Totals
Operating revenues:									
Premium income net of ceded premium	$1,568,952	$ -	$2,432	$771	$448	$ -	$ -	$ -	$1,572,603
Assessment income	-	70,255	-	-	-	36,546	303,851	-	410,652
Provision for uncollectibles	(42,107)	(1,683)	(147)	-	(1)	(478)	(3,659)	-	(48,075)
Other income	8,754	-	-	-	-	-	6,235	-	14,989
Total operating revenues	1,535,599	68,572	2,285	771	447	36,068	306,427	-	1,950,169
Operating expenses:									
Workers' compensation benefits	1,763,816	62,707	3,499	417	(186)	34,292	-	-	1,864,545
Compensation adjustment expenses	181,742	75	156	-	(66)	1,318	191,172	-	374,397
Personal services	-	70	25	-	15	-	68,553	-	68,663
Other administrative expenses	21,995	11	141	1	46	1	32,295	-	54,490
Total operating expenses	1,967,553	62,863	3,821	418	(191)	35,611	292,020	-	2,362,095
Net operating (loss) income	(431,954)	5,709	(1,536)	353	638	457	14,407	-	(411,926)
Non-operating revenues:									
Net investment income	2,180,215	149,592	27,433	918	690	25	5,486	-	2,364,359
Gain on disposal of capital assets	-	-	-	-	-	-	35	-	35
Total non-operating revenues	2,180,215	149,592	27,433	918	690	25	5,521	-	2,364,394
Net transfers out	-	-	(5,120)	-	-	-	(425)	-	(5,545)
Increase in net assets (deficit)	1,748,261	155,301	20,777	1,271	1,328	482	19,503	-	1,946,923
Net assets (deficit), beginning of year	3,305,546	1,044,635	193,297	22,568	16,398	7,025	(764,390)	-	3,825,079
Net assets (deficit), end of year	$5,053,807	$1,199,936	$214,074	$23,839	$17,726	$7,507	$(744,887)	$ -	$5,772,002

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

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards
For the years ended June 30, 2011 and 2010

SCHNEIDER DOWNS

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited the financial statements of the Ohio Bureau of Workers' Compensation and Industrial Commission of Ohio (BWC/IC) as of and for the years ended June 30, 2011 and 2010, and have issued our report thereon dated September 30, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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Compliance and Other Matters

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

We noted certain matters that we reported to management of the BWC/IC in a separate letter dated September 30, 2011.

This report is intended solely for the information and use of the management, the Ohio Bureau of Workers' Compensation Board of Directors and the Auditor of State and is not intended to be and should not be used by anyone other than these specified parties.

Schneider, Downs & Co., Inc.

Columbus, Ohio
September 30, 2011

Dave Yost • Auditor of State

OHIO BUREAU OF WORKERS' COMPENSATION AND INDUSTRIAL COMMISSION

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 17, 2011

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