Ohio | Industrial Commission

Ohio | Bureau of Workers' Compensation

Fiscal Year 2011 Report

SERVICE **SIMPLICITY** SAVINGS

Governor John R. Kasich • BWC Administrator/CEO Stephen Buehrer
IC Chairman/CEO Karen L. Gillmor, Ph.D.

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Administrator's letter

Dear Governor Kasich:

I am pleased to present the annual report of the Ohio Bureau of Workers' Compensation for Fiscal Year 2011 (FY11).

This year we looked back as we celebrated the 100th anniversary of workers' comp in Ohio. We also looked forward, identifying ways in which we can meet the needs and challenges of today's employers and workforce. Throughout the year we have adhered to three simple principles: Service, Simplicity and Savings. Through these goals we have focused on getting injured workers healthy and back on the job sooner while maintaining fair and stable rates so employers can concentrate their resources on helping grow Ohio's economy.

During FY11, we were successful in finding ways to operate more efficiently. As a result, our administrative cost fund expenses were approximately $11.7 million less than budgeted. This ongoing commitment to more efficient operation allowed us to reduce our FY12-13 budget request by 12 percent over the last biennium, saving $80 million.

We also decreased overall workers' compensation base rates for private employers by an average of 4 percent beginning July 1, 2011. The cut will save these employers approximately $65 million. Unlike prior years, the average rate reduction will apply to employers regardless of their participation in incentive programs such as group-experience rating. In addition, we lowered premiums for the state's 3,800 public employer-taxing districts for the third consecutive year and reduced rates for marine industry employers by 20 percent, effective July 1.

In addition, we established our first ever formulary of medications for the treatment of injured workers. Also, as part of the Lt. Governor's Common Sense Initiative, a one-time forgiveness program waived penalties and interest for first-time offenders of lapsed premium.

We also continued to focus on how to reach out to employers and their workforce to reduce the frequency or severity of injuries in the workplace. For example, we entered into a formal partnership with the National Institute for Occupational Safety and Health (NIOSH). This agreement will help enhance safety practices for Ohio's workforce and increase safety research in Ohio. We also continued and expanded the Safety Council Rebate Incentive Program in FY11.

While focusing on ways to provide employers with more money to grow their businesses, we also provided prompt customer response and timely care to the state's injured workers. We managed approximately 1.2 million open claims, which included 116,378 new claims, and paid medical and indemnity compensation to injured workers totaling nearly $2 billion. BWC processed the majority of claims within eight and one-half days, nearly three weeks quicker than the mandated 28-day requirement.

As BWC moves forward in FY12, we will continue to focus on Service, Simplicity and Savings. This will enable us to continue to provide the best care to injured workers at the lowest possible rates for employers.

Sincerely,

Stephen Buehrer, Administrator/CEO
Ohio Bureau of Workers' Compensation

Since 1912, Ohio's workers' compensation system has helped employers and employees cope with workplace injuries.

At BWC, we believe the more money we can save employers, the more capital they will have to grow their businesses, helping spur economic growth in Ohio. During FY11, we continued to find ways to operate more efficiently. As a result, our administrative cost fund expenses were approximately $11.7 million less than budgeted and 1.5 percent less than last fiscal year to date. This ongoing commitment to more efficient operation has allowed us to reduce our FY12-13 budget by 12 percent over the last biennium, saving $80 million.

Now the largest state-fund insurance system in the nation, BWC serves nearly 256,000 Ohio employers. In FY11, we actively managed approximately 1.2 million open claims, funded by assets totaling approximately $26 billion. Medical and indemnity compensation paid to injured workers totaled nearly $2 billion, and we received 116,378 new claims.

As we celebrate our 100th anniversary, the same innovative spirit that launched Ohio's system is alive and well at BWC. We continue to look toward the future while meeting the needs and challenges of today's employers and Ohio's workforce. Always conscious of our responsibility to operate in the best interest of those who support and rely upon the State Insurance Fund and other specialty funds, we focus on three performance objectives: **Service**, **Simplicity** and **Savings**.

BWC Leadership

Board of Directors

To keep us on track to ensure we meet our goals of **Service**, **Simplicity** and **Savings**, the BWC Board of Directors oversees our operations. House Bill 100 created the 11-member board on July 31, 2007. The board provides professional expertise, accountability and transparency, and a broad representation of BWC's customers. The board also includes members with expertise in financial accounting, investments and securities, and actuarial management. In addition to fulfilling a multitude of statutory requirements, highlights of the board's transactions included approving:

- Rate reductions for private employers as well as the marine industry;
- The first-ever pharmaceutical formulary for BWC;
- Rebates for participation in safety councils;
- A deductible program for public employers;
- A uniform application deadline for various programs;
- A search for minority- and/or women- owned investment managers selected by approved minority manager-of-managers.

Administrator/CEO

Ohio Governor John Kasich appointed Steve Buehrer as administrator/CEO of the Ohio Bureau of Workers' Compensation in January 2011. He replaced Marsha Ryan, who served as administrator/CEO for the first half of FY11. Buehrer has extensive experience with workers' compensation, previously serving as BWC's chief of human resources, and as chairman of the State Senate Insurance, Commerce and Labor Committee, which oversaw all workers' compensation legislation. He is an attorney who represented the citizens of northwest Ohio for a dozen years, first as a state representative, and most recently as a state senator. His focus in his first six months has been listening to employees and stakeholders, and looking for ways to improve efficiency, particularly as it relates to containing rising medical costs and getting injured workers healthy and back to work sooner.

During FY11, we accomplished many initiatives that will lead to useful results for employers and their employees and achieve our goals of **service**, **simplicity** and **savings**.

FY11 Achievements

Savings for employers

In addition to the savings mentioned on page 4, during FY11, the board voted to decrease overall workers' compensation base rates for private employers by an average of 4 percent beginning July 1, 2011. The cut will save these employers approximately $65 million and, unlike prior years, the average rate reduction will apply to employers regardless of their participation in incentive programs such as group-experience rating. In October 2010, the board approved our recommendation to lower premiums for the state's 3,800 public employer-taxing districts (PECs) for the third consecutive year. PECs include Ohio's 3,800 cities, counties, townships, villages, schools, libraries and special taxing districts.

In June 2011, the BWC Board of Directors voted to reduce rates for marine industry employers by 20 percent, effective July 1. The change lowers the rates for employers conducting business on Ohio waterways that subscribe to the Marine Industry Fund.

Formulary

During FY11, we established our first ever formulary of medications for the treatment of injured workers. We created the outpatient formulary to improve the efficiency and effectiveness of treatment, limit the inappropriate use of medications and lower BWC's prescription costs. The formulary allows for a thorough clinical review of each medication, better monitoring and control of inappropriate use. It also assures access to medications that aid in the recovery of injured workers and support their return to work. We estimate the formulary will help us save $15 million by the end of calendar year 2012.

Expansion of Safety Council Rebate Incentive Program

We continued and expanded the Safety Council Rebate Incentive Program in FY11. This incentive program allows employers participating in their local safety council to receive a 2-percent rebate for attending a specific number of safety council programs. In addition, they can earn an additional 2 percent for demonstrating a reduction in the frequency and/or severity of workplace incidents.

Not only did we continue the program, but we also expanded it to allow group-rated employers to participate in safety councils and earn a 2-percent performance rebate for demonstrating improvements in workplace safety. This change, effective July 1, would be in addition to receiving their group-rating discount.

We joined forces with a national leader in workplace safety

In September 2010, we entered into a formal partnership with the National Institute for Occupational Safety and Health (NIOSH) to enhance safety practices for Ohio's workforce and increase safety research in Ohio. We expect the partnership to build on Ohio's research capabilities leading to better safety interventions and preventing workplace injuries.

NIOSH, a federal agency, is the nation's leading source for work-related illness and injury research. The agency uses injury data from each state to assist in prioritiz-

Responding to a growing problem with pill mills, Gov. Kasich directed BWC to lead a multi-agency investigation into prescription drug abuse that resulted in the decertification of a BWC provider.

ing action for the most pressing occupational and health safety issues. Ohio's data will also complement NIOSH's existing body of research that guides recommendations for improving workplace safety and mitigating workplace health hazards across the country.

As part of this ongoing research partnership, we launched a grant program to reduce or eliminate occupational injuries and illnesses in the wholesale/retail trade sector. The program provides funds to employers in this sector to purchase safety equipment while participating in a study that will guide future programming and establish best practices for accident and injury prevention.

Cracking down on fraud

Routing out, investigating and prosecuting cases of workers' comp fraud is one of many ways BWC works on behalf of our customers — injured workers and employers. During FY11, we increased our efforts in the pursuit to deter, detect and investigate workers' compensation fraud. This resulted in numerous convictions or guilty pleas to charges related to defrauding Ohio's workers' compensation system.

For example, in February, we received a record $830,000 in restitution from an Akron area anesthesiologist five years after his conviction in an insurance fraud case. This is the single largest restitution payment BWC has received following a workers' compensation fraud conviction. Efforts to date also include the first-ever attempt to close a non-compliant business through an injunction, steps to decertify a provider inappropriately prescribing prescription narcotics and obtaining 43 indictments and 42 convictions involving fraud by injured workers.

In addition, a task force created by SID in collaboration with the U.S. Postal Service Office of Inspector General uncovered workers' compensation fraud at six businesses that contract with the postal service.

One-time forgiveness program

Finally, we established, as part of the Lt. Governor's Common Sense Initiative, a one-time forgiveness program that waives penalties and interest for first-time offenders of lapsed premium.

BWC year-end statistics

	FY 2011	FY 2010	FY 2009
State-fund claims filed			
Lost time	13,404	13,296	15,428
Medical only	90,132	89,505	101,791
Occupational disease	1,130	1,112	1,439
Death	169	238	197
Disallowed or dismissed	11,543	11,891	13,694
Total	116,378	116,042	132,549
Net allowed injuries	104,835	104,151	118,855

Note: Every claim is evaluated at 60 days after filing for purposes of claim type, state fund versus self-insured, combine status and allowance status. Values exclude combined and self-insured claims.

	FY 2011	FY 2010	FY 2009
Open claims (per statute)			
Lost time	366,142	386,503	407,841
Medical only	763,731	834,799	913,373
Total	1,129,873	1,221,302	1,321,214

	FY 2011	FY 2010	FY 2009
Benefits paid			
Medical benefits paid	$778,853,015	$800,805,344	$833,508,906
Compensation paid			
Wage loss	$21,397,029	$21,352,353	$19,123,153
Temporary total	273,321,156	267,470,408	258,845,993
Temporary partial	29,326	56,996	48,179
Permanent partial	21,033,715	20,353,634	23,361,375
% permanent partial	70,258,487	79,543,300	84,406,058
Lump sum settlement	115,918,814	151,257,527	206,137,108
Lump sum advancement	30,191,113	21,772,977	20,581,269
Permanent total and DWRF	383,895,419	386,973,795	385,463,075
Death	82,884,488	82,894,164	82,396,222
Rehabilitation	46,989,884	47,821,615	43,429,274
Other	7,851,564	6,084,179	6,973,290
Total compensation paid	$1,053,770,995	$1,085,580,948	$1,130,764,997
Total benefits paid	$1,832,624,010	$1,886,386,292	$1,964,273,902

	FY 2011	FY 2010	FY 2009
Fraud statistics			
Fraud dollars identified	$58,155,950	$66,184,460	$65,183,784
$$$ saved to $$$ spent ratio	5.41 to 1	6.30 to 1	5.65 to 1
Prosecution referrals	245	240	222
Active employers by type			
Private	250,432	251,009	257,012
Public (local)	3,802	3,790	3,791
Public (state)	125	124	124
Self-insured	1,203	1,202	1,188
Black Lung fund	39	37	38
Marine fund	120	106	98
Total	255,721	256,268	262,251
BWC personnel	2,064	2,262	2,346
MCO fees paid	$166,960,072	$165,187,219	$161,317,153

BWC combined funds financial data (000s omitted)

	FY 2011	FY 2010	FY 2009
Operating revenues			
Premium and assessment income, net of provision for uncollectibles and ceded premiums	$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
Non-operating revenues			
Net investment earnings	$764,746	$715,387	$733,284
Increase (decrease) in fair value	1,599,613	1,334,234	(928,019)
Net Investment Income (loss)	$2,364,359	$2,049,621	$(194,735)
Total BWC assets	$26,100,706	$24,095,908	$22,420,349
Total net assets	$5,772,002	$3,825,079	$2,515,342

Investment Class Annual Report Comments

Background

The U.S. and global economies continued to strengthen in fiscal year 2011 ended June 30, 2011, sustaining a recovery, which began in fiscal year 2010 following the financial shocks and recessionary period of fiscal year 2009. The recovery of the U.S. economy has been attributable largely to a continuing accommodative monetary policy of the U.S. Federal Reserve providing tremendous liquidity to the U.S. financial system by purchasing U.S. Treasury and federal agency debt. However, fiscal year 2011 economic growth was relatively modest and disappointing for the second year of a recovery from a severe recession with headwinds to stronger economic growth arising from high unemployment, poor wage growth, high consumer indebtedness, weak housing markets and the fiscal drag of federal, state and local government budget cuts. Events overseas such as the Japanese earthquakes, Middle East political upheaval and the European debt crisis created an unsettled and at times very anxious environment for U.S. and global investors. Nevertheless, many large U.S. corporations recorded strong cash flow and profits in fiscal year 2011 as the U.S. and global economy rebounded fueled by higher capital investment, improved consumer consumption, gradually rising auto and commercial loans, and solid export growth to Asia (especially China), Europe and Canada. In addition, the balance sheets and financial condition of many U.S. companies have never been stronger due to astute employment of skillful management practices in a competitive global marketplace, low cost of capital with very low borrowing interest rates and high worker productivity aided by technological advances.

The investment portfolio of the Bureau had its second consecutive year of positive double-digit performance in fiscal year 2011 with a total return of 12.4 percent (net of investment management fees). The portfolio performance follows a similar total net return of 12.0 percent for fiscal year 2010, rebounding significantly from the total negative net return of 1.1 percent for fiscal year 2009 when there were severe stresses impacting the U.S. economy and its financial structure precipitated by the sudden demise of Lehman Brothers. BWC monthly total bond returns and especially total stock returns fluctuated widely over the course of fiscal year 2011. Although monthly returns of portfolio stocks versus portfolio bonds of the Bureau actually moved in opposite directions (one positive and one negative) for six of the 12 months of fiscal year 2011, both of these important asset class sectors had positive net returns for the year with the equity portfolio having exceptional performance. The BWC stock portfolio provided a net return of 32.0 percent and its bond portfolio had a net return of 5.3 percent for fiscal year 2011. Most of the bond portfolio return (over 90 percent) was comprised of bond interest income with net realized/unrealized gains being relatively modest as investment grade bond interest rate levels were similar at both the start and end of fiscal year 2011.

The BWC investment staff carefully planned and supervised the implementation and execution of comprehensive asset class transition strategies for the State Insurance Fund (SIF) portfolio over much of fiscal year 2010, which were completed at the end of May, 2010. The SIF portfolio transition in fiscal year 2010 involved increasing its equity allocation from 20 percent to 30 percent (all from adding a 10 percent non-U.S. equity allocation) and reducing its fixed income allocation (including cash) from 80 percent to 70 percent. In addition, bond allocations were adjusted to shorten portfolio duration and both increase credit bond exposure and decrease U.S. government bond exposure in satisfaction of a strategic change in various asset allocation targets approved by the BWC Board of Directors in April 2009. This asset allocation shift, increasing equity exposure from a 20 percent to 30 percent allocation during fiscal year 2010, was very beneficial in contributing to higher positive SIF portfolio returns for fiscal year 2011 as the SIF equity portfolio outperformed its fixed income portfolio by almost 27 percent for the fiscal year. Total invested assets of the SIF portfolio were $19.285 billion on June 30, 2011, representing 91.6 percent of total Bureau invested assets of $21.056 billion at fiscal year-end 2011.

With the completion of all transition activities for the State Insurance Fund, the BWC investment staff focused on major asset class transitions involving the Disabled Workers' Relief Fund (DWRF) and Coal Workers' Pneumoconiosis Fund (CWPF). Similar to the change in asset allocation approved by the BWC

Board for the SIF portfolio, the BWC Board approved for the DWRF portfolio in fiscal year 2010 an asset allocation increase to 30 percent from 20 percent in equities with the entire 10 percent increase allocated toward initial investments in non-U.S. equities and a consequent allocation reduction from 80 percent to 70 percent in fixed income assets. The approved DWRF fixed income portfolio asset allocation change resulted in intentionally shortening its average duration by eliminating the previous 59 percent portfolio allocation to long duration bonds and spreading the new 70 percent target allocation between U.S. TIPS (new target 35 percent versus former 20 percent target) and adding the intermediate duration U.S. Aggregate benchmark index (new target 34 percent) with cash remaining at 1 percent.

The 80/20 percent fixed income/equity asset allocation targets remained unchanged in the new investment strategy approved by the BWC Board of Directors in fiscal year 2010 for the CWPF portfolio but the asset sectors within both major asset classes are identical to that approved for DWRF and their respective target weightings are proportionally similar to DWRF. The new asset allocation strategy approved for CWPF is 40 percent U.S. TIPS; 39 percent U.S. Aggregate bonds; 1 percent cash for its 80 percent fixed income allocation, and 13 percent U.S. equity; 7 percent non-U.S. equity for its 20 percent equity allocation. The new approved asset allocation targets for DWRF and CWPF were achieved in early fiscal year 2011 (August 2010) when respective transition strategies were implemented by the BWC investment staff and executed by a Board approved eligible transition manager selected by the BWC investment staff. Invested assets of the DWRF and CWPF portfolios were $1.380 billion and $290 million, respectively, at fiscal year-end June 30, 2011.

With the assistance of its former investment consultant (Mercer) and its current investment consultant (R.V. Kuhns) over the course of fiscal year 2011, the BWC investment staff and BWC Investment Committee have been exploring the potential employment of active management of each bond and stock asset class of the SIF portfolio as well as real estate as a potential new asset class for investment. Based in part on research and empirical investment manager performance data provided by Mercer, the BWC chief investment officer (CIO) presented on several occasions during fiscal year 2011 investment strategy recommendations for consideration by the BWC Investment Committee. Included among these recommendations are active investment management for portions of four SIF asset class mandates (Long Credit fixed income, U.S. Aggregate core fixed income, U.S. equities and Non-U.S. equities), as well as strategies involving investments in pools of commercial real estate properties. The purpose of these recommendations is the opportunity to increase portfolio net investment returns on a risk adjusted basis as well as to increase diversification of investment classes and asset management styles. The necessary steps addressed by the BWC Investment Committee and Board for consideration of new investment strategies include extensive education sessions generally led by the investment consulting firm, leading to investment policy revisions if approved then leading to RFP issuance approval in turn leading to RFP finalists recommendations for consideration for each new approved strategy.

The first and largest of the active management strategies recommended by the CIO involves the active management of a targeted 20 percent of total SIF portfolio assets allocated to the long duration credit fixed income asset class. This new strategy was approved by the Investment Committee and Board at their respective March 2011 meetings. The remaining 8 percent of SIF assets targeted towards this largest of SIF asset classes will stay passively indexed managed. An RFP was subsequently issued in May 2011 for active managers of this fixed income mandate and the RFP Evaluation Committee is evaluating bid proposals.

An extensive review process was also conducted by the BWC Investment Committee and its other Board members during fiscal year 2011 regarding the introduction of real estate as a new asset class for consideration. The Board review process resulted in the approval in August 2011 of a 6 percent asset allocation toward U.S. concentrated private real estate commingled funds for the SIF portfolio, divided between a targeted 4.5 percent allocation to private open-end core funds and a targeted 1.5 percent allocation to private value-added funds. In order to fund this new Real

Estate asset class, the Board approved the CIO recommendation to reduce the current SIF targeted asset allocation toward Indexed Long Duration U.S. Government Bonds and Indexed TIPS by 3 percent each.

A 1 percent SIF asset allocation toward U.S. Equity active management by minority and/or women-owned (MWBE) investment managers to be selected by approved minority manager-of-managers firms was also adopted by the Investment Committee and the Board at their respective September 2011 meetings. This strategy was also approved after a thorough review process occurred during fiscal year 2011 by the BWC Investment Committee and its other Board members. This active U.S. equity allocation will be funded by a 1 percent reduction in the SIF passive managed U.S. Equity portfolio.

As a matter of information, BWC changed investment consulting firms during fiscal year 2011. BWC investment consultant Mercer informed the Bureau and its other public pension fund clients in October 2010 that the firm and its parent company, Marsh McLennan, made a strategic management decision to cease providing investment consulting services to all of its public fund clients having defined liabilities such as the Bureau due to potential future litigation liability. The BWC investment staff shortly, thereafter, issued an RFP for the services of a new investment consultant. The BWC CIO negotiated a March 31, 2011, termination date for investment consulting services offered by Mercer to the Bureau, which was three months earlier than the ending date of June 30, 2011, of the then existing services contract but also three months later than the proposed contract termination date of Dec. 31, 2010, first offered by Mercer. A thorough evaluation process was conducted of RFP responses submitted by investment consulting firms. Interviews were conducted with finalist candidate firms by the two senior members of the BWC investment staff and the two investment experts of the BWC Board of Directors. R.V. Kuhns was chosen and approved by the BWC Board of Directors to replace Mercer as BWC general investment consultant effective April 1, 2011.

Valuation and performance

As reflected in columns A and B of the table provided at the end of this Annual Report, total investment assets at fair value held by the Bureau were $21,056 million on June 30, 2011, which represented an increase of $2,085 million when compared to $18,971 million on June 30, 2010. As stated earlier, the total rate of return on invested assets of the Bureau for fiscal year 2011 ended June 30, 2011, was 12.4 percent net of management fees. Net investment income reported for fiscal year 2011 was $2,364 million, comprised of $772 million in interest and dividend income ($686 million interest income; $86 million dividend income) plus $1,600 million appreciation in fair value of investments less $8 million in investment expenses, including $6.6 million in investment manager fees. The investment manager fees for fiscal year 2011 represented an average annual fee of less than 4 basis points (4/100 of 1 percent) of total average month-end market value of bond and stock assets managed by outside passive indexed managers.

The asset allocation mix of the Bureau investment portfolio at fair value on June 30, 2011, was 66.2 percent bonds, 32.1 percent stocks and 1.7 percent cash and cash equivalents. This asset mix compares to 70.5 percent bonds, 27.2 percent stocks and 2.3 percent cash and cash equivalents on June 30, 2010. The asset allocation increase in stocks and decrease in bonds at the end of fiscal year 2011 compared to fiscal year 2010 was largely attributable to the high net return of 32.0 percent for the stock portfolio in fiscal year 2011 compared to the much more modest 5.3 percent net return for the bond portfolio. The 10 percent increase in stock allocation and consequent 10 percent decrease in bond allocation for the DWRF portfolio implemented in August 2010 also had a positive impact on total annual portfolio performance for fiscal year 2011.

Despite the significant outperformance of stocks over bonds in fiscal year 2011, there were no quarterly portfolio rebalancing events required in fiscal year 2011 prompted by one or more specific bond or stock asset classes falling outside their specific defined asset allocation ownership target range per the investment policy statement. However, there were transition-related movements between asset classes during fiscal year 2011 that were required in order to implement and complete the new investment strategy of both the DWRF and CWPF specialty funds portfolios. In addition, there were portfolio asset redemptions for cash required to fund Bureau operations that totaled $201 million in fiscal year 2011, involving $175 million for SIF, $21 million for DWRF and $5 million for CWPF. A total of $130 million involved U.S. equity portfolio redemptions with the remaining $71 million received from bond portfolio redemptions. Columns D, E and F of the table provided in this Annual Report summarize the asset class transfer activity that occurred over fiscal year 2011. These activities are important to highlight because they have a material impact on the respective fair value levels of both bond and equity portfolios over the course of fiscal year 2011.

As column D of the referenced table reflects, major portfolio transition activity involving Bureau asset classes in fiscal year 2011 involved increased U.S. TIPS holdings of $255 million funded by non-TIPS bonds (all long duration U.S. Government/Credit issues) and increased non-U.S. Equities holdings of $143 million funded by a combination of U.S. Equities and non-TIPS bonds. This activity was the result of the execution of the (A) DWRF portfolio transitions moving to a new targeted asset allocation of 35 percent U.S. TIPS; 34 percent U.S. Aggregate core bonds; 20 percent U.S. Equity; 10 percent non-U.S. Equity; 1 percent cash from a legacy target asset allocation of 59 percent Long Duration bonds; 20 percent U.S. TIPS; 20 percent U.S. Equity; 1 percent cash and (B) CWPF portfolio transitions moving to a new target asset allocation of 40 percent U.S. TIPS; 39 percent U.S. Aggregate Core Bonds; 13 percent U.S. Equity; 7 percent non-U.S. Equity; 1 percent cash from a legacy target asset allocation of 59 percent Long Duration bonds; 20 percent U.S. TIPS; 20 percent U.S. Equity; 1 percent cash. As mentioned earlier, these transitions were completed in early fiscal year 2011 to satisfy and achieve the new asset allocation strategies of both of these BWC specialty funds that were approved by the Board in the middle of fiscal year 2010.

The total fair value of the bond portfolio of the Bureau was $13,947 million on June 30, 2011, compared to $13,381 million on June 30, 2010, representing an increase of $566 million. The bond portfolio had net outflows totaling $166 million during fiscal year 2011 resulting from a combination of $95 million from transition activity of the DWRF portfolio funding non-U.S. equities and $71 million to fund operations, primarily $65 million from the SIF portfolio. Adjusted for these net bond sales outflows, the fair value change of the bond portfolio of the Bureau in fiscal year 2011 was a $732 million increase, which represented a total rate of return of 5.3 percent. This $732 million adjusted increase in fair value for fiscal year 2011 included $261 million from the U.S. TIPS portfolio and $471 million from the non-TIPS bond portfolio. The non-TIPS bond portfolio had a total return of 4.5 percent and the U.S. TIPS portfolio had a total return of 7.4 percent in fiscal year 2011.

The bond portfolio of the Bureau maintained a high average credit quality of "AA" over the fiscal year 2011 with over 50 percent of the fair value of the bonds held on June 30, 2011, being of "AAA" quality (largely U.S. government issues). The weighted average effective duration of the bond portfolio of the Bureau on June 30, 2011 was 9.0 years, based on duration calculations of the Bureau's investment accounting vendor as represented in the fiscal year 2011 audited financial statement of the Bureau.

The total fair value of the equities portfolio of the Bureau was $6,762 million on June 30, 2011, compared to $5,149 million on June 30, 2010, representing an increase of $1,613 million. As mentioned earlier, the DWRF and CWPF portfolios made initial investments in non-U.S. equities as a result of transitioning activity to achieve their targeted asset allocation strategy for this new asset class of 10 percent and 7 percent of total assets, respectively. This resulted in initial purchases of $143 million of non-U.S. equities funded from $95 million of bond sales and $48 million from U.S. equities sales from asset class transition activity, as reflected in Column D of the table to this report.

The fair value of the U.S equities portfolio was $4,634 million on June 30, 2011, an increase of $994 million in fair value compared to $3,640 million on June 30, 2010. Since there were total outflows of funds from the U.S equities portfolio of $178 million from both transitions ($48 million) and operations fundings ($130 million), the adjusted fair value increase in the U.S. equities portfolio was $1,172 million for fiscal year 2011. The U.S. equities portfolio of the Bureau had a total return of 33.0 percent for fiscal year 2011.

The fair value of the non-U.S. equities portfolio was $2,128 million on June 30, 2011, an increase of $619 million in fair value compared to $1,509 million on June 30, 2010. Since $143 million of non-U.S. equities were purchased during early fiscal year 2011 to fulfill the new initial DWRF and CWPF target asset allocation strategies previously mentioned, the adjusted fair value increase in the non-U.S. equities portfolio was $476 million for fiscal year 2011. The non-U.S. equities portfolio of the Bureau had a total rate of return of 29.8 percent for fiscal year 2011.

The adjusted fair value increase of the total equities portfolio of the Bureau was $1,648 million for fiscal year 2011 after reflecting inflows and outflows from transition activities and operations fundings. The total return of the equities portfolio of the Bureau was 32.0 percent for fiscal year 2011.

Total cash and cash equivalents of the Bureau had a fair value of $346 million on June 30, 2011, compared to $436 million on June 30, 2010. The Bureau utilized an institutional U.S. government money market fund offered by its custodian bank (JPMorgan Chase Bank) throughout fiscal year 2011 to earn interest income on its short-term invested assets. Short-term yields on money market investments remained very low throughout the fiscal year as the Federal Reserve Bank kept the targeted federal funds rate between 0 percent and 0.25 percent, and had a very accommodative monetary policy with low interest rates to encourage and support U.S. economic growth. The total rate of return earned by the Bureau on its cash and cash-equivalent assets was a very low 0.06 percent for fiscal year 2011.

As referenced throughout this Annual Report, the following table provides a summary of asset class valuations, funds transfer activity from DWRF and CWPF asset class transitions, asset class sales to fund operations, and performance returns.

Asset Class Fair Value/Performance Summary

Fiscal Year 2011 Ending June 30, 2011

($millions) Asset Class	(A) Fair Value 6/30/11	(B) Fair Value 6/30/10	(C) Actual Fair Value Change	(D) Net From Portfolio Transitions	(E) Net For Operations Fundings	(F) Total Inflow/ (Outflow)	(G) Adjusted Fair Value Change	**FY 2011 Annual Return**
Bonds ex U.S. TIPS	$ 10,093	$ 10,042	$ 51	$ (350)	$ (70)	$ (420)	$ 471	**+ 4.5 %**
U.S. TIPS	3,854	3,339	515	255	(1)	254	261	**7.4 %**
Total Bonds	13,947	13,381	566	(95)	(71)	(166)	732	**5.3 %**
U.S. Equities	4,634	3,640	994	(48)	(130)	(178)	1,172	**33.0 %**
Non-U.S. Equities	2,128	1,509	619	143	0	143	476	**29.8 %**
Total Public Equities	6,762	5,149	1,613	95	(130)	(35)	1,648	**32.0 %**
Miscellaneous	1	5	(4)				(4)	
Cash & Equivalents	346	436	(90)	0	201	201	(291)	**0.1 %**
Net Change				0	0	0	2,085	**12.4 %**
Total Invested Assets	$21,056	$18,971	$ 2,085					

Column Definitions
C = A minus B
F = D plus E
G = C minus F

Asset Class fair vaulues shown exclude accrued investment income and trade payables/receivables
Amounts rounded to nearest $1 million

Outcomes and Savings of the Health Partnership Program

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The Health Partnership Program

The Health Partnership Program (HPP) has been BWC's system for providing managed care services since its implementation in March 1997. Per ORC 4121.44 (H)(3), BWC is required to publish a report on the measures of outcomes and savings of the HPP, and submit it to the president of the senate, the speaker of the house of representatives, the governor and the workers' compensation council with the annual report prepared under division (F)(3) of section 4121.12 of the Revised Code. BWC's chief of medical services and compliance directs the program. The Medical Services Division coordinates BWC's health-care services through a network of providers and managed care organizations (MCOs).

How HPP works

BWC determines compensability and pays indemnity benefits. It contracts with MCOs to manage the medical component of workers' compensation claims. MCOs educate employers and injured workers on HPP and process *First Report of an Injury, Occupational Disease or Death* (FROI) reports. They also help employers establish transitional/early return-to-work programs. In addition, MCOs process medical bills and make provider payments.

BWC monitors MCO managed care performance. For example, it measures the effectiveness of the MCOs' return-to-work efforts using the Degree of Disability Management (DoDM) measure. BWC also measures MCO FROI timing, FROI data accuracy, bill timing and bill data accuracy. In addition, it publishes most of these measures in an annual *MCO Report Card*, which is available on **ohiobwc.com**. BWC encourages employers to view this report before selecting an MCO.

There are 17 certified MCOs statewide. The total number reflects a decrease of one MCO since BWC's last *Annual Report* (November 2010).

BWC Medical Services Objectives

BWC strives to ensure prompt, quality, cost-effective health care for injured workers to facilitate their early, safe, and sustained return to work and quality of life. Its Medical Services Division coordinates health-care delivery through provider networks and MCOs. It does this by using management, pricing and payment strategies that benefit injured workers and employers, while making sure these benefits are related to the workers' compensation injury(ies).

The Medical Services Division's specific responsibilities are to:

- Develop, maintain and execute quality and cost-effective medical, vocational rehabilitation and pharmaceutical benefits plans and associated fee schedules;
- Develop and support the appropriate managed-care processes, including contract management and training;
- Establish and maintain a quality pool of medical and vocational service providers to make certain injured workers have access to quality, cost-effective and timely care;
- Establish, maintain and implement claims, medical and vocational policies, rules and training to direct handling of claims from inception to resolution;
- Evaluate and process medical bills, guaranteeing proper and timely payment consistent with benefits plan criteria.

The Medical Services Division has continued to implement relevant recommendations made by Deloitte Consulting LLP as submitted in the March 2009 comprehensive review of BWC's workers' compensation program report. The recommendations addressed:

- MCO effectiveness (Report 2.6);
- BWC's current medical bill-payment processes (Report 2.3);
- The vocational rehabilitation program (Report 4.1).

The Medical Services Division has made progress on many of the recommendations. It also has worked to ensure alignment of the same with existing divisional and BWC enterprise goals. Included in this report are updates on the status of the following recommendations from Report 2.6 (MCO effectiveness):

- Update BWC's fee schedule every one to two years;
- Develop provider compliance measures;
- Replace the MCO outcome measure DoDM;
- BWC's initiative to analyze claims cost drivers and improve management to address these issues;
- Initiatives implemented to reduce processing delays identified by Deloitte.

Benefits plan design

For injured workers to have access to high-quality medical care, BWC must have appropriate benefits plans and terms of service in place. Additionally, pursuant to required rules and law, and to ensure injured workers access to quality care, BWC must establish discounted yet competitive fees. BWC annually reimburses around 40,000 providers for medical services rendered to Ohio's injured workers.

BWC has markedly improved its medical, vocational rehabilitation and pharmaceutical services offerings. It did this by implementing quality methodologies and protocol for revising benefits plans and their corresponding fee schedules. At this time, BWC reviews all fee schedules annually. Below is a summary of the fee schedule updates in place or planned for calendar years (CYs) 2011 and 2012.

BWC's pharmacy program has completed its implementation of a formulary for prescription drugs. The formulary became effective Sept. 1, 2011. The pharmacy program continues to work with BWC's Pharmacy and Therapeutics (P&T) Committee to update the formulary. The pharmacy program is recommending changes to the formulary rule, including:

- Modifying coverage limitations on skeletal muscle relaxants;
- Modifying coverage limitations on sustained release opiates;
- Adding coverage limitations on short acting opiates.

These changes are awaiting final BWC Board of Director approval. They are targeted for a Feb. 1, 2012, effective date.

Fee schedule	Effective date	Update summary
Medical providers and services: Covers all medical providers and medical services not covered by any of the other schedules	Effective: March 21, 2011 Proposed Update: Nov. 1, 2011	Permanent implementation of the emergency rule effective Dec. 30, 2010 (OAC 4123-6-8)
Hospital inpatient: Covers facilities for inpatient services	Effective : Feb. 1, 2011 Proposed Update: Feb. 1, 2012	Update the Medicare Severity — Diagnosis Related Grouping to the 2011 federal fiscal year values and update the payment for Medicare exempt providers to the 2009 cost-to-charge ratios (OAC 4123-6-37.1)
Hospital outpatient: Covers facilities for outpatient services	Effective: April 1, 2011 Proposed Update: April 1, 2012	Update to implement the 2011 Medicare annual OPPS updates (OAC 4123-6-37.2)
Ambulatory surgical centers (ASC): Covers surgical procedures not requiring inpatient hospitalization	Effective: April 1, 2011 Proposed Update: April 1, 2012	Update ASC payment rates to the 2011 ASC PPS Medicare rates and the payment adjustment factors used in calculating Ohio rates. (OAC 4123-6-37.3)
Vocational rehabilitation services: Covers all vocational rehabilitation services	Effective: Aug 1, 2011 Proposed Update: Aug 1, 2012	Update rates and delete/add custom service codes as needed (OAC 4123-18-09)

The following change to BWC's outpatient medication rule (OAC 4123-6-21) also was effective Sept. 1, 2011. One change limits payment of drugs prescribed by providers not certified by BWC in the following specific situations:

- Initial or emergency treatment;
- Lack of access to certified providers;
- Grandfathered pre-HPP claims.

These match the situations where BWC would pay a non-certified provider for other medical treatment such as an office visit. We are recommending further pharmacy changes. These changes will ensure BWC does not pay more for a re-packaged medication than it would if it purchased the medication directly from the manufacturer. These changes are targeted for a Jan. 1, 2012, effective date.

The pharmacy program is working with other areas in BWC's Medical Services and Customer Services divisions to revamp the process of drug utilization review (DUR) referrals between the MCOs and BWC. The pharmacy program is creating specific criteria a claim must meet for a DUR referral. It's also working with the other areas within BWC to streamline the process of scheduling the review. Implementation of this new process should reduce the administrative effort and overall time involved with completing DURs.

The pharmacy program is working on initiating a pilot project for a pharmacy based medication therapy management (MTM) program directed at treatment of chronic pain. The intent of this pilot is to demonstrate the effectiveness of a pharmacy based MTM program in improving outcomes in the fiscal and clinical dimensions of BWC's pharmacy program. The project plan will have the pilot in place by early CY2012.

Managed-care processes

The division continues to collaborate with the MCOs on creating a new MCO outcome measure to replace the current DoDM measure. This is consistent with a Deloitte recommendation relating to MCO effectiveness (Report 2.6). Per the 2011-2012 MCO Agreement, BWC will use the new measure, Measurement of Disability (MoD), as the outcome measure effective the first quarter of CY2012. BWC is running MoD in parallel with DoDM during CY2011 to identify any enhancements needed prior to using the measure in CY2012.

The Integrated Account Service Delivery Model (IASDM) workgroup made up of BWC and MCO participants has submitted its recommendations. The group's goal was to define a total methodology, which would reduce the frequency of long-term disability claims by ensuring availability of key resources at appropriate points in the claim life cycle.

The workgroup has identified variables relative to specific claim, injured worker, employer and service provider characteristics, which can drive long-term disability. A consultant validated the group's proposed assignment methodology confirming the factors the workgroup considered did correlate to the severity of the claim.

BWC is evaluating the assignment methodology model before embarking on a planned pilot program with select BWC customer service offices and MCOs. BWC will implement the pilot program in FY2012. The exact target dates have not been determined.

Medical providers

The division has started recertification of all enrolled, certified providers. We anticipate it will take through CY2015 to complete the initial recertification process. Once the initial process is complete, the division expects to re-certify all providers every two years.

In the area of provider recruitment and outreach, the division has worked closely with the Ohio Dental Association to increase the availability of dental providers. In February 2011, BWC mailed approximately 6,000 flyers to dentists in Ohio that were not certified BWC providers. By mid-May 2011, the division had completed a follow-up for the 13 counties where there were no BWC certified dentists. To date, these efforts have results in 50 newly certified dentists — a 6 percent increase.

In the area of performance measurement development, BWC continues to work with the Ohio Department of Administrative Services and labor unions on provider performance measures for selected claims. We have calculated initial measurements for the four quarters of CY2010 and have shared them with providers and stakeholders.

The Workplace Injury Labor Management Approved Provider Committee (WILMAPC) panel has approximately 11,000 participating providers. In CY2010, approximately 1,400 panel providers managed 2,413 claims. BWC aggregated data by provider and placed each provider in a performance category.

- Exceptional (56 providers)
- Acceptable (1,045 providers)
- Opportunity for improvement (208 providers)
- Unacceptable (103 providers)

The metrics used to evaluate the providers are:

- Absence duration (weighted at 40 percent);
- Release to return to work (weighted at 30 percent);
- Relapse rate (weighted at 20 percent);
- Average medical costs (weighted at 10 percent).

The 103 providers in the Unacceptable category are subject to removal from the panel. Once BWC has reviewed and analyzed the results from the first year of the WILMAPC project, we will establish steps for the development and implementation of a Blue Ribbon panel for the entire workers' compensation system.

Effective Oct. 1, 2013, the U.S. Department of Health and Human Services has mandated the use of the 10th revision of the International Classification of Diseases (ICD-10) to classify health conditions (disease, injury, disorder, etc.) Health-care providers and insurers, including BWC, currently use the 9th revision or ICD-9. Although the Health Insurance Portability and Accountability Act is requiring ICD-10 reporting for all entities, BWC is exempt from this mandate. However, if BWC doesn't convert to ICD-10:

- It would leave us as a health-care payer without any health industry support;
- It would create an extra cost for our providers, as they would need to have two systems for bill processing;
- We couldn't receive electronic data from providers;
- There would be a lag time in processing claims/bills;
- There would be an impact to access to care;
- Our current fee schedule methodology would be unusable.

Medicare secondary payer activity

The Medicare Secondary Payer Act (MSPA) precludes Medicare from paying any medical expenses that BWC has paid or it will reasonably pay. The MSPA requires BWC to interact with Centers for Medicare & Medicaid Services (CMS) in three areas:

- Mandatory reporting of claims and settlements involving a Medicare-eligible injured worker;
- Coordination of benefits for claims involving Medicare-eligible injured workers;
- Settlement of claims involving Medicare-eligible or Medicare-probable injured workers.

The division's billing and adjustment unit is responsible for responding to CMS's demand letters and Department of Treasury collection notices. CMS demand for payment letters is the notice BWC receives from the agency advising BWC to either pay CMS the requested amount or respond why the medical subrogation request (or any part of the request) does not relate to the BWC claim. The Department of Treasury sends BWC Notice of Collection letters after CMS certifies the account for collection with them for non-payment or no response. If we do not respond to the Department of Treasury letter, the Department of Justice may prosecute BWC.

Currently, BWC has responded to 19 CMS demand for payment letters (requesting a total of $43,183) and one Department of Treasury letter (requesting a total of $790.53). To date, we have not reimbursed any money to CMS or the Department of Treasury. The information sent by both parties has been insufficient for BWC to determine medical compensability. The Medical Services Division is continuing to work to ensure BWC submits appropriate reporting and responses timely to CMS.

The section below presents selected measurements of the HPP's impact during the last six fiscal years.

Selected HPP measurements

All dollar amounts are shown in thousands.

The figures below are limited to the HPP.

Measurement	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Active employers (1)	252,437	248,282	238,482	233,105	229,765	228,144
Active claims (2)	355,451	326,039	301,128	275,579	245,634	311,315
FROI timing (3)	17.47	16.50	16.55	17.28	17.40	15.47
% of FROIs filed within seven days of date of injury (4)	72.48%	73.50%	74.33%	73.83%	74.47%	74.39%
% of claims determined within 14 days of filing date (5)	67.82%	69.36%	69.72%	73.10%	73.41%	66.82%
Bill timing (6) LDOS–MCO MCO–BWC BWC–MCO MCO–Provider	82.67 67.07 6.52 7.13 1.95	81.26 65.86 6.29 7.16 1.95	84.01 68.17 6.60 7.29 1.95	82.88 68.03 5.60 7.30 1.95	79.21 64.31 5.76 7.20 1.95	78.10 62.37 6.59 7.19 1.95
Total regular medical payments (7)	$ 818,350	$ 762,190	$ 812,730	$ 805,856	$ 774,939	$ 755,797
Payments for file reviews and IMEs (8)	$ 22,861	23,372	23,102	23,285	22,275	20,507
MCO fees (9)	$ 172,822	173,139	168,327	161,317	165,187	166,960
Total medical payments plus MCO fees	$ 1,014,034	958,700	1,004,159	990,458	962,401	943,265
Total indemnity payments (10)	$ 1,073,394	$ 1,142,542	$ 1,208,793	$ 1,115,083	$ 1,071,508	$ 1,039,299
Grand total (11) Benefits paid (Total regular medical payments plus MCO fees plus total indemnity payments)	$ 2,064,566	$ 2,077,871	$ 2,189,850	$ 2,082,256	$ 2,011,634	$ 1,962,056

(1) Average number of employers in an active, reinstated or debtor in possession status assigned to an MCO during the time frames noted.

(2) Average number of active claims (claims with a payment or application submitted to us within a specified length of time) assigned to an MCO during the periods noted. The specified length of time changed from 13 months to 24 months in November 2010. This change in the definition of "active" accounts for the increase in the number of active claims in FY2011 versus FY2010.

(3) Average time, in calendar days, from date of injury to date BWC received a FROI for all FROIs received during the time frames noted for claims assigned to an MCO.

(4) Percent of claims assigned to an MCO where BWC receipt of the FROI is within seven calendar days from the date of injury where BWC received the FROI during the periods noted.

(5) Percent of claims assigned to an MCO determined within 14 days of the filing date where the determination was during the time frames indicated regardless of date of injury or filing date. BWC considers a claim determined when we place it in Allow/Appeal or Disallow/Appeal status.

During FY 2011, BWC re-emphasized with our claims staff the importance of making a quality initial determination with the most available information within the statute guidelines of 28 days. This emphasis on quality versus speed decreased the percent of claims determined within 14 days. However it also resulted in a reduction of re-issued orders and less confusion to injured workers, employers and providers regarding the compensability of a claim.

(6) Average time, in calendar days, between the last date of service being billed (LDOS) to a check being issued to the provider for bills processed by the MCOs. This does not include bills for prescription drugs processed through BWC's pharmacy benefits manager. It is further broken down into the component steps of the process:

- LDOS–MCO: LDOS to MCO receipt;
- MCO-BWC: MCO receipt (for review and payment determination) to BWC receipt;
- BWC-MCO: BWC receipt (for review and final payment determination) to date monies are deposited into the MCO's provider account;
- MCO-Provider: MCO receipt of the final payment information and monies to the MCO issuing the check to the provider;
- BWC bases the MCO-Provider information on a desk audit of the MCOs' check issuance timing finalized in late CY2009.

(7) Payments for medical services made on claims assigned to an MCO during the time frames noted. Amounts include payments on claims associated with bankrupt self-insured claims assigned to the MCOs and payments for prescription drugs processed through BWC's pharmacy benefits manager. Regular denotes this category includes payments for physicians, hospitals, therapies, diagnostic testing, etc. It excludes payments made for file reviews and independent medical examinations (IMEs) requested to facilitate administrative decisions in the claim.

(8) Payments made during the time frames noted for file reviews and IMEs requested to facilitate administrative decisions in the claim.

(9) Payments issued to the MCOs during the time frames noted per the MCO Agreement for their services. BWC bases MCO contracts on calendar years. Fluctuations in the amounts paid to the MCOs between fiscal years are attributable to several factors, including:

- Changes in the overall amount available to the MCOs from year to year;
- Timing of different types of payments (administrative payments are monthly, outcome payments are quarterly, and in the past, we made exceptional performance payments annually);
- Change in CY2008 where BWC pre-paid MCOs a portion of their outcome payment throughout the quarter;
- BWC made some payments after the end of the contract. For example, the agency made the CY2005 exceptional performance payment in February 2006.

(10) Payments for salary compensation made on claims assigned to an MCO during the time frames noted. This includes payments for temporary total, living maintenance, wage loss, lump sum settlements, etc. Amounts include payments on claims associated with bankrupt self-insured claims assigned to the MCOs.

(11) Excludes payments for file reviews and IMEs as these are not benefits paid to or on behalf of an injured worker but are conducted to facilitate administrative decisions in the claim.

Division of Safety and Hygiene Annual Report

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Division of Safety & Hygiene Financials

BWC's Division of Safety and Hygiene (DSH) budget appropriation for FY 2011 was approximately $20,734,750. This excludes $4 million for grants (safety intervention and drug-free workplace training) and $2 million for the Long Term Care Loan Program. The total premium assessment for FY 2011 was about $17.3 million (Table A). A Federal OSHA On-Site Grant provided an additional source of funding of approximately $1,572,000.

Table A: FY 2011 Division of Safety & Hygiene premium assessments

Employer type	Assessments ($)
Private	$13,062,060
Public taxing districts	$2,579,474
Public state	$652,139
Self insured	$1,007,898
Total assessments	$17,301,571

As of June 30, 2011, DSH disbursements for safety services amounted to about $18.28 million. Grants and loan disbursements amounted to approximately $3.7 million. Table B provides general description of the DSH disbursements.

Table B: Division of Safety & Hygiene disbursements (Disbursements in $)

	Safety admin	Field consultations	Safety council & congress	Education services	Resource center	Customer contact center	Technical advisors	Business development	OSHA State Fund match	PERRP	Training overhead	Totals	Safety grants	Long term care loan
Payroll	316,069	11,128,343	288,356	333,407	310,543	169,518	526,840	459,099	161,470	1,124,507	0	14,818,152	0	0
Overtime	0	340	0	2,107	0	381	-71	0	0	0	0	2,757	0	0
Purchased services	131,261	0	1,500	380,183	0	0	5,500	0	3,219	0	0	521,663	0	0
Other personnel services	6,364	11,702	560	28,098	51,166	0	145	465	1,657	165	7,319	107,641	0	0
Total	453,694	11,140,385	290,416	743,795	361,709	169,899	532,414	459,564	166,346	1,124,672	7,319	15,450,213	0	0
Edible products	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Supplies	58,654	8,261	10,451	8,487	92,617	102	194,640	644	308	1,559	0	375,723	0	0
Vehicle maintenance	3,671	108,662	2,306	473	4,430	0	7,540	0	2,135	15,082	0	144,299	0	0
Travel	1,168	38,981	17,718	11,505	1,246	31	8,760	6	2,606	6,174	0	88,195	0	0
Communications	24,668	77,347	1,235	1,366	1,300	0	7,341	0	915	6,030	0	120,202	0	0
Fuel/Utilities	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Maintenance/Repairs	18,253	2,804	0	3,407	6,020	0	19,193	24	1,151	0	0	50,852	0	0
Rentals	499,869	0	178,763	28,000	0	0	559	0	26	0	0	707,217	0	0
Printing/Advertising	14	0	16,087	105	27,626	0	0	0	0	0	0	43,832	0	0
General/Other/ Subsidies	69,718	31,128	1,023,771	56,638	5,681	12	1,466	186	696	3,457	0	1,192,753	3,727,466	8,466
Total	676,015	267,183	1,250,331	109,981	138,920	145	239,499	860	7,837	32,302	0	2,723,073	3,727,466	8,466
Office equipment	13,601	0	0	0	42,894	0	7,552	0	0	0	0	64,047	0	0
Motor vehicles	28,898	0	0	0	0	0	0	0	0	0	0	28,898	0	0
Communication Equipment	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Med/Lab/Therapeutic	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Ed/Rec Equip	0	0	0	0	0	0	2,651	0	0	0	0	2,651	0	0
Data proc equipment	5,266	0	0	0	0	0	1,395	0	0	0	0	6,661	0	0
Copy/Print equipment	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other equipment	0	0	0	0	0	0	4,016	0	0	0	0	4,016	0	0
Total	47,765	0	0	0	42,894	0	15,614	0	0	0	0	106,363	0	0
Grand total *	1,177,474	11,407,568	1,540,747	853,776	543,523	170,044	787,527	460,424	174,183	1,156,974	7,319	18,279,559	3,727,466	8,466

Occupational Safety and Health Services

DSH provides a variety of occupational safety and health services to Ohio employers and employees. Primarily, DSH's services include safety education and training, safety councils, safety congress, safety grants and loan programs, on-site and field consulting safety services and library services. Table C provides general statistics about the number of employers who benefited from these services.

Training and education services

BWC's safety education and training services include classroom and Web-based safety courses in industrial and construction safety, industrial hygiene, ergonomics and risk management. BWC offered 69 courses through 338 classes at 11 locations. In addition, BWC held 86 additional classes at employers' businesses. BWC's Learning Management System offered 9 online courses, which 10,330 students completed. There were 3,297 new employers who participated in training and education classes last year. A total of 19,542 students successfully completed a training class of whom 52 percent were first-time students.

The DSH customer contact center provides technical support to address questions related to occupational safety and health, refers customers to other BWC business units and helps students register for safety training courses.

- The center responded to 12,818 calls from Ohio employers and employees.
- Private employers placed 8,031 calls.
- Public employer taxing districts dialed 797 calls.
- State agency public employers accounted for 1,073 calls.
- Self-insuring employers placed 412 calls.
- The call center received 2,505 calls through transfer, interagency or other parties.

Safety Council Program

The Ohio Safety Council Program provides a forum for promoting occupational safety and health, loss prevention, workers' compensation cost control and management, and networking to more than 9,000 Ohio employers through monthly meetings. BWC co-sponsors 81 safety councils throughout the state organized through chambers of commerce, trade and manufacturing associations, American Red Cross Chapters and other local community organizations.

Table C: Fiscal Year 2011 occupational safety and health services statistics by policy type

Service type	Private employers	Public employers	State agencies	Self-insured	Marine fund	Other	Total
Training and education^	7,853	366	22	223	1	6	8,471
Safety congress^^	1,341	160	85	325	1	198	2,110
Safety council	7,494	979	19	771	1	0	9,264
Grants*	677	54	-	-	-	-	731
Video library	1,166	155	16	127	0	13	1,477
Specialized field consulting - visit only	4,067	412	37	295	1	90	4,902
OSHA On-site	540	-	-	-	0	0	540
PERRP	-	218	20	-	-	-	238

^ = 19,542 employees completed safety training through this service

* = 665 employers received 731 grants (729 from the Drug-Free Workplace Program and Safety Intervention Grants Fund and two from the Coal Workers' Pneumoconiosis Grant Fund)

^^ = 4,747 total attendance by employee

BWC provided $1,011,000 in subsidies toward the direct costs of these councils and paid $14.8 million in premium rebates to employers who met the safety councils' enrollment, active participation and performance requirements during FY11. Beyond subsidies and rebates, BWC recognized 5,020 employers through a structured awards program for demonstrating their efforts in injury and accident prevention. Safety councils held 1,142 meetings during FY11.

Ohio Safety Congress & Expo

The annual Ohio Safety Congress & Expo originated in 1927. The free, three-day event is the largest state conference of its kind. It showcases the latest advances in safety and health education and training, equipment and technology. This year's event drew approximately 4,750 employees representing 2,110 businesses.

The event continued to maintain a superb level of customer service to the participants. In addition, the revenue collected from 209 vendors exceeded operational costs by more than $6,000. The event also provided BWC employees with a platform for professional development and training; thus, reducing the funding needed to provide for such purposes through external sources.

Nearly 90 percent of participants indicated safety congress will impact employee safety in their organization. Approximately 30 percent of participants attended the event for the first time, and 43 percent of them represented employers with fewer than 100 employees.

Grant and loan programs

The primary focus of BWC's safety grant and loan programs is to assist employers in managing the financial costs associated with implementing safety measures to prevent accidents and injuries in the workplace. Another major goal is to establish safety best practices in the field of occupational safety and health. The grant and loan programs include the Safety Intervention Grants (SIG) Program, Drug-Free Safety Program (DFSP) grants, and the Long Term Care Loan (LTCL) Program. BWC awarded $3,727,466 in 731 SIG, DFSP and Coal Workers' Pneumoconiosis Fund grants to 665 employers in FY11. That compares to $2,828,989 in 698 grants to 673 employers last fiscal year.

Safety intervention grants

The SIG Program, now in its 12th year, provides financial assistance to employers to purchase safety equipment. The program provides 2-to-1 matching funds, up to a maximum of $40,000. Grant recipients can only direct funds toward the purchase or improvement of equipment to significantly reduce or eliminate the risk of injury. BWC awarded 146 SIG totaling $3,461,406 to 140 employers in FY11, compared to 110 grants totaling $2,495,145 to 107 employers in Fiscal Year 2010 (FY10).

Of the 146 SIG awarded in FY11, BWC awarded two totaling $139,900 to coal companies through the Coal Workers' Pneumoconiosis Grant Fund Program. Established in 2006, this program provides up to $135,000 to coal companies for the purchase of equipment used to reduce exposure to coal dust.

This year, 86 percent of the awards went to employers with 200 or fewer employees. The majority of employers who participated in the program were in the manufacturing industry (45), followed by the construction industry (19).

BWC requires employers receiving grant funds through the SIG program to provide two year-end case studies and provide quarterly reports to document their experience with the equipment purchased through the grant. This enables BWC to establish best practices in occupational safety and health. BWC uses the collected data to establish baseline best practices in safety, and advance knowledge in the area of occupational safety and health. In addition, this knowledge benefits other employers with similar hazards at their workplaces.

Last year, 109 employers fulfilled their participation requirements in the grant program. These employers experienced a reduction in claims from the baseline total of 436 to 167 in the follow-up period. BWC estimates the return-on-investment for this group of qualified participants is at 1.5 years.

Drug-free workplace safety grants

The redesign of the Drug-Free Workplace Program (DFWP) to the DFSP initiated a change to the grant program to improve support for Ohio's employers in their efforts to maintain a safe, drug-free workplace. In FY11, BWC awarded 585 grants amounting to $406,023 to 527 employers. Construction and manufacturing accounted for 49 percent of the participating employers. Sixteen public taxing districts and schools benefited from these grants as well. In comparison, in FY10, BWC awarded 588 drug-free workplace grants amounting to $333,844 to 566 employers.

Long Term Care Loan Program

The LTCL Program provides Ohio's nursing homes and hospitals interest reimbursement for loans. Recipients use the loans to purchase lifting equipment to reduce the frequency and severity of workplace injuries to employees who manually handle residents or patients. Participating employers may purchase sit-to-stand floor lifts, ceiling and other types of lifts, and electric beds. BWC provided $8,022 in interest reimbursements to three employers.

On-site and field consulting services

BWC's on-site and field consulting safety services include the OSHA On-Site Consultation Program, Public Employment Risk Reduction Program (PERRP) and specialized field consulting safety services. BWC's on-site and field safety specialists work directly with employers on hazard and risk assessment and mitigation as well as the introduction of safety interventions in the workplace.

OSHA On-Site Consultation Program

The OSHA On-Site Consultation Program is 90-percent funded by a federal OSHA grant of $1,572,000. BWC funds the remaining 10 percent. The program provides highly specialized services to relatively small employers (fewer than 250 employees) in high hazard/risk industries.

Program field consultants conducted 1,017 visits to workplaces throughout Ohio. These visits resulted in improved workplace safety for 540 employers with 67,663 employees. The program also provided safety on-site safety training for 1,720 employees.

Public Employment Risk Reduction Program

Public employers must adopt and apply federal occupational safety and health rules for general industry and construction. PERRP enforces these adopted OSHA rules. It also assists the public sector workforce in creating safe and healthy workplaces. In addition, PERRP staff provides:

- Free safety and health inspections;
- Consultations;
- Site-specific evaluations;
- Written program reviews;
- Safety training;
- Hazard recognition.

PERRP safety and health consultants identified 8,057 serious hazards at 1,053 public employer workplaces that affected 29,435 employees. On average, PERRP processed written reports of findings within 20 days. Expeditious reporting allows employers to begin the abatement process to address these serious hazards. Additionally, PERRP consultants provided 87 on-site safety trainings and presentations to 2,290 employees.

Specialized field consulting safety services

Specialized consulting services provided through the BWC customer service offices help employers implement safety programs, identify hazards, and apply remediation techniques. These field activities include thousands of noise measurements, air quality sampling, ergonomic surveys and safety audits in workplaces throughout Ohio. Field consultants made 15,206 visits to 4,902 employers, providing consulting services in industrial hygiene, industrial and construction safety, and ergonomics.

Library and resource center

The BWC library and resource center offers access to information, training materials and experienced staff members to help employers with their workplace safety and health activities. BWC's library is the only library of its kind in Ohio and among a few in the nation with such specialized services. The library provides free information services on state-of-the-art developments in occupational safety and health, workers' compensation and rehabilitation. Employers, local and state government, attorneys, health-care professionals, researchers, union members and students mostly use the library services. The general public and BWC employees also visit the library. The library is part of the statewide OHIOLINK library network.

The library and resource center houses a video collection, which includes more than 800 workplace safety and health videotapes, DVDs, and training aids. It is a convenient and popular source for Ohio employers to obtain quality workplace safety and health training aids for their employees. This year, the video library loaned 10,082 videotapes and DVDs to 1,477 employers.

Technical advisors unit

The technical advisors unit provides state-wide, specialized technical support to BWC on-site and field consulting specialists. The advisors provide support in ergonomics and industrial hygiene, and industrial and construction safety.

The unit maintains and updates the Ohio Administrative Code Specific Safety Requirements (OAC SSRs) and monitors new advancements in safety literature, standards and technology. The advisors provide technical support for the training courses and modules, and teach several occupational safety and industrial hygiene courses. This unit also provides technical pre-approval evaluation and post-approval monitoring of the safety intervention grants.

Industrial hygiene laboratory

The industrial hygiene laboratory staff provides a variety of support services to BWC consultants. The laboratory handles the inventory, repairs, maintains and calibrates more than 2,000 measurement devices and tools used by DSH staff. Last year, the laboratory performed certified calibration of 865 devices, with estimated savings of approximately $147,000.

Furthermore, by working with an external specialized laboratory, BWC's laboratory coordinated the elaborate testing of 12,450 air quality samples to measure workers' exposure to a variety of chemicals at 872 Ohio workplaces.

Research Activities and Initiatives

BWC continues to improve its services by capitalizing on several research projects and initiatives. This year, we continued to track and report on Ohio occupational fatalities for calendar year 2010. Also, DSH completed the first year of the new DFSP, which replaced the DFWP. Approximately 5,000 employers participate in the program. Also, in FY11, DSH completed a review and analyses of close to 1 million claims between the years 2000 and 2009. The objective of these analyses is to study escalating cost and severity trends as well as injury trends in specific industrial and commercial sectors. This includes agriculture, manufacturing, wholesale and retail, and trucking. Finally, BWC and OSHA On-Site started a new collaboration with OSHA and the Council of Smaller Enterprises (COSE) to improve safety for small employers in Northeast Ohio.

Studying the emerging trends in the severity of workers' compensation claims

The past 10 plus years have shown an emerging national downward trend in the frequency of workers' compensation claims. During the same period, statistics show an upward trend in the cost of claims. Thus, the increase in the cost and severity of claims has mostly consumed the savings realized in reduced frequency.

Nationwide, workers' compensation insurers continue to monitor and study these trends with a major concern that the rate of decrease levels in frequency may not continue in the future; while the cost of claims continues to climb. Recent studies by the National Council on Compensation Insurance (NCCI) revealed that frequency decreased by 54.7 percent between 1991 and 2008. It also observed decreases were widespread over all industries, geographic regions and employer sizes. Also, these studies show the rate of decrease in frequency was at higher levels for less severe and less costly claims than it is for severe traumatic claims. For example, between 2004 and 2008, claims due to sprains/strains were down by 23 percent while traumatic claims were up by 2 percent. Also, those studies show over the last 10 years the frequency of fatalities have not declined as much as permanent total claims.

During the past year, BWC has been paying close attention to study these trends in our system. Generally, the frequency and severity trends in Ohio's workers' compensation system appear to follow those observed nationwide. However, there are some unique differences that require further study and analysis, which is undergoing. Preliminary results show that between 2000 and 2008, lost-time claims have dropped an average of 8.1 percent per year. In comparison, NCCI reported an average drop of 4.8 percent. On the other hand, the average actual medical costs per claim increased an average of 8.4 percent per year during the same period. In comparison, NCCI reported an increase of 7.5 percent per year. For the same period, the medical consumer price index increased an average of 4.3 percent per year. NCCI reports that differences in the number of treatments, the type of treatments and diagnosis mix likely account for the greater increase in average costs than the increases in medical consumer price index.

One important finding of the study is that three of the four overall costliest claims in Ohio make up a larger percentage of the overall claims population in year 2008 than in year 2000. These costly claims include lumbar disc displacement, sprain rotator cuff, and tear medial meniscus-knee. The most frequent cause of injury for lumbar disc displacement and sprain rotator cuff is lifting. The most frequent cause for tear medial meniscus-knee is falls.

BWC continues to direct concerted efforts in this area with emphasis on monitoring the national trends, review of the scientific literature and benchmarking leaders in the industry. In addition, we continue to collaborate with other concerned parties in the industry, the scientific community and interested parties. Detailed analysis of claims between 2000 and 2008 continue to uncover a wealth of information that we can use to prevent future injuries and manage claims more efficiently.

BWC/NIOSH wholesale and retail trade project

The overall vision of the partnership between BWC and the National Institute for Occupational Safety and Health (NIOSH) is to:

- o Protect Ohio workers from workplace injury and illness;
- o Improve injury and illness prevention strategies based on Ohio's employer and employee needs and injury data;
- o Continue to develop and disseminate industry specific best practices based on scientific data research;
- o Analyze BWC data to determine optimal allocation of resources to areas of greatest potential impact.

NIOSH's National Occupational Research Agenda (NORA) funds this project. The project's main goal is to reduce injuries/illnesses (especially musculoskeletal disorders [MSDs] and traumatic slip/trip/fall injuries [STFs]). Researchers hope to achieve this goal in part by assessing the effectiveness and cost-benefit of occupational safety and health (OSH) interventions. There is also some evidence that OSH control programs reduce losses. These programs include management leadership, employee participation, hazard identification and control, medical management, training and program evaluation. However, no evidence exists on the relative effectiveness of program elements compared to each other.

This four-year project commenced at the beginning of 2011. As part of the project, researchers are conducting data trend analysis from 2001 to 2008 for the wholesale and retail trade sector. This past year they developed an automated method for text mining claims injury descriptions and diagnosis to identify MSDs and STFs. Future parts of the project include conducting analysis of past BWC sponsored safety grant companies and administering an OSH company survey. In addition, the project will examine the association between the survey-assessed OSH program elements and workers compensation outcomes. A special emphasis safety grant program to assess interventions for delivery operations is also under way.

Ohio occupational fatalities for calendar years 2007 to 2010

DSH performed a thorough analysis of work-related accidents that resulted in fatalities in Ohio for calendar years 2007 through 2010. In 2010, 96 fatalities resulted from traumatic injuries, while occupational disease claims accounted for another 50 fatalities. Generally, the analysis shows a decreasing trend in the total number of fatalities over the four years.

Figure 1 provides a general overview of work-related fatalities in Ohio for 2007 through 2010. The majority of the fatalities were instantaneous with injury date and death date being the same. The number of immediate fatalities increased in 2010 but was lower than the number of immediate fatalities in 2008 and 2007. Non-immediate fatalities continued its downward trend in 2010 with a 17 percent reduction from 2009 and a 55 percent reduction since 2007.

For this report, the analysis covers the 96 traumatic injury fatalities in 2010. Traumatic injury fatalities in 2007, 2008 and 2009 were, respectively, 130, 116 and 87.[1] Non-immediate fatalities continued to decline in 2010. However, immediate fatalities increased by 13, reversing the observed downward trend in the previous three years. Of the 96 fatalities in 2010, 77 workers died from their injuries the same day; 12 injured workers died on different dates; and seven workers, injured in previous years, died.

There were 47 transportation-related fatalities representing an increase of 96 percent over those reported in 2009. Also, there were 15 fatalities caused by being stuck by an object representing an increase of 15 percent compared to 2009. For the same period, slip and/or fall fatalities decreased by 55 percent from 22 to 10 fatalities.

The analysis of the 2010 fatalities includes comparisons, where applicable, to 2009, 2008 and 2007 fatalities according to injury causation and industry sector.

[1] Fatality claims data for calendar year 2007 is based on data analysis performed in October, 2008; fatality claims data for calendar year 2008 is based on data analysis performed in September 2009; fatality claims data for calendar year 2009 is based on data analysis performed in March 2010; and fatality claims data for calendar year 2010 is based on data analysis performed in March 2011.

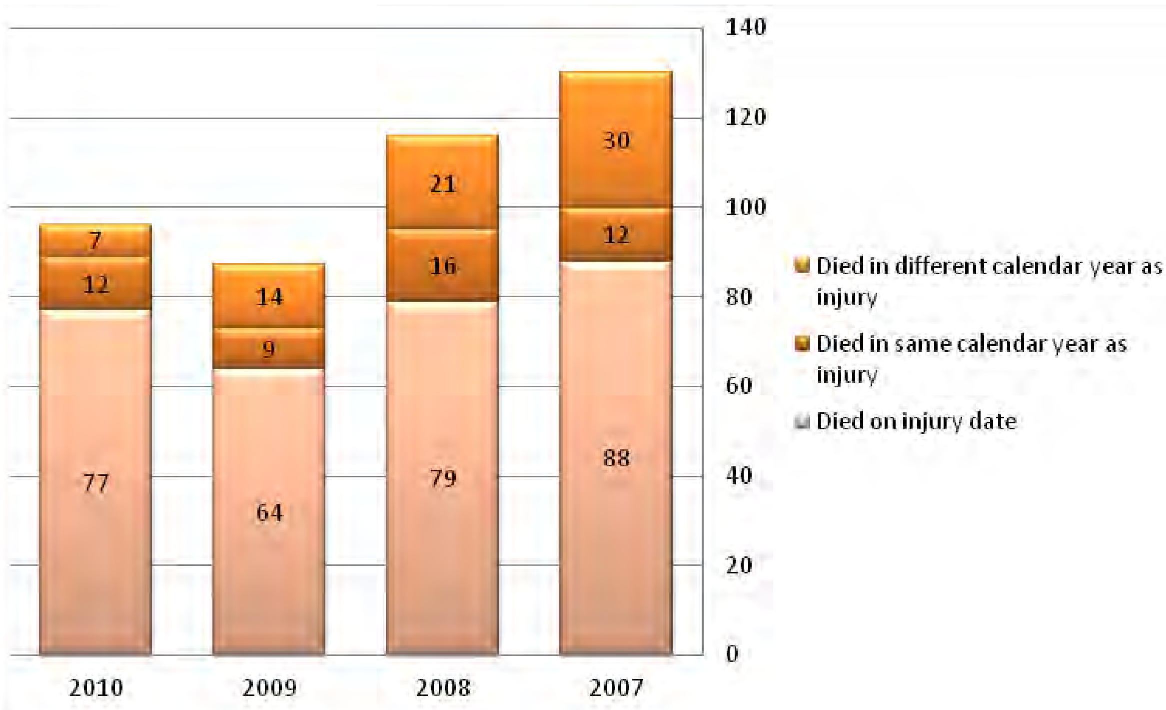

Figure 1: Ohio occupational fatalities – 2007- 2010

Fatalities according to source of injury/illness (causation)

Transportation-related accidents, accounting for 47 deaths, were the leading cause of fatalities in 2010. Thirty-one workers died in motor vehicle accidents as a driver or passenger. Ten workers died as a result of motor vehicle pedestrian accidents. Four workers were struck by forklifts or moving heavy construction equipment and two workers were struck by trains.

Workers struck by flying or falling objects accounted for 15 fatalities. Compared to 2009, fatalities related to slips and/or falls, decreased by 55 percent to 10 fatalities.

The remaining coded causations for calendar year 2010 fatalities include:

- Eight fatalities caused by violence in the workplace;
- Six fatalities caused by "caught in, on or between objects" involving machine or machine parts;
- Three fatalities caused inhalation/lack of oxygen;
- Two fatalities caused by contact with electrical current;
- Two fatalities caused by trench collapses;
- One fatality caused by an explosion/flareback;
- One fatality resulted from a bee sting;
- One fatality caused by a self-inflicted injury.

The fatalities counts, along with their percentages according to causation, are represented in Figure 2.

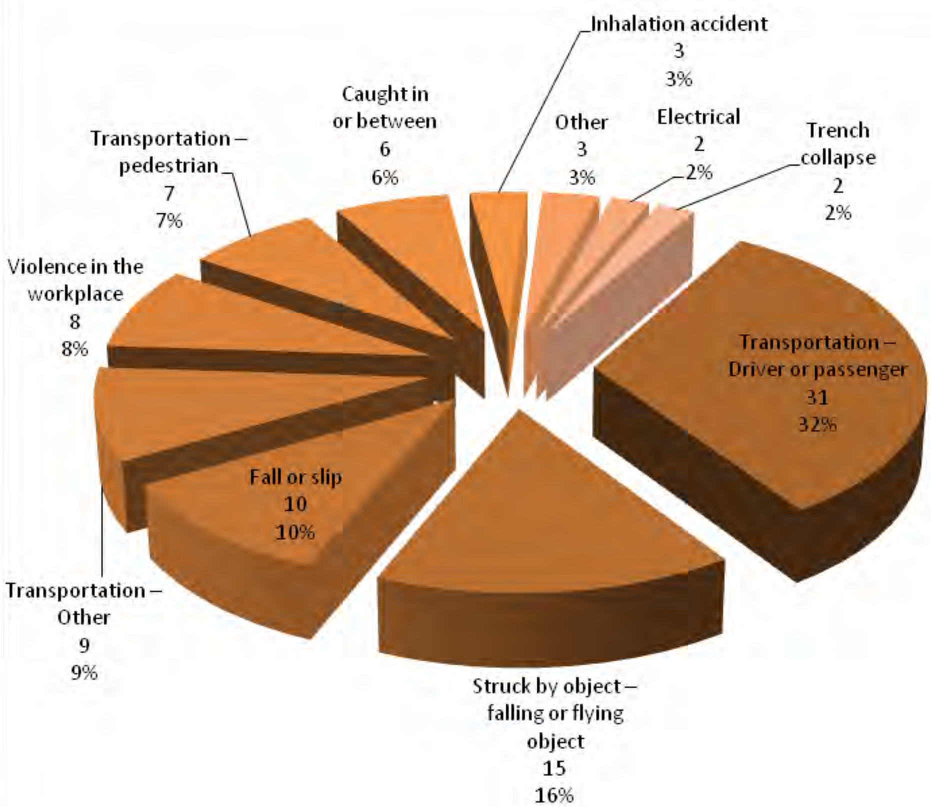

Figure 2: Calendar year 2010 fatalities by causation

Fatalities according to industry sector

Companies in the construction sector had 20 fatalities in 2010 compared to 29 fatalities in 2009, 23 fatalities in 2008 and 34 fatalities in 2007. The fatality causes included motor vehicle accidents (eight), struck by an object (four), falls (three), caught in machine (two), trench collapse (two) and electrocution (one).

Companies in the service industry sector had 17 fatalities in 2010 compared to 14 fatalities in 2007, 15 fatalities in 2008 and 13 fatalities in 2009. These service-sector fatalities included:

- Nine motor vehicle accidents involving a driver or passenger;
- Four cases of workplace violence;
- Three falls;
- One electrocution.

The commercial industry sector had 16 fatalities in 2010 compared to 13 fatalities in 2009, 15 fatalities in 2008 and nine fatalities in 2007. Motor vehicle accidents caused seven of the fatalities. In addition, three workers caught in machines died; a machine or tool struck and killed three workers; and three other deaths resulted from a fall, a bee sting and a self-inflicted injury. Figure 3 represents the fatality counts for 2007 through 2010, according to the industry sector.

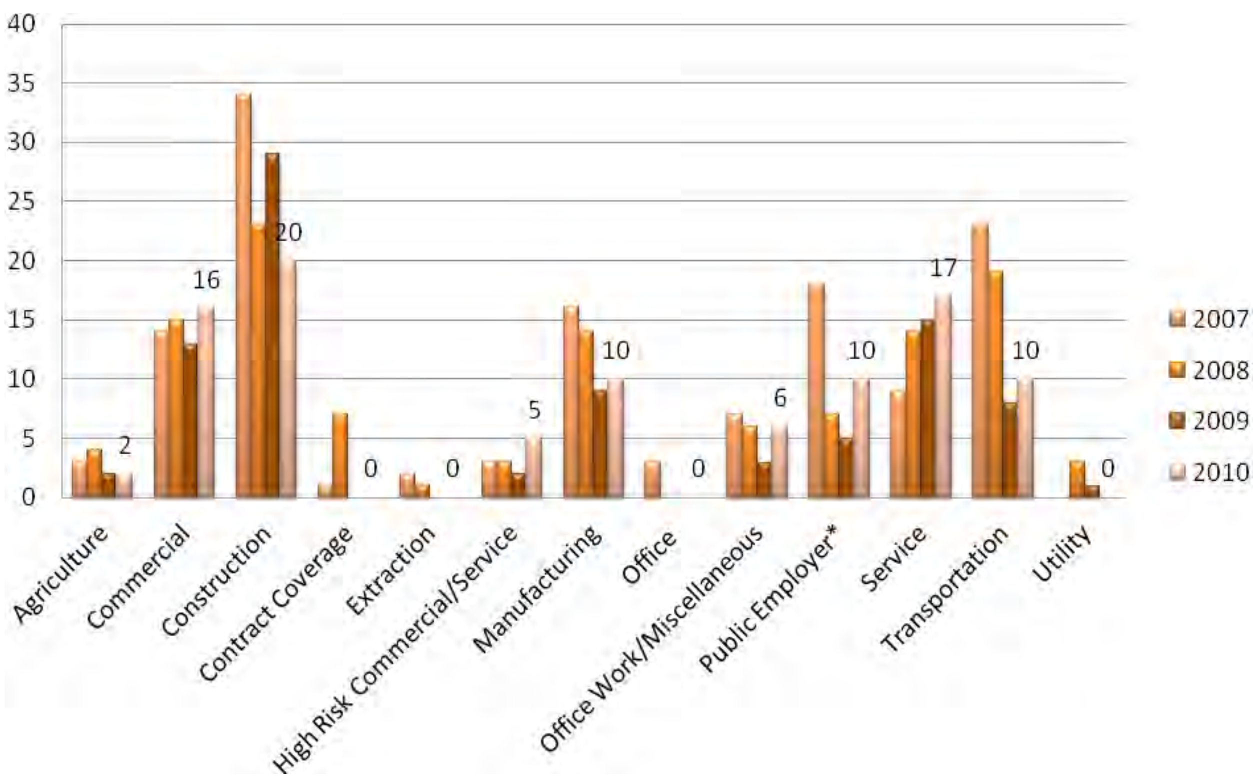

Figure 3: Fatalities by employer industry sector

* Public employers include cities, counties, schools, townships and villages.

Drug-Free Safety Program

On July 1, 2010, BWC introduced the new DFSP, which replaced the DFWP. BWC designed the new DFSP to simplify the enrollment process and program implementation. It also made the DFSP more effective and actuarially sound. To help simplify the process, participants access and submit all program information and forms electronically online. Convenient links to specific program information and helpful resources are available on the DFSP webpage.

The biggest change to the program was the addition of specific safety elements. This change demonstrated the importance of integrating a drug-free program into a company's holistic safety- and risk-management process. This safety-management approach should be more effective in preventing workplace injuries and illnesses.

To ensure the DFSP is actuarially sound, BWC set premium discounts to 4 percent for participation at the basic program level and 7 percent for participation at the advanced program level. Also, group-rated employers who participate at the advanced level are eligible for a 3 percent discount. The previous DFWP precluded group-rated employers from receiving a program discount. Additionally, the fact that employers can participate in this program indefinitely offsets the slight reduction in premium discount amounts. The DFWP limited participation to five years.

With the completion of the first year, BWC will gather and analyze DFSP data to identify injury and substance use/abuse trends. We will use that information to develop effective interventions and resources.

During the first full year of the DFSP more than 5,000 employers enrolled. This resulted in DFSP being the second largest BWC discount program. Only the Group-Experience-Rating Program has a higher enrollment. Throughout the past year, BWC has made many program updates and improvements as a result of feedback from customers and BWC staff. In future years, BWC will make more data and program measures available.

Analysis of injuries in the agriculture sector

In collaboration with the Ohio Farmers Union (OFU) group sponsor, this project evaluated claims data trends among agriculture employer policies in the OFU group. The project's ultimate goal is to develop interventions to reduce severity, cost and frequency of claims for these employers in particular and the agriculture sector in general. We developed interventions based on trends, literature review observations during farm visits and a collection of safety recommendations by DSH consultants.

DSH analyzed workers' compensation claims data from 2005 to 2008 for all members of the OFU group. We also reviewed injury and causation data according to farm type and payroll. In addition, we grouped OFU average costs by farm type, including nurseries, livestock, dairy, field crop farms and florists. Most of the analysis focused on interventions available to these farm types.

The analysis revealed the most frequent injury types are open wounds and contusions. The most costly injury type was associated with fractures, with livestock farms being the highest risk for fracture type of injury.

The project concluded that you can reduce injuries and illnesses in the workplace by providing interventions. Farms with animals are more likely to file claims that list fractures as the injury type. The most promising interventions were the one-person hitch used in nurseries, the long-day lighting system used in dairy farms, the hay accumulator in field crops farms, safety glasses for florists, and the hog hurdle used in livestock farms.

Preliminary analysis of injury data of employers with SHARP recognition

The OSHA On-Site Consultation Program created the Safety and Health Achievement Recognition Program (SHARP) to recognize exemplary safety performance among relatively small employers.

Evaluation of claims for the period of 1999 through 2010 identified 1,368 claims for 16 employers who achieved SHARP recognition during that period. The preliminary analysis shows that employers achieving SHARP recognition significantly reduced the frequency, severity and cost of claims after achieving SHARP recognition. On average, after entering the program, the 16 employers realized a 52-percent reduction in claim frequency. Also, on average, these employers have experienced more than an 80-percent reduction in the average number of days away from work and the cost of a claim after achieving SHARP recognition. We are undertaking more elaborate analysis to further evaluate the effectiveness of the SHARP recognition on injury frequency, days away from work and cost.

BWC – OSHA - COSE Alliance

The Occupational Safety and Health Administration (OSHA), BWC, DSH, OSHA On-Site Consultation and The Council of Smaller Enterprises (COSE) recognized the value of establishing a collaborative relationship to foster safer and more healthful American workplaces. They formed the alliance to provide COSE member companies with information, guidance and access to training resources that will help them protect employees' health and safety. In particular, the alliance will help companies in reducing and preventing deaths and serious injuries from falls, electrical, struck-by, caught-in and other hazards related to manufacturing, service and construction work performed by these companies. The alliance provides parties an opportunity to participate in a voluntary cooperative relationship for purposes such as training and education in addition to outreach and communication.

Market Value of BWC Safety Services

Table D provides the estimated market value of BWC's occupational safety and health services based on number of service hours and type of services provided according to private-market fee schedules.

Table D: Estimated market value of BWC's occupational safety and health services

Employer type	Field consulting	Video library	Training	Safety con-gress	Safety grants	Library other	PERRP	OSHA	Total
Private (PA)	$ 8,020,537	$ 1,297,800	$1,989,065	$ 921,375	$3,178,037	$ -	$ -	$ 1,902,250	$17,285,964
Public taxing district	1,182,193	230,220	209,135	189,525	689,392	-	819,850	-	3,315,590
Public state	420,603	104,220	183,870	307,125	-	-	-	-	970,668
Self-insured	1,481,938	155,520	256,410	487,725	-	-	-	-	2,368,993
Not defined	4,125	27,000	23,860	54,075	-	690,196	-	-	1,206,131
Marine Fund	-	-	200	525	-	-	-	-	725
Total	$11,109,396	$ 1,814,760	$ 2,662,540	$ 1,960,350	$3,867,429	$ 690,196	$819,850	$ 1,902,250	$24,136,574

Industrial Commission of Ohio Annual Report

Letter from the Chairman

These are tough times for state government.

With difficult budget deficits in states throughout the country, state agencies have been forced to do more with less.

When I arrived as chairman of the Industrial Commission of Ohio (IC) in mid-July, I knew that I would have to make tough choices to confront these economic realities.

Fortunately, over the course of the last decade, the IC has taken an aggressive, proactive approach to cutting costs without cutting services. We accomplished our mission because we took full advantage of sophisticated technology to accompany our high standard of financial accountability. Because of our actions, injured workers and employers receive enhanced and expedient service at a lower cost.

Not only has the IC used funds sensibly over the course of our history, but the agency has streamlined processes, improved customer service and eradicated superfluous bureaucracy throughout fiscal year 2011.

Some of our most noteworthy accomplishments include:

- Submitted a budget to the Office of Budget and Management for FY2013 that was $58.7 million. This is less than our FY2003 budget, which was $59.7 million. Thus, our budget has decreased over the last 10 years;
- Slashed employment levels by 16 percent during the last three and a half years and saved more than $5 million per year;
- Sliced monthly telephone expenses by $100,000 over the last two years;
- Reduced our administrative rates charged to employers between 2008 and 2011 by $15.6 million, which equals a 24.6 percent decrease over two years;
- Cut our total number of offices by four and saved $1.46 million per year;
- Condensed our space needs at several locations and saved $874,000 per year;
- Reduced overtime costs to an amount of $31,251, which is a 68 percent decrease since 2006;
- Cut temporary employment expenses from $220,000 to zero over the last six years;
- Upgraded the access points for wireless Internet connections in all our offices to provide a faster speed for our customers;
- Implemented toll-free phone numbers for all our remote offices;
- Reinstituted in-person interpretive services for our customers who speak a foreign language.

In addition, because of our allegiance to a culture of fiscal accountability, I am proud to say we have cut costs and improve services while remaining compliant with statutory mandates.

In the next fiscal year, the IC will continue to seek innovative ways to improve agency operations while using fewer resources. We will examine each expenditure, and if we identify an innovative, cost-effective process, then we will implement new methods swiftly and decisively.

Each fiscal year brings new challenges, but the IC will remain dedicated to a simple mission: Provide excellent service in an atmosphere of empathy and understanding while firmly remaining on a fiscally prudent path into our future.

Sincerely,

Karen L. Gillmor

Karen L. Gillmor, Ph.D
Chairman
Industrial Commission of Ohio

About the IC

The IC conducts more than 150,000 hearings each fiscal year, and most of these hearings take place within 45 days of the original claim appeal. That means you may expect first-class customer service as the IC provides a forum for appealing BWC and self-insured employer decisions. Since 1912, the IC has resolved issues between parties who have a dispute in a workers' compensation claim. With each claim, the agency is dedicated to offering information and resources to help customers navigate through the appeals process.

The IC conducts hearings on disputed claims at three levels: the District level, the Staff level and the Commission level. The governor appoints the three-member Commission, and the Ohio Senate confirms these appointments. By previous vocation, employment or affiliation, one member must represent employees, one must represent employers and one must represent the public. During this fiscal year, Kevin Abrams represented the public; Jodie M. Taylor represented employers; and Gary M. DiCeglio represented the interests of injured workers. DiCeglio and Taylor led the Commission at separate times in fiscal year 2011.

Fiscal Year Highlights

In addition to the Commissioners, there are 91 hearing officers — all attorneys — in five regional and seven district offices throughout the state.

In FY 2011, the IC heard 151,493 claims. District hearing officers heard 105,191 claims. Staff hearing officers heard 45,843 claims, and the Commission heard 459 claims.

The IC consistently achieved a high success rate in adjudicating claims well within the periods mandated by law throughout this fiscal year. From filing date to hearing date, district level (first level) hearings averaged 35 days. Staff level (second level) hearing appeals averaged 31 days. Both averages are well below the 45 days mandated by law.

The statistics of filing date to mailing date were just as positive. For the district level, filing date to mailing date was 37 days on average. For the staff level, it averaged 34 days.

The Industrial Commission Online Network (ICON) is the primary reason for our continued success because it has made it easy to file appeals online. There were 63,479 first-level motions and appeals filed on ICON this fiscal year. There were also 64,989 second-level (or above) appeals filed on ICON during the fiscal year.

Ask IC is another tool that has helped accelerate our response to customer inquiries. Ask IC is an email feature of our website, www.ohioic.com. The feature gives injured workers, employers and their representatives the opportunity to submit questions to our Customer Service Department.

Customer Service received and responded to 507 Ask IC submissions during this fiscal year. The department also scheduled 1,129 interpreters for injured worker hearings. In addition, our toll-free customer service line received 5,542 calls this fiscal year. Staff personally assisted 1,953 people at our Columbus office.

Customer Service Initiatives

New filing guidelines will make customers more efficient and save money

In an effort to increase efficiency and streamline its filing practices throughout the state, the IC released new filing guidelines for submitting documents in June 2011.

Customers can find the new filing tips on the Appeals Process page of the IC's website, www.ohioic.com. Representatives can also request training on the filing procedures.

Every night, the Ohio Bureau of Workers' Compensation and the IC exchange imaged documents when there is a contested issue. Therefore, if a user files a document with one agency, it is not necessary to file it with the other. Filing with both agencies clutters the electronic file with duplicate documents.

By following the new guidelines, ICON users will help ensure we place documents into the correct electronic file on a timely basis. Documents are available within 24 to 48 hours after submission.

For questions regarding the new filing guidelines or to request training, please call 1-800-521-2691.

Public can now view IC member orders online

As part of our dedication to open government, the IC launched a new application in November 2010 that publishes IC Commissioners' orders online.

Now, our customers can quickly search for and view IC Commissioner rulings from their computer. This user-friendly program increases transparency and enhances access to workers' compensation information with just the click of a mouse.

This program allows Ohioans to visit www.ohioic.com and read the orders handed down by IC Commissioners. After logging on to IC home page, users may click on the Quick Links tab that reads Commission Member Orders to look through the Commission orders archive. The new application allows users to search by hearing date, injured worker name, claim number, or by a word or phrase in the order.

Although there are three levels within the agency that the may hear a contested claim, the IC only publishes orders from the Commission level online. The IC does not publish Orders from the district and staff hearing officers on the site.

To ensure compliance with the State of Ohio's Public Records Act, the IC's Legal Department reviews orders and redacts confidential information. The hearing orders do not contain the following:

- Injured worker or employer addresses;
- Employer risk numbers;
- Names, addresses of the parties that receive the information;
- Dates of birth and the names of minors in workplace death claims.

New customer comment tracking system allows IC to hear from you

As part of the IC's Marketing Plan, the agency revamped the customer comment cards.

Subsequent marketing initiatives quickly led to an overwhelming number of completed cards, yet the agency decided to go a step further in our quest for customer feedback.

As part of this initiative, the IC developed a comment card tracking system. Now, when customers fill out a comment card at any IC office, they can place it into a new locked comment card box.

Once the IC receives the cards, staff members enter information into a database. Then, an assigned manager finds a resolution to the issue within 30 days of the date that staff members entered the comment card into the database. Resolution can mean implementation, denial or partial implementation.

After a resolution is achieved, if the customer left his or her contact information, a staff member will contact the customer and let him or her know the results of his or her submission.

New security cameras in IC offices keep customers safe

Customer safety is a top priority for the IC.

To provide maximum security for our staff and customers, the agency began installing new security cameras at all IC offices statewide in December 2010.

With the successful installation of the state-of-the-art security cameras, a customer in a small office in Logan will experience the same safety measures as a big office in Cleveland.

By the end of January 2011, we had installed 32 cameras in 11 IC district offices. We installed cameras only in the public areas of each IC office. The cameras have motion detection software that we engage after each office closes for the day.

The goal of the project was to eliminate any security blind spots that may be in an office. In addition, security cameras enhance public safety and deter burglary and theft.

Currently, IC security personnel can see every public area of each office at all times.

From the Columbus headquarters, the IC Director of Security Services can monitor the video feeds of all cameras throughout the state.

BWC Audited Financial Statements

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

CONTENTS

OHIO BUREAU OF WORKERS' COMPENSATION
AND
INDUSTRIAL COMMISSION OF OHIO

(A DEPARTMENT OF THE STATE OF OHIO)

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section presents management's discussion and analysis of the Ohio Bureau of Workers' Compensation's (BWC's) and the Industrial Commission of Ohio's (IC's) financial performance for fiscal years ended June 30, 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.

($ in millions)	2011	2010	2009
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.

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying 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
AND
INDUSTRIAL COMMISSION OF OHIO
(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.

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.

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

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:

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.

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.

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