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

Management's Discussion and Analysis,
Financial Statements and Supplemental Schedules

June 30, 2003 and 2002

(With Independent Auditors' Report Thereon)

Auditor of State
Betty Montgomery

Board of Commissioners
Ohio Bureau of Workers' Compensation
and Industrial Commission of Ohio
30 West Spring Street, 28th Floor
Columbus, Ohio 43215

We have reviewed the Independent Auditor's Report of the Ohio Bureau of Workers' Compensation and Industrial Commission of Ohio, Franklin County, prepared by KPMG LLP, for the audit period July 1, 2002 through June 30, 2003. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

November 10, 2003

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OHIO BUREAU OF WORKERS' COMPENSATION
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MANAGEMENT'S DISCUSSION AND ANALYSIS

This section presents management's discussion and analysis of the Ohio Bureau of Workers' Compensation's (BWC's) and the Industrial Commission of Ohio's (IC's) financial performance for fiscal year 2003, which ended on June 30, 2003. BWC and IC are collectively referred to as BWC/IC. This information is based on BWC/IC's financial statements, which begin on page 7.

Financial highlights

- BWC/IC's total assets at June 30, 2003 were $21.4 billion, a decrease of $817 million or 3.7 percent compared to June 30, 2002.
- BWC/IC's total liabilities at June 30, 2003 were $20.8 billion, an increase of $520 million or 2.6 percent compared to June 30, 2002.
- BWC/IC's operating revenues for fiscal year 2003 were $2.2 billion, a decrease of $126 million or 5.4 percent from fiscal year 2002.
- BWC/IC's operating expenses for fiscal year 2003 were $4.1 billion, a decrease of $410 million or 9.1 percent from fiscal year 2002.
- BWC/IC's total net assets declined $1.3 billion in fiscal year 2003, compared to a $2.6 billion decline in fiscal year 2002.

Financial statements 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 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, compensation adjustment expenses and premium reductions and refunds. 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, 2003 and June 30, 2002, and for the years then ended were as follows (000's omitted):

	2003	2002
Current assets	$ 5,864,221	$ 6,128,638
Noncurrent assets	15,511,212	16,064,088
Total assets	$21,375,433	$22,192,726
Current liabilities	$6,338,691	$6,758,984
Noncurrent liabilities	14,484,363	13,544,252
Total liabilities	$20,823,054	$20,303,236
Net assets invested in capital assets, net of related debt	$6,623	$8,682
Restricted net assets	545,756	1,880,808
Total net assets	$ 552,379	$1,889,490
Net premium and assessment income, including provision for uncollectibles	$2,174,938	$2,296,132
Other income	9,254	13,567
Total operating revenues	$2,184,192	$2,309,699
Workers' compensation benefits and compensation adjustment expenses	$3,360,782	$2,934,353
Premium reductions and refunds	640,563	1,473,880
Other expenses	91,196	93,999
Total operating expenses	$4,092,541	$4,502,232
Operating transfer out	$ (200)	$ -
Net investment income (loss)	575,402	(430,147)
Loss on disposal of capital assets	(3,964)	(3,848)
Decrease in net assets	$(1,337,111)	$(2,626,528)

BWC/IC's total net assets at June 30, 2003 were $552 million, which is a decrease of $1.3 billion compared to June 30, 2002. This decrease primarily is due to:

- Workers' compensation benefits and compensation adjustment expenses exceeded net premium and assessment income by $1.2 billion.
- Premium reduction and refund expenses of $641 million. The Workers' Compensation Oversight Commission approved a one-time 75 percent premium reduction for Ohio private employers for the policy year July 1, 2002 through December 31, 2002, which was expected to produce estimated savings of $600 million to these employers. A one-time 50 percent premium reduction was approved by the Workers' Compensation Oversight Commission for public taxing district employers for the policy year beginning January 1, 2002, which was expected to produce estimated savings of $144 million to these employers through December 31, 2002, with $72 million of the estimated premium reduction reflected in premium reduction and refund expenses in fiscal year 2003.

In fiscal year 2003, BWC/IC experienced net investment income of $575 million, compared to net investment loss of $430 million in fiscal year 2002. The increase in net investment income was

Continued

primarily attributable to an increase of $43 million in the fair value of the investment portfolio in fiscal year 2003 compared to a $1.1 billion decline in fair value during fiscal year 2002.

Workers' compensation benefits and compensation adjustment expenses were $3.4 billion in fiscal year 2003 compared to $2.9 billion in fiscal year 2002. The increase in workers' compensation benefits is due in part to increased utilization of medical services and medical cost inflation. A continuing decline in the frequency of lost time claims has helped to reduce the impact of the increased medical costs.

Conditions expected to affect financial position or results of operations

While private, state-fund employers received a one-time, 75 percent premium reduction for the first half of policy year 2003, these employers will pay 100 percent of their premiums during the second half of the policy year. In addition, due to the increasing cost and number of workers' compensation claims in the public sector, BWC raised public employer premiums by an average of 12.1 percent for the January 1, 2003 policy year.

BWC has improved the speed and efficiency of the State of Ohio's workers' compensation system. In addition, workplace safety has improved, and the number of severe injuries has decreased. BWC's operating budget also is $7 million less than it was 10 years ago.

Despite these improvements, economic conditions essentially put a hold on any future premium reductions and/or premium refunds. The reasons are two-fold:

- Medical costs have increased significantly over the last four years. The costs related to hospitalization have increased 68 percent, and prescription drug costs have increased by 104 percent. System efficiencies cannot offset these increases.
- Due to the lack of investment growth, the state insurance fund, although fully reserved, does not have a surplus of a size appropriate to give current consideration to the above mentioned premium reductions and/or premium refunds.

The lackluster economy and increasing medical costs have necessitated increasing private employer rates 9 percent, on average, for premiums due in fiscal year 2004. Yet, Ohio's premiums are still 34 percent lower than they were in 1995. Despite these challenging economic times, BWC is committed to keeping workers' compensation insurance premiums below the national average.

BWC continues to control workers' compensation costs through cost-cutting reform efforts, claims-process improvements, increased investigation of suspected fraud and medical managed-care initiatives. These programs will take on added importance in reducing costs, as actuarial assumptions as of June 30, 2003 include long-term medical inflation of 8.0 percent for payments during fiscal year 2004 and 9.0 percent for payments after June 30, 2004.

The continuing partnership between employers and BWC is an essential element to keeping Ohio's workers' compensation premiums as low as possible. Here are a few of the ways BWC keeps this partnership strong.

Expert assistance - BWC's business consultants and employer services specialists help employers implement sound risk-management strategies. Business consultants work individually with employers and as liaisons with employer organizations. Employer services specialists work one-on-one with employers who participate in or would like to join BWC's premium-savings programs.

Continued

Incentive programs - BWC offers various cost-saving programs to help employers realize financial savings and improve workplace safety. These programs include:

- Premium Discount Program + - This program assists experience-rated qualifying employers establish a safer, more cost-effective workplace. Eligible employers receive discounts of up to approximately 30 percent per year on their workers' compensation premiums for implementing the program. Employers who previously participated in the program can re-apply for an additional two years of participation and discounts;

- Drug-Free Workplace Program and Drug-Free EZ - These incentive programs are designed to help employers detect and deter substance abuse in the workplace. Employers can receive up to a 20 percent premium discount for implementing a drug-free program;

- Transitional WorkGRANT$ - This program provides up to 80 percent of the development costs of an employer's transitional work program. Transitional work can help injured workers remain at work or return to work quickly and safely, and lower a company's workers' compensation costs;

- Ongoing education - BWC offers a variety of free, educational programs to customers. During September and October 2002, BWC sponsored the fourth annual Workers' Compensation University, a free statewide conference covering a variety of workplace safety and workers' compensation topics and issues. As a bonus, attendees also could earn continuing education units and credits. In addition, BWC's Division of Safety & Hygiene (the Division) hosts the annual Ohio Safety Congress & Expo where employers can network with top safety experts while learning methods for lowering injury rates and workers' compensation costs. The Division also offers a variety of publications, books, videos and training courses on safety and health topics. The Division's Ohio Center for Occupational Safety and Health, its safety and health training center, provides a variety of training courses for our customers.

KPMG

191 West Nationwide Boulevard
Suite 500
Columbus, OH 43215-2568

Telephone 614 249 2300
Fax 614 249 2348

Independent Auditors' Report

The Honorable Bob Taft
Governor of the State of Ohio,

The Honorable Betty Montgomery
Auditor of State of Ohio:

We have audited the accompanying statements of net assets of the Ohio Bureau of Workers' Compensation and Industrial Commission of Ohio (BWC/IC), a department of the State of Ohio (State), as of June 30, 2003 and 2002, and the related statements of revenues, expenses and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of 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 audit 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 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 of BWC/IC are intended to present the financial position and changes in financial position and cash flows of only that portion of the governmental activities, business-type activities, major funds, and remaining fund information of the State that is attributable to the transactions of BWC/IC. They do not purport to, and do not, present fairly the financial position and changes in financial position and cash flows, where applicable of the State 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 respects, the financial position of BWC/IC as of June 30, 2003 and 2002, and the results of their operations and their cash flows 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 a report dated September 26, 2003 on our consideration of BWC/IC's internal control over financial reporting and on our tests of their compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

The management's discussion and analysis and required supplemental revenue and reserve development information on pages 1 through 4 and 28 through 29, respectively, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that comprise BWC/IC's basic financial statements. The supplemental schedule of net assets and schedule of revenues, expenses and changes in net assets included on pages 30 through 32 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

KPMG LLP

September 26, 2003

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

STATEMENTS OF NET ASSETS

June 30, 2003 and 2002

(000's omitted)

	2003	2002
ASSETS		
Current assets:		
Cash and cash equivalents (Note 2)	$2,077,641	$2,377,053
Collateral on loaned securities (Note 2)	2,079,647	2,111,450
Premiums in course of collection	804,138	133,294
Assessments in course of collection	245,693	229,624
Accounts receivable, net of allowance for uncollectibles of $600,274 in 2003; $565,307 in 2002	185,538	160,538
Investment trade receivables	381,989	1,014,193
Accrued investment income	87,570	100,383
Other current assets	2,005	2,103
Total current assets	5,864,221	6,128,638
Noncurrent assets:		
Fixed maturities, at fair value (cost $8,316,423 in 2003; $8,870,744 in 2002) (Note 2)	8,655,681	8,939,843
Domestic equity securities:		
Common stocks, at fair value (cost $3,257,278 in 2003; $4,159,092 in 2002) (Note 2)	3,362,023	3,977,781
Preferred stocks, at fair value (cost $61,138 in 2003; $62,803 in 2002) (Note 2)	44,697	47,125
International securities, at fair value (cost $1,439,081 in 2003; $1,617,523 in 2002) (Note 2)	1,391,386	1,500,545
Investments in limited partnerships, at fair value (Note 2)	631,556	359,562
Unbilled premiums receivable	1,002,921	830,076
Retrospective premiums receivable	266,505	230,592
Capital assets (Notes 3 and 5)	154,552	165,653
Restricted cash (Note 2)	1,891	12,911
Total noncurrent assets	15,511,212	16,064,088
Total assets	$ 21,375,433	$ 22,192,726

	2003	2002
LIABILITIES		
Current liabilities:		
Reserve for compensation (Note 4)	$ 1,688,700	$ 1,631,590
Reserve for compensation adjustment expenses (Note 4)	450,738	437,955
Warrants payable	34,448	34,301
Deferred revenue (Note 6)	14,535	14,263
Bonds payable (Notes 5 and 6)	-	10,000
Investment trade payables	1,990,631	2,433,261
Accounts payable	5,490	11,635
Premium refund payable (Note 10)	-	66,539
Obligations under securities lending (Note 2)	2,079,647	2,111,450
Other current liabilities (Note 6)	74,502	7,990
Total current liabilities	6,338,691	6,758,984
Noncurrent liabilities:		
Reserve for compensation (Note 4)	12,618,671	11,635,582
Reserve for compensation adjustment expenses (Note 4)	1,222,966	1,182,379
Premium payment security deposits (Note 6)	82,991	81,272
Deferred revenue (Note 6)	387,901	398,823
Bonds payable (Notes 5 and 6)	148,745	158,770
Other noncurrent liabilities (Note 6)	23,089	87,426
Total noncurrent liabilities	14,484,363	13,544,252
Total liabilities	20,823,054	20,303,236
NET ASSETS		
Invested in capital assets, net of related debt	6,623	8,682
Restricted net assets	545,756	1,880,808
Total net assets (Notes 8 and 9)	$ 552,379	$ 1,889,490

Commitments and contingencies (Notes 4, 5, 10 and 12)

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, 2003 and 2002

(000's omitted)

	2003	2002
Operating revenues:		
Premium income	$1,723,294	$ 1,880,463
Assessment income	508,039	482,222
Provision for uncollectibles	(56,395)	(66,553)
Other income	9,254	13,567
Total operating revenues	2,184,192	2,309,699
Operating expenses:		
Workers' compensation benefits (Note 4)	2,876,293	2,494,009
Compensation adjustment expenses (Note 4)	484,489	440,344
Premium reductions and refunds (Note 10)	640,563	1,473,880
Personal services	50,345	45,042
General and administrative	11,445	15,976
Other expenses	29,406	32,981
Total operating expenses	4,092,541	4,502,232
Net operating loss before operating transfers out	(1,908,349)	(2,192,533)
Operating transfers out	(200)	-
Net operating loss	(1,908,549)	(2,192,533)
Non-operating revenues (expenses):		
Net investment income (loss) (Note 2)	575,402	(430,147)
Loss on disposal of capital assets	(3,964)	(3,848)
Total non-operating revenues (expenses)	571,438	(433,995)
Decrease in net assets	(1,337,111)	(2,626,528)
Net assets, beginning of year	1,889,490	4,516,018
Net assets, end of year	$ 552,379	$ 1,889,490

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, 2003 and 2002

(000's omitted)

	2003	2002
Cash flows from operating activities:		
Cash receipts from premiums and assessments	$ 723,618	$ 717,790
Cash receipts - other	15,652	11,566
Cash disbursements for claims	(2,079,895)	(1,964,515)
Cash disbursements to employees for services	(243,379)	(235,122)
Cash disbursements for maintenance and equipment	(82,074)	(82,324)
Cash disbursements for employer refunds	(125,775)	(73,034)
Net cash used for operating activities	(1,791,853)	(1,625,639)
Cash flows from noncapital financing activities:		
Operating transfers out	(200)	-
Net cash used for noncapital financing activities	(200)	-
Cash flows from capital and related financing activities:		
Purchase of capital assets, net of retirements	(3,108)	(5,158)
Construction in progress	(4,356)	(8,155)
Restricted cash used in bond refunding	10,460	-
William Green building bond refunding	(10,460)	-
Principal and interest payments on bonds	(18,175)	(17,571)
Net cash used for capital and related financing activities	(25,639)	(30,884)
Cash flows from investing activities:		
Investments sold	38,225,660	39,971,162
Investments matured	1,133,309	1,352,122
Investments purchased	(38,387,011)	(39,633,271)
Interest and dividends received	625,751	757,543
Investment expenses	(79,429)	(100,111)
Net cash provided by investing activities	1,518,280	2,347,445
Net increase (decrease) in cash and cash equivalents	(299,412)	690,922
Cash and cash equivalents, beginning of year	2,377,053	1,686,131
Cash and cash equivalents, end of year	$ 2,077,641	$ 2,377,053

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

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

STATEMENTS OF CASH FLOWS, Continued

For the years ended June 30, 2003 and 2002

(000's omitted)

	2003	2002
Reconciliation of net operating loss to net cash used for operating activities:		
Net operating loss before operating transfers out	$ (1,908,349)	$ (2,192,533)
Adjustments to reconcile net operating loss to net cash used for operating activities:		
Provision for uncollectible accounts	56,395	66,553
Depreciation	14,601	14,454
Amortization of discount and issuance costs on bonds payable	8,610	8,869
Other	(978)	(1,594)
(Increases) decreases in assets and increases (decreases) in liabilities:		
Premiums and assessments in course of collection	(686,913)	(91,997)
Unbilled premiums receivable	(172,845)	(188,776)
Accounts receivable	(81,395)	(71,217)
Retrospective premiums receivable	(35,913)	(4,090)
Other assets	98	(310)
Restricted cash	560	780
Reserves for compensation and compensation adjustment expenses	1,093,569	774,812
Premium refund payable	(66,539)	66,539
Premium payment security deposits	1,719	1,191
Warrants payable	147	5,553
Accounts payable	(6,145)	(2,807)
Deferred revenue	(10,650)	(14,931)
Other liabilities	2,175	3,865
Net cash used for operating activities	$ (1,791,853)	$ (1,625,639)

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

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 who 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, five of the nine members of the Workers' Compensation Oversight Commission (of which four are non-voting legislative members), and the three members of the IC. The BWC Administrator, with the advice and consent of the Workers' Compensation Oversight Commission, 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 as 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.

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BWC/IC administers the following accounts:

- State Insurance Fund (SIF)
- Disabled Workers' Relief Fund (DWRF)
- Coal-Workers Pneumoconiosis Fund (CWPF)
- Public Work-Relief Employees' Fund (PWREF)
- Marine Industry Fund (MIF)
- Intentional Tort Fund (ITF)
- 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 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 who 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.

ITF was established in 1986 to provide for the payment of punitive damages to employees and employer legal fees in intentional tort actions filed by employees having rights to receive workers' compensation benefits where such benefits result from an intentional tort of the employer. In August 1991, the Ohio Supreme Court declared ITF unconstitutional. The cumulative assessments collected from employers were expected to be prorated as a credit to the administrative assessment of the participants for the rating year beginning July 1, 1993. However, on September 24, 1992, the United States District Court issued an order prohibiting BWC/IC from disbursing ITF assets until such order is lifted or amended by the court. On August 26, 2002, the United States Sixth Circuit Appeals Court denied the contention that employers were entitled to reimbursement from ITF for amounts paid by employers to settle intentional tort lawsuits that occurred between 1986 and 1991. Total assets of $66.6 million will be refunded to employers during fiscal year 2004 and have been classified as an other current liability in the accompanying statement of net assets as of June 30, 2003.

Effective July 1, 2001, BWC/IC adopted the provisions of GASB Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments" (GASB 34), as amended by GASB Statement No. 37, "Basic Financial

Continued

Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus". The adoption of GASB 34 required BWC/IC to make several changes to the presentation of the financial statements, in addition to requiring the presentation of BWC/IC's management's discussion and analysis (MD&A). The MD&A is considered to be required supplementary information and is presented before the financial statements. The statements of net assets (formerly, balance sheets) have been prepared to report current and noncurrent asset and liability classifications and net assets (formerly, fund balance) have been classified as invested in capital assets or restricted net assets. The statements of revenues, expenses and changes in net assets (formerly, statements of operations and changes in fund balance) distinguishes between operating revenues and expenses and non-operating items. 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.

Effective July 1, 2001, BWC/IC also adopted the provisions of GASB Statement No. 38, "Certain Financial Statement Note Disclosures" (GASB 38). GASB 38 modified, established, and rescinded certain financial statement note disclosures.

In March 2003, the GASB issued GASB Statement No. 40, "Deposit and Investment Risk Disclosures – an amendment of GASB Statement No. 3" (GASB 40). GASB 40 establishes disclosure requirements for common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. The provisions of GASB 40 are effective for financial statements for periods beginning after June 15, 2004. BWC/IC has not yet determined the impact that GASB 40 will have on the notes to the 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, except for cash and cash equivalents included in international securities. Cash equivalents are stated at amortized cost, which approximates fair value.

Investments

BWC/IC invests in fixed maturities and domestic equity securities through the use of 66 outside money managers. The portfolios managed by the outside money managers range in size from $13 million to $1.7 billion. Investments in fixed maturities include bonds and notes. Fixed maturities, domestic equity securities, and international securities are stated at fair value. Fair values of fixed maturities are based on quotations from national security exchanges or, in the event such quotations are not available, from "matrixed" prices which are calculated using the coupon interest rate, maturity date, credit rating, market indices, and other market data as it relates to the issue being valued. Fair values of domestic and

Continued

international equity securities are based on quotations from national or international exchanges and are valued at the last reported sales price at current exchange rates. 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 as accrued. The cost of securities sold is determined using the average cost method. Purchases and sales of investments are recorded as of the trade date.

BWC/IC invests in international securities through the use of 11 outside money managers. It is the intent of BWC/IC and the international money managers to be fully invested in non-cash equivalent international securities; however, cash and cash equivalents are often held temporarily. Accrued investment income and investment trade receivables and payables for international securities are included in the international securities balance reported in the statements of net assets. See Note 2.

BWC/IC, through the use of 50 outside money managers, participates as a limited partner in partnerships investing in equities, bonds, notes, and other assets. Investments in limited partnerships are stated at fair value. Limited partnerships are generally valued based on March 31st net asset values plus or minus purchases, sales, and cash flows from April 1st through June 30th of the reporting year.

BWC/IC participates in a securities lending program, administered by the custodial agent bank, whereby certain securities are transferred to an approved independent broker/dealer (borrower) in exchange for collateral. Securities under loan are included with fixed maturities and equity securities in the statements of net assets. BWC/IC has minimized its exposure to credit risk due to borrower default by requiring the custodial agent to ensure that BWC/IC's loaned securities are collateralized at 102% of the fair value. Securities received as collateral cannot be sold by BWC/IC unless the borrower defaults; as such, these amounts are not reflected in the financial statements. Cash received as collateral, as well as the related liability, is reflected in the accompanying statements of net assets. Cash received as collateral is invested in short-term obligations, which must have an average weighted maturity of 45 days or less. The contract with the custodial agent bank does not provide indemnification in cases of borrower default; however, BWC/IC has not experienced any losses due to credit or market risk on securities lending activity since the implementation of the program in November 1993.

Derivatives are generally defined as a contract whose value depends on, or derives from, the values of an underlying asset, reference rate, or index. BWC/IC has classified the following as derivatives:

- Mortgage and Asset-Backed Securities – As of June 30, 2003 and 2002, BWC/IC held the following mortgage and asset-backed securities that are categorized as derivative securities:
  - GNMA, FNMA, and FHLMC pass-throughs with amortization terms of 15 and 30 years;

Continued

- Collateralized mortgage obligation securities backed by FNMA and FHLMC with 15 and 30 year pass-throughs;
- Commercial mortgage-backed securities backed by commercial mortgages and leases on a variety of property types; and
- Asset-backed securities backed by auto loans, credit card receivables, home equity loans, and electric-utility receivables.

The overall return or yield on mortgage and asset-backed securities depends on the amount of interest collected over the life of the security and the change in the fair value. Although BWC/IC expects to receive the full amount of principal, if prepaid, the interest income that would have been collected during the remaining period to maturity is lost. Accordingly, the yields and maturities of mortgage and asset-backed securities generally depend on when the underlying loan principal and interest are repaid. If interest rates fall below the loan's contractual rate, it is generally to the borrower's advantage to repay the existing loan and obtain new, lower interest rate financing. The fair value of mortgage and asset-backed securities was $5.2 billion and $5.4 billion as of June 30, 2003 and 2002, respectively, and are reported within fixed maturities in the statements of net assets.

- BWC/IC, through the use of international money managers, enters into various foreign currency exchange contracts to manage exposure to changes in foreign currency exchange rates on its international securities holdings. A foreign currency exchange contract is a commitment to purchase or sell a foreign currency at a future date at a negotiated forward rate. Risk associated with such contracts includes movement in the value of foreign currency relative to the U.S. dollar and the ability of the counterparty to perform. The fair value of the foreign currency exchange contracts receivable for BWC/IC was $478 thousand and $803 thousand as of June 30, 2003 and 2002, respectively.

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 due are reflected as premiums in course of collection in the statements of net assets. Premiums are based on rates that are approved by the Workers' Compensation Oversight Commission and on the employers' payroll, except self-insured employer premiums, 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.

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

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 8) for self-insured employers. As 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 statements 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. Deferred revenue in the statements of net assets represents 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. DWRF II and SIEGF assessments are recognized as revenues at such time and to the extent that DWRF II and SIEGF claims are paid (terminal funding basis).

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 Workers' Compensation Oversight Commission 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.

Continued

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 financial statements. 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 were discounted at 5.5% in 2003 and 5.8% in 2002 to reflect the present value of future benefit payments. The selected discount rate approximates an average yield on United States government securities with a duration similar to the expected claims underlying BWC/IC's reserves.

A reserve is not provided in DWRF I and II or SIEGF for workers' compensation benefit awards granted or IBNR as both accounts are operated on a terminal funding basis and, as such, are not required to match revenues and expenses but rather to match assessments to claims disbursements. Future DWRF benefits to be paid for injuries, which have occurred, as of June 30, 2003 were estimated to be $4.9 billion undiscounted and $2.2 billion discounted at 5.5%. These same DWRF benefits were estimated to be $5.2 billion undiscounted and $2.3 billion discounted at 5.8% as of June 30, 2002. Future assessments and transfers of investment income from SIF will fund future DWRF benefits. Future SIEGF benefits to be paid for injuries, which have occurred, as of June 30, 2003 were estimated to be $1.2 billion

Continued

undiscounted and $536 million discounted at 5.5%. The liability for SIEGF benefits as of June 30, 2002 was estimated to be $233 million undiscounted and $144 million discounted at 5.8%. Future SIEGF benefits will be funded by future assessments from self-insured employers.

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.

Income Taxes

As a department and integral part 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 2002 financial statement amounts have been reclassified in order to conform to their 2003 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 Workers' Compensation Oversight Commission, 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 and informed person would use.

GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements," requires governmental entities to categorize investments to give an indication of the level of risk assumed by the entity at year-end. Investments that are insured or registered for which the securities are held by BWC/IC or by its agent in the name of BWC/IC are included in Category 1. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the name of BWC/IC. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent, but not in BWC/IC's name. All investments of BWC/IC meet the criteria of Category 3, except securities on loan with cash collateral and investments in limited partnerships, that by their nature, are not required to be categorized.

Cash deposits must be held in insured depositories and must be fully collateralized. These institutions may either specifically collateralize individual accounts in addition to amounts insured by the Federal Deposit Insurance Corporation (FDIC), or may pledge a poll of government securities valued at least 105% of the total value of public monies on deposit at the institution. Category 1 includes cash balances insured or collateralized with securities held by BWC/IC or by their agent in the name of BWC/IC. Of the bank balance, the FDIC insures $100 thousand. The remaining bank balance cash deposits were collateralized with eligible securities, in the name of BWC/IC's pledging financial institution, as required by the Code (Category 3).

BWC/IC's cash balances are categorized as follows, to give an indication of the level of risk assumed by BWC/IC at June 30, 2003 and 2002 (000's omitted):

	2003			2002		
	Category			Category		
	1	3	Total Carrying/Fair Value	1	3	Total Carrying/Fair Value
Cash balance per bank	$ 100	$ 2,425	$ 2,525	$ 100	$ 2,766	$ 2,866
Net reconciling items	-	(355)	(355)	-	10,802	10,802
Cash balance included in cash and cash equivalents in the statements of net assets	100	2,070	2,170	100	13,568	13,668
Cash equivalents	-	2,075,471	2,075,471	-	2,363,385	2,363,385
	$ 100	$2,077,541	$2,077,641	$ 100	$2,376,953	$2,377,053
Restricted cash	$ 100	$ 1,791	$ 1,891	$ 100	$ 12,811	$ 12,911

Continued

All investments of BWC/IC meet the criteria of Category 3, except securities on loan with cash collateral and investments in limited partnerships that by their nature, are not required to be categorized. A summary of investments held at June 30, 2003 and 2002 is as follows (000's omitted):

	2003 Fair Value	2002 Fair Value
Fixed maturities:		
Not on securities loan	$7,033,437	$7,174,596
On loan for broker provided collateral	46,158	182,481
On loan for letters of credit collateral	47,464	121,963
On loan with cash collateral	1,528,622	1,460,803
	8,655,681	8,939,843
Domestic equity securities:		
Common stocks not on securities loan	3,042,946	3,551,939
Common stocks on loan with cash collateral	319,077	425,842
	3,362,023	3,977,781
Preferred stocks not on securities loan	44,697	47,125
International securities:		
Not on securities loan	1,222,847	1,313,343
On loan with cash collateral	168,539	187,202
	1,391,386	1,500,545
Securities lending short-term collateral	2,079,647	2,111,450
Investments in limited partnerships	631,556	359,562
	$16,164,990	$16,936,306

Net investment income (loss) for the years ended June 30, 2003 and 2002, is summarized as follows (000's omitted):

	2003	2002
Fixed maturities	$433,959	$567,652
Equity securities	95,488	91,507
Investments in limited partnerships	10,208	(26,916)
Cash equivalents	33,603	46,445
Securities lending	38,702	58,292
Increase (decrease) in fair value of investments	42,871	(1,067,016)
Investment expenses	(79,429)	(100,111)
	$575,402	$(430,147)

Continued

The fair value of international securities held at June 30, 2003 and 2002, is summarized as follows (000's omitted):

	2003	2002
Cash and cash equivalents	$36,676	$61,093
Accrued interest receivable	5,847	4,240
Net foreign currency exchange contracts receivable	478	803
Net investment trade payable	(2,450)	(20,027)
Equity securities	1,350,835	1,454,436
Total international securities	$1,391,386	$1,500,545

3. Capital Assets

Capital asset activity and balances as of and for the years ended June 30, 2003 and 2002 is summarized as follows (000's omitted):

	Balance at 6/30/2001	Increases	Decreases	Balance at 6/30/2002	Increases	Decreases	Balance at 6/30/2003
Capital assets not being depreciated							
Land	$ 12,631	$ -	$ -	$ 12,631	$ -	$ -	$ 12,631
Construction in progress	672	8,155	-	8,827	3,684	(12,511)	-
Subtotal	13,303	8,155	-	21,458	3,684	(12,511)	12,631
Capital assets being depreciated							
Buildings	227,934	-	-	227,934	13,183	-	241,117
Furniture and equipment	79,191	5,223	(9,219)	75,195	3,114	(9,376)	68,933
Land improvements	66	-	-	66	-	-	66
Subtotal	307,191	5,223	(9,219)	303,195	16,297	(9,376)	310,116
Accumulated depreciation							
Buildings	(91,124)	(7,507)	-	(98,631)	(7,727)	-	(106,358)
Furniture and equipment	(58,682)	(6,946)	5,306	(60,322)	(6,873)	5,406	(61,789)
Land improvements	(46)	(1)	-	(47)	(1)	-	(48)
Subtotal	(149,852)	(14,454)	5,306	(159,000)	(14,601)	5,406	(168,195)
Net capital assets	$170,642	$(1,076)	$(3,913)	$165,653	$ 5,380	$(16,481)	$154,552

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 5.5% at June 30, 2003 and 5.8% at June 30, 2002. A decrease in the discount rate to 4.5% would result in the reserves for compensation and compensation adjustment expenses increasing to $17.6 billion at June 30, 2003, while an

Continued

increase in the rate to 6.5% would result in the reserves for compensation and compensation adjustment expenses decreasing to $14.6 billion at June 30, 2003. A decrease in the discount rate to 4.8% would have resulted in the reserves for compensation and compensation adjustment expenses increasing to $16.4 billion at June 30, 2002, while an increase in the rate to 6.8% would have resulted in the reserves for compensation and compensation adjustment expenses decreasing to $13.6 billion at June 30, 2002. The undiscounted reserves for compensation and compensation adjustment expenses were $32.3 billion at June 30, 2003 and $30.6 billion at June 30, 2002. The net operating loss would have been $675 million higher in fiscal year 2003 and $197 million higher in fiscal year 2002 if the reserves for compensation and compensation adjustment expenses were not discounted.

The changes in the reserves for compensation and compensation adjustment expenses for the years ended June 30, 2003 and 2002 are summarized as follows (in millions):

	2003	2002
Reserves for compensation and compensation adjustment expenses, beginning of period	$14,888	$14,112
Incurred:		
Provision for insured events of current period	2,298	2,184
Net increase in provision for insured events of prior periods net of discount accretion of $819 in 2003 and $818 in 2002, respectively	618	478
Decrease in discount rate	445	272
Total incurred	3,361	2,934
Payments:		
Compensation and compensation adjustment expenses attributable to insured events of current period	485	456
Compensation and compensation adjustment expenses attributable to insured events of prior periods	1,783	1,702
Total payments	2,268	2,158
Reserves for compensation and compensation adjustment expenses, end of period	$15,981	$14,888

As a result of changes in estimates of insured events of prior years, the provision for compensation and compensation adjustment expenses increased $618 million in 2003 and increased $478 million in 2002, primarily due to increased utilization of medical services and medical cost inflation. A decline in the number of newly awarded permanent total disability claims has helped to reduce the impact of increased medical costs.

Continued

BWC/IC has increased the reserves for compensation as of June 30, 2003 by $200 million as a result of the Ohio Supreme Court ruling in fiscal year 2003 providing that the wage level at the time of the last day worked should be used in determining benefit levels for permanent total disability awards rather than the wage level at the time of injury. This reserve estimate is based upon consideration of the applicable law and coverage litigation. The actuarial estimates of the ultimate liabilities resulting from this ruling are subject to greater inherent uncertainty than is typical of BWC/IC's reserves for compensation and compensation adjustment expenses.

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 $18.2 million and $17.6 million for the years ended June 30, 2003 and 2002, respectively.

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

Fiscal Year	Principal	Interest	Total
2004	$ -	$ 6,194	$ 6,194
2005	5,300	6,578	11,878
2006	13,190	6,472	19,662
2007	14,150	5,901	20,051
2008	15,055	5,307	20,362
2009-2013	79,605	15,451	95,056
2014	15,200	751	15,951
Deferred loss on refunding	(4,995)	-	(4,995)
Unamortized bond premium and issuance costs	11,240	-	11,240
Total	$ 148,745	$ 46,654	$ 195,399

Continued

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, 2003 and 2002, is summarized as follows (000's omitted):

	Balance at 6/30/2001	Increases	Decreases	Balance at 6/30/2002	Due Within One Year
Premium payment security deposits	$ 80,081	$ 3,449	$ (2,258)	$ 81,272	$ -
Deferred revenue	428,017	8,483	(23,414)	413,086	14,263
Bonds payable	177,472	-	(8,702)	168,770	10,000
Other liabilities	91,551	27,332	(23,467)	95,416	7,990
	$777,121	$39,264	$(57,841)	$758,544	$32,253

	Balance at 6/30/2002	Increases	Decreases	Balance at 6/30/2003	Due Within One Year
Premium payment security deposits	$ 81,272	$ 4,397	$ (2,678)	$ 82,991	$ -
Deferred revenue	413,086	40,263	(50,913)	402,436	14,535
Bonds payable	168,770	196,752	(216,777)	148,745	-
Other liabilities	95,416	93,295	(91,120)	97,591	74,502
	$758,544	$334,707	$(361,488)	$731,763	$89,037

7. Benefit Plans

Defined Benefit Pension Plan

BWC/IC contributes to the Public Employees Retirement System of Ohio (PERS), a cost-sharing, multiple-employer defined benefit pension plan. PERS provides retirement and disability benefits, annual cost of living adjustments, and survivor benefits for the public employees of Ohio. Benefits are established and may be amended by State statute. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Public Employees Retirement System of Ohio, 277 East Town Street, Columbus, Ohio 43215. As of June 30, 2003, the most recent report issued by PERS is as of December 31, 2002.

The Code provides PERS statutory authority for employee and employer contributions. For the years ended June 30, 2003 and 2002, the employee contribution rate was 8.5%, while the employer contribution rate was 13.31% 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, 2003	$22,410
Twelve months ended June 30, 2002	$21,911
Twelve months ended June 30, 2001	$15,511

Continued

Post-Retirement Health Care

PERS provides post-retirement health care coverage to age and service retirees with 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 Postemployment Benefit (OPEB) as described in GASB Statement No. 12, "Disclosure of Information on Postemployment Benefits Other Than Pension Benefits by State and Local Governmental Employers." The Code provides statutory authority for employer contributions and requires public employers to fund post-retirement health care through their contributions to PERS. The portion of the PERS contribution set aside for the funding of OPEB was 5.0% during calendar year 2002 and 4.3% during calendar year 2001.

OPEBs are advanced-funded on an actuarially determined basis. Significant actuarial assumptions for the latest actuarial review performed as of December 31, 2001 include: a rate of return on investments of 8.0%; salary increases of 4.0% compounded annually; and health care increases of 4.0% annually. The significant actuarial assumptions for the actuarial review performed as of December 31, 2000 included: a rate of return on investments of 7.75%; salary increases of 4.75% compounded annually; and health care increases of 4.75% annually.

All plan investments are carried at fair value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach, assets are adjusted annually to reflect 25% of unrealized market appreciation or depreciation on investment assets.

Based upon the portion of each employer's contribution to PERS set aside for funding OPEB as described above, BWC/IC's contribution for the twelve months ended June 30, 2003 allocated to OPEB was approximately $8.4 million and $7.1 million for the twelve months ended June 30, 2002. The plan's net assets available to fund future health care benefits totaled $11.6 billion as of December 31, 2001 and $11.7 billion as of December 31, 2000. The number of active participants at December 31, 2001 was 402,041 and 411,076 at December 31, 2000. The actuarially accrued liability and the unfunded actuarially accrued liability as of December 31, 2001, based on the actuarial cost method used, were $16.4 billion and $4.8 billion, respectively. The actuarially accrued liability and the unfunded actuarially accrued liability as of December 31, 2000, based on the actuarial cost method used, were $14.4 billion and $2.6 billion, respectively.

8. Surplus Fund

The SIF Surplus Fund is established by the Code and is financed by a percentage of all SIF premiums paid by private, self-insured, and public employers (excluding state employers). The SIF Surplus Fund has been appropriated for specific charges, including compensation related to claims of handicapped persons or employees of noncomplying employers, and the expense of providing rehabilitation services, counseling, training, living maintenance payments, and other related charges to injured workers. The SIF Surplus Fund may also be charged on a discretionary basis as ordered by BWC/IC, as permitted by the Code.

Continued

9. Premium Payment Security Fund

The SIF Premium Payment Security Fund (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.

10. Premium Reductions and Refunds

On December 14, 2000, public employer taxing districts were awarded a one-time 75% premium reduction for the January 2001 policy period, which was expected to produce estimated savings of $200 million to these employers through December 31, 2001. The accompanying statement of revenues, expenses and changes in net assets for the year ended June 30, 2002 reflects $100 million of the premium reduction.

On April 24, 2001, private employers were awarded a one-time 75% premium reduction for the July 1, 2001 through December 31, 2001 and January 1, 2002 through June 30, 2002 policy periods, which was expected to produce estimated savings of $1.3 billion to these employers. This premium reduction has been reflected in the accompanying statement of revenues, expenses and changes in net assets for the year ended June 30, 2002.

On October 25, 2001, public employer taxing districts were awarded a one-time 50% premium reduction for the January 2002 policy period, which was expected to produce estimated savings of $144 million to these employers through December 31, 2002. Each of the accompanying statements of revenues, expenses and changes in net assets for the years ended June 30, 2003 and 2002 reflects $72 million of the estimated premium reduction. To assist Ohio’s public employer taxing districts in improving their workers’ compensation management, employers attending a BWC hosted Public Employer Summit received an additional 25% cash refund. A refund payable of $66.5 million was accrued as of June 30, 2002.

On April 23, 2002, private employers were awarded a one-time 75% premium reduction for the July 1, 2002 through December 31, 2002 policy period, which was expected to produce estimated savings of $600 million to these employers for the year ended June 30, 2003. This premium reduction has been reflected in the statement of revenues, expenses and changes in net assets for the year ended June 30, 2003.

Continued

11. 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 2003 or 2002. 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.

12. Contingent Liabilities

BWC/IC is a party in various litigation. While the final outcome cannot be determined at this time, management is of the opinion that the liability, if any, for these legal actions will not have a material adverse effect on BWC/IC's financial position. See Note 4.

OHIO BUREAU OF WORKERS' COMPENSATION
AND
INDUSTRIAL COMMISSION OF OHIO

(A DEPARTMENT OF THE STATE OF OHIO)

REQUIRED SUPPLEMENTAL REVENUE AND RESERVE DEVELOPMENT INFORMATION, UNAUDITED

(See Accompanying Independent Auditors' Report)

June 30, 2003 and 2002

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 eleven rows shows the cumulative amounts paid as of the end of successive periods for each period. The diagonal for the period ended June 30, 1996 represents six months of paid development. The diagonals for subsequent years represent paid development one and one-half years later. (5) This section of ten rows shows how each period's incurred compensation increased or decreased as of the end of successive periods. The diagonal for the period ended June 30, 1996 represents six months of incurred compensation development. The diagonals for subsequent years represent incurred compensation development one and one-half years later. (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. Periods 1993 through 1995 are for the years ended December 31, 1993 through 1995; the 1996 period is for the six months ended June 30, 1996; and periods 1997 through 2003 are for the fiscal years ended June 30, 1997 through 2003.

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							Six months ended June 30	Years ended December 31		
	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993
1. Gross premiums, assessments, and investment income	2,886	2,032	2,535	4,344	3,609	5,092	4,933	1,795	3,366	3,161	3,159
2. Unallocated expenses	169	194	292	258	273	323	273	186	345	265	561
3. Estimated incurred compensation and compensation adjustment expense, end of period	2,298	2,184	2,039	1,936	1,797	1,984	1,995	925	1,795	1,826	2,094
Discount	1,931	1,800	1,715	1,672	1,821	2,580	2,498	1,203	2,421	2,615	2,971
Gross liability as originally estimated	4,229	3,984	3,754	3,608	3,618	4,564	4,493	2,128	4,216	4,441	5,065
4. Paid (cumulative) as of :											
End of period	485	456	434	404	422	389	321	75	276	247	227
One or one-half year later		853	821	757	809	673	434	176	477	561	552
Two or one and one-half years later			1,038	967	984	1,038	611	274	677	659	734
Three or two and one-half years later				1,122	1,122	1,155	1,085	344	817	810	801
Four or three and one-half years later					1,232	1,252	1,171	468	920	923	919
Four and one-half years later						1,335	1,245	506	1,004	1,015	1,009
Five and one-half years later							1,135	538	1,069	1,090	1,079
Six and one-half years later								567	1,126	1,149	1,140
Seven and one-half years later									1,176	1,205	1,188
Eight and one-half years later										1,256	1,238
Nine and one-half years later											1,282
5. Re-estimated incurred compensation and compensation adjustment expenses (gross):											
One or one-half year later		3,444	3,457	3,243	3,111	2,603	3,461	1,707	3,790	3,954	4,062
Two or one and one-half years later			3,459	3,311	3,059	3,032	2,899	1,611	3,627	3,486	3,607
Three or two and one-half years later				3,370	3,078	2,763	2,878	1,544	3,475	3,423	3,157
Four or three and one-half years later					3,012	2,681	2,516	1,388	2,973	3,347	3,199
Four and one-half years later						2,562	2,292	1,317	2,627	3,002	3,040
Five and one-half years later							2,029	1,180	2,501	2,592	2,698
Six and one-half years later								1,152	2,245	2,479	2,257
Seven and one-half years later									2,162	2,361	2,180
Eight and one-half years later										2,365	2,074
Nine and one-half years later											2,015
6. Decrease in gross estimated incurred compensation and compensation adjustment expenses from end of period		(540)	(295)	(238)	(606)	(2,002)	(2,464)	(976)	(2,054)	(2,076)	(3,050)

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, 2003
(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	Intentional Tort Fund Account	Self-Insuring Employers' Guaranty Fund Account	Administrative Cost Fund Account	Eliminations	Totals
ASSETS										
Current assets:										
Cash and cash equivalents	$ 1,813,445	$ 122,849	$ 42,779	$ 16,767	$ 11,272	$ 66,608	$ 2,283	$ 1,638	$ -	$ 2,077,641
Collateral on loaned securities	1,926,616	144,220	7,073	124	1,014	-	-	600	-	2,079,647
Premiums in course of collection	804,111	-	-	27	-	-	-	-	-	804,138
Assessments in course of collection	-	51,447	-	-	-	-	-	194,246	-	245,693
Accounts receivable, net of allowance for uncollectibles	148,768	24,419	(2)	41	-	-	3,024	9,288	-	185,538
Interfund receivables	8,142	21,654	2	739	32	-	200	32,750	(63,519)	-
Investment trade receivables	381,854	114	9	6	6	-	-	-	-	381,989
Accrued investment income	73,281	11,989	2,261	6	33	-	-	-	-	87,570
Other current assets	2,005	-	-	-	-	-	-	-	-	2,005
Total current assets	5,158,222	376,692	52,122	17,710	12,357	66,608	5,507	238,522	(63,519)	5,864,221
Noncurrent assets:										
Fixed maturities	7,611,380	889,610	153,063	315	1,309	-	4	-	-	8,655,681
Domestic equity securities:										
Common stocks	3,362,023	-	-	-	-	-	-	-	-	3,362,023
Preferred stocks	28,773	9,819	6,105	-	-	-	-	-	-	44,697
International securities	1,391,386	-	-	-	-	-	-	-	-	1,391,386
Investments in limited partnerships	631,556	-	-	-	-	-	-	-	-	631,556
Unbilled premiums receivable	941,121	-	-	-	-	-	-	61,800	-	1,002,921
Retrospective premiums receivable	266,505	-	-	-	-	-	-	-	-	266,505
Capital assets	39,530	22	-	-	-	-	-	115,000	-	154,552
Restricted cash	-	-	-	-	-	-	-	1,891	-	1,891
Total noncurrent assets	14,272,274	899,451	159,168	315	1,309	-	4	178,691	-	15,511,212
Total assets	$ 19,430,496	$ 1,276,143	$ 211,290	$ 18,025	$ 13,666	$ 66,608	$ 5,511	$ 417,213	$ (63,519)	$ 21,375,433

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, 2003
(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	Intentional Tort Fund Account	Self-Insuring Employers' Guaranty Fund Account	Administrative Cost Fund Account	Eliminations	Totals
LIABILITIES										
Current liabilities:										
Reserve for compensation	$ 1,687,058	$ -	$ 979	$ 176	$ 487	$ -	$ -	$ -	$ -	$ 1,688,700
Reserve for compensation adjustment expenses	160,988	-	49	-	39	-	-	289,662	-	450,738
Warrants payable	34,448	-	-	-	-	-	-	-	-	34,448
Deferred revenue	-	14,535	-	-	-	-	-	-	-	14,535
Bonds payable	-	-	-	-	-	-	-	-	-	-
Investment trade payables	1,969,739	20,892	-	-	-	-	-	-	-	1,990,631
Accounts payable	875	-	-	-	-	-	-	4,615	-	5,490
Interfund payables	53,638	6,210	74	12	22	-	3,009	554	(63,519)	-
Obligations under securities lending	1,926,616	144,220	7,073	124	1,014	-	-	600	-	2,079,647
Other current liabilities	-	18	3	-	243	66,608	-	7,630	-	74,502
Total current liabilities	5,833,362	185,875	8,178	312	1,805	66,608	3,009	303,061	(63,519)	6,338,691
Noncurrent liabilities:										
Reserve for compensation	12,560,942	-	48,221	5,546	3,962	-	-	-	-	12,618,671
Reserve for compensation adjustment expenses	535,412	-	3,351	-	265	-	-	683,938	-	1,222,966
Premium payment security deposits	82,843	-	148	-	-	-	-	-	-	82,991
Deferred revenue	-	387,901	-	-	-	-	-	-	-	387,901
Bonds payable	-	-	-	-	-	-	-	148,745	-	148,745
Other noncurrent liabilities	-	-	-	-	-	-	-	23,089	-	23,089
Total noncurrent liabilities	13,179,197	387,901	51,720	5,546	4,227	-	-	855,772	-	14,484,363
Total liabilities	19,012,559	573,776	59,898	5,858	6,032	66,608	3,009	1,158,833	(63,519)	20,823,054
NET ASSETS (DEFICIT)										
Invested in capital assets, net of related debt	39,530	22	-	-	-	-	-	(32,929)	-	6,623
Restricted for Surplus Fund	(954,915)	-	-	-	-	-	-	-	-	(954,915)
Restricted for Premium Payment Security Fund	113,541	-	-	-	-	-	-	-	-	113,541
Restricted for workers' compensation benefits	1,219,781	702,345	151,392	12,167	7,634	-	2,502	(708,691)	-	1,387,130
Total net assets (deficit)	$ 417,937	$ 702,367	$ 151,392	$ 12,167	$ 7,634	$ -	$ 2,502	$ (741,620)	$ -	$ 552,379

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, 2003

(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	Intentional Tort Fund Account	Self-Insuring Employers' Guaranty Fund Account	Administrative Cost Fund Account	Eliminations	Totals
Operating revenues:										
Premium income	$1,721,581	$ -	$267	$613	$833	$ -	$ -	$ -	$ -	$1,723,294
Assessment income	-	114,429	-	-	-	-	5,463	388,147	-	508,039
Provision for uncollectibles	(52,214)	(1,593)	-	-	-	-	(4)	(2,584)	-	(56,395)
Other income	5,023	-	-	-	-	-	-	4,231	-	9,254
Total operating revenues	1,674,390	112,836	267	613	833	-	5,459	389,794	-	2,184,192
Operating expenses:										
Workers' compensation benefits	2,730,319	121,986	3,438	373	2,817	-	17,360	-	-	2,876,293
Compensation adjustment expenses	196,038	-	54	-	211	-	-	288,186	-	484,489
Premium reductions and refunds	640,563	-	-	-	-	-	-	-	-	640,563
Personal services	-	512	13	-	10	-	-	49,810	-	50,345
General and administrative	-	146	1	-	-	-	-	11,298	-	11,445
Other expenses	12,942	-	-	-	64	-	-	16,400	-	29,406
Total operating expenses	3,579,862	122,644	3,506	373	3,102	-	17,360	365,694	-	4,092,541
Net income (loss) before operating transfers out	(1,905,472)	(9,808)	(3,239)	240	(2,269)	-	(11,901)	24,100	-	(1,908,349)
Operating transfers out	(18,540)	15,554	-	-	-	-	-	2,786	-	(200)
Net operating income (loss)	(1,924,012)	5,746	(3,239)	240	(2,269)	-	(11,901)	26,886	-	(1,908,549)
Non-operating revenues (expenses):										
Net investment income	455,364	96,355	19,274	256	298	-	736	3,119	-	575,402
Loss on disposal of capital assets	-	-	-	-	-	-	-	(3,964)	-	(3,964)
Total non-operating revenues (expenses)	455,364	96,355	19,274	256	298	-	736	(845)	-	571,438
Increase (decrease) in net assets (deficit)	(1,468,648)	102,101	16,035	496	(1,971)	-	(11,165)	26,041	-	(1,337,111)
Net assets (deficit), beginning of year	1,886,585	600,266	135,357	11,671	9,605	-	13,667	(767,661)	-	1,889,490
Net assets (deficit), end of year	$417,937	$702,367	$151,392	$12,167	$7,634	$ -	$2,502	$(741,620)	$ -	$552,379

191 West Nationwide Boulevard
Suite 500
Columbus, OH 43215-2568

Telephone 614 249 2300
Fax 614 249 2348

Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

The Honorable Bob Taft
Governor of the State of Ohio,

The Honorable Betty Montgomery
Auditor of State of Ohio:

We have audited the financial statements of the Ohio Bureau of Workers' Compensation and Industrial Commission of Ohio (BWC/IC), a department of the State of Ohio, as of and for the year ended June 30, 2003, and have issued our report thereon dated September 26, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether BWC/IC's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted an immaterial instance of noncompliance, which we have reported to management of BWC/IC in a separate letter dated September 26, 2003.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered BWC/IC's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control over financial reporting. Our consideration of internal control over financial reporting would not necessarily disclose all matters in internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving internal control over financial reporting, which we have reported to management of BWC/IC in a separate letter dated September 26, 2003.

This report is intended solely for the information and use of management, the Governor of the State of Ohio, the Auditor of State of Ohio, and others within BWC/IC and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

September 26, 2003

Auditor of State
Betty Montgomery

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

OHIO BUREAU OF WORKERS' COMPENSATION AND INDUSTRIAL COMMISSION OF OHIO

FRANKLIN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
NOVEMBER 25, 2003