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

FINANCIAL STATEMENTS
June 30, 2017 and 2016

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

We have reviewed the *Independent Auditor's Report* of the Ohio Bureau of Workers Compensation and Industrial Commission, Franklin County, prepared by Crowe Horwath LLP, for the audit period July 1, 2016 through June 30, 2017. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Dave Yost

Dave Yost
Auditor of State

October 26, 2017

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Crowe Horwath LLP
Independent Member Crowe Horwath International

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Ohio Bureau of Workers' Compensation and Industrial Commission of Ohio (BWC/IC), a department of the State of Ohio (State), as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the BWC/IC's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 that the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the BWC/IC, as of June 30, 2017 and 2016, and the changes in its financial position and its cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

(Continued)

Emphasis of Matters

As discussed in Note 1, the financial statements of the BWC/IC are intended to present the financial position, changes in financial position, and cash flows of the BWC/IC. They do not purport to, and do not, present fairly the financial position of the State as of June 30, 2017 and 2016, the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, supplemental revenue and reserve development information, the schedule of proportionate share of the net pension liability (asset), and the schedule of employer contributions and contributions subsequent to measurement date, on Pages 3-11, 50-51, 52, and 53, respectively, listed in the table of contents, to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the BWC/IC's basic financial statements. The supplemental schedule of net position and schedule of revenues, expenses and changes in net position are presented for purposes of additional analysis and are not a required part of the basic financial statements. These schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental schedule of net position and schedule of revenues, expenses and changes in net position are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards,* we have also issued our report dated September 25, 2017 on our consideration of BWC/IC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering BWC/IC's internal control over financial reporting and compliance.

Crowe Horwath LLP

Crowe Horwath LLP

Columbus, Ohio
September 25, 2017

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, 2017, 2016, and 2015. BWC and IC are collectively referred to as BWC/IC. This information is based on BWC/IC's financial statements, which begin on Page 12.

Financial highlights

- BWC/IC's total assets at June 30, 2017 were $28.9 billion, an increase of $1.5 billion or 5.4 percent compared to June 30, 2016.
- BWC/IC's total liabilities at June 30, 2017 were $19.2 billion, an increase of $498 million or 2.7 percent compared to June 30, 2016.
- BWC/IC's total operating revenues for fiscal year 2017 were $1.6 billion, an increase of $1.6 billion or 100 percent compared to fiscal year 2016. A reduction to Disabled Workers' Relief Fund (DWRF) II unbilled assessments of $1.5 billion in fiscal year 2016 contributes to the significant increase.
- BWC/IC's total operating expenses for fiscal year 2017 were $1.3 billion, an increase of $12 million or less than 1 percent from fiscal year 2016.
- BWC/IC had $1.1 billion in premium rebate expenses, $3 million in transition credit expenses, $4 million in loss contingency expenses, and reduced DWRF I alterative funding expenses by $16 million in fiscal year 2017.
- BWC's non-operating revenues for fiscal year 2017 were $1.9 billion, compared to $1.4 billion for fiscal year 2016.
- BWC/IC's net position increased by $1 billion in fiscal year 2017, compared to a $514 million decrease in fiscal year 2016.

Financial statement overview

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

- Statement of Net Position - This statement is a point-in-time snapshot of BWC/IC's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position at fiscal year end. Net position represents the amount of total assets and deferred outflows of resources less total liabilities and deferred inflows of resources. The statement is categorized by current and noncurrent assets and liabilities. For the purpose of the accompanying financial statements, current assets and liabilities are generally defined as those assets and liabilities with immediate liquidity or those that are collectible or will be due within 12 months of the statement date.
- Statement of Revenues, Expenses and Changes in Net Position - This statement reflects the operating revenues and expenses, as well as non-operating revenues and expenses, for the fiscal year. Major sources of operating revenues are premium and assessment income. Major sources of operating expenses are workers' compensation benefits and compensation adjustment expenses. Revenues and expenses related to capital and investing activities are reflected in the non-operating component of this statement.
- Statement of Cash Flows - The statement of cash flows is presented using the direct method of reporting, which reflects cash flows from operating, noncapital financing, capital and related financing, and investing activities. Cash collections and payments are reflected in this statement to arrive at the net increase or decrease in cash and cash equivalents for the fiscal year.

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

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Financial analysis

Components of BWC/IC's Statements of Net Position and Statements of Revenues, Expenses and Changes in Net Position as of June 30, 2017, 2016, and 2015, and for the years then ended were as follows (000's omitted):

	2017	2016	2015
Current assets	$ 1,387,617	$ 1,235,769	$ 1,597,941
Noncurrent assets	27,530,615	26,203,485	27,456,171
Total assets	$ 28,918,232	$ 27,439,254	$ 29,054,112
Deferred outflows of resources	90,259	63,608	16,679
	$ 90,259	$ 63,608	$ 16,679
Current liabilities	$ 4,000,419	$ 3,058,458	$ 3,532,668
Noncurrent liabilities	15,240,224	15,683,834	16,267,360
Total liabilities	$ 19,240,643	$ 18,742,292	$ 19,800,028
Deferred inflows of resources	9,777	6,685	2,431
	$ 9,777	$ 6,685	$ 2,431
Net investment in capital assets	$ 154,075	$ 157,884	$ 142,347
Unrestricted net position	9,603,996	8,596,001	9,125,985
Total net position	$ 9,758,071	$ 8,753,885	$ 9,268,332
Net premium and assessment income, including provision for uncollectibles	$ 1,544,550	$ 1,439,143	$ 1,954,174
DWRF II unbilled assessment	-	(1,499,600)	-
Other income	10,016	12,442	8,413
Total operating revenues	$ 1,554,566	$ (48,015)	$ 1,962,587
Workers' compensation benefits and compensation adjustment expenses	$ 1,199,363	$ 1,211,609	$ 1,394,939
Other expenses	143,572	119,419	118,372
Total operating expenses	$ 1,342,935	$ 1,331,028	$ 1,513,311
Transition credit expense	$ (2,562)	$ 22,070	$ (38,781)
Premium rebate	(1,094,850)	(15,396)	(1,013,171)
Legal settlement / loss contingency	(3,735)	-	22,938
DWRF I alternative funding expense	16,348	(507,891)	-
Operating transfers out	(425)	(425)	(425)
Net investment income	1,877,645	1,365,464	509,882
Gain on disposal of capital assets	134	774	71
(Decrease) increase in net position	$ 1,004,186	$ (514,447)	$ (70,210)
Prior period adjustment - pension	$ -	$ -	$ (121,671)

BWC/IC's net position increased by $1 billion during fiscal year 2017, compared to a $514 million decrease during fiscal year 2016.

(Continued)

- Premium and assessment income exceeded workers' compensation benefits and compensation adjustment expenses by $345 million in fiscal year 2017 and $228 million in fiscal year 2016.

- Fiscal year 2017 premium and assessment income reflects an 8.6 percent reduction in overall premium rates for the majority of Ohio's private employers for the policy period beginning July 1, 2016, and no change for public employer taxing districts (PECs) for the policy period beginning January 1, 2017. Fiscal year 2016 premium and assessment income reflects a 10.8 percent reduction in rates for private employers for the policy period beginning July 1, 2015, and a 9 percent reduction for PECs for the policy period beginning January 1, 2016. PECs include cities, counties, townships, villages, schools, libraries, and special taxing districts. Even with these rate reductions, net premium and assessment income has increased by $106 million in fiscal year 2017 due to increases in payroll exposure and changes in the DWRF I unbilled receivables.

- Beginning in fiscal year 2016, premiums are collected under a prospective payment system, which allows employers more flexible payment options. Private employers transitioned to prospective billing on July 1, 2015 and PECs transitioned on January 1, 2016.

- BWC/IC has secured reinsurance as a risk management strategy to protect our assets in the event of a catastrophic event. Premium and assessment income has been reduced by $4 million in fiscal years 2017 and 2016 for the accrual of the ceded reinsurance premiums.

- Beginning in fiscal year 2016, BWC began providing access to optional additional insurance coverage for Ohio companies who have employees who temporarily work in other states and are in need of coverage for workers' compensation gaps and protection from penalties and stop-work orders in other states. Zurich American Insurance Company acts as the insurer of the Other States Coverage policies.

- During fiscal year 2016, the assumptions used to estimate DWRF II unbilled receivables were updated. As a result, assessment income and unbilled receivables were reduced by $1.5 billion. Previously, DWRF II unbilled receivables were recorded in amounts equal to the DWRF II discounted reserves for compensation and compensation adjustment expenses. Beginning in fiscal year 2016, cash and investment balances are included in estimating DWRF II unbilled receivables. At June 30, 2017, the DWRF II cash and investment balances exceed DWRF II discounted reserves for compensation and compensation adjustment expenses. Accordingly, there is currently no need to assess employers in future periods to fund the current DWRF II estimated liabilities.

- Workers' compensation benefits and compensation adjustment expenses were as follows in fiscal years 2017, 2016, and 2015.

($ in millions)	2017	2016	2015
Net benefit payments	$ 1,420	$ 1,539	$ 1,551
Payments for compensation adjustment expenses	235	206	200
Managed Care Organization administrative payments	171	169	171
Change in reserves for compensation and compensation adjustment expenses	(627)	(702)	(527)
	$ 1,199	$ 1,212	$ 1,395

(Continued)

- The discounted liabilities for workers' compensation benefits and compensation adjustment expenses as of June 30, 2017 are $627 million lower than the June 30, 2016 discounted liabilities. These liabilities are discounted using an annual interest rate of 4 percent.
- State Insurance Fund (SIF) benefit payments for all accident years were $112 million or 7.7 percent lower than expected during fiscal year 2017. Approximately $13 million of the lower than expected paid development is associated with medical benefits, while indemnity benefits were $99 million lower than expected. During the past 15 years, SIF annual payments have remained reasonably steady, ranging from a low of $1.3 billion in fiscal year 2017 to a high of $1.9 billion in fiscal year 2008. Fiscal year 2017 payments are lower than fiscal year 2016 payments and are the lowest annual payments during the last 15 fiscal years.
- As part of Destination: Excellence, savings were available to employers for effective policy maintenance such as reporting payroll and paying premiums online and keeping current on their premiums. The Go Green program rewards employers for reporting payroll and paying premiums on-line with a rebate of one percent of premium up to a maximum rebate of $2,000 per policy year. In fiscal year 2017, almost 47 percent of the employer population chose to Go Green, earning rebates of $10.2 million compared to $5.7 million in fiscal year 2016. To reward timely premium payers, employers with no lapses in coverage during the past 60 months can receive a premium rebate of one percent up to a maximum of $2,000 per policy year. Employers earned lapse-free rebates of $8 million in fiscal year 2017 and $3.2 million in fiscal year 2016. Due to the recent change to prospective billing in which this rebate is earned annually instead of semi-annually, rebates for lapse-free employers were earned for only the last semi-annual period during fiscal year 2016. Employers earned rebates of $4.3 million in fiscal year 2017 and $3 million in fiscal year 2016 by completing requirements of the Industry-Specific Safety Program. Completing the requirements of the Transitional Work Bonus Program earned employers $2.3 million in fiscal year 2017 compared to $7 million in fiscal year 2016.
- For policy periods beginning in 2017, BWC is providing employers an option to receive a 2% discount by paying their full 12-month estimated premium on or before the due date of the first installment of their policy period. Over 1,700 public taxing district employers earned early payment discounts of approximately $2.6 million by paying their entire annual premium for the 2017 policy year by the January 3, 2017 due date. Private employers will have this option available for annual premiums due during fiscal year 2018.
- Ohio has 83 safety councils that promote increased safety awareness in the workplace and educate businesses on occupational health, wellness, and safety issues. Employers meeting safety council participation eligibility requirements and performance goals for reducing either frequency or severity earned safety council bonuses of $9.6 million in fiscal year 2017 and $8.9 million in fiscal year 2016.
- On April 23, 2014, the BWC Board of Directors (the Board) approved a transition credit of $1.2 billion for private and public taxing district employers to minimize the cash flow impacts of transitioning from collecting premiums in arrears (or after the coverage period) to prospective billing where premiums are collected in advance of the coverage period. The transition credit covered one hundred percent of private employer premiums for the January 1 through June 30, 2015 policy period and one sixth of the annual premiums for the policy year beginning July 1, 2015. Public taxing district employers received transition credits of 50 percent of annual premiums for each of the policy years beginning January 1, 2015 and 2016. The transition credit expense was reflected in the fiscal year 2014 financial statements when the Board committed funds for paying these premiums. The transition credit expense was reduced by $22 million in fiscal year 2016 based on the reporting of

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actual payroll by public taxing district employers for the January 1, 2015 policy year and the reporting of actual payroll by private employers for the policy year beginning July 1, 2015. Transition credit expense was increased $3 million in fiscal year 2017 based on the reporting of actual payroll by public taxing district employers for the January 1, 2016 policy year.

- The State Insurance Fund net position has continued to grow primarily as a result of better than expected investment returns and declines in the reserves for compensation and compensation adjustment expenses for prior years' claims. The net position has exceeded the guidelines in the Net Asset Policy established by the Board. A rebate to reduce the net position in SIF was approved by the Board on April 28, 2017. Private employers were granted a rebate equivalent to 66 percent of premiums for the July 1, 2015 through June 30, 2016 policy period and the public employer taxing districts were granted the same percentage rebate for premiums for the January 1, 2015 through December 31, 2015 period. This action resulted in premium rebate expense of just over $1 billion in fiscal year 2017.

- In May 2016, the Board approved a one-time $15 million policy holder rebate to Ohio's 88 county governments from the Public Work-Relief Employee's Fund as a result of strong investment returns. Payments were issued to the counties in June 2016.

- House Bill 52 of the 131st General Assembly amended Ohio Revised Code (ORC) 4123.411 allowing the Administrator discretionary authority to levy assessments to fund DWRF I benefits. DWRF I assessment rates were reduced to zero for the policy year beginning January 1, 2016 for public taxing district employers and the policy year beginning July 1, 2016 for private employers. ORC 4123.419 was also amended to allow the Administrator with the advice and consent of the Board the authority to transfer investment income from the SIF to cover the cost of the DWRF I benefits for private and public taxing district employers rather than levying assessments against these employers, which the Board approved in September 2015. A funding commitment of $508 million, based on the estimated DWRF I discounted reserves for compensation and compensation adjustment expenses, has been recognized in the fiscal year 2016 financial statements. The funding commitment was evaluated in fiscal year 2017 and decreased by $16 million in the fiscal year 2017 financial statements.

- In fiscal year 2017, BWC/IC recorded net investment income of $1.9 billion, compared to $1.4 billion in fiscal year 2016. The investment portfolio earned a net return of 7.5 percent, after management fees, during fiscal year 2017 compared to 5.8 percent in fiscal year 2016.

- During fiscal year 2015, the Board approved an increase in the real estate allocation for the SIF investment portfolio from a 6 percent allocation to a targeted 12 percent asset allocation. As of June 30, 2017, the real estate allocation for the SIF investment portfolio is comprised of the following:

(000's omitted)

	Targeted % of portfolio	Number of funds	Committed	Invested	Fair value
Core real estate	7%	7	$ 1,496,531	$ 1,496,531	$ 2,093,462
Core plus real estate	3%	7	700,000	437,496	475,688
Value - added real estate	2%	9	400,000	206,780	221,275
	12%	23	$ 2,596,531	$ 2,140,807	$ 2,790,425

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- Work on the Core Project continued during fiscal year 2017 to modernize BWC's technology architecture to better serve Ohio's injured workers and employers. The project replaced outdated claims, policy, and employer billing systems with a commercial product called PowerSuite. The transition to PowerSuite was completed in November 2016.

Conditions expected to affect financial position or results of operations

BWC/IC's guiding principles of prevention and care drive our commitment to keep Ohio workers safer on the job; help injured workers recover and return to their lives – at work and home; and to keep costs down for Ohio businesses.

- Businesses that invest in workplace safety and health are able to reduce fatalities, injuries, and illnesses, resulting in lower medical and legal expenses as well as lower costs to train replacement employees. Various studies report that for every $1 invested in workplace safety, employers receive between $2 and $6 in return. BWC offers numerous financial assistance opportunities for employers to invest in workplace safety. The number of businesses using BWC's safety services and programs has grown by 70% between 2010 and 2015 to more than 21,000. The number of injuries for employers in the BWC system fell by 13.2% even as Ohio was experiencing job growth of 7.5%. The Safety Grant Program provides matching funds up to $40 thousand for employers to purchase equipment that will substantially reduce or eliminate injuries and illnesses. These grants provide $3 for every $1 that the employer invests in safety equipment. In fiscal year 2017, 659 grants totaling $13 million were awarded to employers for safety intervention, wellness, and drug-free programs. More than 2,000 businesses have benefited from these grants over the past four years. BWC has committed $15 million for fiscal year 2018 to continue these programs. Beginning in 2018, BWC plans to spend up to $6 million annually on a health and wellness program that targets Ohioans working for employers with 50 or fewer employees in specific high-risk industries, in addition to a segment of injured workers with certain types of injuries. These grants will provide services that include health risk assessments, biometric screenings, lifestyle management and coaching, and chronic disease management. Concurrently, BWC plans to launch a $2 million statewide safety awareness and educational campaign to prevent injuries associated with slips, trips and falls, over-exertions and motor vehicle accidents, which account for more than 60 percent of the system's injury claims. The effort will include online and mobile training resources that address safety at home and at work. An additional $4 million will be targeted toward programs that help firefighters and those who work with children and adults with disabilities.

- The annual actuarial unpaid loss and loss adjustment expense analysis includes a $4.4 billion discounted liability for unpaid medical costs which represents 32.8 percent of the discounted liability for SIF unpaid claims. The cost of medical benefits is based on the prices for medical services at the time rendered and is not dependent on the year of injury like indemnity benefits. Therefore, the cost of future medical payments is dependent on future inflation and future utilization rates. The average annual medical cost increase per lost time private employer claim was 1 percent from 2005 through 2016. These trends show the need for BWC to remain focused on cost control and programs enabling injured workers to return to work in a timely manner. The sooner an injured worker gets healthy and returns to work, the more likely it is that there will be positive outcomes for the worker, and the less expensive they will be to the workers' compensation system. BWC/IC is addressing return-to-work trends through triaging of claims, vocational rehabilitation, pharmacy programs, settlements, the transitional work bonus program, and the health and behavioral intervention services program.

- BWC is working with a team of stakeholders representing business, labor, managed care organizations, and the medical community to modernize the Bureau's healthcare delivery system. The first step was the creation of a pilot called the Enhanced Care Program (ECP). During fiscal year 2016, the ECP began to identify injured workers who are at risk for not receiving optimal outcomes in their claims. This program looks for ways to identify injured workers who might be at risk due to pre-existing conditions that may adversely impact the ability of the injured worker to return to work in a timely manner. Incentives are designed to encourage the coordination of care among workers' compensation medical providers, primary care physicians, and managed care organizations. In September 2016, BWC contracted with a healthcare consultant to evaluate the ECP and to provide guidance and recommendations regarding modifications and improvements to the overall quality of the Bureau's healthcare delivery system. Based on the success of the pilot program, the pilot program has been extended through June 30, 2019.

- BWC/IC's pharmacy program manages drug utilization to ensure coverage for necessary medications to allow proper care for injured workers in a fiscally responsible manner. Since 2011, many operational changes have occurred to the pharmacy program including the establishment of a closed formulary, limiting coverage of compound prescriptions, placement of 373 out 405 drug classes on a relatedness list, and requiring prior authorization for prescriptions in medical only claims after 60 days. BWC has reduced the number of injured workers physically dependent on opioids from 8,029 in 2011 to 4,101 in 2016, a near 50 percent drop. The number of injured workers receiving an opioid prescription fell by 51 percent, and the percentage of our injured worker population receiving an opioid prescription fell from 73 percent to 62 percent, the lowest level since 2002. BWC has developed stronger monitoring of prescriptions and prior authorization controls, dropped coverage of certain opioids, and established a rule requiring physicians to use best medical practices when prescribing opioids or risk losing their BWC certification. New in fiscal year 2018, first prescriptions for opioids will be restricted to seven days or 30 doses.

- Rooting out, investigating, and prosecuting cases of workers' compensation fraud is another way the BWC/IC works to control costs on behalf of our customers. Efforts in the pursuit to deter, detect, and investigate all types of workers' compensation fraud, including employer and provider fraud, resulted in the identification of $41.8 million in savings for the State Insurance Fund after closing 1,174 cases during fiscal year 2017.

- BWC's net asset policy contains the business rationale, methodology, and guiding principles with respect to maintaining a prudent net position to protect the SIF against financial and operational risks that may threaten the ability to meet future obligations. The Administrator, with the approval of the Board, established guidelines for a Simple Funding Ratio (total assets divided by total liabilities) and a Net Leverage Ratio (premium income plus reserves for compensation and compensation adjustment expense divided by net position). Over the last several years, the net position has continued to increase, primarily

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as a result of excess investment returns and lower than expected claims costs. These net position excesses have enabled the Board to approve cash rebates totaling $3.1 billion over the past four years and a $1.2 billion transition credit, in conjunction with the move to a prospective billing system. During fiscal year 2017, an economic capital modeling project was completed to quantify the SIF risk associated with BWC's investment portfolio, estimated reserves for compensation and compensation adjustment expenses, pricing risk, catastrophe risk, and the correlation of these risks. This information was used to develop guidelines based on a 20% probability the net position could be depleted in five years for a low end simple funding ratio of 1.25 and a 7.5% chance the net position could be depleted for a high end simple funding ratio of 1.45.

These are the SIF ratios at fiscal year ended 2017, 2016, and 2015:

	2017	2016	2015	Guideline
Simple Funding Ratio	1.63	1.59	1.50	1.25 to 1.45
Net Leverage Ratio	1.46	1.65	1.98	3.0 to 7.0

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

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

STATEMENTS OF NET POSITION

June 30, 2017 and 2016

(000's omitted)

	2017	2016
ASSETS		
Current assets:		
Cash and cash equivalents (Note 2)	$553,164	$514,565
Collateral on loaned securities (Note 2)	1,364	484
Premiums recorded not yet due	12,964	62,467
Assessments recorded not yet due	1,566	7,385
Premiums in course of collection	9,090	9,581
Assessments in course of collection	13,252	13,691
Accounts receivable, net of allowance for uncollectibles of $1,151,411 in 2017; $1,155,892 in 2016	343,516	266,403
Retrospective premiums receivable	43,194	43,194
Investment trade receivables	270,946	180,690
Accrued investment income	137,961	134,594
Other current assets	600	2,715
Total current assets	1,387,617	1,235,769
Noncurrent assets:		
Fixed maturities, at fair value (Note 2)	14,646,147	14,734,640
Domestic equity securities, at fair value - common stock (Note 2)	6,105,691	5,610,839
Domestic equity securities, at fair value - preferred stock (Note 2)	1,726	1,309
Non-U.S equity securities, at fair value - common stock (Note 2)	2,681,724	2,226,546
Investments in real estate funds (Note 2)	2,790,425	2,241,609
Unbilled premiums receivable	1,075,316	1,122,313
Retrospective premiums receivable	75,189	108,078
Capital assets (Note 3)	154,075	157,884
Net pension asset (Note 8)	322	267
Total noncurrent assets	27,530,615	26,203,485
Total assets	$ 28,918,232	$ 27,439,254
DEFERRED OUTFLOW OF RESOURCES (Note 8)	90,259	63,608
Total assets and deferred outflow of resources	$ 29,008,491	$ 27,502,862

	2017	2016
LIABILITIES		
Current liabilities:		
Reserve for compensation (Note 4)	$ 1,503,463	$ 1,636,037
Reserve for compensation adjustment expenses (Note 4)	388,973	384,004
Premium rebate payable (Note 7)	1,094,836	-
Unearned premium and assessments	535,320	513,089
Transition credit liability (Note 12)	-	35,437
Legal settlement (Note 11)	4,500	4,507
Warrants payable	21,522	36,219
Investment trade payables	377,981	387,057
Accounts payable	34,036	38,660
Obligations under securities lending (Note 2)	1,364	484
Other current liabilities (Note 5)	38,424	22,964
Total current liabilities	4,000,419	3,058,458
Noncurrent liabilities:		
Reserve for compensation (Note 4)	13,581,447	14,034,563
Reserve for compensation adjustment expenses (Note 4)	1,392,727	1,438,596
Net pension liability (Note 8)	240,665	187,038
Other noncurrent liabilities (Note 5)	25,385	23,637
Total noncurrent liabilities	15,240,224	15,683,834
Total liabilities	$ 19,240,643	$ 18,742,292
DEFERRED INFLOW OF RESOURCES (Note 8)	9,777	6,685
Total liabilities and deferred inflow of resources	$ 19,250,420	$ 18,748,977
NET POSITION		
Net investment in capital assets	154,075	157,884
Unrestricted net position	9,603,996	8,596,001
Total net position (Note 14)	$ 9,758,071	$ 8,753,885

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

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

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

For the years ended June 30, 2017 and 2016

(000's omitted)

	2017	2016
Operating revenues:		
Premium and assessment income net of ceded premium (Note 6)	$1,574,212	$ 1,456,855
DWRF II unbilled assessment (Note 13)	-	(1,499,600)
Provision for uncollectibles	(29,662)	(17,712)
Other income	10,016	12,442
Total operating revenues	1,554,566	(48,015)
Operating expenses:		
Workers' compensation benefits (Note 4)	834,559	819,733
Compensation adjustment expenses (Note 4)	364,804	391,876
Personal services	79,975	69,923
Other administrative expenses	63,597	49,496
Total operating expenses	1,342,935	1,331,028
Net operating income (loss) before transition credits, premium rebates, loss contingency and DWRF I alternative	211,631	(1,379,043)
Transition credit expense (Note 12)	2,562	(22,070)
Premium rebate (Note 7)	1,094,850	15,396
Loss contingency (Note 11)	3,735	-
DWRF I alternative funding expense (Note 13)	(16,348)	507,891
Total transition credits, premium rebates, loss contingency and DWRF I alternative	1,084,799	501,217
Net operating loss	(873,168)	(1,880,260)
Non-operating revenues:		
Net investment income (Note 2)	1,877,645	1,365,464
Gain on disposal of capital assets	134	774
Total non-operating revenues	1,877,779	1,366,238
Transfers out	(425)	(425)
Increase (decrease) in net position	1,004,186	(514,447)
Net position, beginning of year	8,753,885	9,268,332
Net position, end of year	$ 9,758,071	$ 8,753,885

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, 2017 and 2016

(000's omitted)

	2017	2016
Cash flows from operating activities:		
Cash receipts from premiums and assessments net of reinsurance	$ 1,947,158	$ 1,739,145
Cash receipts - other	27,705	28,526
Cash disbursements for claims	(1,659,213)	(1,754,292)
Cash disbursements to employees for services	(200,170)	(196,053)
Cash disbursements for other operating expenses	(116,426)	(94,314)
Cash disbursements for employer refunds	(315,755)	(496,628)
Net cash used for operating activities	(316,701)	(773,616)
Cash flows from noncapital financing activities:		
Transfers out	(425)	(425)
Net cash used by noncapital financing activities	(425)	(425)
Cash flows from capital and related financing activities:		
Purchase of capital assets, net of retirements	(13,035)	(23,665)
Net cash used in capital and related financing activities	(13,035)	(23,665)
Cash flows from investing activities:		
Investments sold	14,919,775	11,698,441
Investments purchased	(15,224,235)	(11,816,206)
Interest and dividends received	729,687	684,847
Investment expenses	(56,467)	(51,614)
Net cash provided by investing activities	368,760	515,468
Net increase (decrease) in cash and cash equivalents	38,599	(282,238)
Cash and cash equivalents, beginning of year	514,565	796,803
Cash and cash equivalents, end of year	$ 553,164	$ 514,565

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, 2017 and 2016

(000's omitted)

	2017	2016
Reconciliation of net operating loss to net cash used for operating activities:		
Net operating loss	$ (873,168)	$ (1,880,260)
Adjustments to reconcile net operating loss to net cash used for operating activities:		
Provision for uncollectible accounts	29,662	17,712
Depreciation	16,978	8,902
Pension	30,013	9,841
(Increases) decreases in assets and increases (decreases) in liabilities:		
Premiums and assessments recorded not yet due	55,322	(69,852)
Premiums and assessments in course of collection	930	46,858
Unbilled premiums receivable	46,997	2,065,888
Accounts receivable	(106,775)	(178,130)
Retrospective premiums receivable	32,889	63,785
Other assets	2,115	(600)
Reserves for compensation and compensation adjustment expenses	(626,590)	(701,804)
Unearned premiums and assessments	22,231	512,952
Transition credit liability	(35,437)	(362,465)
Legal settlement	(7)	2,139
Premium payment security deposits	-	(86,088)
Warrants payable	(14,697)	(242,144)
Accounts payable	(4,624)	17,434
Premium rebate payable	1,094,836	-
Other liabilities	12,624	2,216
Net cash used for operating activities	$ (316,701)	$ (773,616)
Noncash investing, capital, and financing activities		
Change in fair values of investments	$ 1,205,642	$ 731,967

1. Organization Background and Summary of Significant Accounting Policies

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

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

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

Basis of Presentation

BWC/IC has prepared its financial statements in accordance with accounting principles generally accepted in the United States of America as applicable to government organizations. Accordingly, these financial statements were prepared using the accrual basis of accounting and the economic resources measurement focus.

For internal reporting purposes, BWC/IC maintains separate internal accounts as required by the Code. For external financial reporting purposes, BWC/IC has elected to report as a single column business-type activity, since the individual accounts do not have external financial reporting accountability requirements. All significant interaccount balances and transactions have been eliminated.

BWC/IC administers the following accounts:

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

(Continued)

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 relating to injuries sustained after January 1, 1987 by employees of self-insured employers that are bankrupt or in default.

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

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

Cash and Cash Equivalents

Cash and cash equivalents in the accompanying statements of net position and for the purposes of the statements of cash flows include cash and all highly liquid debt instruments purchased with a maturity of three months or less. Cash equivalents consist of money market funds.

Investments

BWC/IC's investments consist of fixed maturities, domestic equity securities, commingled bond index funds, commingled U.S. equity index funds, commingled non-U.S equity index funds, U.S. real estate funds, bond mutual funds and collateral on securities lending.

Investments are reported at fair value, which is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fixed income securities, domestic equity securities, and bond mutual funds are valued based on published market prices and quotations from national security exchanges and securities pricing services. The fair value of the commingled bond index funds, commingled domestic equity funds, commingled non-U.S. equity funds, and U.S. real estate funds are based on the value of the underlying net assets of the fund. Dividends, interest earnings, the net increase (decrease) in the fair value of investments (which includes both the change in fair value and realized gains and losses), and investment expenses are aggregated and reported as net investment income in the statements of revenues, expenses and changes in net position. The cost of securities sold is determined using the average cost method. Purchases and sales of investments are recorded as of the trade date.

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Premium Income

Premiums are based on rates that are approved by the Board and on the employers' payroll, except self-insured employer assessments, which are based on paid compensation. SIF rates for private and public taxing district employers meeting certain size criteria are adjusted based on their own claims experience.

Premium income for SIF, CWPF, PWREF, and MIF is recognized over the coverage period. It is billed in advance of the coverage period, except for CWPF, which is billed and collected in subsequent periods. Premiums earned but not yet invoiced are reflected as premiums in course of collection in the statements of net position. Estimated annual premiums recorded but not yet invoiced are reflected as premiums recorded not yet due and unearned premium in the statements of net position.

In addition to the standard base and experience rated plans, BWC/IC offers the following alternative rating programs:

> Group experience rating plans allow employers who operate within similar industries to group together to potentially achieve lower premium rates than they could individually.
>
> 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 statements of net position as retrospective premiums receivable.
>
> Employers participating in group retrospective rating plans pay experience or base rated premiums as if they were individually rated at the beginning of the policy year. If the group's claims experience is better than expected at evaluation periods 12, 24, and 36 months after the close of the policy year, a portion of the group's premium is returned to employers participating in the group. If the group's claims experience is worse than expected at those intervals, additional premiums are levied on the employers participating in the group. These credits and additional premiums levied are recognized in the evaluation period earned as decreases and increases, respectively, to premium income and are reflected in the statements of revenue, expenses, and changes in net position.
>
> The deductible plan is offered to qualified employers. This plan is similar to that of other insurance deductible plans where an employer agrees to pay the portion of a workers' compensation injury claim that falls below their selected deductible level. For taking on this degree of risk, the employer receives a premium credit.

The Code permits State employers to pay into SIF on a terminal funding (pay-as-you-go) basis. Since BWC/IC has the statutory authority to assess premiums against the State employers in future periods, an unbilled premiums receivable equal to the State's 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 position.

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Assessment Income

DWRF I (DWRF benefits awarded for injuries incurred prior to January 1, 1987) assessments are based on employers' payroll and rates approved by the Board within a statutory range. DWRF II (DWRF benefits awarded for injuries incurred on or after January 1, 1987) and ACF assessments are based on rates that are approved by the Board and on employers' premiums, except for ACF assessments of self-insured employers, which are based on paid workers' compensation benefits. SIEGF assessments are based on paid compensation benefits with the exception of new self-insured employers, which are based on a percentage of prior losses as a SIF employer.

Assessment income is recognized over the coverage period and is billed in advance of the coverage period. DWRF I and ACF assessment income is recognized over the period for which the assessment applies. These assessments earned but not yet invoiced were reflected as assessments in course of collection in the statements of net position. Estimated annual assessments recorded but not yet invoiced and unearned assessments are reflected as assessments recorded not yet due in the statements of net position.

In September 2015, the Board approved the funding of DWRF I benefits from SIF investment income for private and public taxing district employers rather than levying assessments against these employers. The annual funding commitment has been recorded in SIF as DWRF I alternative funding expense in the statements of revenue, expenses and changes in net position for fiscal years 2017 and 2016. The commitment is reviewed annually and is subject to adjustment based on changes in the estimated DWRF I discounted reserves for compensation and compensation adjustment expenses.

The Code permits employers to pay into DWRF and SIEGF on a terminal funding (pay-as-you-go) basis. As BWC/IC has the statutory authority to assess employers in future periods, an unbilled premiums receivable equal to the discounted reserve for compensation and compensation adjustment expenses for DWRF I public state employers and SIEGF, less BWC/IC's portion of the discounted reserve, is reflected in the statements of net position. SIEGF assessments received or in the course of collection, but not yet recognized, are reflected as a reduction to unbilled premiums receivable.

The year-end balances of the DWRF II cash and investment balances and the DWRF II discounted reserve for compensation and compensation adjustments expenses are compared annually to determine when BWC/IC has an unbilled premiums receivable. At June 30, 2017 and 2016, the total DWRF II cash and investment balances exceeded the DWRF II discounted reserve for compensation and compensation adjustment expenses, thus no unbilled premiums receivable is recorded for DWRF II.

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.

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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
Intangible assets	10
Furniture and fixtures	10
Vehicles and equipment	5

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

Expenditures for the design, software configuration, software interfaces, coding, hardware, hardware installation, data conversion to the extent necessary for the operation of the new software, testing, and licensure on internally generated software exceeding $1 million are capitalized as an intangible asset. Intangible assets are depreciated upon implementation of the software. The useful lives of intangible assets varies and is determined upon completion of each project.

Reserves for Compensation and Compensation Adjustment Expenses

The reserve for compensation includes actuarial unpaid loss 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, 2017 and 2016 to reflect the present value of future benefit payments. The selected discount rate approximates an average yield on United States government securities with a duration similar to the expected claims underlying BWC/IC’s reserves.

Management believes that the recorded reserves for compensation and compensation adjustment expenses make for a reasonable and appropriate provision for expected future losses. While management and their consultants use available information to estimate the reserves for compensation and compensation adjustment expenses, future changes to the

(Continued)

reserves for compensation and compensation adjustment expenses may be necessary based on claims experience and changing claims frequency, severity, persistency, and inflationary trends for medical claim reserves.

Reinsurance

BWC/IC purchases workers' compensation excess of loss reinsurance to include coverage for catastrophic events and terrorism. Ceded reinsurance transactions are accounted for based on estimates of their ultimate cost. Reserves for compensation and compensation adjustment expenses are reported gross of reinsured amounts. Reinsurance premiums are reflected as a reduction of premium income (see Note 6).

Income Taxes

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

Pensions

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

Use of Estimates

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

Reclassifications

Certain fiscal year 2016 financial statement and note disclosure amounts have been reclassified in order to conform to their fiscal year 2017 presentations. There was no impact to the fiscal year 2016 amounts reported for net position and change in net position as a result of these reclassifications.

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

(Continued)

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.

The composition of cash and investments held at June 30, 2017 and 2016 is presented below (000's omitted):

	2017 Fair Value	2016 Fair Value
Fixed maturities		
U.S. corporate bonds	$ 6,023,461	$ 5,890,039
U.S. treasury inflation protected securities	1,980,275	2,214,285
U.S. government obligations	1,986,798	1,898,132
Non-U.S. corporate bonds	1,262,858	1,264,891
Commingled U.S. aggregate indexed fixed income	134,633	693,903
Commingled U.S. long government / credit fixed income	547,421	-
Commingled U.S. treasury inflation protected securities	682,311	683,192
U.S. state and local government agencies	511,645	564,120
U.S. government agency mortgages	495,293	496,469
Asset backed securities	344,723	352,953
Commercial mortgage backed securities	225,462	254,820
Non-U.S. government and agency bonds	200,186	175,919
U.S. government agency bonds	89,247	117,672
Commingled U.S. intermediate duration fixed income	40,571	40,682
Preferred securities	42,642	36,030
Bank loans	21,816	27,098
Bond mutual fund	54,146	21,401
Supranational issues	2,659	3,034
Total fixed maturities	14,646,147	14,734,640
Domestic equity securities - common stocks	5,696,920	5,228,914
Domestic equity securities - preferred stocks	1,726	1,309
Commingled domestic equity securities - common stocks	408,771	381,925
Commingled Non-U.S. equity securities - common stocks	2,681,724	2,226,546
Commingled investments in real estate	2,790,425	2,241,609
Securities lending short-term collateral	1,364	484
Cash and cash equivalents		
Cash	60,564	57,889
Repurchase agreements	-	6,900
Short-term money market fund	492,600	449,776
Total cash and cash equivalents	553,164	514,565
	$ 26,780,241	$ 25,329,992

(Continued)

Net investment income for the years ended June 30, 2017 and 2016 is summarized as follows (000's omitted):

	2017	2016
Fixed maturities	$ 520,042	$ 507,341
Equity securities	109,823	101,232
Real estate	101,307	75,949
Cash equivalents	1,882	414
	733,054	684,936
Increase (decrease) in fair value of investments	1,205,642	731,967
Investment expenses	(61,051)	(51,439)
	$ 1,877,645	$ 1,365,464

Custodial Credit Risk – Deposits

The custodial credit risk for deposits is the risk that in the event of a bank failure, BWC/IC's deposits might not be recovered. Banks must provide security for all public funds on deposit. These institutions may either specifically collateralize individual accounts in addition to amounts insured by the Federal Deposit Insurance Corporation (FDIC), or may pledge a pool of government securities valued at least 105% of the total public monies on deposit at the institution. At June 30, 2017 and 2016, the carrying amount of BWC/IC's cash deposits were $60.6 million and $57.9 million, respectively, and the bank balances were $9.2 million and $12.8 million, respectively. Differences between the carrying amount and bank balances are primarily due to in transit credit card and online payments. Of the June 30, 2017 and 2016 bank balances, $250 thousand were insured by the FDIC. The remaining cash balance on deposit with the bank was collateralized by pledges held by the trustee of either a surety bond or securities with a sufficient market value and was not exposed to custodial credit risk. Any pledged securities are held by the Federal Reserve, the Federal Home Loan Bank, or an insured financial institution serving as agent of the Treasurer of the State of Ohio.

Custodial Credit Risk – Investments

Custodial credit risk for investments is the risk that, in the event of a failure of a counterparty to a transaction, BWC/IC will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. BWC/IC's investments are not exposed to custodial credit risk and are held in BWC/IC's name at either JP Morgan, in commingled account types, or are fixed maturity bank loans, which by definition, are not exposed to custodial credit risk. Commingled bond funds are held in the custody of State Street. 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.

Fair Value Measurements

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

Level 1 - Investments reflect prices quoted in active markets and are valued directly from a primary external pricing vendor.

Level 2 - Investments reflect prices that are observable either directly or indirectly. Inputs may include quoted prices in markets that are not considered active or inputs other than quoted prices that are observable such as interest rates, yield curves, implied volatilities, credit spreads or market-corroborated inputs. These investments are subject to pricing by an alternative pricing source due to lack of information available by the primary vendor.

Level 3 - Investments reflect prices based upon unobservable sources. Asset backed securities, commercial mortgage backed securities, and bank loans are classified in Level 3 and are valued using an internal fair value as provided by the investment manager or other unobservable pricing source.

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

(Continued)

The fair value measurement of investments held at June 30, 2017 and 2016 is presented below (000's omitted):

	Quoted Prices Level 1	Observable Inputs Level 2	Unobservable Inputs Level 3	2017 Fair Value Total
Fixed Maturities				
U.S. corporate bonds	-	6,023,461	-	$ 6,023,461
U.S. treasury inflation protected securities	1,980,275	-	-	1,980,275
U.S. government obligations	1,899,097	87,701	-	1,986,798
Non-U.S. corporate bonds	-	1,262,858	-	1,262,858
U.S. state and local government agencies	-	511,645	-	511,645
U.S. government agency mortgages	-	495,293	-	495,293
Asset backed securities	-	266,880	77,843	344,723
Commercial mortgage backed securities	-	196,373	29,089	225,462
Non-U.S. government and agency bonds	-	200,186	-	200,186
U.S. government agency bonds	-	89,247	-	89,247
Preferred securities	-	42,642	-	42,642
Bank loans	-	-	21,816	21,816
Bond mutual fund	25,610	-	-	25,610
Supranational issues	-	2,659	-	2,659
Domestic equity securities - common stocks	5,696,920	-	-	5,696,920
Domestic equity securities - preferred stocks	1,726	-	-	1,726
Securities lending short-term collateral	-	1,364	-	1,364
	$ 9,603,628	$ 9,180,309	$ 128,748	$ 18,912,685

Investments measured at net asset value:	
Commingled U.S. aggregate indexed fixed income	134,633
Commingled U.S. long government / credit fixed income	547,421
Commingled U.S. treasury inflation protected securities	682,311
Commingled U.S. intermediate duration fixed income	40,571
Investment in bond mutual fund	28,536
Commingled domestic equity securities - common stocks	408,771
Commingled Non-U.S. equity securities - common stocks	2,681,724
Commingled investments in real estate	2,790,425
	$ 7,314,392
Cash and Cash Equivalents:	$ 553,164
Total Investments:	$ 26,780,241

	Quoted Prices Level 1	Observable Inputs Level 2	Unobservable Inputs Level 3	2016 Fair Value Total
Fixed Maturities				
U.S. corporate bonds	$ -	$ 5,890,039	$ -	$ 5,890,039
U.S. treasury inflation protected securities	2,214,285	-	-	2,214,285
U.S. government obligations	1,820,020	78,112	-	1,898,132
Non-U.S. corporate bonds	-	1,264,891	-	1,264,891
U.S. state and local government agencies	-	564,120	-	564,120
U.S. government agency mortgages	-	496,469	-	496,469
Asset backed securities	-	315,447	37,506	352,953
Commercial mortgage backed securities	-	242,126	12,694	254,820
Non-U.S. government and agency bonds	-	175,919	-	175,919
U.S. government agency bonds	1,266	116,406	-	117,672
Preferred securities	-	36,030	-	36,030
Bank loans	-	-	27,098	27,098
Bond mutual fund	21,401	-	-	21,401
Supranational issues	-	3,034	-	3,034
Domestic equity securities - common stocks	5,228,914	-	-	5,228,914
Domestic equity securities - preferred stocks	1,309	-	-	1,309
Securities lending short-term collateral	-	484	-	484
	$ 9,287,195	$ 9,183,077	$ 77,298	$ 18,547,570

Investments measured at net asset value:	
Commingled U.S. aggregate indexed fixed income	693,903
Commingled U.S. treasury inflation protected securities	683,192
Commingled U.S. intermediate duration fixed income	40,682
Commingled domestic equity securities - common stocks	381,925
Commingled Non-U.S. equity securities - common stocks	2,226,546
Commingled investments in real estate	2,241,609
	$ 6,267,857
Cash and Cash Equivalents:	$ 514,565
Total Investments:	$ 25,329,992

(Continued)

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

Investment Strategy	2017 Fair Value	Unfunded Commitments	Redemption Frequency (If currently eligible)	Redemption Notice Period
Commingled U.S. aggregate indexed fixed income	134,633		Daily	5 days
Commingled U.S. government credit fixed income	547,421		Daily	5 days
Commingled U.S. treasury inflation protected securities	682,311		Daily	5 days
Commingled U.S. intermediate duration fixed income	40,571		Daily	5 days
Investment in bond mutual fund	28,536		Bi-Monthly	15 days
Commingled domestic equity securities - common stocks	408,771		Daily	5 days
Commingled Non-U.S. equity securities - common stocks	2,681,724		Daily	5 days
Commingled investments in real estate:				
Core Real Estate	2,093,462	-	Quarterly	1 quarter
Core Plus Real Estate	475,688	262,504	Quarterly	1 quarter
Value Added Real Estate	221,275	193,220	Illiquid	
Total Commingled investments in real estates:	2,790,425	455,724		

Investment Strategy	2016 Fair Value	Unfunded Commitments	Redemption Frequency (If currently eligible)	Redemption Notice Period
Commingled U.S. aggregate indexed fixed income	693,903		Daily	5 days
Commingled U.S. treasury inflation protected securities	683,192		Daily	5 days
Commingled U.S. intermediate duration fixed income	40,682		Daily	5 days
Commingled domestic equity securities - common stocks	381,925		Daily	5 days
Commingled Non-U.S. equity securities - common stocks	2,226,546		Daily	5 days
Commingled investments in real estate:				
Core Real Estate	1,983,720	50,000	Quarterly	1 quarter
Core Plus Real Estate	127,481	575,000	Quarterly	1 quarter
Value Added Real Estate	130,408	123,987	Illiquid	
Total Commingled investments in real estates:	2,241,609	748,987		

Commingled fixed maturities, domestic equity, and non-U.S. equity funds are valued at the net asset value of units held at the end of the period based upon the fair value of the underlying investments. When these types of investments do not have a readily determinable fair value, net asset value per unit is a permissible method for establishing the fair value.

BWC/IC invests in real estate through limited partnerships, commingled funds, and commingled real estate investment trusts. Core and Core Plus real estate funds owned are open-ended funds that offer each investor the right to redeem all or a portion of their investment ownership interest once every quarter at the stated unit net asset value of the fund. Value-added real estate funds owned are close-ended funds and do not offer such redemption rights and, therefore, can be considered to be illiquid investments. The real estate funds provide BWC/IC with quarterly valuations based on the most recent capital account balances. Individual properties owned by the funds are valued by an outside independent certified real estate appraisal firm at least once a year, and are adjusted as often as every quarter if material market or operational changes have occurred. Each asset is also valued internally on a quarterly basis by each fund. The internal and external valuations of properties owned are subject to oversight and review by an independent valuation advisor firm. Debt obligations of each fund receive market value adjustments by the fund every quarter, generally with the assumption that such positions will be held to maturity. Annual external audits of the funds include a review of compliance with the fund's valuation policies.

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 Bloomberg Barclays Fixed Income Index ranges.

Duration is a measure of a debt investment's exposure to fair value changes arising from changing interest rates. It uses the present value of cash flow, weighted for those cash flows as a percentage of the investment's full price. Effective duration makes assumptions regarding the most likely timing and amounts of variable cash flows arising from such investments such as callable bonds, bonds with inflationary protections, 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, 2017 and 2016, the effective duration of BWC's fixed-income portfolio is as follows (000's omitted):

	June 30, 2017		June 30, 2016	
Investment Type	Fair Value	Effective Duration	Fair Value	Effective Duration
Commingled U.S. long government / credit fixed income	$ 547,421	15.34	$ -	-
U.S. government obligations	1,986,798	13.90	1,898,132	15.08
U.S. state and local government agencies	511,645	12.95	564,120	13.35
U.S. corporate bonds	6,023,461	12.83	5,890,039	12.81
Non-U.S. government and agency bonds	200,186	12.55	175,919	12.13
Non-U.S. corporate bonds	1,262,858	10.90	1,264,891	10.92
U.S. government agency bonds	89,247	9.19	117,672	9.07
Commingled U.S. aggregate indexed fixed income	134,633	6.02	693,903	5.48
Preferred securities	42,642	5.90	36,030	3.18
U.S. treasury inflationary protected securities	1,980,275	5.80	2,214,285	5.26
Commingled U.S. treasury inflationary protected securities	682,311	5.38	683,192	5.26
Commingled U.S. intermediate duration fixed income	40,571	4.08	40,682	4.09
Supranational issues	2,659	4.03	3,034	16.14
U.S. government agency mortgages	495,293	3.93	496,469	2.94
Commercial mortgage backed securities	225,462	3.84	254,820	2.73
Asset backed securities	344,723	1.08	352,953	0.83
Bond mutual fund	54,146	0.15	21,401	1.13
Bank loans	21,816	0.00	27,098	0.75
Total fixed maturities	$ 14,646,147		$ 14,734,640	

Although the short-term money market 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 its yield resulting in some interest rate risk.

Credit Risk – Fixed-Income Securities

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation to the holder of the investment. U.S. government obligations, U.S. treasury inflation protected securities, and commingled U.S. treasury inflation protected securities are all rated AA+ by Standard and Poor's in fiscal years 2017 and 2016. Obligations of the U.S. government are explicitly guaranteed by the U.S. government. BWC/IC's fixed-income securities were rated by Standard and Poor's (S&P) and/or an equivalent national rating organization and the ratings are presented below using the S&P rating scale (000's omitted):

Quality Rating	2017 Fair Value	2016 Fair Value
Credit risk debt quality		
AAA	$ 518,122	$ 420,286
AA	1,368,696	1,759,226
A	2,779,476	2,528,659
BBB	4,120,536	3,959,245
BB	452,676	470,569
B	140,182	170,629
CCC	28,652	16,244
CC	1,144	-
D	2,739	32
Total credit risk debt securities	9,412,223	9,324,890
U.S. government agency bonds		
AAA	15,821	14,927
AA	73,426	102,745
Total U.S. government agency bonds	89,247	117,672
U.S. government agency mortgages		
AAA	17,917	16,132
AA	467,586	471,158
A	-	2,307
BBB	5,369	5,211
BB	1,859	-
B	2,562	1,661
Total U.S. government agency mortgages	495,293	496,469
U.S. government obligations (AA)	1,986,798	1,898,132
U.S. treasury inflation protected securities (AA)	1,980,275	2,214,285
Commingled U.S. treasury inflation protected securities (AA)	682,311	683,192
Total fixed maturities	$ 14,646,147	$ 14,734,640

The short-term money market fund carries an AAA credit rating.

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 2017 and 2016, there is no single issuer that comprises 5% or more of the overall portfolio with the exception of BWC/IC's investments in the U.S. government.

(Continued)

Foreign Currency Risk – Investments

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. BWC's exposure to foreign currency risk as of June 30, 2017 and 2016 is as follows (000's omitted):

Currency	2017 Fair Value	2016 Fair Value
Australian Dollar	$ 130,443	$ 114,013
Bermudian Dollar	2,805	955
Brazilian Real	41,993	36,153
British Pound	289,829	264,880
Canadian Dollar	175,591	151,103
Caymanian Dollar	-	29
Chilean Peso	7,208	6,186
Chinese Renminbi	148,073	105,992
Colombian Peso	2,901	2,416
Czech Koruna	1,092	792
Danish Krone	33,570	30,974
Egyptian Pound	824	797
Euro	633,970	509,101
Hong Kong Dollar	88,484	72,874
Hungarian Forint	2,049	1,304
Indian Rupee	55,873	41,867
Indonesian Rupiah	15,932	13,584
Israeli Shekel	12,962	12,124
Japanese Yen	436,243	366,519
Macau Pataca	2,292	1,566
Malaysian Ringgit	14,966	14,776
Manx Pound	346	344
Mexican Peso	23,944	21,130
New Zealand Dollar	3,256	2,978
Norwegian Krone	11,453	10,075
Pakistani Rupee	911	-
Peruvian Nuevo Sol	656	1,684
Philippines Peso	7,411	7,859
Polish Zloty	8,454	5,639
Qatari Rial	4,326	4,468
Russian Ruble	20,054	18,686
Singapore Dollar	24,266	20,984
South African Rand	39,454	34,322
South Korean Won	98,923	73,114
Swedish Krona	53,860	42,706
Swiss Franc	168,478	151,197
Taiwan Dollar	79,057	60,478
Thailand Baht	13,780	11,269
Turkish Lira	7,428	6,744
United Arab Emirates Dirham	4,729	4,417
Exposure to foreign currency risk	2,667,886	2,226,099
United States Dollar	13,838	447
Total international securities	$ 2,681,724	$ 2,226,546

(Continued)

Securities Lending

At June 30, 2017 and 2016, BWC/IC had no securities out on loan. BWC/IC has been allocated with cash collateral of $1.4 million in 2017 and $484 thousand in 2016 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, 2017 and 2016 are summarized as follows (000's omitted):

Capital assets not being depreciated	Balance at 6/30/2015	Increases	Decreases	Balance at 6/30/2016	Increases	Decreases	Balance at 6/30/2017
Land	$ 11,994	$ -	$ (2,528)	$ 9,466	$ -		9,466
Subtotal	11,994	-	(2,528)	9,466	-	-	9,466
Capital assets being depreciated							
Buildings	205,830	1	-	205,831	-		205,831
Building improvements	3,542	37	-	3,579	-	-	3,579
Furniture and equipment	27,782	3,687	(1,243)	30,226	4,406	(3,392)	31,240
Land improvements	66	-	(66)	-	-	-	-
Subtotal	237,220	3,725	(1,309)	239,636	4,406	(3,392)	240,650
Accumulated depreciation							
Buildings	(165,746)	(6,787)	-	(172,533)	(6,787)	-	(179,320)
Building improvements	(753)	(177)	-	(930)	(177)	-	(1,107)
Furniture and equipment	(23,980)	(1,830)	1,218	(24,592)	(2,348)	3,310	(23,630)
Land improvements	(60)	(1)	61	-	-	-	-
Subtotal	(190,539)	(8,795)	1,279	(198,055)	(9,312)	3,310	(204,057)
Capital assets being amortized							
Intangible assets - definite useful lives	83,672	23,272	-	106,944	8,845		115,789
Accumulated amortization	-	(107)	-	(107)	(7,666)	-	(7,773)
Subtotal	83,672	23,165	-	106,837	1,179	-	108,016
Net capital assets	$ 142,347	$ 18,095	$ (2,558)	$ 157,884	$ (3,727)	$ (82)	$ 154,075

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.

(Continued)

All reserves have been discounted at 4.0% at June 30, 2017 and 2016. A decrease in the discount rate to 3.0% would result in the reserves for compensation and compensation adjustment expenses increasing to $18.8 billion at June 30, 2017, while an increase in the rate to 5.0% would result in the reserves for compensation and compensation adjustment expenses decreasing to $15.3 billion. The undiscounted reserves for compensation and compensation adjustment expenses were $28.2 billion at June 30, 2017 and $29.3 billion at June 30, 2016.

The changes in the reserves for compensation and compensation adjustment expenses for the years ended June 30, 2017, 2016, and 2015 are summarized as follows (000,000's omitted):

	2017	2016	2015
Reserves for compensation and compensation adjustment expenses, beginning of period	$ 17,493	$ 18,195	$ 18,722
Incurred:			
Provision for insured events of current period	1,635	1,731	1,853
Net (decrease) increase in provision for insured events of prior periods net of discount accretion of $700 in 2017, $728 in 2016, and $749 in 2015.	(436)	(519)	(458)
Total incurred	1,199	1,212	1,395
Payments:			
Compensation and compensation adjustment expenses attributable to insured events of current period	347	327	331
Compensation and compensation adjustment expenses attributable to insured events of prior period	1,479	1,587	1,591
Total payments	1,826	1,914	1,922
Reserves for compensation and compensation adjustment expenses, end of period	$ 16,866	$ 17,493	$ 18,195

(Continued)

5. 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, 2017 and 2016 is summarized as follows (000's omitted):

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

	Balance at 6/30/2016	Increases	Decreases	Balance at 6/30/2017	Due Within One Year
Transition credit payable	$ 35,437	$ -	$ (35,437)	$ -	$ -
Net pension liability	187,038	53,627	-	240,665	-
Other liabilities	46,601	110,575	(93,367)	63,809	38,424
	$ 269,076	$ 164,202	$ (128,804)	$ 304,474	$ 38,424

6. Reinsurance

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

In every policy period reported below, Section Two covers BWC's remaining liability under the Terrorism Risk Insurance Program Reauthorization Act of 2015 (TRIPRA). TRIPRA is in effect for losses up to $1 billion. Certain provisions frame the coverage under TRIPRA and they are the following:

- The aggregate losses from an occurrence must exceed $100 million. This minimum increases $20 million per year from 2016 to 2020.
- Each insurer will have an annual aggregate retention equal to 20% of its prior year's direct earned premiums.
- Each insurer will be responsible for 15% of losses otherwise recoverable that exceed its TRIPRA retention. This percentage increases 1% per year from 2016 to 2020.

Coverage for policies is provided under the following terms:

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

Reinsurance Coverage:

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

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

Reinsurance Coverage:

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

The following premiums ceded for reinsurance coverage have been recorded in the accompanying basic financial statements for the years ended June 30, 2017 and 2016 (000's omitted):

	2017	2016
Premium and assessment income	$ 1,577,978	$ 1,460,755
Ceded premiums	(3,766)	(3,900)
Total premium and assessment income net of ceded premiums	$ 1,574,212	$ 1,456,855

Should the reinsurers be unable to meet their obligations under the reinsurance contracts, BWC/IC would remain liable for coverage ceded to its reinsurers. Reinsurance contracts do not relieve BWC/IC of its obligations, and a failure of the reinsurer to honor its obligations could result in losses to BWC/IC. BWC/IC evaluates and monitors the financial condition of its reinsurers to minimize its exposure to loss from reinsurer insolvency. BWC/IC management believes its reinsurers are financially sound and will continue to meet their contractual obligations.

(Continued)

BWC/IC's reinsurers had the following AM Best ratings at June 30, 2017 and 2016:

Reinsurer	2017	2016
Allied World Assurance Co. Ltd.	A	A
Axis Specialty Ltd.	A+	A+
Brit Global Specialty [Syn. 2987]	A	A
Hannover Re (Bermuda) Ltd.	A+	A+
Markel Bermuda Ltd.	A	A
Tokio Millennium Re	A++	A++
Underwriters at Lloyd's	A	A

Other States Coverage

BWC provides access to optional additional insurance coverage for Ohio companies who meet BWC's underwriting criteria and have employees who temporarily work in other states. This additional policy offers coverage for workers' compensation gaps and protects employers from penalties and stop-work orders in other states. Zurich American Insurance Company acts as the insurer of the Other States Coverage policies. United States Insurance Services Inc. administers the process for issuing claim payments. The SIF provides one hundred percent reinsurance for the policies in this program.

7. Premium Rebate

BWC's net asset policy contains the business rationale, methodology, and guiding principles with respect to maintaining a prudent net position to protect SIF against financial and operational risks that may threaten the ability to meet future obligations.

The Board approved a rebate to reduce the net position in SIF at the April 2017 board meeting. As a result, the private employers were granted a rebate equivalent to 66% of billed premiums for the July 1, 2015 through June 30, 2016 policy period, while public taxing district employers were also granted a rebate equivalent to 66% of premiums for the January 1, 2015 through December 31, 2015 policy period. This action resulted in premium rebate expense of $1.1 billion in fiscal year 2017.

In fiscal year 2016, BWC's Board approved a three hundred percent rebate of billed premiums from the January 1, 2005 through December 31, 2014 policy years for PWREF employers. This action resulted in premium rebate expense of $15.17 million in fiscal year 2016.

An additional premium rebate expense of $223 thousand was recorded in fiscal year 2016. This expense was related to rebates due to employers who did not intitially receive the 60% rebate of billed premiums for the July 1, 2012 through June 30, 2013 policy period.

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

8. Pension Plans

General Information

BWC/IC employees participate in the Ohio Public Employees Retirement System of Ohio (OPERS), a cost-sharing, multiple-employer public employee retirement system. OPERS administers three pension plans:

- The Traditional Plan - a defined benefit plan.
- The Combined Plan - a combination of a defined benefit plan and a defined contribution plan. This plan invests employer contributions to provide a formula retirement benefit similar in nature to, but less than, the Traditional Plan benefit. Member contributions are self-directed by the members and accumulate retirement assets in a manner similar to the Member-Directed Plan.
- The Member-Directed Plan - a defined contribution plan. Under this plan, members accumulate retirement assets equal to the value of member and vested employer contributions plus any investment earnings thereon.

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, required supplementary information, information about the pension plan's fiduciary net position, and the Plan Statement with pension plan details. The report is available by visiting https://www.opers.org/financial/reports.shtml, by writing to Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 614-222-5601 or 1-800-222-7377. As of June 30, 2017, the most recent report issued by OPERS is for the calendar year ended December 31, 2016.

Funding Policy

Chapter 145 of the Ohio Revised Code provides statutory authority for employee and employer contributions. During fiscal years 2017 and 2016, the employee contribution rate was 10% and the employer contribution rate was 14% of covered payroll for all three plans. BWC/IC's contractually required employer contributions were $20.4 million for fiscal year 2017 and $19.8 million for fiscal year 2016.

Measurement Date

The measurement dates for the net pension assets and liabilities, deferred inflows and outflows of resources, and pension expense were December 31, 2016 for fiscal year 2017 and December 31, 2015 for fiscal year 2016. OPERS total pension assets and liabilities that were used to calculate the net pension asset and liability were also based on an actuarial valuation as of these dates.

(Continued)

Proportionate Share

BWC/IC's proportionate shares of the net pension assets and liabilities are determined as BWC/IC's share of contributions to the pension plan relative to the total employer contributions from all participating OPERS employers. Member and employer contributions included in OPERS' Statement of Changes in Fiduciary Net Position are used to calculate proportionate share. At December 31, 2016 and 2015, Ohio BWC/IC's proportions were as follows:

	December 2016		December 2015	
	BWC	IC	BWC	IC
Traditional Plan	0.877753%	0.182059%	0.888733%	0.191082%
Combined Plan	0.467012%	0.111108%	0.469899%	0.078951%

Pension Assets, Deferred Outflows of Resources, Pension Liabilities, Deferred Inflows of Resources, and Pension Expense

At June 30, 2017 and 2016, BWC/IC reported $322 thousand and $267 thousand, respectively, for its proportionate share of the Combined Plan's net pension asset and a liability of $241 million and $187 million, respectively, for its proportionate share of the Traditional Plan's net pension liability.

For the years ended June 30, 2017 and 2016, Ohio BWC/IC recognized pension expense of $31.6 million and $29.5 million, respectively.

At June 30, 2017 and 2016, Ohio BWC/IC reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (000's omitted):

	June 2017		June 2016	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 326	$ 1,628	$ -	$ 3,780
Net difference between projected and actual earnings on pension plan investments	40,998	4,214	55,263	-
Changes in proportion and differences between BWC/IC contributions and proportionate share of contributions	837	3,935	117	2,905
Assumption Changes	38,251	-	-	-
BWC/IC contributions subsequent to the measurement date	9,847	-	8,228	-
Total	$ 90,259	$ 9,777	$ 63,608	$ 6,685

(Continued)

For 2017, deferred outflows of resources includes the BWC/IC's proportionate share of the effects of changes in assumptions resulting from OPERS experience study for the period 2011 through 2015. Information from this study led to changes in both demographic and economic assumptions, with the most notable being a reduction in the expected rate of investment return from an 8.0% actuarially assumed rate of return down to 7.5%, for the defined benefit investments.

In 2017 and 2016, deferred outflows of resources related to pensions resulting from Ohio BWC/IC's contributions subsequent to the measurement date of $9.8 million and $8.2 million, respectively, will be recognized as a reduction of net pension liability in the fiscal years ended June 30, 2018 and 2017, respectively.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows (000's omitted):

	Fiscal Year 2017		Fiscal Year 2016	
Year ended June 30:				
	2018	$ 28,329	2017	$ 10,770
	2019	30,501	2018	11,678
	2020	12,915	2019	13,850
	2021	(1,068)	2020	12,453
	2022	(15)	2021	(14)
	Thereafter	(27)	Thereafter	(42)

Actuarial Assumptions

The total pension liability in the December 31, 2016 and 2015 actuarial valuations were determined using the following actuarial assumptions, applied to all periods included in the measurement:

December 2016

	Traditional Pension Plan	Combined Plan
Actuarial Assumptions:		
Investment Rate of Return	7.50%	7.50%
Wage Inflation	3.25%	3.25%
Projected Salary Increases	3.25% - 10.75% (includes wage inflation at 3.25%)	3.25% - 8.25% (includes wage inflation at 3.25%)
Cost of living Adjustments	Pre-1/7/2013 Retirees: 3.00% Simple Post-1/7/2013 Retirees: 3.00% Simple through 2018, then 2.15% Simple	Pre-1/7/2013 Retirees: 3.00% Simple Post-1/7/2013 Retirees: 3.00% Simple through 2018, then 2.15% Simple

(Continued)

December 2015

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

Mortality rates are based on the RP-2014 Healthy Annuitant mortality table. For males, Healthy Annuitant Mortality tables were used, adjusted for mortality improvement back to the observation period base of 2006 and then established the base year as 2015. For females, Healthy Annuitant Mortality tables were used, adjusted for mortality improvements back to the observation period base year of 2006 and then established the base year as 2010. The mortality rates used in evaluating disability allowances were based on the RP-2014 Disabled mortality tables, adjusted for mortality improvement back to the observation base year of 2006 and then established the base year as 2015 for males and 2010 for females. Mortality rates for a particular calendar year for both healthy and disabled retiree mortality tables are determined by applying the MP-2015 mortality improvement scale to the above described tables.

The actuarial assumptions used in the December 31, 2016 and 2015 valuations were based on the results of an actuarial experience study for the 5 year periods ended December 31, 2015 and December 31, 2010, respectively. Actuarially determined amounts are subject to continual review or modification as actual results are compared with past expectations and new estimates are made about the future.

The long-term expected rate of return on defined benefit investment assets was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected real rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adjusted for inflation.

The table below displays the OPERS Board approved asset allocation policy for December 2016 and 2015 and the expected real rates of return.

	December 2016		December 2015	
Asset Class	Target Allocation	Weighted Average Longterm Expected Real Rate of Return	Target Allocation	Weighted Average Longterm Expected Real Rate of Return
Fixed income	23.00%	2.75%	23.00%	2.31%
Domestic equity	20.70%	6.34%	20.70%	5.84%
International equity	18.30%	7.95%	18.30%	7.40%
Real estate	10.00%	4.75%	10.00%	4.25%
Private equity	10.00%	8.97%	10.00%	9.25%
Other Investments	18.00%	4.92%	18.00%	4.59%
Total	100.00%	5.66%	100.00%	5.27%

Discount Rate

The discount rate used to measure the total pension liability for both the Traditional Pension Plan and the Combined Plan was 7.5% for 2016 and 8% for 2015. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the contractually required rates, as actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments for the Traditional Pension Plan and Combined Plan was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity to Changes in the Discount Rate

For the years 2016 and 2015, the following presents BWC/IC's proportionate share of the net pension liability calculated using the discount rates of 7.5% and 8%, respectively, as well as what BWC/IC's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate (000's omitted):

December 2016

	1% Decrease - 6.5 %	Current Discount Rate - 7.5%	1% Increase - 8.5%
Traditional Plan:			
BWC	$ 304,510	$ 199,322	$ 111,668
IC	63,160	41,343	23,162
Total Net Pension Liability	$ 367,670	$ 240,665	$ 134,830
Combined Plan:			
BWC	$ 19	$ (260)	$ (476)
IC	4	(62)	(113)
Total Net Pension (Asset)	$ 23	$ (322)	$ (589)

December 2015

	1% Decrease - 7.0 %	Current Discount Rate - 8.0%	1% Increase - 9.0%
Traditional Plan:			
BWC	$ 245,264	$ 153,940	$ 76,911
IC	52,733	33,098	16,536
Total Net Pension Liability	$ 297,997	$ 187,038	$ 93,447
Combined Plan:			
BWC	$ (5)	$ (229)	$ (409)
IC	(1)	(38)	(69)
Total Net Pension (Asset)	$ (6)	$ (267)	$ (478)

Defined Contribution Plans

Defined contribution plan benefits are established in the plan documents, which may be amended by the OPERS Board. Member-Directed Plan and Combined Plan members who have met the retirement eligibility requirements may apply for retirement benefits. The amount available for defined contribution benefits in the Combined Plan consists of the member's contributions plus or minus the investment gains or losses resulting from the member's investment selections. Combined Plan members wishing to receive benefits must meet the requirements for both the defined benefit and defined contribution plans. Member-Directed participants must have attained the age of 55, have money on deposit in the defined contribution plan and have terminated public service to apply for retirement benefits. The amount available for defined contribution benefits in the Member-Directed Plan consists of the members' contributions, vested employer contributions and investment gains or losses resulting from the members' investment selections. Employer contributions and associated investment earnings vest over a five year period, at a rate of 20% each year. BWC/IC recognized $476 thousand and $606 thousand in pension expense for defined contribution plans in fiscal years 2017 and 2016, respectively. At retirement, members may select one of the several distribution options for payment of the vested balance of their individual OPERS accounts. Options include the purchase of a monthly annuity from OPERS (which includes joint and survivor options), partial lump sum payments (subject to limitations), a rollover of the vested account balance to another financial institution, receipt of entire account balance, net of taxes withheld, or a combination of these options.

9. Post-Retirement Health Care

The Ohio Revised Code permits, but does not require, OPERS to provide health care to its eligible benefit recipients. Authority to establish and amend health care coverage is provided to the OPERS Board of Trustees in Chapter 145 of the Ohio Revised Code.

In order to qualify for health care coverage, age-and-service retirees under the Traditional Pension and Combined plans must have 20 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 45. Please see the Plan Statement in the OPERS 2016 CAFR for further details. This report is available by visiting https://www.opers.org/financial/reports.shtml, by writing to Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 614-222-5601 or 1-800-222-7377. As of June 30, 2017, the most recent report issued by OPERS is for the calendar year ended December 31, 2016.

In March 2016, OPERS received two favorable rulings from the Internal Revenue Service (IRS) allowing OPERS to consolidate all health care assets into the OPERS 115 Health Care Trust. Transition to the new health care trust structure was completed July 1, 2016. As of December 31, 2016, OPERS maintains a cost-sharing, multiple-employer defined benefit post-employment health care trust, which funds multiple health care plans including medical coverage, prescription drug coverage and deposits to a Health Reimbursement Arrangement to qualifying benefit recipients of both the Traditional Pension and the Combined plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including OPERS sponsored health care coverage. OPERS funds a Retiree Medical Account (RMA) for participants in the Member-Directed Plan. At retirement or refund, participants can be reimbursed for qualified medical expenses from their vested RMA balance.

The Ohio Revised Code provides the statutory authority requiring public employers to fund health care through their contributions to OPERS. A portion of each employer’s contribution to OPERS is set aside to fund OPERS health care plans.

Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2016, state and local employers contributed at a rate of 14.0% of earnable salary. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active member contributions do not fund health care.

Each year, the OPERS Board determines the portion of the employer contribution rate that will be set aside to fund health care plans. The portion of employer contributions allocated to health

(Continued)

care for members in the Traditional Pension Plan and Combined Plan was 2.0% during calendar year 2016. As recommended by OPERS' actuary, the portion of employer contributions allocated to health care beginning January 1, 2017 decreased to 1.0% for both plans. The OPERS Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The employer contribution as a percentage of covered payroll deposited into the RMA for participants in the Member-Directed Plan for 2016 was 4.0%.

Based upon the portion of each employer's contribution to OPERS set aside for funding OPEB as described above, BWC/IC's contribution allocated to OPEB for the 12 months ended December 31, 2016 and 2015, was approximately $3 million and $2.7 million, respectively.

10. Risk Management

BWC/IC is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To cover these risks, BWC/IC maintains commercial insurance and property insurance. There were no reductions in coverage in either fiscal years 2017 or 2016. Claims experience over the past three years indicates there were no instances of losses exceeding insurance coverage. Additionally, BWC/IC provides medical benefits for its employees on a fully insured basis with independent insurance companies or the State's self-insured benefit plan.

11. Contingent Liabilities

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

A class action case was filed against BWC alleging that non-group-rated employers subsidize group-rated employers, and that this bias in premiums violates various provisions of the Ohio Constitution. Plaintiffs asked the Court to declare the group rating plan unconstitutional and require BWC to repay to the class members all excessive premiums collected by BWC, with interest and attorney fees. On March 20, 2013, the Court determined the damages and ordered that the class was entitled to restitution in the amount of $859 million. Accordingly, a provision for this liability was reported in the 2013 financial statements for this matter. On April 15, 2013, BWC filed a notice of appeal of the judgment. On July 19, 2013, BWC filed its appeal brief. The decision from the Eighth District Court of Appeals in May 2014 did remand part of the case to the Trial Court for potential offset of damages, which did reduce the amount of judgment against BWC. On July 23, 2014 all parties agreed to a settlement of $420 million. As of June 30, 2016 approximately $4 million remained to be paid and was relieved in fiscal year 2017.

The cities of Cleveland and Parma filed separate lawsuits on June 28, 2013 and September 18, 2013, respectively, alleging that BWC overcharged public employers that were not group rated. The cities claim that BWC overcharged non-group rated public employers in order to unlawfully subsidize the discounts for the group rated public employers. The lawsuit filed by Parma seeks class action status for similarly situated public employers.

(Continued)

- In September 2016, Cleveland and BWC filed cross motions for summary judgment. The Trial Court granted summary judgment in Cleveland's favor as to liability but denied it as to damages and denied BWC's summary judgment motion in its entirety on December 22, 2016. On February 27, 2017, the Trial Court found that Cleveland was entitled to damages in the amount of $4.5 million plus post-judgment interest. BWC appealed to the Eighth District Court of Appeals on March 24, 2017 and filed its brief on June 26, 2017. A liability of $4.5 million is included in the Statements of Net Position at June 30, 2017 and a corresponding amount was recorded in operating expenses during fiscal year 2017.
- The City of Parma filed a motion for class certification on August 8, 2014, which remains pending. On January 13, 2016, the Trial Court denied BWC's partial motion for summary judgment related to the statute of limitations and stated that Parma may assert a claim for unjust enrichment as early as 2001. On October 28, 2016, Parma moved for summary judgment against BWC as to liability only, which BWC opposed. The Trial Court held a hearing on Parma's motion for class certification on June 14, 2017. The Court has not set a trial date and the financial exposure cannot be estimated at this time. Accordingly, no provision for any liability has been reported in the financial statements for this matter.

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. The plaintiff asserts that this practice of charging transaction fees for withdrawals deprives the plaintiff and other workers' compensation claimants of 100% of their awarded benefits. On December 23, 2010, BWC filed a motion to dismiss for lack of subject matter jurisdiction on the basis that plaintiff's complaint is an action in law (not an action in equity), which should be brought in the Ohio Court of Claims. This motion was denied. On August 15, 2012, BWC filed a motion for summary judgment. The plaintiff filed a motion for class certification, which BWC opposed on August 15, 2012. Effective September 2012, BWC negotiated a new fee schedule with JP Morgan Chase Bank pursuant to which the debit card now offers one free teller visit per deposit. BWC provided more information in 2015 to support the agency relationship between the BWC and JP Morgan Chase. On January 13, 2016, the Court granted the plaintiff's motion for class certification and denied BWC's motion for summary judgment. BWC appealed to the Eighth District Court of Appeals on February 11, 2016 and the appeal was fully briefed. On December 22, 2016, the Eighth District Court of Appeals upheld the Trial Court's decision to the extent that it granted summary judgment to the plaintiff and certified the class. BWC filed an appeal and a jurisdictional memorandum in the Ohio Supreme Court on February 3, 2017. Briefing on the appeal concluded on March 6, 2017. The Court has not issued a decision on the acceptance of the appeal. An adverse outcome is possible and any damages are estimated to be immaterial to the financial statements. Management intends to vigorously defend this case. Accordingly, no provision for any liability has been reported in the financial statements for this matter.

A class action case was filed challenging the constitutionality of BWC's practice of reimbursing injured workers for prescriptions paid prior to the allowance of a claim or additional condition. Plaintiffs allege that BWC should repay the full cash price of prescriptions, even if such amount is in excess of the amount permissible under BWC's provider fee schedule. On February 3, 2012, BWC filed a motion to dismiss plaintiff's complaint. On August 7, 2013, the Court denied the motion. In fiscal year 2015, this case was settled and the impact to the financial statements was an increase of $149 thousand to operating expenses and a liability was established at June 30, 2015 for this amount. This class action settlement was paid in fiscal year 2016.

A class action case was filed challenging BWC's calculation of the statewide average weekly wage. Statute says that the rate must be adjusted to the next higher even multiple of one dollar in order to establish the maximum disability payment for the subsequent calendar year. On April 13, 2016, the Franklin County Court of Common Pleas granted summary judgment in BWC's favor and no class was certified. The Plaintiff appealed to the Tenth District Court of Appeals and the parties fully briefed the appeal. On February 24, 2017, the Appellate Court affirmed the Trial Court's decision. The Plaintiff did not appeal to the Ohio Supreme Court and the case was closed.

A class action case was filed claiming that BWC has included certain costs in its subrogation lien, thereby inflating the lien, and then recovering those costs through subrogation, in contravention of Ohio Revised Code. Plaintiff asserts that BWC's practices constitute an equal protection violation and that BWC has been unjustly enriched. Plaintiff seeks equitable restitution, injunctive relief, and a declaratory judgment that BWC's subrogation practices are unlawful. BWC filed a motion to dismiss the complaint on May 25, 2016 to which Plaintiff filed a memo in opposition and BWC filed a response. The Trial Court permitted the plaintiff to amend his complaint and denied BWC's motion to dismiss on March 22, 2017. BWC moved for reconsideration on April 19, 2017 and the parties have fully briefed the motion. The Court's decision on BWC's reconsideration/venue transfer motion remains pending. Management does not anticipate an adverse conclusion and intends to vigorously defend this case. Accordingly, no provision for any liability has been reported in the financial statements for this matter.

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

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

12. Transition Credit Liability

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

(Continued)

For the policy period beginning July 1, 2015, a transition credit equal to one sixth of the estimated annual premiums was granted to private employers. This credit was estimated to be $262 million. Final accrual to actual transactions for impacted private employer policy periods were approximately $22 million less than the estimated credits resulting in negative transition credit expense in 2016.

Public taxing district employers received transition credits equal to fifty percent of the billed premium for the January 1 through December 31, 2015 policy period and fifty percent of the estimated annual premium for the January 1 through December 31, 2016 policy period. The estimated transition credit related to the July 1, 2015 through December 31, 2016 period was $136 million and $101 million was relieved in fiscal year 2016. The remaining $35 million was reflected as a current liability in the statements of net position for the year ended June 30, 2016 and relieved in the year ended June 30, 2017. Final accrual to actual transactions for impacted public employer policy periods were approximately $2.6 million higher than the estimated credit, recorded as transition credit expense in 2017.

13. DWRF Assessments and Unbilled Receivables

House Bill 52 of the 131st General Assembly amended Ohio Revised Code (ORC) 4123.411 allowing the Administrator discretionary authority to levy assessments to fund DWRF I benefits. DWRF I assessment rates were reduced to zero for public taxing district employers for the policy year beginning January 1, 2016 and the policy year beginning July 1, 2016 for private employers. ORC 4123.419 was also amended to allow the Administrator with the advice and consent of the Board the authority to transfer investment income from the SIF to cover the cost of DWRF I benefits for private and public taxing district employers rather than levying assessments against these employers. The Board approved this alternative funding in September 2015.

Liabilities of $492 million and $508 million have been recorded in SIF during fiscal years 2017 and 2016, respectively, to recognize the long-term commitment to use SIF investment earnings to fund DWRF I benefits for private and public taxing district employer claims. The liabilities are based on the estimated DWRF I discounted reserves for compensation and compensation adjustment expenses less the unspent balance of private and public taxing district employer DWRF I assessments. Receivables have been recorded in DWRF to recognize the long-term commitment from SIF to cover these benefits. These receivables replace the unbilled receivables previously recorded in DWRF that recognized the ability to assess private and public taxing district employers in the future for providing the funds needed to pay DWRF I benefits.

During fiscal year 2016, the assumptions used to estimate DWRF II unbilled receivables were updated. Previously, DWRF II unbilled receivables were recorded in amounts equal to the DWRF II discounted reserves for compensation and compensation adjustment expenses. Cash and investment balances are now included in estimating DWRF II unbilled receivables. The total DWRF cash and investment balances exceed DWRF II discounted reserves for compensation and compensation adjustment expenses at both June 30, 2016 and June 30, 2017. Unbilled receivables and assessment income were reduced by $1.5 billion in the statements of net position and the statements of revenues, expenses, and changes in net position during fiscal year 2016. At this time, there is no need to assess employers in future periods to fund the current DWRF II estimated liabilities.

(Continued)

14. Net Position

Individual fund net position (deficit) balances at June 30, 2017 and 2016 were as follows (000's omitted):

	2017	2016
SIF	$ 9,886,105	$ 8,945,894
SIF Surplus Fund Account	39,710	33,091
SIF Premium Payment Security Fund	143,642	158,049
Total SIF Net Position	10,069,457	9,137,034
DWRF	112,152	(5,472)
CWPF	268,687	262,792
PWREF	13,712	13,125
MIF	23,371	22,701
SIEGF	30,727	29,937
ACF	(760,035)	(706,232)
Total Net Position	$ 9,758,071	$ 8,753,885

As mandated by the Code, the SIF net position is separated into three separate funds; the main fund, the Surplus Fund Account (Surplus Fund), and the Premium Payment Security Fund (PPSF).

The SIF Surplus Fund is established by the Code and is financed by a portion of all SIF premiums paid by private and public employers (excluding State employers) and assessments paid by self-insured employers. The Surplus Fund has been appropriated for specific charges, including compensation related to claims of handicapped persons or employees of noncomplying employers, and the expense of providing rehabilitation services, counseling, training, living maintenance payments, and other related charges to injured workers. The Surplus Fund may also be charged on a discretionary basis as ordered by BWC/IC, as permitted by the Code. Prior to the passage of House Bill 15 in 2009, contributions to the Surplus Fund were limited to 5% of premiums. The BWC administrator now has the authority to transfer money from SIF necessary to meet the needs of the Surplus Fund.

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

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

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

(Continued)

15. Changes in Accounting Principles

For the fiscal year ended June 30, 2017, the BWC/IC implemented the provisions of GASB No. 82, “Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73”. GASB No. 82 replaces the reporting of covered-employee payroll with covered payroll in the required supplementary information for pensions. Covered payroll is defined as the payroll on which contributions to a pension plan are based. The provisions of GASB 82 have been implemented as required in BWC/IC’s required supplementary schedules.

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

- GASB No. 75, “Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions” (effective fiscal year 2018)
- GASB No. 85, ”Omnibus” (effective fiscal year 2018)
- GASB No. 87, “Leases” (effective fiscal year 2021)

Management has not yet determined the impact that these recently issued GASB Pronouncements will have on BWC/IC’s financial statements. Upon implementation of GASB No. 75, it is expected that an OPEB liability will be reported in the statements of net position.

SUPPLEMENTARY INFORMATION

REQUIRED SUPPLEMENTAL REVENUE AND RESERVE DEVELOPMENT INFORMATION
(See Accompanying Independent Auditors' Report)
June 30, 2017 and 2016

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, 2007 through 2017.

(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										
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
1. Required premiums, assessments, and investment income earned	$ 3,517	$ 1,378	$ 2,552	$ 5,194	$ 2,453	$ 4,044	$ 4,356	$ 4,206	$ 2,296	$ 2,968	$ 5,251
Ceded premiums	4	4	4	4	6	6	6	1	-	-	-
Net earned	3,513	1,374	2,548	5,190	2,447	4,038	4,350	4,205	2,296	2,968	5,251
2. Unallocated expenses	205	170	163	150	140	129	131	139	97	108	109
3. Estimated incurred compensation and compensation adjustment expense, end of period	1,635	1,731	1,853	1,854	1,720	1,800	1,863	1,870	2,139	2,219	2,327
Discount	781	806	874	872	830	967	974	985	1,472	1,892	2,099
Gross liability as originally estimated	2,416	2,538	2,727	2,726	2,549	2,767	2,837	2,854	3,611	4,111	4,426
4. Net paid (cumulative) as of :											
End of period	347	327	331	337	380	386	400	384	458	415	423
One year later		531	548	563	600	620	641	639	711	755	747
Two years later			669	689	731	756	773	775	868	920	926
Three years later				776	822	857	879	883	979	1,056	1,048
Four years later					893	935	964	973	1,083	1,163	1,155
Five years later						1,002	1,040	1,055	1,179	1,256	1,251
Six years later							1,102	1,124	1,263	1,350	1,336
Seven years later								1,179	1,327	1,426	1,411
Eight years later									1,380	1,486	1,478
Nine years later										1,538	1,534
Ten years later											1,583
5. Re-estimated incurred compensation and compensation adjustment expenses (gross):											
One year later		2,257	2,346	2,476	2,494	2,501	2,680	2,701	2,865	3,607	3,946
Two years later			2,219	2,265	2,397	2,450	2,471	2,596	2,794	2,948	3,460
Three years later				2,144	2,234	2,361	2,438	2,425	2,730	2,909	2,909
Four years later					2,119	2,226	2,340	2,426	2,585	2,862	2,877
Five years later						2,135	2,236	2,342	2,668	2,748	2,812
Six years later							2,168	2,246	2,586	2,846	2,738
Seven years later								2,189	2,485	2,760	2,784
Eight years later									2,442	2,668	2,715
Nine years later										2,632	2,656
Ten years later											2,620
6. Decrease in gross estimated incurred compensation and compensation adjustment expenses from end of period		(281)	(508)	(582)	(430)	(632)	(669)	(665)	(1,169)	(1,479)	(1,806)

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, 2017 active miners nominal and discounted liability is approximately $198.8 million and $81.1 million, respectively.

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

Required Supplementary Information

Schedule of BWC/IC's Proportionate Share of the Net Pension Liability (Asset)

Last 3 fiscal years*
(000's omitted)

	2017	2016	2015
BWC/IC's Proportion of the net pension liability (asset)	1.638%	1.629%	1.701%
BWC/IC's Proportionate share of the net pension liability (asset)	$ 240,344	$ 186,771	$ 134,254
BWC/IC's covered payroll	$ 199,702	$ 196,276	$ 197,260
Proportionate share of the net pension liability (asset) as a percentage of its covered payroll	120.351%	95.157%	68.059%
Plan fiduciary net position as a percentage of the total pension liability			
Traditional Pension Plan	77.25%	81.08%	86.45%
Combined Plan	116.55%	116.90%	114.83%

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

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

Required Supplementary Information

Schedule of Employer Contributions and Contributions Subsequent to Measurement Date

(See Accompanying Independent Auditors' Report)

Last 3 fiscal years*

(000's omitted)

	2017	2016	2015
BWC/IC's Statutorily Required Employer Contributions	$ 20,428	$ 19,752	$ 19,688
Amount of contributions recognized by the pension plan in relation to the statutory contributions	20,428	19,752	19,688
Contributions deficiency (excess)	-	-	-
Employer's covered payroll	$ 202,973	$ 197,500	$ 194,884
Amount of contributions recognized by the pension plan as a percentage of employers' covered payroll	10.06%	10.00%	10.10%

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

OHIO BUREAU OF WORKERS' COMPENSATION
AND
INDUSTRIAL COMMISSION OF OHIO
(A DEPARTMENT OF THE STATE OF OHIO)
SUPPLEMENTAL SCHEDULE OF NET POSITION
(See Accompanying Independent Auditors' Report)
June 30, 2017
(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	$ 483,232	$ 8,646	$ 367	$ 281	$ 928	$ 54,740	$ 4,970	$ -	$ 553,164
Collateral on loaned securities	-	-	-	-	-	-	1,364	-	1,364
Premiums recorded not yet due	12,881	-	-	83	-	-	-	-	12,964
Assessments recorded not yet due	-	-	-	-	-	-	1,566	-	1,566
Premiums in course of collection	9,090	-	-	-	-	-	-	-	9,090
Assessments in course of collection	-	485	-	-	-	-	12,767	-	13,252
Accounts receivable, net of allowance for uncollectibles	311,656	7,507	48	28	9	392	23,876	-	343,516
Retrospective premiums receivable	43,194	-	-	-	-	-	-	-	43,194
Interfund receivables	10,259	583,466	219	15	5	276	206,700	(800,940)	-
Investment trade receivables	270,946	-	-	-	-	-	-	-	270,946
Accrued investment income	137,922	2	-	-	1	36	-	-	137,961
Other current assets	600	-	-	-	-	-	-	-	600
Total current assets	1,279,780	600,106	634	407	943	55,444	251,243	(800,940)	1,387,617
Non-current assets:									
Fixed maturities	13,241,211	1,093,998	270,367	16,636	23,935	-	-	-	14,646,147
Domestic equity securities:									
Common stock	5,696,920	357,106	51,665	-	-	-	-	-	6,105,691
Preferred stocks	1,726	-	-	-	-	-	-	-	1,726
Non-U.S equity securities - common stock	2,473,460	180,885	27,379	-	-	-	-	-	2,681,724
Investments in real estate funds	2,790,425	-	-	-	-	-	-	-	2,790,425
Unbilled premiums receivable	579,826	14,935	-	-	-	413,365	67,190	-	1,075,316
Retrospective premiums receivable	75,189	-	-	-	-	-	-	-	75,189
Capital assets	19,252	22	-	-	-	-	134,801	-	154,075
Net pension asset	-	-	-	-	-	-	322	-	322
Total noncurrent assets	24,878,009	1,646,946	349,411	16,636	23,935	413,365	202,313	-	27,530,615
Total assets	26,157,789	2,247,052	350,045	17,043	24,878	468,809	453,556	(800,940)	28,918,232
DEFERRED OUTFLOW OF RESOURCES	-	-	-	-	-	-	90,259	-	90,259
Total assets and deferred outflow of resources	$ 26,157,789	$ 2,247,052	$ 350,045	$ 17,043	$ 24,878	$ 468,809	$ 543,815	$ (800,940)	$ 29,008,491

OHIO BUREAU OF WORKERS' COMPENSATION
AND
INDUSTRIAL COMMISSION OF OHIO
(A DEPARTMENT OF THE STATE OF OHIO)
SUPPLEMENTAL SCHEDULE OF NET POSITION, Continued
(See Accompanying Independent Auditors' Report)
June 30, 2017
(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	$ 1,368,931	$111,389	$ 1,755	$ 247	$ 240	$20,901	$ -	$ -	$ 1,503,463
Reserve for compensation adjustment expenses	169,406	119	106	-	39	724	218,579	-	388,973
Premium rebate payable	1,094,836	-	-	-	-	-	-	-	1,094,836
Unearned premium and assessments	387,248	97,661	-	119	84	-	50,208	-	535,320
Contingent liability	4,500	-	-	-	-	-	-	-	4,500
Warrants payable	21,522	-	-	-	-	-	-	-	21,522
Investment trade payables	377,981	-	-	-	-	-	-	-	377,981
Accounts payable	27,353	-	37	-	-	-	6,646	-	34,036
Interfund payables	787,171	8,521	146	6	13	5,082	1	(800,940)	-
Obligations under securities lending	-	-	-	-	-	-	1,364	-	1,364
Other current liabilities	23,111	218	75	6	10	-	15,004	-	38,424
Total current liabilities	4,262,059	217,908	2,119	378	386	26,707	291,802	(800,940)	4,000,419
Noncurrent liabilities:									
Reserve for compensation	11,182,079	1,915,411	73,745	2,953	1,060	406,199	-	-	13,581,447
Reserve for compensation adjustment expenses	644,194	1,581	5,494		61	5,176	736,221	-	1,392,727
Net pension liability	-	-	-	-	-	-	240,665	-	240,665
Other noncurrent liabilities	-	-	-	-	-	-	25,385	-	25,385
Total noncurrent liabilities	11,826,273	1,916,992	79,239	2,953	1,121	411,375	1,002,271	-	15,240,224
Total liabilities	16,088,332	2,134,900	81,358	3,331	1,507	438,082	1,294,073	(800,940)	19,240,643
DEFERRED INFLOW OF RESOURCES	-	-	-	-	-	-	9,777	-	9,777
Total liabilities and deferred inflow of resources	16,088,332	2,134,900	81,358	3,331	1,507	438,082	1,303,850	(800,940)	19,250,420
NET POSITION (DEFICIT)									
Net investment in capital assets	19,252	22	-	-	-	-	134,801	-	154,075
Surplus fund	39,710	-	-	-	-	-	-	-	39,710
Premium payment security fund	143,642	-	-	-	-	-	-	-	143,642
Unrestricted net position (deficit)	9,866,853	112,130	268,687	13,712	23,371	30,727	(894,836)	-	9,420,644
Total net position (deficit)	$ 10,069,457	$ 112,152	$ 268,687	$ 13,712	$ 23,371	$ 30,727	$ (760,035)	$ -	$ 9,758,071

OHIO BUREAU OF WORKERS' COMPENSATION

AND

INDUSTRIAL COMMISSION OF OHIO

(A DEPARTMENT OF THE STATE OF OHIO)

SUPPLEMENTAL SCHEDULE OF REVENUES, EXPENSES AND

CHANGES IN NET POSITION

(See Accompanying Independent Auditors' Report)

For the year ended June 30, 2017

(000's omitted)

	State Insurance Fund Account	Disabled Workers' Relief Fund Account	Coal-Workers Pneumoconiosis Fund Account	Public Work-Relief Employees' Fund Account	Marine Industry Fund Account	Self-Insuring Employers' Guaranty Fund Account	Administrative Cost Fund Account	Eliminations	Totals
Operating revenues:									
Premium and assessment income net of ceded premium	$1,312,913	$17,844	$526	$172	$738	$(2,941)	$244,960	$ -	$1,574,212
Provision for uncollectibles	(24,062)	(2,648)	16	-	-	91	(3,059)	-	(29,662)
Other income	5,742	-	-	-	-	-	4,274	-	10,016
Total operating revenues	1,294,593	15,196	542	172	738	(2,850)	246,175	-	1,554,566
Operating expenses:									
Workers' compensation benefits	862,985	(30,285)	6,460	(459)	(73)	(4,069)	-	-	834,559
Compensation adjustment expenses	164,548	7	336	-	30	686	199,197	-	364,804
Personal services	-	57	105	-	24	-	79,789	-	79,975
Other administrative expenses	20,957	1	2	-	21	-	42,616	-	63,597
Total operating expenses	1,048,490	(30,220)	6,903	(459)	2	(3,383)	321,602	-	1,342,935
Net operating income (loss) before transition credits, premium rebates, loss contigency and DWRF I alternative	246,103	45,416	(6,361)	631	736	533	(75,427)	-	211,631
Transition credit expense	2,562	-	-	-	-	-	-	-	2,562
Premium rebate	1,094,850	-	-	-	-	-	-	-	1,094,850
Loss contingency	3,735								3,735
DWRF I alternative funding expense	(16,348)	-	-	-	-	-	-	-	(16,348)
Total transition credits, premium rebates, loss contingency and DWRF I alternative	1,084,799	-	-	-	-	-	-	-	1,084,799
Net operating (loss) income	(838,696)	45,416	(6,361)	631	736	533	(75,427)	-	(873,168)
Non-operating revenues:									
Net investment income	1,783,996	72,208	12,256	(44)	(66)	257	9,038	-	1,877,645
Gain on disposal of capital assets	-	-	-	-	-	-	134	-	134
Total non-operating revenues	1,783,996	72,208	12,256	(44)	(66)	257	9,172	-	1,877,779
Net transfers out	(12,877)	-	-	-	-	-	12,452	-	(425)
Increase (decrease) in net position (deficit)	932,423	117,624	5,895	587	670	790	(53,803)	-	1,004,186
Net position (deficit), beginning of year	9,137,034	(5,472)	262,792	13,125	22,701	29,937	(706,232)	-	8,753,885
Net position (deficit), end of year	$10,069,457	$112,152	$268,687	$13,712	$23,371	$30,727	$(760,035)	$ -	$9,758,071

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Ohio Bureau of Workers' Compensation and Industrial Commission of Ohio (BWC/IC), a department of the State of Ohio, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the BWC/IC's basic financial statements and have issued our report thereon dated September 25, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered BWC/IC's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of BWC/IC's internal control. Accordingly, we do not express an opinion on the effectiveness of BWC/IC's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

(Continued)

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Crowe Horwath LLP

Crowe Horwath LLP

Columbus, Ohio
September 25, 2017

Dave Yost • Auditor of State

OHIO BUREAU OF WORKERS COMPENSATION

FRANKLIN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
NOVEMBER 9, 2017

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