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

FINANCIAL STATEMENTS

June 30, 2018 and 2017

Dave Yost • Auditor of State

Board of Directors
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 LLP, for the audit period July 1, 2017 through June 30, 2018. 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. In conjunction with the work performed by the Independent Public Accountant, the Auditor of State is issuing the following:

Finding for Recovery Repaid Under Audit

Regarding exempt employees, Ohio Rev. Code §124.134 (C) states in part, "an employee may be paid for up to eighty hours of vacation leave each fiscal year if the employee requested and was denied the use of vacation leave during that fiscal year. No employee shall receive payment for more than eighty (80) hours of denied vacation leave in a single fiscal year." Payouts of denied leave for collective bargaining employees are governed by their respective agreements and may have different limits.

During state fiscal year 2018, an exempt employee, Carol Lee Damsel, requested and was denied by the Ohio Bureau of Workers' Compensation (the Bureau) 80 hours of vacation leave for pay period-ending October 28, 2017. Additionally, for pay period-ending April 28, 2018, Ms. Damsel requested and was again denied 80 hours of vacation leave. However, the Bureau did not have internal controls in place to monitor the amount of vacation leave hours denied and paid within a fiscal year for its exempt employees. The need for such controls is particularly important since the State's payroll system does not contain edit checks over these vacation leave payments. As a result, the Bureau overpaid Ms. Damsel $6,243 [80 hours X $78.04 per hour] for more than 80 hours of denied vacation leave during state fiscal year 2018.

In accordance with the foregoing facts and pursuant to Ohio Rev. Code § 117.28, a Finding for Recovery for public monies illegally expended was issued against Carol Lee Damsel in the amount of $6,243 in favor of the Ohio Bureau of Workers' Compensation's Fund 7023.

Ms. Damsel repaid the $6,243 to the Bureau's Fund 7023 through a payroll deduction of $3,122 which was withheld from paycheck number 18490024 on October 26, 2018 and a payroll deduction of $3,121 which was withheld from paycheck number 18534671 on November 9, 2018. However, once the amount was repaid, the Bureau increased her vacation balance by 80 hours. This adjustment resulted in 44.3 hours in vacation leave beyond what Ms. Damsel would have accrued had the second vacation leave refusal not been paid.

We recommend the Bureau adjust Ms. Damsel's vacation leave down by the excess 44.3 hours reinstated after the repayment was complete to restore her vacation leave to the correct balance, as of November 9, 2018. We also recommend the Bureau develop policies and procedures to monitor vacation leave denied to ensure employees are not paid beyond the limits set forth in the Ohio Revised Code and/or collective bargaining agreements. Management should periodically monitor these procedures to ensure they are operating as intended.

The Ohio Bureau of Workers' Compensation has responded to the issues discussed in this Finding For Recovery. You may obtain a copy of their response from Barbara J. Ingram, CPA, Chief Fiscal and Planning Officer, at (614) 466-6050.

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
Auditor of State

December 14, 2018

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OHIO BUREAU OF WORKERS' COMPENSATION
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CONTENTS

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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, 2018 and 2017, 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, 2018 and 2017, 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.

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, 2018 and 2017, 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.

(Continued)

As discussed in Note 14 to the financial statements, Government Accounting Standards Board (GASB) Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, and GASB Statement No. 85, Omnibus 2017, were effective and implemented for the BWC/IC's fiscal year ending June 30, 2018. These Statements establish standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses related to postretirement benefits other than pensions as well as corresponding required supplemental information. 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), the schedule of employer pension contributions, the schedule of proportionate share of the net OPEB liability, and the schedule of employer OPEB contributions on Pages 3-10, 48, 50, 51, 52 and 53, respectively, listed in the table of contents, be presented 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 27, 2018 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 LLP

Crowe LLP

Columbus, Ohio
September 27, 2018

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, 2018, 2017, and 2016. BWC and IC are collectively referred to as BWC/IC. This information is based on BWC/IC's financial statements, which begin on Page 11.

Financial highlights

- BWC/IC's total assets at June 30, 2018 were $28.9 billion, a decrease of $36 million or 0.1% compared to June 30, 2017.
- BWC/IC's total liabilities at June 30, 2018 were $18.9 billion, a decrease of $296 million or 1.5% compared to June 30, 2017.
- BWC/IC's total operating revenues for fiscal year 2018 were $1.2 billion, a decrease of $380 million or 24% compared to fiscal year 2017.
- BWC/IC's total operating expenses for fiscal year 2018 were $957 million, a decrease of $385 million or 29% from fiscal year 2017.
- BWC/IC had $1.3 billion in premium rebate expenses and reduced DWRF I alternative funding expenses by $20 million in fiscal year 2018.
- BWC's non-operating revenues for fiscal year 2018 were $1.3 billion, compared to $1.9 billion for fiscal year 2017.
- BWC/IC's net position as of July 1, 2017 has been decreased by $103 million for the implementation of Governmental Accounting Standards Board (GASB) Statement Number 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB).
- BWC/IC's net position increased by $272 million in fiscal year 2018, compared to a $1 billion increase in fiscal year 2017.

Financial statement overview

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

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

(Continued)

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

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, 2018, 2017, and 2016, and for the years then ended were as follows (000's omitted):

	2018	2017	2016
Current assets	$ 1,873,364	$ 1,387,617	$ 1,235,769
Noncurrent assets	27,008,766	27,530,615	26,203,485
Total assets	$ 28,882,130	$ 28,918,232	$ 27,439,254
Deferred outflows of resources	66,462	90,259	63,608
	$ 66,462	$ 90,259	$ 63,608
Current liabilities	$ 4,328,724	$ 4,000,419	$ 3,058,458
Noncurrent liabilities	14,615,631	15,240,224	15,683,834
Total liabilities	$ 18,944,355	$ 19,240,643	$ 18,742,292
Deferred inflows of resources	77,373	9,777	6,685
	$ 77,373	$ 9,777	$ 6,685
Net investment in capital assets	$ 135,770	$ 154,075	$ 157,884
Unrestricted net position	9,791,094	9,603,996	8,596,001
Total net position	$ 9,926,864	$ 9,758,071	$ 8,753,885
Net premium and assessment income, including provision for uncollectibles	$ 1,162,940	$ 1,541,988	$ 1,461,213
DWRF II unbilled assessment	-	-	(1,499,600)
Other income	9,407	10,016	12,442
Total operating revenues	$ 1,172,347	$ 1,552,004	$ (25,945)
Workers' compensation benefits and compensation adjustment expenses	$ 804,021	$ 1,199,363	$ 1,211,609
Other expenses	153,472	143,572	119,419
Total operating expenses	$ 957,493	$ 1,342,935	$ 1,331,028
Premium rebate	$ (1,298,778)	$ (1,094,850)	$ (15,396)
Legal settlement / loss contingency	(75)	(3,735)	-
DWRF I alternative funding expense	20,128	16,348	(507,891)
Operating transfers out	(425)	(425)	(425)
Net investment income	1,336,579	1,877,645	1,365,464
Gain on disposal of capital assets	(175)	134	774
(Decrease) increase in net position	$ 272,108	$ 1,004,186	$ (514,447)
Cumulative effect of GASB75 implementation	$ (103,315)	$ -	$ -

(Continued)

BWC/IC's net position increased by $272 million during fiscal year 2018, compared to a $1 billion increase during fiscal year 2017.

- Premium and assessment income exceeded workers' compensation benefits and compensation adjustment expenses by $359 million in fiscal year 2018 and $343 million in fiscal year 2017.

- Fiscal year 2018 premium and assessment income reflects no change for overall premium rates for the majority of Ohio's private employers for the policy period beginning July 1, 2017, and a 6.1% reduction for public employer taxing districts (PECs) for the policy period beginning January 1, 2018. The establishment of the group retrospective credit payable during fiscal year 2018 resulted in a reduction of approximately $459 million to premium and assessment income. Fiscal year 2017 premium and assessment income reflects a 8.6% reduction in rates for private employers for the policy period beginning July 1, 2016, and no change for PECs for the policy period beginning January 1, 2017. PECs include cities, counties, townships, villages, schools, libraries, and special taxing districts.

- 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 2018 and 2017 for the accrual of the ceded reinsurance premiums.

- Workers' compensation benefits and compensation adjustment expenses were as follows in fiscal years 2018, 2017, and 2016.

($ in millions)	2018	2017	2016
Net benefit payments	$ 1,367	$ 1,420	$ 1,539
Payments for compensation adjustment expenses	220	235	206
Managed Care Organization administrative payments	171	171	169
Change in reserves for compensation and compensation adjustment expenses	(954)	(627)	(702)
	$ 804	$ 1,199	$ 1,212

- The discounted liabilities for workers' compensation benefits and compensation adjustment expenses as of June 30, 2018 are $954 million lower than the June 30, 2017 discounted liabilities. These liabilities are discounted using an annual interest rate of 4%. Oliver Wyman estimates the ultimate losses and unpaid losses for all accident years every quarter. Historically, BWC recorded reserves based on the estimated unpaid losses from the Oliver Wyman analysis. Beginning in March 2018, BWC has recorded estimated reserves based on BWC management's review of further analysis and estimates from BWC's Actuarial division. The Actuarial division has performed an independent unpaid loss analysis for private employers. Overall, BWC management's selected ultimate loss estimates are $275 million less than the Oliver Wyman estimates. The loss reserves for private employer pharmacy benefits selected by BWC management are $60 million less than Oliver Wyman's estimates for accident years 2005 through 2018. The loss reserves for private employer permanent total disability (PTD) benefits selected by BWC management are $180 million less than Oliver Wyman's estimates for accident years 2011 through 2018. Further changes were made to private employer reserves for compensation adjustment expenses which are based on a ratio to loss reserves resulting in reserves that are $35 million less than the compensation adjustment expense reserves calculated by Oliver Wyman.

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- State Insurance Fund (SIF) benefit payments for all accident years were $20 million or 1.5% lower than expected during fiscal year 2018. Approximately $16 million of the lower than expected paid development is associated with medical benefits, while indemnity benefits were $4 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. SIF annual payments for fiscal year 2018 were $1.4 billion.
- 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 1% of premium up to a maximum rebate of $2,000 per policy year. Employers choosing to Go Green earned rebates of $10.2 million in both fiscal years 2018 and 2017. To reward timely premium payers, employers with no lapses in coverage during the past 60 months can receive a premium rebate of 1% up to a maximum of $2,000 per policy year. Employers earned lapse-free rebates of $9.8 million in fiscal year 2018 and $8 million in fiscal year 2017. Employers earned rebates of $4.4 million in fiscal year 2018 and $4.3 million in fiscal year 2017 by completing requirements of the Industry-Specific Safety Program. Completing the requirements of the Transitional Work Bonus Program earned employers $10.3 million in fiscal year 2018 compared to $2.3 million in fiscal year 2017.
- 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. Public taxing district employers earned early payment discounts of $2.3 million in fiscal year 2018 and $2.6 million in fiscal year 2017. Private employers earned $1.4 million in fiscal year 2018, the first year applicable for private employers.
- Ohio has 82 safety councils that promote increased safety awareness in the workplace and educate businesses on occupational health, wellness, and safety issues. Employers earned safety council bonuses of $9.4 million in fiscal year 2018 and $9.6 million in fiscal year 2017 by meeting safety council participation eligibility requirements and performance goals for reducing either frequency or severity.
- The SIF 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 May 24, 2018. Private employers were granted a rebate equivalent to 85% of billed premiums for the July 1, 2016 through June 30, 2017 policy period, while public taxing district employers were granted the same percentage rebate of premiums for the January 1, 2016 through December 31, 2016 policy period. This action resulted in premium rebate expense of $1.3 billion in fiscal year 2018. In fiscal year 2017, 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% 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 fiscal year 2018, BWC/IC recorded net investment income of $1.3 billion, compared to $1.9 billion in fiscal year 2017. The investment portfolio earned a net return, after management fees, of 5.1% during fiscal year 2018 compared to 7.5% in fiscal year 2017.

(Continued)

- During fiscal year 2018, BWC completed an asset allocation study and related analysis of the SIF investment portfolio. The study determined that revisions to the portfolio target asset allocations of the SIF asset classes would improve and optimize the return versus risk balance for the SIF investment portfolio. The Board approved the following:
    - The target asset allocation of SIF long duration fixed income assets will be reduced to 22% from 32% of total SIF assets by (a) eliminating the 4% target asset allocation to passive managed long duration U.S. government bonds and by (b) reducing the active managed long duration credit fixed income target asset allocation from 28% to 22%;
    - A new 4% passive managed intermediate duration U.S. Treasury bond allocation would replace the eliminated long duration U.S. government bond allocation;
    - The 6% target asset allocation reduction of the long duration credit fixed income mandate would be replaced by (a) increasing the target asset allocation of the active managed intermediate duration U.S. Aggregate core plus fixed income mandate to 18% from 15% and (b) increasing the core real estate fund target allocation to 9% from 7% and increasing the core plus real estate fund target allocation to 4% from 3%, leaving the value-added real estate fund target allocation at 2%;
    - The total SIF real estate fund target asset allocation would therefore be increased to 15% from 12%.

  In fiscal year 2018, BWC liquidated the long duration U.S. government bonds. The remaining changes to the asset allocations will be completed in fiscal year 2019.

  As of June 30, 2018, 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	9%	7	$ 1,496,531	$ 1,496,531	$ 2,248,927
Core plus real estate	4%	6	825,000	618,943	721,523
Value - added real estate	2%	9	500,000	261,973	279,362
	15%	22	$ 2,821,531	$ 2,377,447	$ 3,249,812

- BWC/IC implemented the provisions of GASB Statement Number 75 related to the measurement and reporting of the annual costs and long-term obligations associated with the OPEB benefits provided to employees. This standard requires BWC/IC to record a proportionate share of the net OPEB liability of OPERS. OPEB expense is based on the full cost of OPEB benefits being provided to an employee during the year that the employee is providing services to BWC/IC. The statutorily required contributions to OPERS are not impacted by the new GASB pronouncement.

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.

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- 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. BWC offers numerous financial assistance opportunities for employers to invest in workplace safety.
    - Grants are available to purchase safety equipment, promote health and wellness, implement drug-free workplaces, minimize firefighters' exposure to dangerous environmental elements, and to assist people that work with developmentally disabled children and adults. BWC has committed $20 million in fiscal years 2019 and 2020 to continue the Safety Intervention Grant Program. As part of that commitment, the program has been expanded and sets aside $8 million for Ohio schools and police departments and $2 million for state agencies.
    - The Better You, Better Ohio! health and wellness program provides health and wellness resources and services to employees of small employers in high-risk industries. The program encourages workers to take ownership of their health and well-being and proactively pursue a healthier lifestyle. Services include health risk assessments, biometric screenings, lifestyle management and coaching, and chronic disease management. Employers can benefit from this program as it helps to manage and reduce costs for workers' compensation and health care by having a healthier workforce.
    - Small businesses will have a new option for lowering their premiums beginning in fiscal year 2019 with the Policy Activity Rebate (PAR) program. PAR offers employers a wide-range of activities designed to improve workplace safety practices and encourage active management of their workers' compensation policies. Eligible employers will receive a 50% premium rebate, up to $2,000, by participating in the program.
    - As part of BWC's Strategic Plan, innovative safety and wellness programs will continue to expand to help reduce the cost of on-the-job injuries and illnesses to employees and employers and keep Ohio's workers safe, healthy, and productive. An Institute for Workplace Safety will be created that provides valuable resources to Ohio employers and workers. In addition to current offerings, training will be provided to Ohio employers with an emphasis on training targeted toward small businesses.
    - In striving to improve the health and safety of Ohio's workforce, BWC is launching a pilot program in October 2018 to support employers willing to hire workers struggling to overcome an addiction to opioids and other dangerous substances. The Opioid Workplace Safety Program will provide up to $5 million over a two year period to help employers in three Ohio counties with hiring, managing, and retaining workers in recovery. BWC will provide reimbursement of the costs for eligible drug testing, forums/venues where "second-chance" employers can share success stories as an encouragement for other employers to hire workers in recovery, and training opportunities for managers and supervisors with topics to help them better manage their workforces that include individuals in recovery.
- BWC continues its work to modernize the Bureau's healthcare delivery system. The first step was the creation of a pilot called the Enhanced Care Program (ECP). The ECP identifies 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. Based on the success of the program, the pilot has been extended through June 30, 2019 and will be expanding to include additional injury types and into more regions of the State.

- 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. Pharmacy program initiatives for 2017 included revisions in opioid coverage as of January 1, 2017. BWC has established rules to limit covered quantities of opioids. In addition, the use of concurrent immediate release and post-op use of sustained release opioids are no longer covered. As part of the opioid prescribing rule, BWC has linked prescribing best practices to prescription coverage. The rule allows for treatment of opioid dependence without it being allowed in a claim. Education is being offered to patients about opioid use. Prescriber non-compliance is addressed through a formal notification. Total drug costs, as well as costs related to opioids continue to decrease. The number of injured workers receiving an opioid prescription also continues to fall. In fiscal year 2019, BWC has selected a new pharmacy benefits manager and expects to recognize savings under this new contract. A pilot for a medication therapy management program is also planned for later in fiscal year 2019.

- 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 $60.1 million in savings for the State Insurance Fund after closing 1,622 cases during fiscal year 2018.

- BWC's net position 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 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 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 $4.6 billion over the past four years and a $1.2 billion transition credit, in conjunction with the move to a prospective billing system. As part of the Board's Strategic Plan, a work group has been formed to develop a three-year plan to maintain an adequate net position that will ensure that BWC can manage the financial and enterprise risks associated with operations. Net position will continue to be monitored and the plan will be adjusted as needed based on market changes, new economic models, and other appropriate factors.

  These are the SIF ratios at fiscal year ended 2018, 2017, and 2016:

	2018	2017	2016	Guideline
Simple Funding Ratio	1.66	1.63	1.59	1.25 to 1.45
Net Leverage Ratio	1.29	1.46	1.65	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, 2018 and 2017

(000's omitted)

	2018	2017
ASSETS		
Current assets:		
Cash and cash equivalents (Note 2)	$1,316,896	$553,164
Collateral on loaned securities (Note 2)	1,574	1,364
Premiums recorded not yet due	18,123	12,964
Assessments recorded not yet due	2,179	1,566
Premiums in course of collection	7,426	9,090
Assessments in course of collection	13,684	13,252
Accounts receivable, net of allowance for uncollectibles of $1,185,762 in 2018; $1,151,411 in 2017	261,258	343,516
Retrospective premiums receivable	35,801	43,194
Investment trade receivables	85,124	270,946
Accrued investment income	130,699	137,961
Other current assets	600	600
Total current assets	1,873,364	1,387,617
Noncurrent assets:		
Fixed maturities, at fair value (Note 2)	13,121,779	14,646,147
Domestic equity securities, at fair value - common stock (Note 2)	6,499,001	6,105,691
Domestic equity securities, at fair value - preferred stock (Note 2)	922	1,726
Non-U.S equity securities, at fair value - common stock (Note 2)	2,877,499	2,681,724
Investments in real estate funds (Note 2)	3,249,812	2,790,425
Unbilled premiums receivable	1,060,685	1,075,316
Retrospective premiums receivable	62,479	75,189
Capital assets (Note 3)	135,770	154,075
Net pension asset (Note 8)	819	322
Total noncurrent assets	27,008,766	27,530,615
Total assets	$ 28,882,130	$ 28,918,232
DEFERRED OUTFLOW OF RESOURCES (Note 8 and 9)	66,462	90,259
Total assets and deferred outflow of resources	$ 28,948,592	$ 29,008,491

	2018	2017
LIABILITIES		
Current liabilities:		
Reserve for compensation (Note 4)	$ 1,477,596	$ 1,503,463
Reserve for compensation adjustment expenses (Note 4)	399,521	388,973
Premium rebate payable (Note 7)	1,236,212	1,094,836
Unearned premium and assessments	500,082	535,320
Legal settlement	4,500	4,500
Warrants payable	165,095	21,522
Group retrospective credit payable (Note 5)	156,693	-
Investment trade payables	311,908	377,981
Accounts payable	33,816	34,036
Obligations under securities lending (Note 2)	1,574	1,364
Other current liabilities (Note 5)	41,727	38,424
Total current liabilities	4,328,724	4,000,419
Noncurrent liabilities:		
Reserve for compensation (Note 4)	12,676,113	13,581,447
Reserve for compensation adjustment expenses (Note 4)	1,359,079	1,392,727
Net pension liability (Note 8)	162,718	240,665
Net OPEB liability (Note 9)	111,078	-
Group retrospective credit payable (Note 5)	280,385	-
Other noncurrent liabilities (Note 5)	26,258	25,385
Total noncurrent liabilities	14,615,631	15,240,224
Total liabilities	$ 18,944,355	$ 19,240,643
DEFERRED INFLOW OF RESOURCES (Note 8 and 9)	77,373	9,777
Total liabilities and deferred inflow of resources	$ 19,021,728	$ 19,250,420
NET POSITION		
Net investment in capital assets	135,770	154,075
Unrestricted net position	9,791,094	9,603,996
Total net position (Note 13)	$ 9,926,864	$ 9,758,071

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, 2018 and 2017

(000's omitted)

	2018	2017
Operating revenues:		
Premium and assessment income net of ceded premium (Note 6)	$1,202,517	$ 1,571,650
Provision for uncollectibles	(39,577)	(29,662)
Other income	9,407	10,016
Total operating revenues	1,172,347	1,552,004
Operating expenses:		
Workers' compensation benefits (Note 4)	438,553	834,559
Compensation adjustment expenses (Note 4)	365,468	364,804
Personal services	79,009	79,975
Other administrative expenses	74,463	63,597
Total operating expenses	957,493	1,342,935
Net operating income before premium rebates, legal settlement and DWRF I alternative	214,854	209,069
Premium rebate (Note 7)	1,298,778	1,094,850
Loss contingency	75	3,735
DWRF I alternative funding expense (Note 12)	(20,128)	(16,348)
Total premium rebates, loss contingency and DWRF I alternative	1,278,725	1,082,237
Net operating loss	(1,063,871)	(873,168)
Non-operating revenues:		
Net investment income (Note 2)	1,336,579	1,877,645
(Loss) Gain on disposal of capital assets	(175)	134
Total non-operating revenues	1,336,404	1,877,779
Transfers out	(425)	(425)
Increase in net position	272,108	1,004,186
Net position, beginning of year	9,758,071	8,753,885
Cumulative effect of GASB 75 Implementation (Note 14)	(103,315)	-
Net position, beginning of year as restated	9,654,756	-
Net position, end of year	$ 9,926,864	$ 9,758,071

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, 2018 and 2017

(000's omitted)

	2018	2017
Cash flows from operating activities:		
Cash receipts from premiums and assessments net of reinsurance	$ 1,994,922	$ 1,947,158
Cash receipts - other	32,484	27,705
Cash disbursements for claims	(1,632,432)	(1,659,213)
Cash disbursements to employees for services	(206,017)	(200,170)
Cash disbursements for other operating expenses	(101,189)	(116,426)
Cash disbursements for employer refunds	(1,265,407)	(315,755)
Net cash used for operating activities	(1,177,639)	(316,701)
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	(2,911)	(13,035)
Net cash used in capital and related financing activities	(2,911)	(13,035)
Cash flows from investing activities:		
Investments sold	14,564,688	14,919,775
Investments purchased	(13,299,559)	(15,224,235)
Interest and dividends received	733,408	729,687
Investment expenses	(53,830)	(56,467)
Net cash provided by investing activities	1,944,707	368,760
Net increase in cash and cash equivalents	763,732	38,599
Cash and cash equivalents, beginning of year	553,164	514,565
Cash and cash equivalents, end of year	$ 1,316,896	$ 553,164

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, 2018 and 2017

(000's omitted)

	2018	2017
Reconciliation of net operating loss to net cash used for operating activities:		
Net operating loss	$ (1,063,871)	$ (873,168)
Adjustments to reconcile net operating loss to net cash used for operating activities:		
Provision for uncollectible accounts	39,577	29,662
Depreciation	21,041	16,978
Pension and other postemployment benefits	20,712	30,013
(Increases) decreases in assets and increases (decreases) in liabilities:		
Premiums and assessments recorded not yet due	(5,772)	55,322
Premiums and assessments in course of collection	1,232	930
Unbilled premiums receivable	14,631	46,997
Accounts receivable	42,681	(106,775)
Retrospective premiums receivable	20,103	32,889
Other assets	-	2,115
Reserves for compensation and compensation adjustment expenses	(954,301)	(626,590)
Unearned premiums and assessments	(35,238)	22,231
Transition credit liability	-	(35,437)
Legal settlement		(7)
Group retrospective credit payable	437,078	-
Warrants payable	143,573	(14,697)
Accounts payable	(220)	(4,624)
Premium rebate payable	141,376	1,094,836
Other liabilities	(241)	12,624
Net cash used for operating activities	$ (1,177,639)	$ (316,701)
Noncash investing, capital, and financing activities		
Change in fair values of investments	$ 668,680	$ 1,205,642

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

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)

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 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, 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 and commercial paper.

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 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 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.

(Continued)

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 on an individual basis. 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. The estimated future group retrospective rating plan credits are reflected in the statements of net position as group retrospective credit payable.

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.

(Continued)

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 2018 and 2017. 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, 2018 and 2017, 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.

(Continued)

Capital Assets

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

Description	Estimated Useful Lives (Years)
Buildings	30
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, 2018 and 2017 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 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.

Pensions and Other Post-Employment Benefits (OPEB)

For purposes of measuring the net pension liability, net pension asset, net OPEB liability, deferred outflows of resources and deferred inflows of resources related to pensions and OPEB, pension expense, and OPEB 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, OPERS records deductions when the liability is incurred and recognizes revenues when earned in accordance with benefit terms. OPERS' investments are reported at fair value.

Use of Estimates

In preparing the financial statements BWC/IC's management and pension/OPEB plans 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 2017 financial statement and note disclosure amounts have been reclassified in order to conform to their fiscal year 2018 presentations. There was no impact to the fiscal year 2017 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 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, 2018 and 2017 is presented below (000's omitted):

	2018 Fair Value	2017 Fair Value
Fixed maturities		
U.S. corporate bonds	$ 5,464,636	$ 5,995,010
U.S. treasury inflation protected securities	1,961,498	1,980,275
U.S. government obligations	980,137	1,986,798
Non-U.S. corporate bonds	1,307,251	1,262,378
Commingled U.S. aggregate indexed fixed income	134,091	134,633
Commingled U.S. Long Government / Credit Fixed Incom	543,658	547,421
Commingled U.S. treasury inflation protected securities	696,557	682,311
U.S. state and local government agencies	445,247	511,645
U.S. government agency mortgages	556,361	495,293
Asset backed securities	384,678	374,467
Commercial mortgage backed securities	232,270	225,078
Non-U.S. government and agency bonds	215,745	199,757
U.S. government agency bonds	44,343	89,247
Commingled U.S. intermediate duration fixed income	40,322	40,571
Preferred securities	44,392	42,642
Bank loans	17,500	21,816
Bond fund	49,861	54,146
Supranational issues	3,232	2,659
Total fixed maturities	13,121,779	14,646,147
Domestic equity securities - common stocks	6,063,060	5,696,920
Domestic equity securities - preferred stocks	922	1,726
Commingled domestic equity securities - common stocks	435,941	408,771
Commingled Non-U.S. equity securities - common stocks	2,877,499	2,681,724
Commingled investments in real estate	3,249,812	2,790,425
Securities lending short-term collateral	1,574	1,364
Cash and cash equivalents		
Cash	59,246	60,564
Commercial Paper	1,015	-
Short-term money market fund	1,256,635	492,600
Total cash and cash equivalents	1,316,896	553,164
	$ 27,067,483	$ 26,780,241

(Continued)

Net investment income for the years ended June 30, 2018 and 2017 is summarized as follows (000's omitted):

	2018	2017
Fixed maturities	$ 513,425	$ 520,042
Equity securities	100,329	109,823
Real estate	113,209	101,307
Cash equivalents	6,162	1,882
	733,125	733,054
Increase in fair value of investments	668,680	1,205,642
Investment expenses	(65,226)	(61,051)
	$ 1,336,579	$1,877,645

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, 2018 and 2017, the carrying amount of BWC/IC's cash deposits were $59.2 million and $60.6 million, respectively, and the bank balances were $23.7 million and $9.2 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, 2018 and 2017 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.

The fair value measurement of investments held at June 30, 2018 and 2017 is presented below (000's omitted):

	Quoted Prices Level 1	Observable Inputs Level 2	Unobservable Inputs Level 3	2018 Fair Value Total
Fixed Maturities				
U.S. corporate bonds	$ -	$ 5,464,636	$ -	$ 5,464,636
U.S. treasury inflation protected securities	1,961,498	-	-	1,961,498
U.S. government obligations	895,311	84,826	-	980,137
Non-U.S. corporate bonds	-	1,307,251	-	1,307,251
U.S. state and local government agencies	-	445,247	-	445,247
U.S. government agency mortgages	-	556,361	-	556,361
Asset backed securities	-	283,371	101,307	384,678
Commercial mortgage backed securities	-	218,172	14,098	232,270
Non-U.S. government and agency bonds	-	215,745	-	215,745
U.S. government agency bonds	-	44,343	-	44,343
Preferred securities	-	44,392	-	44,392
Bank loans	-	-	17,500	17,500
Bond fund	20,285	-	-	20,285
Supranational issues	-	3,232	-	3,232
Domestic equity securities - common stocks	6,063,060	-	-	6,063,060
Domestic equity securities - preferred stocks	922	-	-	922
Securities lending short-term collateral	-	1,574	-	1,574
	$ 8,941,076	$ 8,669,150	$ 132,905	$ 17,743,131

Investments measured at net asset value:	
Commingled U.S. aggregate indexed fixed income	134,091
Commingled U.S. long government / credit fixed income	543,658
Commingled U.S. treasury inflation protected securities	696,557
Commingled U.S. intermediate duration fixed income	40,322
Investment in bond fund	29,576
Commingled domestic equity securities - common stocks	435,941
Commingled Non-U.S. equity securities - common stocks	2,877,499
Commingled investments in real estate	3,249,812
	$ 8,007,456
Cash and Cash Equivalents:	$ 1,316,896
Total Investments:	$ 27,067,483

	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 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 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

For the investments below which do not have a readily determinable fair value, net asset value per unit is used as a practical expedient for establishing fair value. The valuation method for investments measured at the net asset value (NAV) per share, or equivalent, is presented in the tables below (000’s omitted).

Investments Measured at the NAV
FY 2018

Investment Strategy	Fair Value	Unfunded Commitments	Redemption Frequency (If currently eligible)	Redemption Notice Period
Commingled U.S. aggregate indexed fixed income	$ 134,091	$ -	Daily	5 days
Commingled U.S. long government / credit fixed income	543,658	-	Daily	5 days
Commingled U.S. treasury inflation protected securities	696,557	-	Daily	5 days
Commingled U.S. intermediate duration fixed income	40,322	-	Daily	5 days
Investment in bond fund	29,576	-	Bi-Monthly	15 days
Commingled domestic equity securities - common stocks	435,941	-	Daily	5 days
Commingled non-U.S. equity securities - common stocks	2,877,499	-	Daily	5 days
Commingled investments in real estate:				
Core Real Estate	2,248,927	-	Quarterly	1 quarter
Core Plus Real Estate	721,523	206,056	Quarterly	1 quarter
Value Added Real Estate	279,362	238,027	Illiquid	
Total commingled investments in real estates	$ 3,249,812	$ 444,083		

Investments Measured at the NAV
FY 2017

Investment Strategy	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. long 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 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		

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. Investment in the bond fund is valued monthly per the fund manager.

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, 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, 2018 and 2017, the effective duration of BWC's fixed-income portfolio is as follows (000's omitted):

	June 30, 2018		June 30, 2017	
Investment Type	Fair Value	Effective Duration	Fair Value	Effective Duration
Commingled U.S. Long Government / Credit Fixed Income	$ 543,658	14.90	$ 547,421	15.34
U.S. corporate bonds	5,464,636	12.32	5,995,010	12.88
U.S. state and local government agencies	445,247	12.24	511,645	12.95
Non-U.S. government and agency bonds	215,745	11.68	199,757	12.57
U.S. government obligations	980,137	10.25	1,986,798	13.90
Non-U.S. corporate bonds	1,307,251	10.21	1,262,378	10.90
Commingled U.S. aggregate indexed fixed income	134,091	6.01	134,633	6.02
U.S. treasury inflationary protected securities	1,961,498	5.26	1,980,275	5.80
U.S. government agency mortgages	556,361	5.24	495,293	3.93
U.S. government agency bonds	44,343	4.93	89,247	9.19
Commingled U.S. treasury inflationary protected securities	696,557	4.88	682,311	5.38
Commercial mortgage backed securities	232,270	4.52	225,078	3.81
Preferred securities	44,392	4.25	42,642	5.90
Commingled U.S. intermediate duration fixed income	40,322	3.94	40,571	4.08
Supranational issues	3,232	3.31	2,659	4.03
Asset backed securities	384,678	1.42	374,467	1.20
Bond fund	49,861	0.68	54,146	0.15
Bank loans	17,500	0.23	21,816	0.00
Total fixed maturities	$ 13,121,779		$ 14,646,147	

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 (S&P) in fiscal years 2018 and 2017. Obligations of the U.S. government are explicitly guaranteed by the U.S. government. BWC/IC's fixed-income securities were rated by 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	2018 Fair Value	2017 Fair Value
Credit risk debt quality		
AAA	$ 527,027	$ 518,122
AA	1,231,620	1,368,696
A	2,794,654	2,779,476
BBB	3,818,248	4,120,536
BB	375,380	452,676
B	106,130	140,182
CCC	18,070	28,652
CC	3,899	1,144
C	2,242	-
D	-	2,739
NR	5,613	-
Total credit risk debt securities	8,882,883	9,412,223
U.S. government agency bonds		
AAA	5,456	15,821
AA	38,887	73,426
Total U.S. government agency bonds	44,343	89,247
U.S. government agency mortgages		
AAA	83,553	17,917
AA	467,319	467,586
A	3,413	-
BBB	1,755	5,369
BB	321	1,859
B	-	2,562
Total U.S. government agency mortgages	556,361	495,293
U.S. government obligations (AA)	980,137	1,986,798
U.S. treasury inflation protected securities (AA)	1,961,498	1,980,275
Commingled U.S. treasury inflation protected securities (AA)	696,557	682,311
Total fixed maturities	$ 13,121,779	$ 14,646,147

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 2018 and 2017, there is no single issuer that comprises 5% or more of the overall portfolio with the exception of BWC/IC's investments in the U.S. government.

Foreign Currency Risk – Investments

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. BWC's exposure to foreign currency risk as of June 30, 2018 and 2017 is as follows (000's omitted):

Currency	2018 Fair Value	2017 Fair Value
Australian Dollar	$ 133,893	$ 130,443
Bermudian Dollar	3,157	2,805
Brazilian Real	41,608	41,993
British Pound	293,344	289,829
Canadian Dollar	190,024	175,591
Chilean Peso	7,990	7,208
Chinese Renminbi	210,195	148,073
Colombian Peso	3,416	2,901
Czech Koruna	1,186	1,092
Danish Krone	32,483	33,570
Egyptian Pound	985	824
Euro	687,765	633,970
Hong Kong Dollar	90,559	88,484
Hungarian Forint	2,000	2,049
Indian Rupee	61,408	55,873
Indonesian Rupiah	13,594	15,932
Israeli Shekel	10,144	12,962
Japanese Yen	470,149	436,243
Macau Pataca	2,778	2,292
Malaysian Ringgit	16,696	14,966
Manx Pound	1,501	346
Mexican Peso	21,365	23,944
New Zealand Dollar	4,132	3,256
Norwegian Krone	14,486	11,453
Pakistani Rupee	568	911
Papua New Guinean Kina	1,289	-
Peruvian Nuevo Sol	375	656
Philippines Peso	6,900	7,411
Polish Zloty	7,996	8,454
Qatari Rial	5,905	4,326
Russian Ruble	25,152	20,054
Singapore Dollar	24,899	24,266
South African Rand	45,958	39,454
South Korean Won	104,043	98,923
Swedish Krona	49,805	53,860
Swiss Franc	165,462	168,478
Taiwan Dollar	82,979	79,057
Thailand Baht	15,413	13,780
Turkish Lira	5,436	7,428
United Arab Emirates Dirham	4,580	4,729
Exposure to foreign currency risk	2,861,618	2,667,886
United States Dollar	15,881	13,838
Total international securities	$ 2,877,499	$ 2,681,724

Securities Lending

At June 30, 2018 and 2017, BWC/IC had no securities out on loan. BWC/IC has been allocated with cash collateral of $1.6 million in 2018 and $1.4 million in 2017 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, 2018 and 2017 are summarized as follows (000's omitted):

	Balance at 6/30/2016	Increases	Decreases	Balance at 6/30/2017	Increases	Decreases	Balance at 6/30/2018
Capital assets not being depreciated							
Land	$ 9,466	$ -	$ -	$ 9,466	$ -	$ -	9,466
Subtotal	9,466	-	-	9,466	-	-	9,466
Capital assets being depreciated							
Buildings	205,831	-	-	205,831	-	-	205,831
Building improvements	3,579	-	-	3,579	29	-	3,608
Furniture and equipment	30,226	4,406	(3,392)	31,240	3,076	(4,756)	29,560
Subtotal	239,636	4,406	(3,392)	240,650	3,105	(4,756)	238,999
Accumulated depreciation							
Buildings	(172,533)	(6,787)	-	(179,320)	(6,787)	-	(186,107)
Building improvements	(930)	(177)	-	(1,107)	(177)	-	(1,284)
Furniture and equipment	(24,592)	(2,348)	3,310	(23,630)	(2,659)	4,387	(21,902)
Subtotal	(198,055)	(9,312)	3,310	(204,057)	(9,623)	4,387	(209,293)
Capital assets being amortized							
Intangible assets - definite useful lives	106,944	8,845	-	115,789	-	-	115,789
Accumulated amortization	(107)	(7,666)	-	(7,773)	(11,418)	-	(19,191)
Subtotal	106,837	1,179	-	108,016	(11,418)	-	96,598
Net capital assets	$ 157,884	$ (3,727)	$ (82)	$ 154,075	$ (17,936)	$ (369)	$ 135,770

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 are BWC management's selection based on estimates by BWC/IC's independent consulting actuary and BWC's Actuarial division staff. Management believes that the recorded liability makes for a reasonable and appropriate provision for expected future losses; however, the ultimate liability may vary from the amounts provided.

All reserves have been discounted at 4.0% at June 30, 2018 and 2017. A decrease in the discount rate to 3.0% would result in the reserves for compensation and compensation adjustment expenses increasing to $18 billion at June 30, 2018, while an increase in the rate to 5.0% would result in the reserves for compensation and compensation adjustment expenses decreasing to $14.7 billion. The undiscounted reserves for compensation and compensation adjustment expenses were $26.6 billion at June 30, 2018 and $28.2 billion at June 30, 2017.

(Continued)

The changes in the reserves for compensation and compensation adjustment expenses for the years ended June 30, 2018, 2017, and 2016 are summarized as follows (000,000's omitted):

	2018	2017	2016
Reserves for compensation and compensation adjustment expenses, beginning of period	$ 16,866	$ 17,493	$ 18,195
Incurred:			
Provision for insured events of current period	1,507	1,635	1,731
Net decrease in provision for insured events of prior periods net of discount accretion of $675 in 2018, $700 in 2017, and $728 in 2016.	(703)	(436)	(519)
Total incurred	804	1,199	1,212
Payments:			
Compensation and compensation adjustment expenses attributable to insured events of current period	341	347	327
Compensation and compensation adjustment expenses attributable to insured events of prior period	1,417	1,479	1,587
Total payments	1,758	1,826	1,914
Reserves for compensation and compensation adjustment expenses, end of period	$ 15,912	$ 16,866	$ 17,493

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, 2018 and 2017 is summarized as follows (000's omitted):

	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	116,040	(98,832)	63,809	38,424
	$ 269,076	$ 169,667	$ (134,269)	$ 304,474	$ 38,424

	Balance at 6/30/2017	Increases	Decreases	Balance at 6/30/2018	Due Within One Year
Net pension liability	$ 240,665	$ -	$ (77,947)	$ 162,718	$ -
Net OPEB liaibility	-	111,078	-	111,078	-
Group Retrospective Credit Payable	-	437,078	-	437,078	156,693
Other liabilities	63,809	108,035	(103,859)	67,985	41,727
	$ 304,474	$ 656,191	$ (181,806)	$ 778,859	$ 198,420

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:

- 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

The following premiums ceded for reinsurance coverage have been recorded in the accompanying basic financial statements for the years ended June 30, 2018 and 2017 (000's omitted):

	2018	2017
Premium and assessment income	$ 1,206,228	$ 1,575,416
Ceded premiums	(3,711)	(3,766)
Total premium and assessment income net of ceded premiums	$ 1,202,517	$ 1,571,650

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

BWC/IC's reinsurers had the following AM Best ratings at June 30, 2018 and 2017:

Reinsurer	2018	2017
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+
Cincinnati Ins Co	A+	*
London Markets	A	A
Markel Global Re Co	A	A
Tokio Millennium Re	A++	A++

*Reinsurer not under contract

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 fronting carrier of the of the Other States Coverage policies. Acrisure LLC, dba United States Insurance Services Inc. administers the process for issuing claim payments. The SIF provides 100% 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 May 2018 board meeting. As a result, the private employers were granted a rebate equivalent to 85% of billed premiums for the July 1, 2016 through June 30, 2017 policy period, while public taxing district employers were also granted a rebate equivalent to 85% of premiums for the January 1, 2016 through December 31, 2016 policy period. This action resulted in premium rebate expense of $1.3 billion in fiscal year 2018.

In fiscal year 2017 the board approved a rebate for both private and public taxing districts of 66% of billed premiums for the July 1, 2015 through June 30, 2016 policy period and January 1, 2015 through December 31, 2015 policy period, respectively. As a result, premium rebate expense for fiscal year 2017 totaled $1.1 billion.

These policy holder rebates reduce the SIF net position, but preserve a prudent net position while maintaining the ability to meet future obligations for the fund.

(Continued)

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, 2018, the most recent report issued by OPERS is for the calendar year ended December 31, 2017.

Funding Policy

Chapter 145 of the Ohio Revised Code provides statutory authority for employee and employer contributions. During fiscal years 2018 and 2017, 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 $20.7 million for fiscal year 2018 and $20.4 million for fiscal year 2017.

Measurement Date

The measurement dates for the net pension assets and liabilities, deferred inflows and outflows of resources, and pension expense were December 31, 2017 for fiscal year 2018 and December 31, 2016 for fiscal year 2017. 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, 2017 and 2016, Ohio BWC/IC's proportions were as follows:

	December 2017	December 2016
Traditional Plan	1.037211%	1.059812%
Combined Plan	0.601759%	0.578120%

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

At June 30, 2018 and 2017, BWC/IC reported $819 thousand and $322 thousand, respectively, for its proportionate share of the Combined Plan's net pension asset and a liability of $163 million and $241 million, respectively, for its proportionate share of the Traditional Plan's net pension liability.

For the years ended June 30, 2018 and 2017, Ohio BWC/IC recognized pension expense of $12.8 million and $31.6 million, respectively.

At June 30, 2018 and 2017, Ohio BWC/IC reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (000's omitted):

	June 2018		June 2017	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 170	$ 3,450	$ 326	$ 1,628
Net difference between projected and actual earnings on pension plan investments	26,733	60,761	40,998	4,214
Changes in proportion and differences between BWC/IC contributions and proportionate share of contributions	1,679	4,887	837	3,935
Assumption Changes	19,938	-	38,251	-
BWC/IC contributions subsequent to the measurement date	8,993	-	9,847	-
Total	$ 57,513	$ 69,098	$ 90,259	$ 9,777

In 2018 and 2017, deferred outflows of resources related to pensions resulting from Ohio BWC/IC's contributions subsequent to the measurement date of $9 million and $9.8 million, respectively, will be recognized as a reduction of net pension liability in the fiscal years ended June 30, 2019 and 2018, respectively.

Beginning in 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. These assumption changes as well as other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future years as follows (000's omitted):

Year ended June 30:						
	2019	$	13,446	2018	$	28,329
	2020		(4,021)	2019		30,501
	2021		(15,483)	2020		12,915
	2022		(14,429)	2021		(1,068)
	2023		(29)	2022		(15)
	Thereafter	$	(62)	Thereafter	$	(27)

Actuarial Assumptions

The total pension liability in the December 31, 2017 and 2016 actuarial valuations were determined using the following actuarial assumptions, applied to all periods included in the measurement:

December 2017

	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

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

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, 2017 and 2016 valuations were based on the results of an actuarial experience study for the 5 year periods ended December 31, 2015. 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 best estimates of arithmetical rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adjusted for inflation.

(Continued)

The table below displays the OPERS Board approved asset allocation policy for December 2017 and 2016 and the expected real rates of return.

	December 2017		December 2016	
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%	2.20%	23.00%	2.75%
Domestic equity	19.00%	6.37%	20.70%	6.34%
International equity	20.00%	7.88%	18.30%	7.95%
Real estate	10.00%	5.26%	10.00%	4.75%
Private equity	10.00%	8.97%	10.00%	8.97%
Other Investments	18.00%	5.26%	18.00%	4.92%
Total	100.00%	5.66%	100.00%	5.66%

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 both 2017 and 2016. 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 2017 and 2016, the following presents BWC/IC's proportionate share of the net pension liability calculated using the discount rate of 7.5%, 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 2017

	1% Decrease - 6.5 %	Current Discount Rate - 7.5%	1% Increase - 8.5%
Traditional Plan:			
Total Net Pension Liability	288,946	162,718	57,482
Combined Plan:			
Total Net Pension (Asset)	(445)	(819)	(1,077)

December 2016

	1% Decrease - 6.5 %	Current Discount Rate - 7.5%	1% Increase - 8.5%
Traditional Plan:			
Total Net Pension Liability	367,670	240,665	134,830
Combined Plan:			
Total Net Pension (Asset)	23	(322)	(589)

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 $535 thousand and $476 thousand in pension expense for defined contribution plans in fiscal years 2018 and 2017, 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.

(Continued)

9. Other Post Employment Benefit (OPEB)

OPERS administers the 115 Health Care Trust, a cost-sharing, multiple-employer defined benefit post-employment health care trust. OPERS health care program includes 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. Currently, Medicare eligible retirees are able to select medical and prescription drug plans from a range of options and may elect optional vision and dental plans. Although participants in the Member-Directed Plan are not eligible for health care coverage offered to benefit recipients in the Traditional and Combined plans, a portion of employer contributions is allocated to a retiree medical account. Upon retirement or separation, participants may be reimbursed for qualified medical expenses from these accounts.

All benefits of the System, and any benefit increases, are established by the legislature pursuant to Ohio Revised Code Chapter 145. OPERS Board has elected to maintain funds to provide health care coverage to eligible Traditional Pension Plan and Combined Plan retirees and survivors of members. Health care coverage does not vest and is not required. As a result, coverage may be reduced or eliminated at the discretion of OPERS. To qualify for health care coverage, age-and-service retirees under the Traditional Pension and Combined plans must be at least age 60 with 20 or more years of qualifying Ohio service. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available.

OPERS issues a publicly available financial report that includes financial statements, required supplementary information, information about the OPEB plan's fiduciary net position, and the Plan Statement with OPEB plan 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, 2018, the most recent report issued by OPERS is for the calendar year ended December 31, 2017.

Funding Policy

The portion of Traditional Pension Plan and Combined Plan employer contributions allocated to health care was 1.0% in 2017 and 2.0% in 2016. The 2018 allocation is expected to be 0% for health care funding, expected to continue thereafter. Employer contributions as a percent of covered payroll deposited for the Member-Directed Plan participants' health care accounts for both 2017 and 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, 2017 and 2016, was approximately $1.6 million and $3 million, respectively.

Measurement Date

The measurement dates for the net OPEB liabilities, deferred inflows and outflows of resources, and OPEB expense were December 31, 2017 for fiscal year 2018. OPERS total OPEB assets and liabilities that were used to calculate the net OPEB liability were based on an actuarial valuation of December 31, 2016 with a roll forward measurement date of December 31, 2017.

Proportionate Share

BWC/IC's proportionate shares of the net OPEB 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, 2017 Ohio BWC/IC's proportions were as follows:

	December 2017
OPEB	1.022887%

Net OPEB Liability, Deferred Outflows of Resources, Deferred Inflows of Resources, and OPEB Expense

At June 30, 2018, BWC/IC reported $111 million for its proportionate share of the net OPEB liability. The proportionate share of the net OPEB liability of earlier years has been reported as a restatement of beginning net position on the Statement of Revenues, Expenses and Changes in Net Position.

For the year ended June 30, 2018, Ohio BWC/IC recognized OPEB expense of $7.9 million.

At June 30, 2018, Ohio BWC/IC reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources (000's omitted):

	June 2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 87	$ -
Net difference between projected and actual earnings on pension plan investments	-	8,275
Assumption Changes	8,088	-
BWC/IC contributions subsequent to the measurement date	774	-
Total	$ 8,949	$ 8,275

Deferred outflows of resources related to OPEB resulting from Ohio BWC/IC's contributions after the measurement date of $774 thousand will be recognized as a reduction of net OPEB liability in the fiscal year ended June 30, 2019.

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

Year ended June 30:		
2019	$	1,839
2020		1,839
2021		(1,710)
2022		(2,068)

Actuarial Assumptions

The total OPEB liability in the December 31, 2017 actuarial valuations were determined using the following actuarial assumptions, applied to all periods included in the measurement:

December 2017

	OPEB
Actuarial Assumptions:	
Single Discount Rate	3.85%
Investment Rate of Return	6.50%
Wage Inflation	3.25%
Municipal Bond Rate	3.31%
Projected Salary Increases	3.25% - 10.75% (includes wage inflation at 3.25%)
Health Care Cost Trend Rate	7.5% initial, 3.25% ultimate in 2028

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 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, 2017 valuations were based on the results of an actuarial experience study for the 2-year periods ended December 31, 2015. 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 the health care 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 best estimates of arithmetical 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 2017 and the expected real rates of return.

	December 2017	
Asset Class	Target Allocation	Weighted Average Longterm Expected Real Rate of Return
Fixed income	34.00%	1.88%
Domestic equity	21.00%	6.37%
International equity	22.00%	7.88%
Real estate	6.00%	5.91%
Other Investments	17.00%	5.39%
Total	100.00%	4.98%

The methods used to determine contribution rates are based on the health care actuarial valuation study for the year ended December 31, 2016, rolled forward to a December 31, 2017 measurement date. There were no recent significant changes of health care plans, investment policies, the size or composition of the population covered by health care plans impacting the actuarial valuation studies for health care for the measurement date of December 31, 2017.

Discount Rate

A single discount rate of 3.85% was used to measure the OPEB liability on the measurement date of December 31, 2017. Projected benefit payments are required to be discounted to their actuarial present value using a single discount rate that reflects (1) a long-term expected rate of return on OPEB plan investments (to the extent that the health care fiduciary net position is projected to be sufficient to pay benefits), and (2) tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date (to the extent that the contributions for use with the long-term expected rate are not met). This single discount rate was based on an expected rate of return on the health care investment portfolio of 6.50% and a municipal bond rate of 3.31%. The projection of cash flows used to determine this single discount rate assumed that employer contributions will be made at rates equal to the actuarially determined contribution rate. Based on these assumptions, the health care fiduciary net position and future contributions were sufficient to finance health care costs through 2034. As a result, the long-term expected rate of return on health care investments was applied to projected costs through the year 2034, and the municipal bond rate was applied to all health care costs after that date.

Sensitivity to Changes in the Discount Rate

For 2018, the following BWC/IC's proportionate share of the net OPEB liability calculated using the discount rate of 3.85%, as well as what BWC/IC's proportionate share of the net OPEB liability would be if calucated using a discount rate that is 1.0% lower or 1.0% higher that the current rate (000's omitted):

December 2017	1% Decrease - 2.85 %	Single Discount Rate - 3.85%	1% Increase - 4.85%
OPEB:			
Total Net OPEB Liability	147,572	111,078	81,555

Sensitivity to Changes in the Health Care Cost Trend Rate

Changes in the health care cost trend rate may also have a significant impact on the net OPEB liability. The following table presents the net OPEB liability calculated using the assumed trend rates, and the expected net OPEB liability if it were calculated using a health care cost trend rate that is 1.0% lower or 1.0% higher than the current rate (000's omitted):

December 2017	1% Decrease	Current Health Care Cost Trend Rate Assumption	1% Increase
OPEB:			
Total Net OPEB Liability	106,278	111,078	116,036

Retiree health care valuations use a health care cost-trend assumption that changes over several years built into the assumption. The near-term rates reflect increases in the current cost of health care; the trend starting in 2018 is 7.50%. If this trend continues for future years, the projection indicates that years from now virtually all expenditures will be for health care. A more reasonable alternative is that in the not-too-distant future, the health plan cost trend will decrease to a level at, or near, wage inflation. On this basis, the actuaries project premium rate increases will continue to exceed wage inflation for approximately the next decade, but by less each year, until leveling off at an ultimate rate, assumed to be 3.25% in the most recent valuation.

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 2018 or 2017. 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 and is also involved in other claims and legal actions arising in the ordinary course of business. Although the outcome of certain legal proceedings 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.

12. 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 $472 million and $492 million have been recorded in SIF during fiscal years 2018 and 2017, 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.

13. Net Position

Individual fund net position (deficit) balances at June 30, 2018 and 2017 were as follows (000's omitted):

	2018	2017
SIF	$10,156,011	$ 9,886,105
SIF Surplus Fund Account	43,984	39,710
SIF Premium Payment Security Fund	143,642	143,642
Total SIF Net Position	10,343,637	10,069,457
DWRF	158,611	112,152
CWPF	270,831	268,687
PWREF	15,214	13,712
MIF	23,646	23,371
SIEGF	31,508	30,727
ACF	(916,583)	(760,035)
Total Net Position	$ 9,926,864	$ 9,758,071

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.

14. Adoption of New Accounting Principles

For the fiscal year ended June 30, 2018, the BWC/IC implemented the provisions of GASB Statement No. 75 "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions" and GASB No. 85 – "Omnibus 2017". GASB No. 75 replaces the requirements of Statement No. 45 and establishes new accounting and financial reporting requirements for other postemployment benefit plans (OPEB). As a result, the new net OPEB liability and related deferred outflows and inflows of resources have been recorded in the Statement of Net Position. The applicable provisions of GASB No. 85 have been implemented as required in BWC/IC's required supplementary schedules.

BWC/IC did not retroactively implement these standards as of July 1, 2016 because it was not deemed practical. Net position as of July 1, 2017 has been restated as follows for the implementation of GASB Statement No. 75 as amended by GASB Statement No. 85.

Net Position as of July 1, 2017:	$ 9,758,071
Cumulative effect of GASB 75 implementation:	
Net OPEB liability (measurement date as of December 31, 2016)	(103,315)
Net Position as restated at July 1, 2017	$ 9,654,756

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. 88, "Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements" (effective fiscal year 2019)
- 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.

SUPPLEMENTARY INFORMATION

REQUIRED SUPPLEMENTAL REVENUE AND RESERVE DEVELOPMENT INFORMATION
(See Accompanying Independent Auditors' Report)
June 30, 2018 and 2017

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, 2008 through 2018.

(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										
	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
1. Required premiums, assessments, and investment income earned	$2,608	$ 3,517	$ 1,378	$ 2,552	$ 5,194	$ 2,453	$ 4,044	$ 4,356	$ 4,206	$ 2,296	$ 2,968
Ceded premiums	4	4	4	4	4	6	6	6	1	-	-
Net earned	2,604	3,513	1,374	2,548	5,190	2,447	4,038	4,350	4,205	2,296	2,968
2. Unallocated expenses	219	205	170	163	150	140	129	131	139	97	108
3. Estimated incurred compensation and compensation adjustment expense, end of period	1,507	1,635	1,731	1,853	1,854	1,720	1,800	1,863	1,870	2,139	2,219
Discount	656	781	806	874	872	830	967	974	985	1,472	1,892
Gross liability as originally estimated	2,163	2,416	2,538	2,727	2,726	2,549	2,767	2,837	2,854	3,611	4,111
4. Net paid (cumulative) as of :											
End of period	341	347	327	331	337	380	386	400	384	458	415
One year later		531	531	548	563	600	620	641	639	711	755
Two years later			644	669	689	731	756	773	775	868	920
Three years later				748	776	822	857	879	883	979	1,056
Four years later					839	893	935	964	973	1,083	1,163
Five years later						952	1,002	1,040	1,055	1,179	1,256
Six years later							1,057	1,102	1,124	1,263	1,350
Seven years later								1,148	1,179	1,327	1,426
Eight years later									1,222	1,380	1,486
Nine years later										1,425	1,538
Ten years later											1,582
5. Re-estimated incurred compensation and compensation adjustment expenses (gross):											
One year later		2,039	2,257	2,346	2,476	2,494	2,501	2,680	2,701	2,865	3,607
Two years later			2,052	2,219	2,265	2,397	2,450	2,470	2,596	2,794	2,948
Three years later				2,024	2,144	2,234	2,361	2,438	2,425	2,730	2,909
Four years later					1,974	2,119	2,226	2,340	2,426	2,585	2,862
Five years later						2,002	2,135	2,236	2,342	2,668	2,748
Six years later							2,044	2,168	2,246	2,586	2,846
Seven years later								2,082	2,189	2,485	2,760
Eight years later									2,109	2,442	2,668
Nine years later										2,375	2,632
Ten years later											2,585
6. Decrease in gross estimated incurred compensation and compensation adjustment expenses from end of period		(377)	(486)	(703)	(752)	(547)	(723)	(755)	(745)	(1,236)	(1,526)

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, 2018 active miners nominal and discounted liability is approximately $220.7 million and $89.1 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

Last 4 fiscal years*
(000's omitted)

	2018	2017	2016	2015
BWC/IC's Proportion of the net pension				
Net Pension Asset	1.037%	1.060%	1.080%	1.115%
Net Pension Liability	0.602%	0.578%	0.549%	0.586%
BWC/IC's Proportionate share of the net pension liability	$161,899	$240,344	$186,771	$134,254
BWC/IC's covered employee payroll	$152,774	$155,963	$149,562	$149,652
Proportionate share of the net pension liability as a percentage of its covered employee payroll	105.973%	154.103%	124.879%	89.711%
Plan fiduciary net position as a percentage of the total pension liability				
Traditional Pension Plan	84.66%	77.25%	81.08%	86.45%
Combined Plan	137.28%	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 y
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 Pension Contributions

(See Accompanying Independent Auditors' Report)

Last 4 fiscal years*

(000's omitted)

	2018	2017	2016	2015
BWC/IC's Statutorily Required Employer Contributions	$ 20,713	$ 20,428	$ 19,752	$ 19,688
Amount of contributions recognized by the pension plan in relation to the statutory contributions	20,713	20,428	19,752	19,688
Contributions deficiency (excess)	-	-	-	-
Employer's covered employee payroll	153,211	152,963	151,275	148,683
Amount of contributions recognized by the pension plan as a percentage of employers' covered employee payroll	13.52%	13.35%	13.06%	13.24%

* - 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 BWC/IC's Proportionate Share of the Net OPEB Liability

Last 1 fiscal year*
(000's omitted)

	2018
BWC/IC's Proportion of the net OPEB liability	1.023%
BWC/IC's Proportionate share of the net OPEB liability	$111,078
BWC/IC's covered employee payroll	$152,774
Proportionate share of the net OPEB liability as a percentage of its covered employee payroll	72.707%
Plan fiduciary net position as a percentage of the total OPEB liability	54.14%

* - 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 OPEB Contributions

(See Accompanying Independent Auditors' Report)
Last 1 fiscal year*
(000's omitted)

	2018
BWC/IC's Statutorily Required Employer Contributions	$ 2,384
Amount of contributions recognized by the OPEB plan in relation to the statutory contributions	2,384
Contributions deficiency (excess)	-
Employer's covered employee payroll	$ 153,211
Amount of contributions recognized by the OPEB plan as a percentage of employers' covered employee payroll	1.56%

* - 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, 2018
(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	$ 1,248,364	$ 8,318	$ 493	$ 249	$ 1,260	$ 52,684	$ 5,528	$ -	$ 1,316,896
Collateral on loaned securities	-	-	-	-	-	-	1,574	-	1,574
Premiums recorded not yet due	17,835	-	-	288	-	-	-	-	18,123
Assessments recorded not yet due	-	-	-	-	-	-	2,179	-	2,179
Premiums in course of collection	7,426	-	-	-	-	-	-	-	7,426
Assessments in course of collection	-	400	-	-	-	-	13,284	-	13,684
Accounts receivable, net of allowance for uncollectibles	233,792	11,056	129	81	2	259	15,939	-	261,258
Retrospective premiums receivable	35,801	-	-	-	-	-	-	-	35,801
	10,125	512,850	195	4	3	7	185,597	(708,781)	-
Investment trade receivables	85,124	-	-	-	-	-	-	-	85,124
Accrued investment income	130,617	5	-	-	2	75	-	-	130,699
Other current assets	600	-	-	-	-	-	-	-	600
Total current assets	1,769,684	532,629	817	622	1,267	53,025	224,101	(708,781)	1,873,364
Non-current assets:									
Fixed maturities	11,707,150	1,101,647	272,660	16,534	23,788	-	-	-	13,121,779
Domestic equity securities:									
Common stock	6,063,060	378,361	57,580	-	-	-	-	-	6,499,001
Preferred stocks	922	-	-	-	-	-	-	-	922
Non-U.S equity securities - common stock	2,654,098	194,033	29,368	-	-	-	-	-	2,877,499
Investments in real estate funds	3,249,812	-	-	-	-	-	-	-	3,249,812
Unbilled premiums receivable	570,400	13,084	-	-	-	407,242	69,959	-	1,060,685
Retrospective premiums receivable	62,479	-	-	-	-	-	-	-	62,479
Capital assets	18,650	21	-	-	-	-	117,099	-	135,770
Net pension asset	-	-	-	-	-	-	819	-	819
Total noncurrent assets	24,326,571	1,687,146	359,608	16,534	23,788	407,242	187,877	-	27,008,766
Total assets	$ 26,096,255	$ 2,219,775	$ 360,425	$ 17,156	$ 25,055	$ 460,267	$ 411,978	$ (708,781)	$ 28,882,130
DEFERRED OUTFLOW OF RESOURCES	-	-	-	-	-	-	66,462	-	66,462
Total assets and deferred outflow of resources	$ 26,096,255	$ 2,219,775	$ 360,425	$ 17,156	$ 25,055	$ 460,267	$ 478,440	$ (708,781)	$ 28,948,592

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, 2018
(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	$ 1,347,989	$108,357	$ 1,885	$ 169	$ 169	$19,027	$ -	$ -	$ 1,477,596
Reserve for compensation adjustment expenses	169,472	119	106	-	39	789	228,996	-	399,521
Premium rebate payable	1,236,212	-	-	-	-	-	-	-	1,236,212
Unearned premium and assessments	389,671	61,565	-	325	87	-	48,434	-	500,082
Contingent liability	4,500	-	-	-	-	-	-	-	4,500
Warrants payable	165,095	-	-	-	-	-	-	-	165,095
Group retrospective credit payable	156,693	-	-	-	-	-	-	-	156,693
Investment trade payables	311,908	-	-	-	-	-	-	-	311,908
Accounts payable	25,143	-	54	-	-	-	8,619	-	33,816
Interfund payables	696,982	8,335	377	13	14	3,059	1	(708,781)	-
Obligations under securities lending	-	-	-	-	-	-	1,574	-	1,574
Other current liabilities	27,620	164	63	4	8	-	13,868	-	41,727
Total current liabilities	4,531,285	178,540	2,485	511	317	22,875	301,492	(708,781)	4,328,724
Noncurrent liabilities:									
Reserve for compensation	10,310,920	1,881,143	80,715	1,431	1,031	400,873	-	-	12,676,113
Reserve for compensation adjustment expenses	630,028	1,481	6,394	-	61	5,011	716,104	-	1,359,079
Net pension liability	-	-	-	-	-	-	162,718	-	162,718
Net OPEB liability	-	-	-	-	-	-	111,078	-	111,078
Group retrospective credit payable	280,385	-	-	-	-	-	-	-	280,385
Other noncurrent liabilities	-	-	-	-	-	-	26,258	-	26,258
Total noncurrent liabilities	11,221,333	1,882,624	87,109	1,431	1,092	405,884	1,016,158	-	14,615,631
Total liabilities	$ 15,752,618	$ 2,061,164	$ 89,594	$ 1,942	$ 1,409	$ 428,759	$ 1,317,650	$ (708,781)	$ 18,944,355
DEFERRED INFLOW OF RESOURCES	-	-	-	-	-	-	77,373	-	77,373
Total liabilities and deferred inflow of resources	$ 15,752,618	$ 2,061,164	$ 89,594	$ 1,942	$ 1,409	$ 428,759	$ 1,395,023	$ (708,781)	$ 19,021,728
NET POSITION (DEFICIT)									
Net investment in capital assets	18,649	22	-	-	-	-	117,099	-	135,770
Surplus fund	43,984	-	-	-	-	-	-	-	43,984
Premium payment security fund	143,642	-	-	-	-	-	-	-	143,642
Unrestricted net position (deficit)	10,137,362	158,589	270,831	15,214	23,646	31,508	(1,033,682)	-	9,603,468
Total net position (deficit)	$ 10,343,637	$ 158,611	$ 270,831	$ 15,214	$ 23,646	$ 31,508	$ (916,583)	$ -	$ 9,926,864

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, 2018
(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	$911,821	$15,094	$481	$155	$563	$13,383	$261,020	$ -	$1,202,517
Provision for uncollectibles	(49,771)	7,079	(31)	-	(7)	(555)	3,708	-	(39,577)
Other income	4,653	-	-	-	-	-	4,754	-	9,407
Total operating revenues	866,703	22,173	450	155	556	12,828	269,482	-	1,172,347
Operating expenses:									
Workers' compensation benefits	370,136	48,670	9,114	(1,444)	68	12,009	-	-	438,553
Compensation adjustment expenses	155,925	(103)	930	-	25	651	208,040	-	365,468
Personal services	-	55	118	-	32	-	78,804	-	79,009
Other administrative expenses	21,178	1	3	-	25	-	53,256	-	74,463
Total operating expenses	547,239	48,623	10,165	(1,444)	150	12,660	340,100	-	957,493
Net operating income (loss) before premium rebates and DWRF I alternative	319,464	(26,450)	(9,715)	1,599	406	168	(70,618)	-	214,854
Premium rebate	1,298,778	-	-	-	-	-	-	-	1,298,778
Loss contingency	75	-	-	-	-	-	-	-	75
DWRF I alternative funding expense	(20,128)	-	-	-	-	-	-	-	(20,128)
Total premium rebates, loss contingency and DWRF I alternative	1,278,725	-	-	-	-	-	-	-	1,278,725
Net operating (loss) income	(959,261)	(26,450)	(9,715)	1,599	406	168	(70,618)	-	(1,063,871)
Non-operating revenues:									
Net investment income	1,243,877	72,909	11,859	(97)	(131)	613	7,549	-	1,336,579
Gain on disposal of capital assets	-	-	-	-	-	-	(175)	-	(175)
Total non-operating revenues	1,243,877	72,909	11,859	(97)	(131)	613	7,374	-	1,336,404
Net transfers out	(10,436)	-	-	-	-	-	10,011	-	(425)
Increase (decrease) in net position (deficit)	274,180	46,459	2,144	1,502	275	781	(53,233)	-	272,108
Net position (deficit), beginning of year	10,069,457	112,152	268,687	13,712	23,371	30,727	(760,035)	-	9,758,071
Cumulative effect of GASB 75 Implementation (Note 14)	-	-	-	-	-	-	(103,315)	-	(103,315)
Net position (deficit), beginning of year as restated	10,069,457	112,152	268,687	13,712	23,371	30,727	(863,350)	-	9,654,756
Net position (deficit), end of year	$10,343,637	$158,611	$270,831	$15,214	$23,646	$31,508	$(916,583)	$ -	$9,926,864

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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, 2018, 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 27, 2018.

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 LLP

Crowe LLP

Columbus, Ohio
September 27, 2018

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
DECEMBER 18, 2018

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