WORKERS' COMPENSATION BOARD OF DIRECTORS

WEDNESDAY, SEPTEMBER 26, 2007, 10:00 AM
WILLIAM GREEN BUILDING
THE NEIL SCHULTZ CONFERENCE CENTER
30 WEST SPRING ST., 2ND FLOOR (MEZZANINE)
COLUMBUS, OHIO 43215

Members Present:	James Harris, Vice Chairman Charles Bryan David Caldwell Alison Falls Philip Fulton James Hummel Jim Matesich Larry Price Robert Smith
Members Absent:	William Lhota, Chairman Kenneth Haffey

CALL TO ORDER

Mr. Harris called the meeting to order at 10:00 AM.

NEW BUSINESS

Members of the Investment Department of BWC gave presentations on various investment topics. Lee Damsel, Director of Investments, began the presentations by discussing "Investment Basics." Vyts Kulpa, Investment Administrative Manager, discussed investment reporting. Doug Walouke, Senior Investment Manager, discussed fixed incomes. Finally, Lee Damsel gave an overview of the request for proposal process that the Investment Department utilizes when contracting with outside vendors.

MOTION TO RECESS

Following the presentations by the Investment Department, the Board of Directors recessed to begin the committee meetings. There was a motion by Mr. Bryan, second by Mr. Price, and the meeting was recessed by Mr. Lhota (Mr. Lhota joined the meeting at approximately 10:20 am.)

THURSDAY, SEPTEMBER 27, 2007, 8:00 AM
DRAFT
WILLIAM GREEN BUILDING
THE NEIL SCHULTZ CONFERENCE CENTER
30 WEST SPRING ST., 2ND FLOOR (MEZZANINE)
COLUMBUS, OHIO 43215

Members Present: William Lhota, Chairman
James Harris, Vice Chairman
Charles Bryan
David Caldwell
Alison Falls
Philip Fulton
Kenneth Haffey
James Hummel
Jim Matesich
Larry Price
Robert Smith

Members Absent: None

CALL TO ORDER

Mr. Lhota called the meeting to order at 8:00 am.

MINUTES OF AUGUST 23, 2007

Mr. Lhota asked whether there were any corrections to be made to the minutes of the August 23rd meeting. No corrections were made, and the prior meeting minutes were approved unanimously.

NEW BUSINESS/ACTION ITEMS

The Board discussed the make up of the newly created Governance Committee, and the duties it would perform. There was unanimous approval for Ms. Falls, Mr. Smith and Mr. Lhota to serve on the Governance Committee. The Committee will consider the issue of retaining fiduciary counsel, and will present recommendations to the Board at the October, 2007 meeting.

The Board also discussed the issue of number of meetings that all of the committees must conduct, and the number of times per year that the committees must make reports to the full Board. A motion was made and seconded to determine the number of times committees meet. This number was determined to be a minimum of nine per calendar year. It was determined that the committees all report at least nine times per calendar year to the full Board of Directors. Further, these requirements are to be incorporated into the committee charters.

RULE MAKING PROCESS

Tom Sico, BWC's Assistant General Counsel, gave a presentation explaining the administrative rule making process. Mr. Sico explained the difference between statutory and administrative rules. Mr. Sico discussed the Ohio Revised Code Chapter 119 review procedure, including public hearings and the joint committee on agency rule review (JCARR) of the General Assembly. Mr. Sico emphasized that rules must remain within legislative intent, and not conflict with Ohio law. It was noted that BWC has around four hundred rules, most of which are Chapter 119 rules. Mr. Sico discussed Chapter 111.15 rules, which go through a different approval process and are generally rules regarding premium rates. All rules adopted by BWC must receive the advice and consent from the Board. There is a five year rule review mandate. However, some rules are modified more frequently, such as the rate rules and rules done in response to legislation and/or court decisions.

Mr. Harris questioned whether or not 111.15 rules were posted in BWC offices around the state. Mr. Sico answered that only notices of public hearing for rules are posted in the service offices, and because these rules require no public hearing, no notice to the service offices is provided. However, all final rules are posted on BWC's website and available to the public.

Mr. Price pointed out that JCARR can only invalidate rules, it cannot modify rules.

COMMITTEE REPORTS

Audit Committee:
Mr. Haffey provided an update on the Audit Committee meeting. Mr. Haffey noted that the Committee will be finalizing its charter at the October 2007 meeting.

Mr. Haffey provided an update on rules, including the coverage application rule (OAC 4123-17-13), regarding a change to paragraph (F). There was discussion of the eight elements to be provided in an application for coverage, but no summary rejection of the application. BWC will work with the employers filing for coverage to obtain all eight of the necessary elements. If the elements are provided, then the effective date of coverage will be from the initial date of the application. Mr. Haffey moved that the Board of Directors approve WCBOD Resolution 07-01 relating to OAC Rule 4123-17-13 and the initial application for coverage. The motion was seconded by Mr. Harris.

Joy Bush, Director of Employer Services, presented background information regarding this proposed rule change. She discussed the application rule and its intent to efficiently establish coverage for employers. She noted that BWC receives 32,000 applications per year. Ms. Bush indicated that the rule changes will increase revenue, while facilitating obtaining the eight critical elements required for a coverage application.

Mr. Bryan asked whether or not there would be financial penalties for the ultimate failure to satisfy the eight elements. Ms. Bush replied there is no direct financial penalty for failure to provide all eight elements, but the application may be rejected if all eight are not provided.

Mr. Matesich raised a question with regard to methods of contact. Ms. Bush explained that currently applications cannot be resolved and removed from the books even after reasonable attempts to obtain data. BWC needs the ability to eventually reject an incomplete application. There is a timeframe issue. BWC will contact the applicant at least three times, through various means.

Mr. Fulton asked whether or not BWC's Legal Division has a policy addressing when an employer's immunity would or would not apply. Tom Sico, Assistant General Counsel replied that the Legal Division does not have any policy addressing that issue, but Ms. Bush indicated that the employer applicant is not considered non-complying until the application is actually rejected.

Mr. Price expressed concern about potential wording that BWC will deny an application if information is not provided. Ms. Bush answered that the intent is to try and initiate coverage. Ms. Bush indicated that BWC will fully document its contacts with the applicants, and that its procedures require every attempt at contact to be documented in UDS notes and WCIS notepad.

Following this discussion, the motion to adopt WCBOD Resolution 07-01 was unanimously approved.

Mr. Haffey then began a discussion about OAC Rule 4123-6-37.1 which concerns hospital reimbursement. A motion was made by Mr. Haffey that the Board of Directors approve WCBOD Resolution 07-02 relating to OAC Rule 4123-6-37.1 concerning the hospital reimbursement rules. Mr. Harris seconded the motion.

Stephanie Ramsey, BWC's Director of Managed Care Services, gave a presentation on the proposed hospital reimbursement rule. She noted that it is a Chapter 119 rule, is only one year old, and was originally written in response to a judicial decision. The rule contains explicit reference to the Code of Federal Regulations as well as the Federal Register. Medicare methodology must be applied in the current period, and the cost to charge ratio must be updated. Mr. Fulton inquired as to whether or not the hospital association was satisfied with rule. Stephanie Ramsey's response was yes. Mr. Fulton emphasized the significance of rules in this instance.

Following this discussion, the motion to adopt WCBOD Resolution 07-02 was unanimously approved.

Mr. Haffey next provided a summary of the discussion with Joe Bell, BWC's Chief of Internal Audit and the internal audit staff. Mr. Haffey indicated that he also met with Schneider Downs, BWC's external auditors. Mr. Haffey stated that the external audit will be completed Friday, September 28, 2007. With regard to management comment and Yellow Book comments, there are none for concern.

Mr. Bryan asked whether or not the Yellow Book filed with the State is different from insurance yellow book. Tracy Valentino, BWC's Interim Chief Financial Officer, answered that the two are different: the Yellow Book discussed here is a review that auditors do, with regard to compliance with laws and regulations. Repeat comments from prior audits have been remediated. SAS 70 audits from the MCOs and internal control are operating properly. With regard to the disabled workers' relief fund, there will be additional discussion when the audit report is furnished.

BWC's General Counsel James Barnes provided a summary to the Audit Committee of BWC's proposed responses to the recommendations from the Inspector General Manual Override Report (internal audit tab in materials provided). The recommendations are discussed on pages 11 -12.

Actuarial Committee:
Mr. Bryan reviewed the Actuarial Committee charter. Charter changes shall be presented at the next meeting of the Board.

Mr. Bryan discussed a recommendation to change the rule on public employer taxing districts. A motion was made by Mr. Bryan that the Board of Directors approve WCBOD Resolution 07-03, changing the PEC rates to achieve an overall change of zero percent in total collectible premium from the previous year. The motion was seconded by Mr. Hummel. There were no questions, and the motion passed unanimously.

Mr. Bryan then began a discussion of the annuity table. It is currently at a 5.25% discount rate. A motion was made by Mr. Bryan that the Board of Directors approve WCBOD Resolution 07-04, to amend OAC Rule 4123-17-60 so that BWC's annuity tables use a 5% discount factor. The motion was seconded by Mr. Matesich. Ms. Falls provided a comment that the discount rate is a policy issue that concerns all committees and rate structure. Mr. Bryan agreed and suggested a joint session of committees on similar issues. Following this discussion, the motion passed unanimously.

Next, an update on the MIRA II reserving system was provided. It was purchased from an external vendor, and is responsive to a mandate by House Bill 100 to implement a new reserving system by July of 2008.

Finally, the Actuarial Committee had a discussion of controlling cost drivers to the workers' compensation system, noting a medical inflation rate of nine percent.

Investment Committee:
Mr. Smith discussed the Investment Committee's charter, but stated that final approval of the charter will be made next month so that the Governance Committee can evaluate all committee charters for consistency.

The members of the Investment Committee discussed a possible change to the long duration fixed income benchmark at their committee meeting. However, no action was taken on this matter.

Mr. Smith reported that a temporary waiver of Appendix XV (calendar of reports) of the BWC Investment Policy was discussed. A motion was made by Mr. Smith, and seconded by Mr. Price, that the Board of Directors approve WCBOD Resolution 07-07, to indefinitely suspend operation of Appendix XV of the Investment Policy Statement regarding the schedule of required reports by BWC's Chief Investment Officer until such time as the Board of Director approves revised reporting structures. The motion was approved unanimously by the Board of Directors.

Mr. Smith reported that the issue of commingled versus separate accounts for BWC investment accounts was discussed at the Investment Committee meeting. The issue will be considered again next month by the Investment Committee.

Mr. Bryan suggested a joint meeting with the Actuarial Committee to discuss asset / liability issues. Mr. Smith indicated that he was amenable to the idea.

Mr. Smith reported that the Investment Committee also engaged in a discussion with the BWC Chief Investment Officer, Bruce Dunn regarding the investment consultant and a potential RFP. This matter will be discussed again at the Committee's October meeting.

MONTHLY FINANCIAL REPORT

Tracy Valentino, BWC's Interim Chief Financial Officer, discussed BWC's financial reports contained within the meeting binder. Ms. Valentino discussed the financial results from the last three fiscal years on a combined basis. The 2005 and 2006 results are audited. The 2007 results are unaudited since the final audit report has not been released to the Auditor of State by Schneider Downs, the external auditors. Ms. Valentino explained that operating revenues represent premiums and assessments collected biannually. There is asset and revenue recording for future collection of disabled workers' relief fund assessment. This is not a prior period adjustment; therefore 2005 and 2006 will not be adjusted as a separate line item (one time single item, included in footnotes.)

Ms. Valentino reported that net investment income reflects unrealized income and market value changes, resulting in a decrease in 2006 due to a change in BWC's portfolio to bonds. In addition, the financial report is a result of some reserving methods having changed due to court decisions.

On page five of the meeting packet, Ms. Valentino noted that a net asset corresponding DRWF entry has increased net assets substantially. This is a result of a House Bill 100 change. The entry was made in 2007.

Reference was made to the monthly financial packet. The projections are established in June every year, and are rarely changed during the year. Mr. Bryan expressed concerned about whether or not alternative projections are, or should, be made.

ADMINISTRATOR BRIEFING

Administrator Marsha P. Ryan discussed the success of BWC's Workers' Compensation University, noting the contributions of BWC's sister agency, the Industrial Commission (IC). Administrator Ryan then introduced Gary Diceglio, Chairman of the IC, as well as Industrial Commission members Bill Thompson and Kevin Abrams, and IC legislative liaison Linda Bozeman. Following these introductions, the meeting recessed at 9:35 AM for a short break.

The Board of Directors' meeting reconvened at 9:46 AM, with Mr. Haffey not in attendance. Administrator Ryan announced that the Directors need to log into their state e-mail account for communication purposes, that OPERS forms need to be completed, and that the OPERS informational presentation will be either in November of 2007 or December of 2007. Finally, Administrator Ryan noted that fiduciary insurance for $10 million in coverage has been obtained for the Board members.

Ms. Ryan then began a discussion regarding group rating issues, in particular for the period beginning in July of 2008. Ms. Ryan emphasized that there is a need for input from the Board to develop a three to five year plan to correct problems. In addition, she noted that stakeholders need some direction as to what the discount rate for group rating for the next rating period is going to be. Currently, the maximum discount factor associated with group rating is 90%. The actuarial consultants have recommended that the appropriate discount factor should be set at around 60%. Administrator Ryan recommended that the Board begin addressing this problem and not wait another year. There was a discussion of moving to a different system for experience modification, with frequency being more important than severity of claims. Ms. Ryan proposed that the Board indicate that the discount be no less than 80% for July 1, 2008. She stated that 80% demonstrates that progress towards fixing group rating is being made.

John Pedrick, BWC's Chief Actuary, discussed that measure of risk needs to be accurate. He stated that BWC needs to consider what the true cost that members of a group are bringing. He also recommended that BWC should take steps for plan year beginning July 2008. The steps will be gradual. The size of the entity determines the weight of experience. Ms. Ryan clarified that the ultimate decision on what the maximum discount factor for group rating will be can be made at a later point.

A motion was made by Mr. Smith, and seconded, by Larry Price to approve Administrator Ryan's recommendation that the discount factor for plan year July 2008, be not less than 80%. The motion was passed by unanimous roll call vote.

GOVERNANCE ISSUES / TRAINING

Jeff Rodek from the OSU College of Business gave a presentation to the Board on issues of governance. He discussed the role of a board in contrast to the role of management in the governance of an organization. He also discussed the concept of a board adding value to the organization.

Mr. Rodek shared the results of a survey he had conducted of the BWC Board of Directors concerning their opinions of the main functions of their board. The top five votes went to the categories of strategic planning & oversight; risk & crisis oversight; relations to stakeholders; financial oversight & controls; and disclosure.

Mr. Rodek indicated that the board must have ways to measure key initiatives for oversight, and must develop indicators to determine if an organization is on track to achieve strategy. Finally, he noted that a positive board culture is very important for success.

ADJOURN TO EXECUTIVE SESSION

Following Mr. Rodek's presentation on governance, a motion was made, and seconded to adjourn to executive session to discuss personnel issues with Inspector General, Thomas Charles at 12:00 PM. The motion was passed by unanimous roll call vote.

The Board reconvened following the adjournment to executive session. The members discussed the board meetings currently scheduled for the month of November. The Board members discussed moving the meeting dates from November 28th and 29th, to November 20, 2007 and November 21, 2007.

A motion was made by Ms. Falls, and seconded by Mr. Bryan, to adjourn the meeting at 2:10 PM.

Financial**Report**

October '07

Ohio Bureau of Workers' Compensation

Printed within BWC

Financial **Report**

October '07

Combined net assets have increased from $2.3 billion at June 30, 2007 to $2.7 billion at September 30, 2007. The 2008 fiscal year-to-date increase in net assets is due to the following:

- Net investment income of $595 million, which includes interest and dividends of $195 million, an increase of $402 million in the fair value of the investment portfolio, and investment expenses of $2 million.
- Operating losses of $232 million, which partially off-set net investment income.

In September 2007, the bond index fund units held by the Disabled Workers' Relief Fund and the Coal Workers' Pneumoconiosis Fund were liquidated with holdings transitioned to meet the investment policy allocation of 20 percent equity and 79 percent fixed income.

	Fiscal Year 2008 As of September 30	**Fiscal Year 2007** As of September 30	
Operating Revenues	$614 million	$596 million	$18 million increase
Operating Expenses	$846 million	$773 million	$73 million increase
Net Investment Income	$595 million	$602 million	$7 million decrease
Net Assets	$2.7 billion	$298 million	$2.4 billion increase

Operating expenses for fiscal year-to-date 2008, include the latest reserve projections prepared by BWC's actuarial consultants. These projections are based on payment trends and assumptions from the recently completed fiscal year 2007 actuarial audit. The projections for fiscal year-to-date 2008 have increased reserves for compensation and compensation adjustment expenses by $58 million. A significant factor in this increase is the change in the discount rate from 5.25 percent to 5.0 percent at June 30, 2007. Also contributing to the increase in operating expenses is a $30 million increase in benefit payments driven by increased lump sum settlements.

The significant increase in net assets is a result of a statutory change impacting the Disabled Workers' Relief Fund.

Statement of **Operations** **Combining** Schedule

Fiscal year to date September 30, 2007

(in thousands)	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	Totals
Operating Revenues								
Premium & Assessment Income	$ 457,899	$ 56,404	$ 496	$ 54	$ 149	$ 15,517	$ 97,643	$ 628,162
Provision for Uncollectibles	(19,670)	(1,185)	–	–	–	(721)	475	(21,101)
Other Income	6,917	–	–	–	–	–	524	7,441
Total Operating Revenue	445,146	55,219	496	54	149	14,796	98,642	614,502
Operating Expenses								
Benefits & Compensation Adj. Expense	682,787	54,402	269	166	301	15,419	67,725	821,069
Other Expenses	4,323	61	20	–	28	–	20,264	24,696
Total Operating Expenses	687,110	54,463	289	166	329	15,419	87,989	845,765
Net Operating Income (loss) before operating transfers out	(241,964)	756	207	(112)	(180)	(623)	10,653	(231,263)
Operating transfers out	(330)	–	–	–	–	–	330	-
Net operating income (loss)	(242,294)	756	207	(112)	(180)	(623)	10,983	(231,263)
Investment Income								
Investment income	177,800	12,480	2,641	224	165	595	822	194,727
Realized & unrealized capital gains (losses)	380,266	17,648	3,698	50	36	–	–	401,698
Investment manager and operational fees	(1,414)	–	–	–	–	–	–	(1,414)
Gain (loss) on disposal of fixed assets	–	–	–	–	–	–	34	34
Total non-operating revenues, net	556,652	30,128	6,339	274	201	595	856	595,045
Increase (decrease) in Net Assets (deficit)	314,358	30,884	6,546	162	21	(28)	11,839	363,782
Net Assets (deficit) Beginning of Period	2,080,045	800,185	171,741	18,295	13,802	6,208	(784,730)	2,305,546
Net Assets (deficit) End of Period	$ 2,394,403	$ 831,069	$ 178,287	$ 18,457	$ 13,823	$ 6,180	$ (772,891)	$ 2,669,328

Statement of **Net Assets**

As of September 30, 2007

(in millions)	Actual	Projected	Variance	Prior Yr. Actual	Increase (Decrease)
Assets					
Total Cash and Investments	$ 17,534	$ 17,211	$ 323	$ 17,002	$ 532
Accrued Premiums	4,432	4,240	192	2,798	1,634
Other Accounts Receivable	273	404	(131)	247	26
Investment Receivables	301	183	118	3	298
Other Assets	120	119	1	126	(6)
Total Assets	$ 22,660	$ 22,157	$ 503	$ 20,176	$ 2,484
Liabilities					
Reserve for Compensation and Compensation Adj. Expense	$ 19,534	$ 19,534	$ –	$ 19,132	$ 402
Accounts Payable	68	53	(15)	61	7
Investment Payable	154	–	(154)	–	154
Other Liabilities	235	249	14	685	(450)
Total Liabilities	19,991	19,836	(155)	19,878	113
Net Assets	$ 2,669	$ 2,321	$ 348	$ 298	$ 2,371

Statement of **Operations**

Fiscal year to date September 30, 2007

(in millions)	Actual	Projected	Variance	Prior Yr. Actual	Increase (Decrease)
Total Operating Revenues	$ 614	$ 662	$ (48)	$ 596	$ 18
Total Operating Expenses	846	896	50	773	73
Net Operating Gain (Loss)	(232)	(234)	2	(177)	(55)
Net Investment Income	595	249	346	602	(7)
Increase (Decrease) in Net Assets	363	15	348	425	(62)
Net Assets Beginning of Period	2,306	2,306	–	(127)	2,433
Net Assets End of Period	$ 2,669	$ 2,321	$ 348	$ 298	$ 2,371

Statement of **Operations**

Fiscal year to date September 30, 2007

(in millions)	Actual	Projected	Variance	Prior Yr. Actual	Increase (Decrease)
Operating Revenues					
Premium & Assessment Income	$ 628	$ 673	$ (45)	$ 620	$ 8
Provision for Uncollectibles	(21)	(17)	(4)	(32)	11
Other Income	7	6	1	8	(1)
Total Operating Revenue	614	662	(48)	596	18
Operating Expenses					
Benefits & Compensation Adj. Expense	821	871	50	748	73
Other Expenses	25	25	–	25	–
Total Operating Expenses	846	896	50	773	73
Net Operating Gain (Loss)	(232)	(234)	2	(177)	(55)
Investment Income					
Interest and dividend income	195	203	(8)	222	(27)
Realized & unrealized capital gains (losses)	401	54	347	383	18
Investment manager and operational fees	(1)	(8)	7	(3)	(2)
Gain (loss) on disposal of fixed assets	–	–	–	–	–
Net Investment Income	595	249	346	602	(7)
Increase (Decrease) in Net Assets	363	15	348	425	(62)
Net Assets Beginning of Period	2,306	2,306	–	(127)	2,433
Net Assets End of Period	$ 2,669	$ 2,321	$ 348	$ 298	$ 2,371

Statement of **Investment Income**

Fiscal year to date September 30, 2007

	Actual	Projected	Variance	Prior Yr. Actual	Increase (Decrease)
Interest Income					
Bond Interest	$ 170,837,561	$ 184,200,000	$ (13,362,439)	$ 210,425,632	$ (39,588,071)
Dividend Income (Dom & Int'l)	11,816,616	14,400,000	(2,583,384)	99,113	11,717,503
Money Market/ Commercial Paper Income	5,968,397	3,120,000	2,848,397	3,413,766	2,554,631
Misc. Income (Corp actions, etc.)	1,624,628	900,000	724,628	1,403,869	220,759
Private Equity	4,479,448	700,000	3,779,448	4,984,705	(505,257)
Net Securities Lending Income	–	–	–	1,541,324	(1,541,324)
Total Interest Income	194,726,650	203,320,000	(8,593,350)	221,868,409	(27,141,759)
Realized & Unrealized Capital Gains and (Losses)					
Net realized gain (loss) - Stocks (Dom & Int'l)	44,796,048	–	44,796,048	881,489	43,914,559
Net realized gain (loss) - Bonds	(85,222,392)	–	(85,222,392)	(75,423)	(85,146,969)
Net gain (loss) - PE	7,929,472	–	7,929,472	2,807,629	5,121,843
Unrealized gain (loss) - Stocks (Dom & Int'l)	11,494,142	53,640,000	(42,145,858)	(1,911,863)	13,406,005
Unrealized gain (loss) - Bonds	422,701,156	–	422,701,156	382,119,777	40,581,379
Change in Portfolio Value	401,698,426	53,640,000	348,058,426	383,821,609	17,876,817
Investment Expenses-Manager & Operational Fees	(1,414,416)	(7,574,000)	6,159,584	(3,411,150)	(1,996,734)
Total Investment Income	$ 595,010,660	$ 249,386,000	$ 345,624,660	$ 602,278,868	$ (7,268,208)

Statement of **Cash Flows**

Fiscal year to date September 30, 2007

(in millions)	Actual	Projected	Variance	Prior Yr. Actual	Increase (Decrease)
Cash flows from operating activities:					
Cash receipts from premiums	$ 867	$ 942	$ (75)	$ 821	$ 46
Cash receipts – other	5	5	–	9	(4)
Cash disbursements for claims	(535)	(553)	18	(509)	(26)
Cash disbursements for other	(112)	(110)	(2)	(139)	27
Net cash provided (used) by operating activities	225	284	(59)	182	43
Net cash flows from capital and related financing activities	(4)	(3)	(1)	(4)	–
Net cash provided (used) by investing activities	89	(64)	153	9	80
Net increase (decrease) in cash and cash equivalents	310	217	93	187	123
Cash and cash equivalents, beginning of period	328	328	–	194	134
Cash and cash equivalents, end of period	$ 638	$ 545	$ 93	$ 381	$ 257

Projected Statement of **Operations**

July 1, 2007 – June 30, 2008

(in millions)	**Actual** July 31, 2007	**Actual** Aug.31, 2007	**Actual** Sept. 30, 2007	**Actual Quarter** Sept. 30, 2007
Total Operating Revenues	$ 198	$ 230	$ 186	$ 614
Total Operating Expenses	217	356	273	846
Net Operating Gain (Loss)	(19)	(126)	(87)	(232)
Net Investment Income	124	259	212	595
Increase (Decrease) In Net Assets	105	133	125	363
Net Assets Beginning of Period	2,306	2,411	2,544	2,306
Net Assets End of Period	$ 2,411	$ 2,544	$ 2,669	$ 2,669

(in millions)	**Projected Quarter** Dec. 31, 2007	**Projected Quarter** March 31, 2008	**Projected Quarter** June 30, 2008	**Projected Fiscal Year** June 30, 2008
Total Operating Revenues	$ 632	$ 647	$ 615	$ 2,508
Total Operating Expenses	899	884	918	3,547
Net Operating Gain (Loss)	(267)	(237)	(303)	(1,039)
Net Investment Income	90	107	143	935
Increase (Decrease) In Net Assets	(177)	(130)	(160)	(104)
Net Assets Beginning of Period	2,669	2,492	2,362	2,306
Net Assets End of Period	$ 2,492	$ 2,362	$ 2,202	$ 2,202

Projected Statement of **Investment Income**

July 1, 2007 – June 30, 2008

	Actual July 31, 2007	Actual Aug. 31, 2007	Actual Sept. 30, 2007	Actual Quarter Sept. 30, 2007
Interest Income				
Bond Interest	$ 58,119,451	$ 57,684,133	$ 55,033,977	$ 170,837,561
Dividend Income (Dom & Int'l)	1,634,880	5,768,235	4,413,501	11,816,616
Money Market/ Commercial Paper Income	1,200,993	2,041,698	2,725,706	5,968,397
Misc. Income (Corp actions, etc.)	546,281	923,063	155,284	1,624,628
Private Equity	1,860,819	1,388,022	1,230,607	4,479,448
Net Securities Lending Income	–	–	–	–
Total Interest Income	63,362,424	67,805,151	63,559,075	194,726,650
Realized & Unrealized Capital Gains and (Losses)				
Net realized gain (loss) - Stocks (Dom & Int'l)	821,515	37,699,627	6,274,906	44,796,048
Net realized gain (loss) - Bonds	(17,680,511)	(591,629)	(66,950,252)	(85,222,392)
Net gain (loss) - PE	(7,071,565)	16,638,978	(1,637,941)	7,929,472
Unrealized gain (loss) - Stocks (Dom & Int'l)	(81,130,460)	(4,695,876)	97,320,478	11,494,142
Unrealized gain (loss) - Bonds	165,465,665	143,512,061	113,723,430	422,701,156
Change in Portfolio Value	60,404,644	192,563,161	148,730,621	401,698,426
Investment Expenses-Manager & Operational Fees	–	(1,150,949)	(263,467)	(1,414,416)
Total Investment Income	$ 123,767,068	$ 259,217,363	$ 212,026,229	$ 595,010,660

	Projected Quarter Dec. 31, 2007	Projected Quarter March 31, 2008	Projected Quarter June 30, 2008	Projected Fiscal Year June 30, 2008
Interest Income				
Bond Interest	$ 184,200,000	$ 186,100,000	$ 189,900,000	$ 731,037,561
Dividend Income (Dom & Int'l)	14,400,000	14,400,000	15,100,000	55,716,616
Money Market/ Commercial Paper Income	3,120,000	3,120,000	3,120,000	15,328,397
Misc. Income (Corp actions, etc.)	900,000	900,000	900,000	4,324,628
Private Equity	–	–	–	4,479,448
Net Securities Lending Income	–	–	–	–
Total Interest Income	202,620,000	204,520,000	209,020,000	810,886,650
Realized & Unrealized Capital Gains and (Losses)				
Net realized gain (loss) - Stocks (Dom & Int'l)	–	–	–	44,796,048
Net realized gain (loss) - Bonds	–	–	–	(85,222,392)
Net gain (loss) - PE	–	–	–	7,929,472
Unrealized gain (loss) - Stocks (Dom & Int'l)	53,640,000	53,640,000	54,780,000	173,554,142
Unrealized gain (loss) - Bonds	(165,000,000)	(149,500,000)	(118,500,000)	(10,298,844)
Change in Portfolio Value	(111,360,000)	(95,860,000)	(63,720,000)	130,758,426
Investment Expenses-Manager & Operational Fees	(1,656,000)	(1,645,000)	(1,909,000)	(6,624,416)
Total Investment Income	$ 89,604,000	$ 107,015,000	$ 143,391,000	$ 935,020,660

Projected Statement of **Cash Flows**

July 1, 2007 – June 30, 2008

(in millions)	**Actual** July 31, 2007	**Actual** Aug.31, 2007	**Actual** Sept. 30, 2007	**Actual Quarter** Sept. 30, 2007
Cash flows from operating activities:				
Cash receipts from premiums	$ 203	$ 554	$ 110	$ 867
Cash receipts – other	2	2	1	5
Cash disbursements for claims	(173)	(195)	(167)	(535)
Cash disbursements for other	(43)	(40)	(29)	(112)
Net cash provided (used) by operating activities	(11)	321	(85)	225
Net cash flows from capital and related financing activities	–	–	(4)	(4)
Net cash provided (used) by investing activities	71	129	(111)	89
Net increase (decrease) in cash and cash equivalents	60	450	(200)	310
Cash and cash equivalents, beginning of period	328	388	838	328
Cash and cash equivalents, end of period	$ 388	$ 838	$ 638	$ 638

(in millions)	**Projected Quarter** Dec. 31, 2007	**Projected Quarter** March 31, 2008	**Projected Quarter** June 30, 2008	**Projected Fiscal Year** June 30, 2008
Cash flows from operating activities:				
Cash receipts from premiums	$ 244	$ 952	$ 439	$ 2,502
Cash receipts – other	5	5	5	20
Cash disbursements for claims	(564)	(548)	(576)	(2,223)
Cash disbursements for other	(91)	(103)	(98)	(404)
Net cash provided (used) by operating activities	(406)	306	(230)	(105)
Net cash flows from capital and related financing activities	–	(17)	–	(21)
Net cash provided (used) by investing activities	–	–	–	89
Net increase (decrease) in cash and cash equivalents	(406)	289	(230)	(37)
Cash and cash equivalents, beginning of period	638	232	521	328
Cash and cash equivalents, end of period	$ 232	$ 521	$ 291	$ 291

Insurance **Ratios**

September 30, 2007

	Actual FY08 Sept. 30, 2007	Projected FY08 Sept. 30, 2007	Actual FY07 Sept. 30, 2006
Loss Ratio	112.04%	104.42%	100.77%
LAE Ratio - MCO	7.68%	10.69%	8.34%
LAE Ratio - BWC	10.99%	14.16%	11.54%
Net Loss Ratio	130.71%	129.27%	120.65%
Expense Ratio	3.93%	3.71%	4.00%
Policyholder Dividend Ratio	0.00%	0.00%	0.00%
Combined Ratio	134.64%	132.98%	124.65%
Net Investment Income Ratio	30.77%	29.07%	35.22%
Operating Ratio (Trade Ratio)	103.87%	103.91%	89.43%

Fiscal Year End Insurance **Ratios**

Fiscal years 2003 – 2008

	Projected FY08	FY 07	FY06	FY05	FY04	FY03
Loss Ratio	111.0%	46.9%	74.3%	106.7%	96.7%	128.9%
LAE Ratio - MCO	10.3%	3.8%	8.6%	7.1%	9.1%	8.8%
LAE Ratio - BWC	12.8%	10.9%	6.4%	14.7%	8.3%	12.9%
Net Loss Ratio	134.1%	61.6%	89.3%	128.5%	114.2%	150.6%
Expense Ratio	3.7%	2.3%	4.0%	4.0%	5.1%	4.1%
Policyholder Dividend Ratio	0.0%	0.0%	-0.4%	10.3%	18.6%	28.7%
Combined Ratio	137.8%	63.9%	92.9%	142.8%	137.9%	183.4%
Net Investment Income Ratio	31.2%	18.5%	30.4%	22.1%	20.5%	23.9%
Operating Ratio (Trade Ratio)	106.6%	45.4%	62.5%	120.7%	117.3%	159.5%