

Note:

This report of the Illinois Workers' Compensation Commissions' Self-Insurers Security Fund (Fund) should be read in conjunction with the FY16 financial statements of the Fund and the auditor's report dated January 4, 2018.

In FY16, the auditors issued an adverse opinion on the Fund's financial statements due to the Commission having an inadequate process to determine the claims liabilities of the Fund, and because the proper accounting treatment for the insolvent self-insurer security collected by the State of Illinois is not determinable due to two different irreconcilable interpretations of the Worker's Compensation Act. Because of the adverse auditor opinion of the Fund's financial statements for the year ended June 30, 2016, the audit reports for the year ended prior to June 30, 2016 should not be relied upon without considering the auditor's report dated January 4, 2018.

State of Illinois
WORKERS' COMPENSATION COMMISSION
SELF-INSURERS' SECURITY
NONSHARED PROPRIETARY FUND
FINANCIAL AUDIT
For the Years Ended June 30, 2006 and 2005

Performed as Special Assistant Auditors
for the Auditor General, State of Illinois

State of Illinois
WORKERS' COMPENSATION COMMISSION
SELF-INSURERS' SECURITY
NONSHARED PROPRIETARY FUND
FINANCIAL AUDIT
For the Years Ended June 30, 2006 and 2005

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State of Illinois
WORKERS' COMPENSATION COMMISSION
SELF-INSURERS' SECURITY
NONSHARED PROPRIETARY FUND
FINANCIAL AUDIT
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AGENCY OFFICIALS

Chairman	Mr. Dennis R. Ruth
Fiscal Officer (1/6/06 to Current)	Ms. Carol Reckamp
Fiscal Officer (12/1/05 - 1/5/06)	Vacant
Fiscal Officer (5/15/72 to 11/30/05)	Mr. Charles T. Kusar
Legal Counsel	Ms. Kathryn Kelley

Agency offices are located at:

James R. Thompson Center
100 West Randolph Street, Suite 8-200
Chicago, Illinois 60601

State of Illinois
WORKERS' COMPENSATION COMMISSION
SELF-INSURERS' SECURITY
NONSHARED PROPRIETARY FUND
FINANCIAL AUDIT
For the Years Ended June 30, 2006 and 2005

FINANCIAL STATEMENT REPORT SUMMARY

The audit of the accompanying financial statements of the Illinois Workers' Compensation Commission Self-Insurers' Security Fund was performed by Martin & Shadid CPAs, P.C.

Based on their audit, the auditors expressed an unqualified opinion on the Self-Insurers' Security Fund's financial statements.

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INDEPENDENT AUDITORS' REPORT

Honorable William G. Holland
Auditor General
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the Self-Insurers' Security Fund of the State of Illinois Workers' Compensation Commission as of and for the years ended June 30, 2006, as listed in the table of contents. These financial statements are the responsibility of the State of Illinois Workers' Compensation Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

The prior year comparative information has been derived from the Commission's 2005 financial statements and, in our report dated September 29, 2005, we expressed an unqualified opinion on the financial statements of the Self-Insurers' Security Fund of the State of Illinois Workers' Compensation Commission.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 2, the financial statements present only the Self-Insurers' Security Fund and do not purport to, and do not, present fairly the financial position of the State of Illinois Workers' Compensation Commission as of June 30, 2006, and its changes in financial position including cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Self-Insurers' Security Fund of the State of

Illinois Workers' Compensation Commission as of June 30, 2006, and the changes in financial position and cash flows, where applicable, thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 18, 2006, on our consideration of the State of Illinois Workers' Compensation Commission's internal control over financial reporting of the Self-Insurers' Security Fund and on our tests of the State of Illinois Workers' Compensation Commission's compliance with certain provisions of laws, regulations, contracts and, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The State of Illinois Workers' Compensation Commission has not presented a management's discussion and analysis for the Self-Insurers' Security Fund that accounting principles generally accepted in the United State of America has determined is necessary to supplement, although not required to be part of, the financial statements.

Our audit was conducted for the purpose of forming an opinion on the financial statements of the Self-Insurers' Security Fund of the State of Illinois Workers' Compensation Commission.

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, the Comptroller, and agency management, and is not intended to be and should not be used by anyone other than these specified parties.

Martin & Shadid, CPAs, P.C.

October 18, 2006

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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

Honorable William G. Holland
Auditor General
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the financial statements listed in the table of contents of the State of Illinois Workers' Compensation Commission Self-Insurers' Security Fund, as of and for the year ended June 30, 2006, and have issued our report thereon dated October 18, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the State of Illinois Workers' Compensation Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State of Illinois Workers' Compensation Commission'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*.

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, and agency management, and is not intended to be and should not be used by anyone other than these specified parties.

Martin & Shaded, CPAs, P.C.

October 18, 2006

STATE OF ILLINOIS
 WORKERS' COMPENSATION COMMISSION
 SELF-INSURERS' SECURITY
 NONSHARED - PROPRIETARY FUND
 STATEMENTS OF NET ASSETS
 June 30, 2006 and 2005

	2006	2005
ASSETS		
Current Assets:		
Cash in Bank	\$ 123	\$ 47,059
Cash in State Treasury	30,035,963	31,849,147
Petty Cash	100	100
Accrued Interest Receivable	116,779	79,415
Total Current Assets	30,152,965	31,975,721
Total Assets	\$ 30,152,965	\$ 31,975,721
 LIABILITIES AND NET (DEFICIT) ASSETS		
Current Liabilities:		
Accounts Payable	\$ 242,591	\$ 422,581
Compensated Absences	32,000	27,991
Liabilities for Unpaid Claims	10,910,343	10,929,065
Total Current Liabilities	11,184,934	11,379,637
Total Liabilities	11,184,934	11,379,637
Restricted Net Assets (Deficit)	18,968,031	20,596,084
Total Liabilities and Net Assets (Deficit)	\$ 30,152,965	\$ 31,975,721

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

STATE OF ILLINOIS
 WORKERS' COMPENSATION COMMISSION
 SELF-INSURERS' SECURITY
 NONSHARED - PROPRIETARY FUND
 STATEMENTS OF REVENUE, EXPENSES
 AND CHANGE IN NET ASSETS (DEFICIT)
 For the Two Years Ended June 30, 2006 and 2005

	2006	2005
OPERATING REVENUES		
Escrow Fees and Surety Bonds	\$ 3,985,337	\$ 23,960,624
Total Operating Revenues	3,985,337	23,960,624
OPERATING EXPENSES		
Personal Services	185,418	203,058
Employee Retirement	11,963	23,517
Social Security Contribution	11,269	10,584
Group Insurance	33,920	30,601
Travel	3,272	2,760
Contractual Services	12,867	1,605
Telecommunications	616	656
Deposit Refunds	2,129	-
Benefit Payments	6,598,947	6,215,872
Total Operating Expenses	6,860,401	6,488,653
Operating Income (Loss)	(2,875,064)	17,471,971
NONOPERATING (EXPENSES) REVENUES		
Miscellaneous	(2,010)	68,970
Interest Income	1,200,299	620,133
Change in Liability for Unpaid Claims	48,722	(877,899)
Total Nonoperating Revenues (Expenses)	1,247,011	(188,796)
TRANSFERS OUT		
Change in Net Assets (Deficit)	(1,628,053)	17,283,175
Restricted Net Assets (Deficit), Beginning of Year	20,596,084	3,312,909
Restricted Net Assets (Deficit), End of Year	\$ 18,968,031	\$ 20,596,084

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

STATE OF ILLINOIS
WORKERS' COMPENSATION COMMISSION
SELF-INSURERS' SECURITY
NONSHARED - PROPRIETARY FUND
STATEMENTS OF CASH FLOWS
For the Two Years Ended June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from Escrow Fees and Surety Bonds	\$ 3,985,337	\$ 23,960,624
Payments to Suppliers, Net	(196,745)	210,236
Payments to Employees and Other Personal Services	(208,560)	(251,977)
Deposit Refunds Paid	(2,129)	-
Claims Paid - Benefit Payments	<u>(6,600,957)</u>	<u>(6,146,902)</u>
Net Cash Provided by (Used in) Operating Activities	<u>(3,023,054)</u>	<u>17,771,981</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest and Dividends on Investments	<u>1,162,934</u>	<u>551,005</u>
Net Cash Provided by Investing Activities	<u>1,162,934</u>	<u>551,005</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(1,860,120)	18,322,986
Cash and Cash Equivalents, Beginning of Year	<u>31,896,306</u>	<u>13,573,320</u>
Cash and Cash Equivalents, End of Year	<u>\$ 30,036,186</u>	<u>\$ 31,896,306</u>
Reconciliation of Operating (Loss) Income to Net Cash (Used in)		
Provided by Operating Activities:		
Operating Income (Loss)	\$ (2,875,064)	\$ 17,471,971
Adjustments to Reconcile Operating Income (Loss) to Net Cash (Used in)		
Provided by Operating Activities:		
Changes in Assets and Liabilities:		
Increase (Decrease) in Accounts Payable	(179,990)	311,989
Increase (Decrease) in Compensated Absences Payable	<u>32,000</u>	<u>(11,979)</u>
Net Cash Provided by (Used in) Operating Activities	<u>\$ (3,023,054)</u>	<u>\$ 17,771,981</u>

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

STATE OF ILLINOIS
WORKERS' COMPENSATION COMMISSION
SELF-INSURERS' SECURITY NONSHARED – PROPRIETARY FUND
Notes to the Financial Statements
For the Year Ended June 30, 2006

(1) Description of Funds

The Illinois Workers' Compensation Commission Self-Insurers' Advisory Board (the "Board") administers the Self-Insurers' Security Nonshared Proprietary Fund described below. A non-shared fund is a fund in which a single State agency is responsible for administering substantially all financial transactions of the fund.

PROPRIETARY FUND

The Self-Insurers' Security Fund (940), the "Fund", was established by 820 ILCS 305/4a-5. The Fund provides compensation to employees of insolvent self-insured employers for any type of injury or occupational disease and all claims for related administrative fees, operating costs of the Board, attorney fees and other costs reasonably incurred by the Board. The Commission may upon direction of the Board from time to time assess each of the private self-insurers a pro rata share of the funding reasonably necessary to carry out its activities under this Section.

(2) Summary of Significant Accounting Policies

The financial statements of the individual nonshared proprietary funds administered by the Self-Insurers' Advisory Board have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP), as prescribed by the Governmental Accounting Standards Board (GASB). To facilitate the understanding of data included in the financial statements, summarized below are the more significant accounting policies.

a. Reporting Entity

As defined by GAAP, the financial reporting entity consists of a primary government, as well as its component units, which are legally separate organizations for which the elected officials of the primary government are financially accountable. Financial accountability is defined as:

- i) Appointment of a voting majority of the component unit's board and either (a) the primary government's ability to impose its will, or (b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government; or

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WORKERS' COMPENSATION COMMISSION
SELF-INSURERS' SECURITY NONSHARED – PROPRIETARY FUND
Notes to the Financial Statements
For the Year Ended June 30, 2006

ii) Fiscal dependency on the primary government.

Based upon the required criteria, the Self-Insurers' Security nonshared proprietary fund does not have any one component unit of any other entity. However, because the Self-Insurers' Security nonshared proprietary fund is not legally separate from the State of Illinois, it is included in the financial statements of the State as a proprietary fund. The State of Illinois, Comprehensive Annual Financial Report may be obtained by writing to the State Comptroller's Office, Financial Reporting Department, 325 West Adams Street, Springfield, Illinois 62704-1871.

The financial statements present only the Self-Insurer's Security nonshared proprietary fund administered by the State of Illinois Workers' Compensation Commission and do not purport to, and do not, present fairly the financial position and cash flows, where applicable, for the year ended in conformity with accounting principles generally accepted in the United States of America.

b. Basis of Presentation

In government, the basic accounting and reporting entity is a fund. A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts recording cash and/or other resources together with all related liabilities, obligations, reserves, and equities which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. Statements of Net Assets; statements of revenue, expenses and changes in net (deficit) assets; and statements of cash flows have been presented for the Self-Insurers' Security nonshared proprietary fund administered by the Self Insurers' Advisory Board.

Operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the Self Insurer's Security Fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating expenses, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

STATE OF ILLINOIS
WORKERS' COMPENSATION COMMISSION
SELF-INSURERS' SECURITY NONSHARED – PROPRIETARY FUND
Notes to the Financial Statements
For the Year Ended June 30, 2006

c. Basis of Accounting

The Self-Insurers' Security nonshared proprietary fund is reported using the economic resources measurement focus and the accrual basis of accounting.

Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flow takes place. Nonexchange transactions, in which the Self Insurers' Advisory Board gives (or receives) value without directly receiving (or giving) equal value in exchange are not applicable. On an accrual basis, revenues from escrow fees and surety bonds are recognized in the fiscal year in which the underlying exchange transaction occurs.

Private-sector standards of accounting and financial reporting issue prior to December 1, 1989, generally are followed in the Self-Insurers' Security nonshared proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The State also has the option of following subsequent private-sector guidance for their business type activities and enterprise funds, subject to this same limitation. The State has elected not to follow subsequent private-sector guidance for the Self-Insurers' Security nonshared proprietary funds administered by the Self-Insurers' Advisory Board.

d. Cash and Cash Equivalents

Cash and cash equivalents consist principally of deposits held in the State Treasury. Cash and cash equivalents also include cash on hand and cash in banks.

e. Interfund Transactions

The Self-Insurers' Security nonshared proprietary fund has the following type of interfund transactions with other funds of the State:

Operating transfers – flows of assets (cash) without equivalent flows of assets in return and without a requirement for repayment. Transfers are reported after nonoperating revenues and expenses.

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Notes to the Financial Statements
For the Year Ended June 30, 2006

f. Compensated Absences

The liability for compensated absences reported in the individual nonshared proprietary funds consists of unpaid, accumulated vacation and sick leave balances for Department Employees. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments upon termination are included. The liability has been calculated based on the employees' current salary level and includes salary related costs (e.g., social security and Medicare tax).

Legislation that became effective January 1, 1998 capped the paid sick leave for all State Employees' Retirement System members at December 31, 1997. Employees continue to accrue twelve sick days per year, but will not receive monetary compensation for any additional time earned after December 31, 1997. Sick days earned between 1984 and December 31, 1997 (with a 50% cash value) would only be used after all days with no cash value are depleted. Any sick days earned and unused after December 31, 1997 will be converted to service time for purposes of calculating employee pension benefits.

g. Net Assets

Equity is displayed in one component as follows:

Restricted – This consists of net assets that are legally restricted by outside parties or by law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available for use, generally it is the State's policy to use restricted resources first, then unrestricted resources when needed.

h. Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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 WORKERS' COMPENSATION COMMISSION
 SELF-INSURERS' SECURITY NONSHARED – PROPRIETARY FUND
 Notes to the Financial Statements
 For the Year Ended June 30, 2006

(3) Deposits

The State Treasurer is the custodian of the State's cash and cash equivalents for the Self Insurers' Security Fund maintained in the State Treasury. The Self-Insurers' Advisory Board independently manages cash and cash equivalents maintained outside the State Treasury.

<u>Fund</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>	<u>Description</u>
Self Insurers' Security Fund	\$ 123	\$ 123	Insured (FDIC)

Deposits in the custody of the State Treasurer and cash on hand at June 30, 2006 was as follows:

<u>Fund</u>	<u>Deposits in Custody of State Treasurer</u>	<u>Cash on Hand</u>
Self Insurers' Security Fund	\$ 30,035,963	\$ 30,035,963

Deposits in the custody of the State Treasurer are pooled and invested with other State funds in accordance with the Deposit of State Moneys Act of the Illinois Compiled Statutes (15 ILCS 520/11). Funds held by the State Treasurer have not been categorized as to credit risk because the Self Insurers' Advisory Board does not own individual securities. Details on the nature of these investments is available within the State of Illinois, Comprehensive Annual Financial Report.

(4) Liability for unpaid claims

The liability for unpaid claims includes claims in all phases of processing and adjudication and are computed based on claims filed. Claims incurred but not reported were not considered significant.

(5) Post-employee Benefits

The State provides health, dental and life insurance benefits for certain retirees and their dependents. Substantially all State employees become eligible for post-employment benefits if they eventually become annuitants of one of the State sponsored pension plans. Health and dental benefits include basic benefits for annuitants under the State's self-insurance plan and insurance contracts

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WORKERS' COMPENSATION COMMISSION
SELF-INSURERS' SECURITY NONSHARED – PROPRIETARY FUND
Notes to the Financial Statements
For the Year Ended June 30, 2006

currently in force. Life insurance benefits are limited to \$5,000 per annuitant age 60 and older.

Costs incurred for health, dental, and life insurance for annuitants and their dependents were not separated from benefits provided to active employees and their dependents for the year ended June 30, 2005. However, post-employment costs for the State as a whole for all State agencies/departments for dependent health, dental and life insurance for annuitants and their dependents are disclosed in the Illinois Comprehensive Annual Financial Report for the State. Cost information for retirees by individual fund or State agency is not available. Payments are made on a "pay-as-you-go" basis.