

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, 2008 and 2007

**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, 2008 and 2007

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STATE OF ILLINOIS
WORKERS' COMPENSATION COMMISSION
SELF-INSURERS' SECURITY
NONSHARED – PROPRIETARY FUND
FINANCIAL AUDIT
For the Years Ended June 30, 2008 and 2007

AGENCY OFFICIALS

ILLINOIS WORKERS' COMPENSATION COMMISSION

Acting Chairman (11/21/08 to Current)	Ms. Amy J. Masters
Chairman (11/7/08 to 11/20/08)	Vacant
Chairman (10/3/08 to 11/6/08)	Mr. Jerry Jutila
Chairman (2/22/03 to 10/2/08)	Mr. Dennis R. Ruth
Fiscal Officer	Ms. Carol Reckamp
Legal Counsel	Ms. Kathryn Kelley

Agency offices are located at:

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

701 S. Second Street
Springfield, Illinois 62704

202 N.E. Madison Avenue #201
Peoria, Illinois 61602

200 S. Wyman
Rockford, Illinois 61101

1014 Eastport Plaza Drive
Collinsville, Illinois 62234

State of Illinois
WORKERS' COMPENSATION COMMISSION
SELF-INSURERS' SECURITY
NONSHARED PROPRIETARY FUND
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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, 2008, 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 2007 financial statements and, in our report dated March 5, 2009, 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, 2008, 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, 2008, 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 March 5, 2009 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 and budgetary comparison information 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.

March 5, 2009

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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 of the Self-Insurers' Security Fund of the State of Illinois Workers' Compensation Commission, as of and for the year ended June 30, 2008, which collectively comprise the Illinois Workers' Compensation Commission's basic financial statements and have issued our report thereon dated March 5, 2009. 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 Illinois Workers' Compensation Commission's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Illinois Workers' Compensation Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Illinois Workers' Compensation Commission's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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.

March 5, 2009

STATE OF ILLINOIS
 WORKERS' COMPENSATION COMMISSION
 SELF-INSURERS' SECURITY
 NONSHARED - PROPRIETARY FUND
 STATEMENTS OF NET ASSETS
 June 30, 2008 and 2007

	2008	2007
ASSETS		
Cash in Bank	\$ 23,747	\$ 145,724
Cash in State Treasury	30,084,685	28,660,946
Petty Cash	100	100
Accrued Interest Receivable	59,877	113,805
Intergovernmental Receivable	-	305
Total Current Assets	30,168,409	28,920,880
Total Assets	30,168,409	28,920,880
LIABILITIES		
Accounts Payable	594,417	78,192
Compensated Absences	28,000	32,000
Liabilities for Unpaid Claims	9,609,123	10,309,613
Total Current Liabilities	10,231,540	10,419,805
Total Liabilities	10,231,540	10,419,805
NET ASSETS		
Restricted Net Assets	19,936,869	18,501,075
Total Net Assets	\$ 19,936,869	\$ 18,501,075

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, 2008 and 2007

	<u>2008</u>	<u>2007</u>
OPERATING REVENUES		
Escrow Fees and Surety Bonds	\$ 3,920,983	\$ 2,888,347
Total Operating Revenues	<u>3,920,983</u>	<u>2,888,347</u>
OPERATING EXPENSES		
Personal Services	164,830	129,432
Employee Retirement	22,677	14,928
Social Security Contribution	10,035	9,500
Group Insurance	29,413	27,703
Travel	1,947	1,601
Contractual Services	17,677	3,536
Telecommunications	664	920
Deposit Refunds	23,008	44,403
Benefit Payments	4,212,260	5,197,173
Total Operating Expenses	<u>4,482,511</u>	<u>5,429,196</u>
Operating Income (Loss)	<u>(561,528)</u>	<u>(2,540,849)</u>
NONOPERATING (EXPENSES) REVENUES		
Interest Income	1,306,832	1,473,164
Change in Liability for Unpaid Claims	690,490	600,729
Total Nonoperating Revenues (Expenses)	<u>1,997,322</u>	<u>2,073,893</u>
TRANSFERS OUT		
	<u>-</u>	<u>-</u>
Change in Net Assets (Deficit)	1,435,794	(466,956)
Restricted Net Assets (Deficit), Beginning of Year	<u>18,501,075</u>	<u>18,968,031</u>
Restricted Net Assets (Deficit), End of Year	<u>\$ 19,936,869</u>	<u>\$ 18,501,075</u>

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, 2008 and 2007

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from Escrow Fees and Surety Bonds	\$ 3,920,983	\$ 2,888,347
Payments to Suppliers, Net	495,937	(115,531)
Payments to Employees and Other Personal Services	(198,952)	(229,396)
Deposit Refunds Paid	(23,008)	(44,403)
Claims Paid - Benefit Payments	(4,243,958)	(5,204,570)
Net Cash Provided by (Used in) Operating Activities	(48,998)	(2,705,553)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest and Dividends on Investments	1,350,760	1,476,137
Net Cash Provided by Investing Activities	1,350,760	1,476,137
Net Increase (Decrease) in Cash and Cash Equivalents	1,301,762	(1,229,416)
Cash and Cash Equivalents, Beginning of Year	28,806,770	30,036,186
Cash and Cash Equivalents, End of Year	\$ 30,108,532	\$ 28,806,770
Reconciliation of Operating (Loss) Income to Net Cash (Used in)		
Provided by Operating Activities:		
Operating Income (Loss)	\$ (561,528)	\$ (2,540,849)
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	516,225	(164,399)
Increase (Decrease) in Compensated Absences Payable	(4,000)	-
(Increase) Decrease in Intergovernmental Receivables	305	(305)
Net Cash Provided by (Used in) Operating Activities	\$ (48,998)	\$ (2,705,553)

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, 2008

(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

STATE OF ILLINOIS
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SELF-INSURERS' SECURITY NONSHARED – PROPRIETARY FUND
Notes to the Financial Statements
For the Year Ended June 30, 2008

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.

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Notes to the Financial Statements
For the Year Ended June 30, 2008

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, 2008

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). The liability for compensated absences decreased during fiscal year 2008 because the Self-Insurance Manager's salary is now paid entirely by the Self-Insurers' Administration Fund.

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.

STATE OF ILLINOIS
 WORKERS' COMPENSATION COMMISSION
 SELF-INSURERS' SECURITY NONSHARED – PROPRIETARY FUND
 Notes to the Financial Statements
 For the Year Ended June 30, 2008

(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.

Fund	Carrying Amount	Bank Balance	Description
Self Insurers' Security Fund	\$ 23,747	\$ 23,747	Insured (FDIC)

Deposits in the custody of the State Treasurer and cash on hand at June 30, 2008 was as follows:

<u>Fund</u>	<u>Deposits in Custody of State Treasurer</u>	<u>Cash on Hand</u>
Self Insurers' Security Fund	\$ 30,084,685	\$ 30,084,685

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, vision, and life insurance benefits for retirees and their dependents in a program administered by the Department of Healthcare and Family Services along with the Department of Central Management Services. Substantially all State employees become eligible for post-employment benefits if they eventually become annuitants of one of the

STATE OF ILLINOIS
WORKERS' COMPENSATION COMMISSION
SELF-INSURERS' SECURITY NONSHARED – PROPRIETARY FUND
Notes to the Financial Statements
For the Year Ended June 30, 2008

State sponsored pension plans. Health, dental and vision benefits include basic benefits for annuitants and dependents under the State's self-insurance plan and insurance contracts currently in force. Annuitants may be required to contribute towards health, dental and vision benefits with the amount based on factors such as date of retirement, years of credited service with the State, whether the annuitant is covered by Medicare, and whether the annuitant has chosen a managed health care plan. Annuitants who retired prior to January 1, 1998, and who are vested in the State Employee's Retirement System do not contribute towards health, dental and vision benefits. For annuitants who retired on or after January 1, 1998, the annuitant's contribution amount is reduced five percent for each year of credited service with the State allowing those annuitants with twenty or more years of credited service to not have to contribute towards health, dental and vision benefits. Annuitants also receive life insurance coverage equal to the annual salary of the last day of employment until age 60, at which time the benefit becomes \$5,000.

The total cost of the State's portion of health, dental, vision and life insurance benefits of all members, including post-employment health, dental, vision and life insurance benefits, is recognized as an expenditure by the State in the Illinois Comprehensive Annual Financial Report. The State finances the costs on a pay-as-you go basis. The total costs incurred for health, dental, vision, and life insurance benefits are not separated by department or component unit for annuitants and their dependents nor active employees and their dependents.

A summary of post-employment benefit provisions, changes in benefit provisions, employee eligibility requirements including eligibility for vesting, and the authority under which benefit provisions are established are included as an integral part of the financial statements of the Department of Healthcare and Family Services. A copy of the financial statements of the Department of Healthcare and Family Services may be obtained by writing to the Department of Healthcare and Family Services, 201 South Grand Ave., Springfield, Illinois, 62763-3838.