STATE OF ILLINOIS
ILLINOIS WORKERS' COMPENSATION COMMISSION

FINANCIAL AUDIT
SELF-INSURERS SECURITY FUND
For the Year Ended June 30, 2018

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

STATE OF ILLINOIS
ILLINOIS WORKERS' COMPENSATION COMMISSION
FINANCIAL AUDIT
SELF-INSURERS SECURITY FUND
For the Year Ended June 30, 2018

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STATE OF ILLINOIS
ILLINOIS WORKERS' COMPENSATION COMMISSION
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COMMISSION OFFICIALS

Chair (03/15/19 – Present)	Michael Brennan
Chair (07/1/17 – 03/14/19)	Joann Fratianni
Chief Fiscal Officer (10/01/17 – Present)	Paul Fichtner
Chief Fiscal Officer (Acting) (08/04/17 – 09/30/17)	Brendan O'Rourke
Chief Fiscal Officer (07/01/17 – 08/03/17)	Darlene Senger
General Counsel	Ronald Rascia

SELF-INSURERS ADVISORY BOARD[1]

Chair (03/15/19 – Present)	Michael Brennan
Chair (07/1/17 – 03/14/19)	Joann Fratianni
Public Member	Paul Bergmann
Member	Gerald Cooper, Jr.
Member	Alex Alexandrou
Member	David Taylor
Member	Joan Vincenz
Member (08/01/18 – Present)	Michael Castro
Member (07/01/17 – 07/31/18)	John Rittenhouse

[1] The Workers' Compensation Act (Act) (820 ILCS 305/4a-3) requires the Board consist of the Chair of the Commission and six members who are experts in self-insurance for workers' compensation liabilities appointed by the Chair, one of whom is a member of the public. Under the Act (820 ILCS 305/4a-1), the Board provides for the continuation of benefits due from and unpaid by insolvent self-insurers and reviews and recommends a disposition on all initial and renewal applications to self-insure by private entities.

STATE OF ILLINOIS
ILLINOIS WORKERS' COMPENSATION COMMISSION
FINANCIAL AUDIT
SELF-INSURERS SECURITY FUND
For the Year Ended June 30, 2018

COMMISSION OFFICES

The Commission's offices are located at:

100 W. Randolph Street
Suite 8-200
Chicago, Illinois 60601

1803 Ramada Boulevard
Suite B201
Collinsville, Illinois 62234

4500 S. Sixth Street Frontage Road
Springfield, Illinois 62703

200 S. Wyman Street
Rockford, Illinois 61101

401 Main Street
Suite 640
Peoria, Illinois 61602

STATE OF ILLINOIS
ILLINOIS WORKERS' COMPENSATION COMMISSION
FINANCIAL AUDIT
SELF-INSURERS SECURITY FUND
For the Year Ended June 30, 2018

FINANCIAL STATEMENT REPORT

SUMMARY

The audit of the accompanying financial statements of the Self-Insurers Security Fund of the State of Illinois, Illinois Workers' Compensation Commission (Commission) was performed by E. C. Ortiz & Co., LLP.

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

SUMMARY OF FINDINGS

The auditors identified matters involving the Commission's internal control over financial reporting that they considered to be a material weakness. This material weakness is described in the accompanying Schedule of Findings on pages 52-55 of this report as item 2018-001, *Inadequate Control over Financial Reporting*.

EXIT CONFERENCE

The Commission waived having an exit conference in a correspondence dated April 22, 2019, from Paul Fichtner, Chief Fiscal Officer. The response to the recommendation was provided by Paul Fichtner, Chief Fiscal Officer, in a letter dated April 30, 2019.

E.C. ORTIZ & CO., LLP
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

Honorable Frank J. Mautino
Auditor General
State of Illinois

and

Self-Insurers Security Board
State of Illinois, Illinois Workers' Compensation Commission

Report on the Financial Statements

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, Illinois Workers' Compensation Commission, as of and for the year ended June 30, 2018, and the related notes to the 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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 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

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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 Self-Insurers Security Fund of the State of Illinois, Illinois Workers' Compensation Commission as of June 30, 2018, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 2(A) to the financial statements, 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 or the State of Illinois, Illinois Workers' Compensation Commission, as of June 30, 2018, the changes in its financial position, or its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Additionally, as discussed in Note 15 to the financial statements, the Self-Insurers Security Fund had a total net position (deficit) of ($4,254,376) as of June 30, 2018. This deficit, which is presented on an accrual basis, is the excess of total liabilities and deferred inflows of resources over total assets and deferred outflows of resources. Management of the State of Illinois, Illinois Workers' Compensation Commission stated that, subject to Board approval, future assessments will be used to meet the Fund's obligations in the future.

In addition, as discussed in Note 2(M) to the financial statements, the Self-Insurers Security Fund's recorded unpaid claims of $6,526,363 as of June 30, 2018, were determined from an actuarial analysis performed by the State of Illinois, Illinois Workers' Compensation Commission's actuary. As discussed in Note 14(B) to the financial statements, the actuary did not calculate an estimate for four types of speculative losses due to significant uncertainty in estimating these contingencies arising from the Self-Insurers' Security Fund's limited historical claim experience to date. Given these conditions, it is possible the Self-Insurers Security Fund may experience additional losses than currently reserved for in the Self-Insurers Security Fund's unpaid claims liability at June 30, 2018.

Finally, as discussed in Note 2(S) to the financial statements, the State of Illinois, Illinois Workers' Compensation Commission adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, for the Self-Insurers Security Fund during the year ended June 30, 2018. This statement established standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses. As discussed in Note 16 to the financial statements, the adoption of this statement required the State of Illinois, Illinois Workers' Compensation Commission to restate the Self-Insurers Security Fund's net position by ($647,777) at June 30, 2017.

Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information
Management has omitted management's discussion and analysis and budgetary comparison information for the Self-Insurers Security Fund that accounting principles generally accepted in the United States of America require to be presented to supplement the financial statements. Such missing information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. Our opinion on the financial statements is not affected by this missing information.

The State of Illinois' self-insurance program administered by the State of Illinois, Illinois Workers' Compensation Commission consists of two funds: the Self-Insurers Administration Fund and the Self-Insurers Security Fund. Pursuant to the Workers' Compensation Act (820 ILCS 305/4a-4 and 820 ILCS 305/4a-6.1), the Self-Insurers Administration Fund collects a $500 application fee from each private self-insurer applying for or seeking renewal of the self-insurance privilege, which is available only for paying the salaries and benefits of the employees and the operating costs of the Self-Insurers Advisory Board within the State of Illinois, Illinois Workers' Compensation Commission. During our audit, we noted the Self-Insurers Administration Fund's expenses have exceeded revenues recognized for a significant period of time. According to the State of Illinois, Illinois Workers' Compensation Commission's unaudited accrual basis financial reports filed with the State of Illinois, Office of the Comptroller, the Self-Insurers Administration Fund's net loss was $157 thousand, $132 thousand, $91 thousand, and $114 thousand during Fiscal Year 2015, Fiscal Year 2016, Fiscal Year 2017, and Fiscal Year 2018 respectively. Without operational changes and/or a legislative remedy, the continuing negative trend will eventually consume the Self-Insurers Administration Fund's remaining net position, which the State of Illinois, Illinois Workers' Compensation Commission's unaudited accrual basis financial reports filed with the Office of the State Comptroller reported was $185 thousand at June 30, 2018.

Our opinion is not modified with respect to this matter.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 30, 2019**,** on our consideration of the State of Illinois, Illinois Workers' Compensation Commission's internal control over financial reporting of the Self-Insurers Security Fund 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 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 State of Illinois, Illinois Workers'

Compensation Commission's 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 the State of Illinois, Illinois Workers' Compensation Commission's internal control over financial reporting of the Self-Insurers Security Fund and its compliance.

SIGNED ORIGINAL ON FILE

Chicago, Illinois
April 30, 2019

STATE OF ILLINOIS
ILLINOIS WORKERS' COMPENSATION COMMISSION
FINANCIAL AUDIT
SELF-INSURERS SECURITY FUND

Statement of Net Position (Deficit)
June 30, 2018

Assets	
Current Assets	
Restricted Cash Equity in the State Treasury	$ 18,970,931
Restricted Cash and Cash Equivalents	100
Restricted Assessments Receivable, Net	940
Restricted Accrued Interest Receivable	30,760
Restricted Excess Insurance Receivable	89,117
Securities Lending Collateral Equity with the State Treasurer	7,690,000
Total Current Assets	26,781,848
Total Assets	26,781,848
Deferred Outflows of Resources	
Pension	327,997
Other Postemployment Benefits	31,662
Total Deferred Outflows of Resources	359,659
Total Assets and Deferred Outflows of Resources	$ 27,141,507

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

STATE OF ILLINOIS
ILLINOIS WORKERS' COMPENSATION COMMISSION
FINANCIAL AUDIT
SELF-INSURERS SECURITY FUND

Statement of Net Position (Deficit)
June 30, 2018

Liabilities	
Current Liabilities	
Accounts Payable	$ 43,527
Obligations Under Securities Lending of the State Treasurer	7,690,000
Security Deposits	750,952
Unearned Security Deposits	549,123
Unpaid Claims	494,751
Total Current Liabilities	9,528,353
Noncurrent Liabilities	
Unearned Security Deposits	14,319,841
Compensated Absences	20,193
Unpaid Claims	6,031,612
Net Pension Liability	658,141
Net Other Postemployment Benefits Liability	578,534
Total Noncurrent Liabilities	21,608,321
Total Liabilities	31,136,674
Deferred Inflows of Resources	
Pension	168,762
Other Postemployment Benefits	90,447
Total Deferred Inflows of Resources	259,209
Total Liabilities and Deferred Inflows of Resources	31,395,883
Net Position (Deficit)	
Expendable Restricted Net Position	-
Unrestricted Net Position (Deficit)	(4,254,376)
Total Net Position (Deficit)	(4,254,376)
Total Liabilities, Deferred Inflows of Resources and Net Position (Deficit)	$ 27,141,507

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

STATE OF ILLINOIS
ILLINOIS WORKERS' COMPENSATION COMMISSION
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Statement of Revenues, Expenses, and Changes in Net Position (Deficit)
Year Ended June 30, 2018

Operating Revenues	
Assessments	$ -
Security Deposits Drawn	(798,553)
Total Operating Revenues	(798,553)
Operating Expenses	
Personal Services	85,338
Social Security Contribution	5,894
Contractual Services	61,305
Pension Expense	112,834
Other Postemployment Benefits Expense	21,019
Benefit Claims	(824,074)
Total Operating Expenses	(537,684)
Operating Income (Loss)	(260,869)
Nonoperating Revenues	
Interest Income	82,735
Total Nonoperating Revenues	82,735
Change in Net Position (Deficit)	(178,134)
Net Position (Deficit), Beginning of the Year, as Previously Reported	(3,428,465)
Prior Period Adjustments (See Note 16)	(647,777)
Net Position (Deficit), Beginning of the Year, as Restated	(4,076,242)
Net Position (Deficit), End of the Year	$ (4,254,376)

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

STATE OF ILLINOIS
ILLINOIS WORKERS' COMPENSATION COMMISSION
FINANCIAL AUDIT
SELF-INSURERS SECURITY FUND

Statement of Cash Flows
Year Ended June 30, 2018

Cash Flows from Operating Activities	
Cash Received from Assessments and Excess Insurance Recoveries	$ 547,275
Payments to Employees and Other Personal Services	(165,817)
Payments to Vendors	(38,203)
Benefit Payments	(1,025,517)
Net Cash Used for Operating Activities	(682,262)
Cash Flows from Investing Activities	
Security Deposit Refunded and Interest of Deposits Held	(457,818)
Interest and Dividends on Investments	283,813
Net Cash Provided by Investing Activities	(174,005)
Net Decrease in Cash Equity in the State Treasury and Cash and Cash Equivalents	(856,267)
Cash Equity in the State Treasury and Cash and Cash Equivalents, Beginning of the Year	19,827,298
Cash Equity in the State Treasury and Cash and Cash Equivalents, End of the Year	$ 18,971,031

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

STATE OF ILLINOIS
ILLINOIS WORKERS' COMPENSATION COMMISSION
FINANCIAL AUDIT
SELF-INSURERS SECURITY FUND

Statement of Cash Flows
Year Ended June 30, 2018

Reconciliation of Operating Loss to Net Cash Used for Operating Activities:

Operating Income (Loss)	$ (260,869)
Adjustments to Reconcile Operating Income (Loss) to Net Cash	
Used for Operating Activities:	
Changes in Assets and Liabilities:	
Assessment Receivable (excluding allowance for doubtful accounts)	153
Excess Insurance Receivable	129,053
Accounts Payable	15,256
Unearned Security Deposits (excluding interest earned)	836,329
Compensated Absences	325
Unpaid Claims	(1,461,837)
Net Pension Liability	(195,494)
Net Other Postemployment Benefits Liability	(73,956)
Deferred Outflows of Resources:	
Pension	176,568
Other Postemployment Benefits	616
Deferred Inflows of Resources:	
Pension	88,712
Other Postemployment Benefits	62,882
Net Cash Used for Operating Activities	$ (682,262)

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

Notes to the Financial Statements
June 30, 2018

(1) Organization

The Illinois Workers' Compensation Commission (Commission) is a part of the executive branch of the State of Illinois (State). The Self-Insurers Advisory Board (Board) established within the Commission administers the Self-Insurers Security Fund (Fund), a non-shared proprietary (enterprise) fund. A non-shared fund is a fund in which a single State agency is responsible for administering substantially all financial transactions of a fund.

The Fund was established pursuant to the Workers' Compensation Act (Act) (820 ILCS 305/4a-5) to provide for the continuation of benefits due from and unpaid by insolvent self-insurers for any type of injury or occupational disease which is compensable under the Act or the Workers' Occupational Diseases Act, and all claims for related administrative fees, operating costs of the Board, attorneys fees, and other costs reasonably incurred by the Board.

Pursuant to the Act (820 ILCS 305/4a-5), the Fund is not subject to annual appropriation and, therefore, the Fund does not operate under a budget approved by the General Assembly. Instead, the Board annually establishes an informal budget and monitors the Fund's activity and anticipated future events during its quarterly meetings. Activities of the Commission, Board, and Fund are subject to the authority of the Governor, the State's chief executive officer, and other officers and agencies of the executive and legislative branches of the State's government (such as the Department of Central Management Services, the Governor's Office of Management and Budget, the Department of Innovation and Technology, the State's Treasurer, and the State's Comptroller).

Pursuant to the Act (820 ILCS 305/4a-7(a)), the Commission may, upon the 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.

Financial Reporting Entity

As defined by generally accepted accounting principles in the United States of America (GAAP), promulgated by the Governmental Accounting Standards Board (GASB), the financial reporting entity consists of the primary government, as well as its component units, which are legally separate organizations for which the elected officials of the government are financially accountable.

Financial accountability is defined as:

1) the 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,
2) fiscal dependency on the primary government.

Based on these criteria, the Fund has no component units and is not a component unit of any other entity. However, because the Fund is not legally separate from the State, the financial statements of the Fund are included within the State's financial statements. The State's Comprehensive Annual Financial Report (CAFR) may be obtained by writing to the State Comptroller's Office, Division of Financial Reporting, 325 W. Adams Street, Springfield, Illinois 62704 or by accessing its website at www.illinoiscomptroller.gov.

(2) Summary of Significant Accounting Policies

The financial statements of the Fund have been prepared in accordance with GAAP, as prescribed by GASB. To facilitate understanding data included in the financial statements, summarized below are more significant accounting policies of the Fund.

A. Basis of Accounting and Presentation

In government, the basic accounting and reporting entity is a fund. A fund is 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.

The financial statements of the Fund are intended to present the financial position, changes in financial position, and cash flows of only that portion of the activities of the State attributable to the Fund's specific transactions administered by the Board established within the Commission. They do not purport to, and do not, present fairly the financial position of the State or the Commission as of June 30, 2018, or the changes in financial position and cash flows for the year then ended, in conformity with GAAP.

The Fund is a proprietary (enterprise) fund, as it charges a fee to external users for its services. The 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.

B. Cash and Cash Equivalents

Cash equivalents are defined as short-term, highly liquid investments readily convertible to cash within maturities of less than 90 days at the time of purchase. Cash and cash equivalents include "Cash Equity in the State Treasury", cash on hand and in transit to the State Treasury, and a petty cash account.

C. Inventory Items

The Fund does not maintain any significant inventory items and associated balances.

D. Capital Assets

Capital assets, which consist of equipment items, are reported at historical cost and depreciated using the straight-line method. The capitalization threshold for equipment is $5,000 and the estimated useful lives range from 36 to 300 months. As of June 30, 2018, the Fund did not have any capital assets.

E. Assessments and Assessments Receivable

Pursuant to the Act (820 ILCS 305/4a-7(a)), the Commission may, upon the direction of the Board from time to time, assess the private self-insurers a pro rata share of the funding reasonably necessary to carry out its activities. For any individual assessment, the Board is limited to charging a maximum assessment of 0.6% upon a private self-insurer's workers' compensation payments made during the prior calendar year, less any hospital, surgical, and rehabilitation payments. During any calendar year, the Board may not impose total assessments in excess of 1.2% of a private self-insurer's workers' compensation payments made during the prior calendar year, less any hospital, surgical, and rehabilitation payments.

Each private self-insurer calculates its amount due after the Board declares an assessment. This amount is subject to review by the Commission.

Assessment revenue is recognized by the Fund on the date when the Board approves an assessment. This revenue is recorded net of an allowance for doubtful accounts, which is based on an analysis of the historical collection experience of the Fund's assessments, the age of the assessment receivable, and general economic conditions. Assessments receivable consists of two parts: known unpaid assessments and management's estimation of the amount due from private self-insurers that have not yet admitted its liability as of the date of the financial statements.

Under the Act (820 ILCS 305/4a-7(a)), if an assessment is not paid within 30 days after the private self-insurer receives notice, the Commission, at the direction of the Board, "shall proceed in circuit court for judgment against that private self-insurer which judgment shall include the amount of the assessment, the costs of suit, interest and reasonable attorneys' fees." In accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, any receivables and revenue from the costs of the suit, interest, and reasonable attorneys' fees are recognized when the Fund has a legal, enforceable claim to these amounts, net of an allowance for doubtful accounts and estimated refunds on appeal, or when the resources are received, whichever occurs first.

F. Accrued Interest Receivable

Pursuant to the Act (820 ILCS 305/4a-5), the State Treasurer must deposit any interest accruing on the Fund's Cash Equity within the State Treasury to the Fund. Currently, the Treasurer deposits any interest and investment income earned during a given month during the subsequent month.

G. Excess Insurance Receivable

In general, excess insurance is an insurance policy where the underwriter's liability does not arise until the loss exceeds a stated amount. After reaching the stated amount, all future payments must be made by the underwriting insurer. In some cases, private self-insurers purchased excess insurance policies to limit their losses arising from a benefit claim under the Act or the Workers' Occupational Diseases Act. In the event a private self-insurer becomes insolvent and the excess insurance limit has been exceeded, the Fund ensures the injured worker's benefits are paid when due. If the Fund pays the injured worker, the Fund records an excess insurance receivable and seeks reimbursement from the excess insurer. For these receivables, the Fund does not recognize any revenue or expenses, as the Fund is merely acting as an intermediary as the benefit due is the obligation of the insurer.

Counterparty Risk

Counterparty risk, also known as default risk, is the risk that one party to a contract will not fulfill its contractual obligations. In the excess insurance context, the Fund will continue to ensure injured workers receive benefits due on a timely basis, regardless of whether the excess insurer fulfills its responsibility to cover its share of the loss. Under GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989, FASB and AICPA Pronouncements*, Fund management will adjust its excess insurance receivable amount if (1) information is available prior to the date of the financial statements which indicates it is probable the excess insurance receivable has been impaired where future events will confirm the fact of loss and (2) the amount can be reasonably estimated. As such, the Fund records its excess insurance receivables net of an allowance for doubtful accounts, which is based on Fund management's analysis of the historical collection experience of the Fund's assessments, ratings of the insurer by third parties, the age of the assessment receivable, and general economic conditions.

Correspondingly, when Fund management expects an excess insurer will not fulfill its contractual obligations, the Fund will increase its total unpaid claims liability to reflect benefit amounts previously expected to be paid by the excess insurer will now be borne by the Fund.

H. Interfund Transactions

The Fund could experience the following types of interfund transactions between the Commission's funds and the funds of other State agencies:

1) *Transfers:* These transactions occur when a flow of assets (either cash and/or goods) from one fund to another fund occurs without an equivalent flow of assets in return and without a requirement for repayment. Transfers are reported after nonoperating revenues and expenses. Unpaid amounts are reported as due to (interfund payables) and due from (interfund receivables) in the statement of net position (deficit).

2) *Interfund Loans:* These transactions occur when a flow of assets (either cash and/or goods) from one fund to another fund occurs with a requirement for repayment. Unpaid amounts are reported as due to and due from in the statement of net position (deficit).

3) *Interfund Reimbursements:* These transactions occur when the fund responsible for the expense repays the cost of the expense to the fund that initially paid the cost, which will eliminate the expense from the initial payor fund's records. Unpaid amounts are reported as due to and due from in the statement of net position (deficit).

4) *Services Provided and Used:* The transactions occur when sales purchases of goods and/or services occur between funds for a price approximating the transaction's external exchange value. Interfund services provided and used are reported as revenues in seller funds and expenses/expenditures in purchaser funds. Unpaid amounts are reported as due to and due from in the statement of net position (deficit).

I. Security

To help provide assurance each private self-insurer fulfills its obligations under the Act and the Workers' Occupational Diseases Act, the Board, if deemed necessary, will require each private self-insurer to post a letter of credit, surety bond, or other acceptable security. The Commission, on behalf of the Board, will not draw down upon these securities unless a significant risk exists the private self-insurer is either unable or unwilling to fulfill its obligations under the Act and the Workers' Occupational Diseases Act. As such, the Fund will not recognize assets or liabilities for a posted security until it is converted or drawn down upon on behalf of the Board by the Commission.

J. Security Deposits

Security deposits consist of proceeds from securities collected by the Commission where the Fund has not yet assumed responsibility for paying the private self-insurer's injured workers' claims. Each individual company's balance within this account includes an allocation of interest and investment income earned on the private self-insurer's moneys deposited within the Fund by the Treasurer. This balance may be returned to the company (or its surety) either (1) when the risk the self-insurer would not fulfill its obligations passes or (2) one year after its last claim has been paid, provided the claim application filing period has expired.

K. Unearned Security Deposits

Unearned security deposits consist of proceeds from securities collected by the Commission where the private self-insurer's obligations have become the responsibility of the Fund. Each individual company's balance within this account includes an allocation of interest and investment income earned on the private self-insurer's moneys deposited within the Fund by the Treasurer. The portion of a company's collected securities in excess of the company's related claims expense and administrative costs incurred by the Fund, net of any amounts that are reimbursable from excess insurance carriers, is considered unearned by the Fund. In accordance with the Fund's security agreements, this excess security may be returned to the company (or its surety) one year after its last claim has been paid, provided the claim application filing period has expired.

L. Compensated Absences

The liability for compensation absences reported in the statement of net position (deficit) for the Fund consists of unpaid, accumulated vacation and sick leave balances for Fund employees. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive termination payments upon termination are included. The liability has been calculated based on the employee's current salary level and includes salary-related costs (e.g., Social Security and Medicare taxes).

Legislation that became effective January 1, 1998, capped the paid sick leave for all State Employees' Retirement System (SERS) 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 January 1, 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.

M. Unpaid Claims

Unpaid claims liabilities were determined from an actuarial analysis based upon claims history, medical reports, awarded benefits, legal pleadings, life expectancy, inflation, and other factors for determining an estimate of the Fund's anticipated indemnity and medical payments, as well as legal and administrative costs associated with handling claims.

Fund management has adopted the net method of accounting for unpaid claims liabilities of the Fund. Under this method, expenses are reported for the full amount of estimated future claims, net of the portion expected to be reimbursed by excess insurance carriers, when the Fund assumes responsibility for paying a private self-insurer's benefits due under the Act and the Workers' Occupational Diseases Act.

Securities collected before the Fund assumes responsibility for paying the private self-insurer's claims are reported as security deposits. At the time when the Fund assumes responsibility for paying the claims, the Fund records (1) revenue for the portion of any security collected to the extent it is required to cover the self-insurer's claims and (2) unearned security deposits for the portion of any security collected that exceeds the private self-insurer's outstanding claims.

Contingencies for Self-Insurers under Bankruptcy Protection

Pursuant to GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989, FASB and AICPA Pronouncements*, the Fund does not report any unpaid claims liabilities on its statement of net position (deficit) associated with private self-insurers under bankruptcy protection which continue to pay their claims through the date when the Fund's financial statements are issued.

The Fund will only pay these claims, along with any other claims arising while the entity was a private self-insurer, if the self-insurer stops paying its claims. As it is both not known if or when this event will occur and what the magnitude of these liabilities will be when the entity stops paying its claims, these claims are not reported on the Fund's statement of net position (deficit). However, these cases are disclosed within the Fund's notes to the financial statements where there is, at least, a reasonable possibility the Fund could become responsible for paying these claims.

Subsequent Events

In accordance with GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*, events occurring subsequent to the statement of net position (deficit) which do not provide additional evidence with respect to conditions existing on the date of the statement of net position (deficit) are considered nonrecognized events. Typically, the Fund's nonrecognized events occur when a beneficiary unexpectedly passes away or takes an unexpected action that disqualifies the beneficiary from receiving benefits. The Fund discloses any known nonrecognized events within the Fund's subsequent events footnote.

N. Pensions

In accordance with GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, the net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense have been recognized in the Fund's financial statements.

The net pension liability is calculated as the difference between the actuarially calculated value of the projected benefit payments attributed to past periods of service and the plan's fiduciary net position. The total pension expense is comprised of the service cost or actuarial present value of projected benefit payments attributed to the valuation year, interest on the total pension liability, plan administrative expenses, current year benefit changes, and other changes in plan fiduciary net position less employee contributions and projected earnings on plan investments. Additionally, the total pension expense includes the annual recognition of outflows and inflows of resources due to pension assets and liabilities.

For purposes of measuring the net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense associated with the Fund's contribution requirements, information about the fiduciary net position of the SERS and additions to/deductions from the SERS' fiduciary net position have been determined on the same basis as they are reported within the separately issued SERS financial statements. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with terms of the plan. Investments are reported at fair value.

O. Other Postemployment Benefits (OPEB)

In accordance with GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, the net OPEB liability, deferred outflows of resources, deferred inflows of resources, and OPEB expense have been recognized in the Fund's financial statements. The Fund's portion of the OPEB liability is based on the Fund's proportionate share of employer contributions relative to all employer contributions made to the OPEB Plan during the year ended June 30, 2017.

P. Net Position (Deficit)

In the statement of net position (deficit), the Fund's equity is displayed in three components (as applicable).

1) *Invested in Capital Assets:* This balance consists of capital assets, net of accumulated depreciation, reduced by outstanding balances for bonds, notes, and other forms of debt which is attributed to the acquisition, construction, or improvement of those assets.

   At June 30, 2018, the Fund did not have any investment in capital assets net position.

2) *Restricted:* This balance consists of resources legally restricted by either outside parties or by law through constitutional provisions or enabling legislation. This balance is divided between expendable resources and nonexpendable resources which must be retained in perpetuity. When both restricted and unrestricted resources are available for use, it is generally the Fund's policy to use restricted resources first and then use unrestricted resources when needed.
   Under GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, this balance is intended to portray, as of the date of the statement of net position (deficit), the extent to which the Fund has assets that can only be used for specific purposes reduced by liabilities and deferred inflows of resources related to those assets. Further, under GASB Implementation Guide No. 2015-1, negative amounts should not be reported for any category of restricted net position. Therefore, if the related liabilities and deferred inflows of resources exceed the restricted assets, the "shortfall" by default is covered by unrestricted assets.

   At June 30, 2018, the Fund did not have any restricted net position.

3) *Unrestricted:* This balance consists of net position (deficit) that does not meet the definition of "invested in capital assets" or "restricted".

At June 30, 2018, the Fund reported an unrestricted net position (deficit) of ($4,254,376).

Q. Classification of Revenues and Expenses

The Fund classifies its revenues and expenses as either nonoperating or operating in the statement of revenues, expenses, and changes in net position (deficit) according to the following criteria:

Revenue

Operating revenues – such as assessments and security deposits earned when the Fund fulfills a private self-insurer's benefit obligations and incurs any associated administrative costs – result from exchange transactions associated with the principal activity of the Fund. Exchange transactions are those transactions in which each party receives and gives up essentially equal values. Given this policy, any revenue reported from collected security deposits will not exceed the estimated unpaid claims expense associated with the collected security deposits. Nonoperating revenues, such as interest and investment income, result from certain nonexchange transactions or ancillary activities.

Expenses

All expenses incurred by the Fund are considered operating, as they result from exchange transactions associated with the principal activity of the Fund.

R. 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 may differ from those estimates.

Actuarial Disclaimer

The actuary used by the Fund disclosed the following disclaimer related to its estimation of the unpaid claims liability:

> Evaluating loss and loss expense reserves involves the estimation of the outcome of future uncertain events. As such, they are subject to variation from expected values. Due to the nature and degree of uncertainty involved in projecting reserves, there can be no guarantee that our independent estimates will prove adequate or not excessive. However, the assumptions and methods we have employed in our analysis are, in our opinion, reasonable under the circumstances.

S. Current Adoption of GASB Statements

Effective for the year ending June 30, 2018, the Fund adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses, and identifies the note disclosure and RSI reporting requirements. This statement requires the Fund to report a liability on the face of the financial statements for the OPEB it provides and identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value and attribute that present value to periods of employee service. Implementation of GASB Statement No. 75 significantly impacted the Fund's financial statements and related footnote disclosures and resulted in a restatement of the Fund's beginning net position.

Effective for the year ending June 30, 2018, the Fund adopted GASB Statement No. 81, *Irrevocable Split-Interest Agreements*, which improves the accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance. A split-interest agreement is a type of giving agreement used by donors to provide resources to two or more beneficiaries, including governments. Split-interest agreements can be created through trusts or other legally enforceable agreements with characteristics that are equivalent to split interest agreements, in which a donor transfers resources to an intermediary to hold and administer for the benefit of a government and at least one other beneficiary. The implementation of this statement had no financial impact on the Fund's net position or results of operations.

Effective for the year ending June 30, 2018, the Fund adopted GASB Statement No. 85, *Omnibus 2017*, the objective of which is to address practice issues identified during the implementation and application of certain GASB statements. The statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application and postemployment benefits (pensions and other postemployment benefits). The implementation of this statement had no financial impact on the Fund's net position or results of operations.

Effective for the year ending June 30, 2018, the Fund adopted GASB Statement No. 86, *Certain Debt Extinguishment Issues*, which establishes uniform guidance for derecognizing debt that is defeased in-substance, regardless of how cash and other monetary assets placed in an irrevocable trust for the purpose of extinguishing debt were acquired. The statement improves consistency in financial reporting of prepaid insurance related to debt that has been extinguished. The implementation of this statement had no financial impact on the Fund's net position or results of operations.

T. Future Adoption of GASB Statements

Effective for the year ending June 30, 2019, the Fund will adopt GASB Statement No. 83, *Certain Asset Retirement Obligations*, which establishes standards for the accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement or permanent removal of a tangible capital asset from service such as from sale, abandonment, recycling, or disposal. The statement provides uniform criteria for governments to recognize and measure certain AROs including the timing and pattern of recognition of the liability and the corresponding deferred outflow of resources. The Commission does not expect a material impact on the Fund's financial statements as a result of adopting this statement.

Effective for the year ending June 30, 2020, the Fund will adopt GASB Statement No. 84, *Fiduciary Activities*, the objective of which is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes, the recognition of liabilities to beneficiaries, and how fiduciary activities should be reported. The statement redefines the fiduciary fund types focusing on the resources to be reported within each. The types include pension (and other employee benefit) trust funds, investment trust funds, private-purpose trust funds, and custodial funds. A statement of fiduciary net position will be used to report assets, deferred outflows of resources, liabilities, deferred inflows of resources and fiduciary net position of pension (and other employee benefit) trust funds, investment trust funds, private-purpose trust funds, and custodial funds. A statement of changes in fiduciary net position will be required to report additions to and deductions from the four fiduciary fund types including the presentation of investment earnings, investment costs, net investment earnings and deductions, disaggregated by type. The Commission has not yet determined the impact on the Fund's financial statements as a result of adopting this statement.

Effective for the year ending June 30, 2021, the State will adopt GASB Statement No. 87, *Leases,* which is intended to improve accounting and financial reporting for leases by governments to better meet the information needs of financial statement users. The Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The Commission has not yet determined the impact on the Fund's financial statements as a result of adopting this statement.

Effective for the year ending June 30, 2019, the Fund will adopt GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements,* which establishes standards to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The Commission does not expect a material impact on the Fund's financial statements as a result of adopting this statement.

Effective for the year ending June 30, 2021, the Fund will adopt GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which establishes accounting requirements for interest cost incurred before the end of a construction period. This statement requires interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The Commission does not expect a material impact on the Fund's financial statements as a result of adopting this statement.

Effective for the year ending June 30, 2020, the Fund will adopt GASB Statement No. 90, *Majority Equity Interests—an amendment of GASB Statements No. 14 and No. 61*, which defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value. The Commission does not expect a material impact on the Fund's financial statements as a result of adopting this statement.

(3) Deposits and Investments

The State's Treasurer is the custodian of the Fund's deposits and investments for funds maintained in the State Treasury. These amounts are classified as "Cash Equity in the State Treasury" on the statement of net position (deficit). The Commission independently manages deposits and investments maintained outside of the State Treasury.

A. Deposits

Deposits in the custody of the Treasurer, totaling $18,970,931 at June 30, 2018, are pooled and invested with other State funds in accordance with the Deposit of State Moneys Act (15 ILCS 520/11). Funds held by the Treasurer have not been categorized as to credit risk because the Fund does not own individual securities. Details on the nature of these deposits and investments are available within the State's CAFR.

B. Petty Cash Account

The Commission maintains a petty cash fund of $100 for the Fund in strict adherence with the provisions of the Statewide Accounting Management System established by the State's Comptroller. This account is maintained in physical cash on an imprest basis, where cash on hand, vendor's invoices not reimbursed, and reimbursement vouchers in transit must always equal $100. At June 30, 2018, the Commission was holding $100 in cash and did not have any unreimbursed vendor invoices or reimbursement vouchers in transit.

(4) Securities Lending Transactions

The State's Treasurer lends securities to broker-dealers and other entities for collateral that will be returned for the same securities in the future. The Treasurer has, through a Securities Lending Agreement, authorized Deutsche Bank AG to lend the Treasurer's securities to broker-dealers in banks pursuant to a form of loan agreement.

During Fiscal Year 2018, Deutsche Bank AG lent U.S. Agency securities and U.S. Treasury securities and received as collateral U.S. dollar denominated cash. Borrowers were required to deliver collateral for each loan equal to at least 100% of the aggregate fair value of the loaned securities. Loans are marked to market daily. If the fair value of collateral falls below 100%, the borrower must provide additional collateral to raise the fair value to 100%.

The Treasurer did not impose any restrictions during Fiscal Year 2018 on loan amounts of available and eligible securities. In the event of borrower default, Deutsche Bank AG provides the Treasurer with counterparty default indemnification. In addition, Deutsche Bank AG is obligated to indemnify the

Treasurer if Deutsche Bank AG loses any securities, collateral or investments of the Treasurer in Deutsche Bank AG's custody. Moreover, there were no losses during Fiscal Year 2018 resulting from a default of the borrowers or Deutsche Bank AG.

During Fiscal Year 2018, the State Treasurer and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested in repurchase agreements with approved counterparties collateralized with securities approved by Deutsche Bank AG and marked to market daily at no less than 102%. Because the loans are terminable at will; their duration did not generally match the duration of the investments made with cash collateral. The State Treasurer had no credit risk because of its securities lending program as the collateral held exceeded the fair value of the securities lent. The securities lending collateral received that was invested in repurchase agreements and the fair value of securities on loan for the State Treasurer as of June 30, 2018, were $4,521,091,000 and $4,451,198,793, respectively.

In accordance with paragraph 9 of GASB Statement No. 28, *Accounting and Financial Reporting for Securities Lending Transactions*, the Treasurer may allocate assets and obligations arising from securities lending agreements to the various funds of the State. The securities lending collateral invested in repurchase agreements allocated to the Fund was $7,690,000 on June 30, 2018.

(5) Interfund Balances and Activity

The Fund did not have any interfund balances or activity during the fiscal year ended June 30, 2018.

(6) Capital Assets

The Fund did not have any capital assets or related activity during the fiscal year ended June 30, 2018.

(7) Assessment Receivables

At June 30, 2018, the Fund had outstanding assessment receivables of $940, net of an allowance for doubtful accounts of $3,250.

(8) Excess Insurance Receivables

At June 30, 2018, the Fund had excess insurance receivables of $89,117, net of an allowance for doubtful accounts of $0. All excess insurance companies had an AM Best rating of "A" or better as of June 30, 2018.

(9) Long-Term Obligations

A. Changes in Long-Term Obligations

The Fund's changes in long-term obligations for the year ended June 30, 2018, were as follows:

	Unearned Security Deposits	Compensated Absences	Unpaid Claims	Net Pension Liability	Net OPEB Liability
Balance on July 1, 2017	$13,833,750	$ 19,868	$7,988,200	$ 853,635	$ -
Change in Estimate and/or Claim Development	-	-	(499,478)	-	-
Additions	1,035,214	325	122,582	-	578,534
Deletions	-	-	(1,084,941)	(195,494)	-
Balance on June 30, 2018	$14,868,964	$ 20,193	$6,526,363	$ 658,141	$578,534
Amounts Due Within One Year	$ 549,123	$ -	$ 494,751	$ -	$ -
Amounts Due Beyond One Year	14,319,841	20,193	6,031,612	658,141	578,534
Total	$14,868,964	$ 20,193	$6,526,363	$ 658,141	$578,534

The change in estimate and/or claim development occurring within Fiscal Year 2018 was due to the Commission settling four outstanding claims, one beneficiary who unexpectedly passed away, two death benefits that ceased when the beneficiary reached the age 18 and choose not to remain in school on a full-time basis, and completion of 20-year death benefits.

B. Benefit Claims Expense

The Fund's benefit claims expense consisted of (1) settlements reached by the Commission and claimants in seven cases not previously recognized of $98,439, (2) expense related to new claim of $24,143, (3) change in expenses related to old claims of ($447,178), and (4) a change in estimate and/or claim development of ($499,478), totaling ($824,074).

(10) Pension Plan

Plan Description

Substantially all of the Fund's full-time employees who are not eligible for participation in another State-sponsored retirement plan participate in SERS, which is a single-employer defined benefit pension trust fund in the State's reporting entity. SERS is governed by Article 14 of the Illinois Pension Code (40 ILCS 5/1, et al.). The Plan consists of two tiers of contribution requirements and benefit levels based on when an employee was hired. Members who first become an employee and participate under any of the State's retirement plans on or after January 1, 2011, are members of Tier 2, while Tier 1 consists of employees hired before January 1, 2011, or those who have service credit prior to January 1, 2011. The provisions below apply to both Tier 1 and 2 members, except where noted. The SERS issues a separate CAFR available at www.srs.illinois.gov or that may be obtained by writing to the SERS, 2101 South Veterans Parkway, Springfield, Illinois, 62794-9255.

Benefit Provisions

SERS provides retirement benefits based on the member's final average compensation and the number of years of credited service that have been established. The retirement benefit formula available to general State employees is 1.67% for each year of covered service and 2.2% for each year of noncovered service. The maximum retirement annuity payable is 75% of final average compensation as calculated under the regular formula. The minimum monthly retirement annuity payable is $15 for each year of covered employment and $25 for each year of noncovered employment.

Participants in SERS under the regular formula Tier 1 and Tier 2 receive the following levels of benefits based on the respective age and years of service credits.

<table>
<tr><th>Regular Formula Tier 1</th><th>Regular Formula Tier 2</th></tr>
<tr><td>A member must have a minimum of eight years of service credit and may retire at:
Age 60, with 8 years of service credit.
Any age, when the member's age (years & whole months) plus years of service credit (years & whole months) equal 85 years (1,020 months) (Rule of 85) with eight years of credited service.
Between ages 55-60 with 25-30 years of service credit (reduced 1/2 of 1% for each month under age 60).
The retirement benefit is based on final average compensation and credited service. Final average compensation is the 48 highest consecutive months of service within the last 120 months of service.

Under the Rule of 85, a member is eligible for the first 3% increase on January 1 following the first full year of retirement, even if the member is not age 60. If the member retires at age 60 or older, he/she will receive a 3% pension increase every year on January 1, following the first full year of retirement.</td><td>A member must have a minimum of 10 years of credited service and may retire at:
Age 67, with 10 years of credited service.
Between ages 62-67 with 10 years of credited service (reduced 1/2 of 1% for each month under age 67).
The retirement benefit is based on final average compensation and credited service. For regular formula employees, final average compensation is the average of the 96 highest consecutive months of service within the last 120 months of service. The retirement benefit is calculated on a maximum salary of $106,800. This amount increases annually by 3% or one-half of the Consumer Price Index, whichever is less.

If the member retires at age 67 or older, he/she will receive a pension increase of 3% or one-half of the Consumer Price Index for the preceding calendar year, whichever is less, every year on January 1, following the first full year of retirement. The calendar year 2017 rate is $112,408.</td></tr>
</table>

Regular Formula Tier 1 (continued)	**Regular Formula Tier 2 (continued)**
If the member retires before age 60 with a reduced retirement benefit, he/she will receive a 3% pension increase every January 1 after the member turns age 60 and has been retired at least one full year. These pension increases are not limited by the 75% maximum.	If the member retires before age 67 with a reduced retirement benefit, he/she will receive a pension increase of 3% or one-half of the Consumer Price Index for the preceding calendar year, whichever is less, every January 1 after the member turns age 67 and has been retired at least one full year. These pension increases are not limited by the 75% maximum.

Additionally, the Plan provides an alternative retirement formula for State employees in high-risk jobs, such as State police, fire fighters, and security employees. Employees qualifying for benefits under the alternative formula may retire at an earlier age depending on membership in Tier 1 or Tier 2. The retirement formula is 2.5% for each year of covered service and 3.0% for each year of non-covered service. The maximum retirement annuity payable is 80% of final average compensation as calculated under the alternative formula.

SERS also provides occupational and nonoccupational (including temporary) disability benefits. To be eligible for nonoccupational (including temporary) disability benefits, an employee must have at least eighteen months of credited service to the System. The nonoccupational (including temporary) disability benefit is equal to 50% of the monthly rate of compensation of the employee on the date of removal from the payroll. Occupational disability benefits are provided when the member becomes disabled as a direct result of injuries or diseases arising out of and in the course of State employment. The monthly benefit is equal to 75% of the monthly rate of compensation on the date of removal from the payroll. This benefit amount is reduced by workers' compensation or payments under the Workers' Occupational Diseases Act.

Occupational and nonoccupational death benefits are also available through the System. Certain nonoccupational death benefits vest after eighteen months of credited service. Occupational death benefits are provided from the date of employment.

Contributions

Contribution requirements of active employees and the State are established in accordance with Chapter 40, Section 5/14-133 of the Illinois Compiled Statutes. Member contributions are based on fixed percentages of covered payroll ranging between 4.00% and 12.50%. Employee contributions are fully refundable, without interest, upon withdrawal from State employment. Tier 1 members contribute based on total annual compensation. Tier 2 members contribute based on an annual compensation rate not to exceed $106,800 with limitations for future years increased by the lesser of 3% or one-half of the annual percentage increase in the Consumer Price Index. For 2018, this amount was $113,645.

The State is required to make payment for the required departmental employer contributions, all allowances, annuities, any benefits granted under Chapter 40, Article 5/14 of the Illinois Compiled Statutes and all administrative expenses of the System to the extent specified in the Illinois Compiled Statutes. State law provides that the employer contribution rate be determined based upon the results of each annual actuarial valuation.

For Fiscal Year 2018, the required employer contributions were computed in accordance with the State's funding plan. This funding legislation provides for a systematic 50-year funding plan with an ultimate goal to achieve 90% funding of the Plan's liabilities. In addition, the funding plan provided for a 15-year phase-in period to allow the State to adapt to the increased financial commitment. Since the 15-year phase-in period ended June 30, 2010, the State's contribution will remain at a level percentage of payroll for the next 35 years until the 90% funded level is achieved. For Fiscal Year 2018, the employer contribution rate was 52%. The Fund's contribution amount for Fiscal Year 2018 was $43,509.

Pension Liability, Deferred Outflows of Resources, Deferred Inflows of Resources, and Expense Related to Pensions

At June 30, 2018, the Fund reported a liability of $658,141 for its proportionate share of the State's net pension liability for SERS on the statement of net position (deficit). The net pension liability was measured as of June 30, 2017 (current year measurement date), and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

The Fund's portion of the net pension liability was based on the Fund's proportion of employer contributions relative to all employer contributions made to the Plan during the year ended June 30, 2017.

For the year ended June 30, 2018, the Fund recognized pension expense of $112,834. At June 30, 2018, the Fund reported deferred outflows and deferred inflows of resources related to the pension liability, as of the measurement date of June 30, 2017, from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 387	$ 20,845
Changes of assumptions	67,882	13,722
Net difference between projected and actual investment earnings on pension plan investments	574	-
Changes in proportion	215,645	134,195
Fund contributions subsequent to the measurement date	43,509	-
Total	$ 327,997	$ 168,762

The Fund reported $43,509 as deferred outflows of resources related to pensions resulting from Fund contributions subsequent to the measurement date. These will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Fiscal Year Ended June 30, 2019	$ 65,904
Fiscal Year Ended June 30, 2020	63,828
Fiscal Year Ended June 30, 2021	6,867
Fiscal Year Ended June 30, 2022	(20,877)
Total	$ 115,722

Actuarial Methods and Assumptions

The total pension liability was determined by an actuarial valuation as of June 30, 2017, using the following actuarial assumptions, applied to all periods included in the measurement:

> Mortality: 105% of the RP-2014 Healthy Annuitant mortality table, sex distinct, with rates projected to 2015; generational mortality improvement factors were added.
>
> Inflation: 2.75%
>
> Investment Rate of Return: 7.00%, net of pension plan investment expense, including inflation.
>
> Salary increases: Salary increase rates based on age related productivity and merit rates plus inflation.
>
> Post-retirement benefit increases of 3.00%, compounded, for Tier 1 and the lesser of 3.00% or one-half of the annual increase in the Consumer Price Index for Tier 2.
>
> Retirement Age: Experience-based table of rates specific to the type of eligibility condition. Table was last updated for the June 30, 2014, valuation pursuant to an experience study of the period July 1, 2009 to June 30, 2013.

The long-term expected real rate of return on pension plan investments was determined based on the simulated average 20-year annualized geometric return for each major asset class. These returns are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage. For each major asset class that is included in the pension plan's target asset allocation, calculated as of the measurement date of June 30, 2017, the best estimates of the geometric real rates of return are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
U.S. Equity	23%	5.50%
Developed Foreign Equity	13%	5.30%
Emerging Market Equity	8%	7.80%
Private Equity	7%	7.60%
Intermediate Investment Grade Bonds	14%	1.50%
Long-term Government Bonds	4%	1.80%
TIPS	4%	1.50%
High Yield and Bank Loans	5%	3.80%
Opportunistic Debt	8%	5.00%
Emerging Market Debt	2%	3.70%
Core Real Estate	5.5%	3.70%
Non-Core Real Estate	4.5%	5.90%
Infrastructure	2%	5.80%
Total	100%	

Discount Rate

A discount rate of 6.78% was used to measure the total pension liability as of the measurement date of June 30, 2017, as compared to a discount rate of 6.64% used to measure the total pension liability as of the prior year measurement date. The June 30, 2017, single blended discount rate was based on the expected rate of return on pension plan investments of 7.00% and a municipal bond rate of 3.56%, based on an index of 20-year general obligation bonds with an average AA credit rating as published by the Federal Reserve. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that contributions will be made based on the statutorily required rates under Illinois law. Based on these assumptions, the pension plan's fiduciary net position and future contributions will be sufficient to finance the benefit payments through the year 2073. As a result, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the year 2073, and the municipal bond rate was applied to all benefit payments after that date.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The net pension liability for the plan was calculated using the stated discount rate, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate as shown below:

	1% Decrease 5.78%	Discount Rate 6.78%	1% Increase 7.78%
Fund's proportional share of the net pension liability	$ 796,365	$ 658,141	$ 545,018

Payables to the Pension Plan

At June 30, 2018, the Fund did not report any payables to the SERS for any outstanding amount of contributions to the Plan required for the year ended June 30, 2018.

(11) OPEB

Plan Description

The State Employees Group Insurance Act of 1971, as amended, authorizes the State Employees Group Insurance Program ("SEGIP") to provide health, dental, vision, and life insurance benefits for certain retirees and their dependents. Substantially all of the Fund's full-time employees are members of SEGIP. Members receiving monthly benefits from the General Assembly Retirement System ("GARS"), Judges Retirement System ("JRS"), State Employees' Retirement System of Illinois ("SERS"), Teachers' Retirement System ("TRS"), and State Universities Retirement System of Illinois ("SURS") are eligible for these OPEB. Certain TRS members eligible for coverage under SEGIP include: certified teachers employed by certain State agencies, executives employed by the Board of Education, regional superintendents, regional assistant superintendents, TRS employees, and members with certain reciprocal service.

The Department of Central Management Services administers these benefits for annuitants with the assistance of the public retirement systems sponsored by the State (GARS, JRS, SERS, TRS and SURS). The State recognizes SEGIP OPEB benefits as a single-employer defined benefit plan. The plan does not issue a stand-alone financial report.

Benefits Provided

The health, dental, and vision benefits provided to and contribution amounts required from annuitants are the result of collective bargaining between the State and the various unions representing the State's and the university component units' employees in accordance with limitations established in the State Employees Group Insurance Act of 1971. Therefore, the benefits provided and contribution amounts are subject to periodic change. Coverage through SEGIP becomes secondary to Medicare after Medicare eligibility has been reached. Members must enroll in Medicare Parts A and B to receive the subsidized SEGIP premium available to Medicare eligible participants. The State Employees Group Insurance Act of 1971 requires the State to provide life insurance benefits for annuitants equal to their annual salary as of the last day of employment until age 60, at which time, the benefit amount becomes five thousand dollars.

Funding Policy and Annual Other Postemployment Benefit Cost

OPEB offered through SEGIP are financed through a combination of retiree premiums, State contributions, and Federal government subsidies from the Medicare Part D program. Contributions are deposited in the Health Insurance Reserve Fund, which covers both active State employees and retirement members. Annuitants may be required to contribute towards health 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 SERS do not contribute toward health 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 and vision benefits. All annuitants are required to pay for dental benefits regardless of retirement date.

The Director of Central Management Services shall, on an annual basis, determine the amount the State shall contribute toward the basic program of group health benefits. State contributions are made primarily from the General Revenue Fund on a pay-as-you-go basis. No assets are accumulated or dedicated to funding the retiree health insurance benefit and a separate trust has not been established for the funding of OPEB.

For Fiscal Year 2018, the annual cost of the basic program of group health, dental, and vision benefits before the State's contribution was $10,926.24 ($6,145.92 if Medicare eligible) if the annuitant chose benefits provided by a health maintenance organization and $14,939.04 ($5,165.04 if Medicare eligible) if the annuitant chose other benefits. The State is not required to fund the plan other than the pay-as-you-go amount necessary to provide the current benefits to retirees.

Total OPEB Liability, Deferred Outflows of Resources, Deferred Inflows of Resources and Expense related to OPEB

The total OPEB liability, as reported at June 30, 2018, was measured as of June 30, 2017, with an actuarial valuation as of June 30, 2016. At June 30, 2018, the Fund recorded a liability of $578,534 for its proportionate share of the State's total OPEB liability. The Fund's portion of the OPEB liability was based on the Fund's proportion of employer contributions relative to all employer contributions made to the plan during the year ended June 30, 2017. As of the current year measurement date of June 30, 2017, the Fund's proportion was 0.0014%, which was a decrease of .0001% from its proportion measured as of the prior year measurement date of June 30, 2016.

For the year ended June 30, 2018, the Fund recognized OPEB expense of $21,019. At June 30, 2018, the Fund reported deferred outflows and deferred inflows of resources related to the OPEB liability, as of the measurement date of June 30, 2017, from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 185	$ -
Changes of assumptions	-	54,932
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	35,515
Fund contributions subsequent to the measurement date	31,477	-
Total	$ 31,662	$ 90,447

$31,477 reported as deferred outflows of resources related to OPEB resulting from Fund contributions subsequent to the measurement date will be recognized as a reduction to the OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Fiscal Year Ended June 30, 2019	$ (20,290)
Fiscal Year Ended June 30, 2020	(20,290)
Fiscal Year Ended June 30, 2021	(20,290)
Fiscal Year Ended June 30, 2022	(20,290)
Fiscal Year Ended June 30, 2023	(9,102)
Total	$ (90,262)

Actuarial Methods and Assumptions

The total OPEB liability was determined by an actuarial valuation using the following actuarial assumptions, applied to all periods included in the measurement unless otherwise specified. The actuarial valuation for the SEGIP was based on GARS, JRS, SERS, TRS, and SURS active, inactive, and retiree data as of June 30, 2016, for eligible SEGIP employees, and SEGIP retiree data as of June 30, 2016.

Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Actuarial Cost Method	Entry Age Normal
Inflation Rate	2.75%
Projected Salary Increases*	3.00% - 15.00%
Discount Rate	3.56%
Healthcare Cost Trend Rate:	
Medical (Pre-Medicare)	8.0 % grading down 0.5% in the first year to 7.5%, then grading down 0.01% in the second year to 7.49%, followed by grading down of 0.5% per year over 5 years to 4.99% in year 7
Medical (Post-Medicare)	9.0% grading down 0.5% per year over 9 years to 4.5%
Dental	7.5% grading down 0.5% per year over 6 years to 4.5%
Vision	3.00%
Retirees' share of benefit-related costs	Healthcare premium rates for members depend on the date of retirement and the years of service earned at retirement. Members who retired before January 1, 1998, are eligible for single coverage at no cost to the member. Members who retire after January 1, 1998, are eligible for single coverage provided they pay a portion of the premium equal to 5 percent for each year of service under 20 years. Eligible dependents receive coverage provided they pay 100 percent of the required dependent premium. Premiums for plan year 2017 and 2018 are based on actual premiums. Premiums after 2018 were projected based on the same healthcare cost trend rates applied to per capita claim costs but excluding the additional trend rate that estimates the impact of the Excise Tax.

* Dependent upon service and participation in the respective retirement systems. Includes inflation rate listed.

Additionally, the demographic assumptions used in this OPEB valuation are identical to those used in the June 30, 2016 valuations for GARS, JRS, SERS, TRS, and SURS as follows:

	Retirement age experience study^	Mortality^^
GARS	July 2012 - June 2015	RP-2014 White Collar Total Healthy Annuitant mortality table, sex distinct, set forward 1 year for males and set back 1 year for females and generational mortality improvements using MP-2014 two-dimensional mortality improvement scales
JRS	July 2012 - June 2015	RP-2014 White Collar Total Healthy Annuitant mortality table, sex distinct, set forward 1 year for males and set back 1 year for females and generational mortality improvements using MP-2014 two-dimensional mortality improvement scales
SERS	July 2009 - June 2013	105 percent of the RP 2014 Healthy Annuitant mortality table, sex distinct, with rates projected to 2015; generational mortality improvement factors were added
TRS	July 2011 - June 2014	RP-2014 with future mortality improvements on a fully generational basis using projection table MP-2014
SURS	July 2010 - June 2014	RP-2014 White Collar, gender distinct, projected using MP-2014 two dimensional mortality improvement scale, set forward one year for male and female annuitants

^ The actuarial assumptions used in the respective actuarial valuations are based on the results of actuarial experience studies for the periods defined. A modified experience review was completed for SERS for the 3-year period ending June 30, 2015. Changes were made to the assumptions regarding investment rate of return, projected salary increases, inflation rate, and mortality based on this review. All other assumptions remained unchanged.

^^ Mortality rates are based on mortality tables published by the Society of Actuaries' Retirement Plans Experience Committee.

Discount Rate

Retirees contribute a percentage of the premium rate based on service at retirement. The State contributes additional amounts to cover claims and expenses in excess of retiree contributions. Because plan benefits are financed on a pay-as-you-go basis, the single discount rate is based on a tax-exempt municipal bond rate index of 20-year general obligation bonds with an average AA credit rating as of the measurement date. A single discount rate of 2.85% at June 30, 2016, and 3.56% at June 30, 2017, was used to measure the total OPEB liability.

Sensitivity of Total OPEB Liability to Changes in the Single Discount Rate

The following presents the plan's total OPEB liability, calculated using a Single Discount Rate of 3.56%, as well as what the plan's total OPEB liability would be if it were calculated using a Single Discount rate that is one percentage point higher (4.56%) or lower (2.56%) than the current rate:

	1% Decrease 2.56%	Single Discount Rate 3.56%	1% Increase 4.56%
Fund's proportional share of total OPEB liability	$ 656,342	$ 578,534	$ 501,164

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rate

The following presents the plans total OPEB liability, calculated using the healthcare cost trend rates as well as what the plan's total OPEB liability would be if it were calculated using a healthcare cost trend rate that is one percentage point higher or lower, than the current healthcare cost trend rates. The key trend rates are 8.0% in 2018 decreasing to an ultimate trend rate of 4.99% in 2025, for non-Medicare coverage, and 9.0% decreasing to an ultimate trend rate of 4.5% in 2027 for Medicare coverage.

	1% Decrease 2.56%	Healthcare Cost Trend Rate 3.56%	1% Increase 4.56%
Fund's proportional share of total OPEB liability	$ 494,353	$ 578,534	$ 648,032

(12) Risk Management

The Fund is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; workers' compensation; and natural disasters. The State retains the risk of loss (i.e., self-insured) for these risks.

The Fund's risk management activities are financed through appropriations to CMS and are accounted for in the State's general fund. As the claims are not considered to be a liability of the Fund, they have not been reported in the Fund's financial statements for the year ended June 30, 2018.

(13) Commitments

The Fund had no significant commitments at June 30, 2018.

(14) Contingencies

A. Black Lung Cases

As of June 30, 2018, the Fund could incur significantly higher claims for unreported black lung cases associated with two formerly self-insured coal companies. Black lung death cases may be filed by a worker's dependent up to three years after the worker's death, with each claim carrying a total maximum exposure of $500,000. All of the following conditions must be proved to establish a compensable claim for a black lung death:

- The deceased died of black lung that arose out of and in the course of the decedent's coal mining employment.

- The deceased worked for one of the two formerly self-insured coal companies from January 1974 through January 2001 or from April 1983 through January 2001 (depending on the company) and the formerly self-insured company was the decedent's last coal-related employer.

- At the time of death, the decedent had either a spouse or qualified dependents.

- The claim was filed within three years of the decedent's death.

Given these requirements, possible claims will decrease over time as the three-year statute of limitations expires. The Fund has had 17 black lung death claims since the Fund assumed the formerly self-insured companies' liabilities in 2003, including only one claim that has been filed after 2015.

B. Incurred-But-Not Reported (IBNR) Component of Unpaid Claims

As of June 30, 2018, the Fund could incur claims based on the following contingencies:

a. Actual payments or settlements could turn out to be higher than the current estimated unpaid claims because the circumstance of a claim tends to develop worse than expected such as when an unexpected treatment or operation has to be performed to an injured patient.

b. Certain family members of injured workers, upon the death of the worker, could file claims within either: (1) three years of the worker's death or (2) two years after the date of the last payment of compensation and prove that the death of the worker is work related. These claims could arise from claimants currently collecting benefits or from claimants not currently collecting benefits.

c. There could be unreported claims from bankrupt companies where the liabilities have not yet assumed by the Fund.

d. There could be unreported claims not yet known to the Fund where the Fund has taken over the liabilities of the bankrupt company.

There is significant uncertainty in estimating the above contingencies given the Fund's limited historical claim experience to date. As such, the Fund has not calculated an amount for these speculative losses. This uncertainty will diminish, however, as more claim experience is accumulated in the future years.

C. Self-Insurers under Bankruptcy Protection

As of June 30, 2018, estimated contingent liabilities for unpaid claims of self-insurers under bankruptcy protection, net of excess insurance, were $937,332 ($126,386 current and $810,947 noncurrent). On behalf of the Board, the Commission would collect the self-insurer's security if the Fund became responsible for paying these claims. As of June 30, 2018, there was sufficient posted security from each self-insurer to cover its portion of the estimated claims.

D. Excess Insurance Counterparty Risk

As of June 30, 2018, all excess insurance companies had an AM Best rating of "A" or better for the Financial Strength Rating (FSR). According to *Understanding Best's Credit Ratings* (dated May 10, 2018), the FSR "is an independent opinion of an insurer's financial strength and ability to meet its ongoing insurance policy and contract obligations" and "A" or higher rating indicates a given insurance company has, in Best's opinion, an excellent ability to meet its ongoing insurance obligations. Based upon this independent analysis and the continued payment of excess insurance claims, Fund management has concluded counterparty risk is low and does not require the recognition of additional liabilities and reduction in assets as of the date when these financial statements were available to be issued.

(15) Deficit

At June 30, 2018, the Fund has a deficit of ($4,254,376) because the liabilities of the Fund, including actuarially-determined claims liabilities, postemployment benefits, security deposits, and unearned security deposits, exceed the Fund's assets. Subject to Board approval, future assessments will be used to meet the Fund's obligations in the future.

(16) Prior Period Adjustments

The Fund's net position (deficit) was restated at July 1, 2017, due to the adoption of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. As a result, an adjustment was posted which decreased net position by $647,777.

A reconciliation of net position (deficit) as reported in the prior period's financial statements and the as restated net position (deficit) follows:

Net position, beginning of year, as previously reported	($3,428,465)
Adoption of GASB Statement No. 75	(647,777)
Net position, beginning of year, as restated	($4,076,242)

(17) Subsequent Events

Subsequent to June 30, 2018, estimated unpaid claims liabilities reported within the statement of net position (deficit) are now known and were classified as nonrecognized events. $150,078 in estimated liabilities will not be incurred due to three settlements and a transfer of a claim to the excess insurance carrier in Fiscal Year 2019. These would have increased current liabilities by $61,800 and decreased noncurrent liabilities by $211,878. $31,311 in estimated liabilities (with $4,775 classified as current liabilities and $26,536 classified as noncurrent liabilities) will not be incurred due to two claimants passing away. These events will be recognized in the Fund's Fiscal Year 2019 financial statements.

Sears and K-Mart, two former self-insured companies, filed for bankruptcy on October 15, 2018. The two entities have combined estimated claims of $1,691,039, with Sears' security being deficient by $644,862. While Sears has been authorized to continue paying its workers' compensation claims and plans to continue to do so, the Fund's potential exposure to future claims is $644,862.

On February 14, 2019, the Circuit Court reversed a preceding order affirming the Commission's dismissal of a case. The Commission has been advised by the Attorney General's Office that an estimated loss for this case ranges from $6,515 to $250,000 with further additional costs being incurred as the case proceeds. Commission management believes the first component of any future award is now probable, with an estimated loss between $6,515 and $54,866. Commission management believes the second component of any future award is remote, with an estimated potential loss of $185,849 with further additional costs being incurred as the case proceeds.

Commission management is not aware of any additional facts, decisions, or conditions that might be expected to have a significant effect on the Fund's financial position or results of operations during this and future fiscal years.

E.C. ORTIZ & CO., LLP
CERTIFIED PUBLIC ACCOUNTANTS

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*

Honorable Frank J. Mautino
Auditor General
State of Illinois

and

Self-Insurers Security Board
State of Illinois, Illinois Workers' Compensation Commission

As Special Assistant Auditors for the Auditor General, 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 Self-Insurers Security Fund of the State of Illinois, Illinois Workers' Compensation Commission, as of and for the year ended June 30, 2018, and the related notes to the financial statements, and have issued our report thereon dated April 30, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the State of Illinois, Illinois Workers' Compensation Commission's internal control over financial reporting (internal control) of the Self-Insurers Security Fund 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 the State of Illinois, Illinois Workers' Compensation Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the State of Illinois, Illinois Workers' Compensation Commission'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.

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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 and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings as item 2018-001, which we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State of Illinois, Illinois Workers' Compensation Commission's Self-Insurers Security Fund's financial statements are free from 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*.

State of Illinois, Illinois Workers' Compensation Commission's Response to the Finding

The State of Illinois, Illinois Workers' Compensation Commission's response to the finding identified in our audit is described in the accompanying schedule of findings. The State of Illinois, Illinois Workers' Compensation Commission's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the State of Illinois, Illinois Workers' Compensation Commission'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 State of Illinois, Illinois Workers' Compensation Commission's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

SIGNED ORIGINAL ON FILE

Chicago, Illinois
April 30, 2019

2018-001. **FINDING** (Inadequate Control over Financial Reporting)

The Illinois Workers' Compensation Commission (Commission) failed to ensure its draft financial statements of the Self-Insurers Security Fund (Fund) provided to us were properly presented in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

During testing, we noted the following:

- The Commission did not properly record the Fund's other postemployment benefits liability (OPEB) and related flows, as the Commission recorded the Self-Insurers Administrative Fund's activity as opposed to the Self-Insurers Security Fund's activity. Commission management corrected this error in the Fund's final financial statements by increasing the Fund's beginning net position by $968,284, decreasing the Fund's OPEB liability by $909,125, decreasing the Fund's deferred outflows of resources related to OPEB by $1,948, decreasing the Fund's deferred inflows of resources related to OPEB by $121,836, decreasing OPEB expense by $29,252, and decreasing group insurance expense by $31,477.

  Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,* required the Fund to adopt GASB Statement No. 75 for the fiscal year ended June 30, 2018. Further, the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) required the Commission to establish and maintain a system, or systems, of internal fiscal and administrative controls to provide assurance funds applicable to operations are properly accounted for to permit the preparation of accounts and reliable financial reports and to maintain accountability over the State's resources. Good internal controls over financial reporting include ensuring each fund, as an independent fiscal and accounting entity with its own self-balancing set of accounts, has its unique transactions segregated from the transactions of other funds.

  Commission officials indicated this error was due to oversight.

- The Commission did not ensure its internal accounting records supporting the Fund's financial statements were complete and accurate. We noted the following errors during our audit, which were corrected by Commission management in the Fund's final financial statements:

2018-001. **FINDING** (Inadequate Control over Financial Reporting) (continued)

- We identified two cases where the private self-insurer's obligations had become the responsibility of the Fund, but each self-insurer's remaining security balance was improperly classified as security deposits as opposed to unearned security deposits. Commission management corrected this error by reducing security deposits by $549,123 and increasing current unearned security deposits by $549,123.

- We noted the Commission's underlying records for one private self-insurer did not properly reflect excess insurance recoveries, which were understated by $68,679. Commission management corrected this error by increasing unearned security deposits by $68,679 and decreasing security deposits drawn by $68,679.

- We noted the Commission did not properly record investment and interest income due to (1) not using actual receipts from the State Treasurer and (2) an allocation error between interest earned by the private self-insurers and interest earned by the Fund. Commission management corrected these errors by increasing interest income by $22,045 and decreasing security deposits drawn by $22,045.

Under the Fund's Summary of Significant Accounting Policies (Note 2 on page 19), security deposits consist of proceeds from securities collected by the Commission where the Fund has not yet assumed responsibility for paying the private self-insurer's injured workers' claims, while unearned security deposits consist of proceeds from securities collected by the Commission where the private self-insurer's obligations have become the responsibility of the Fund. In addition, the security deposits accounts each receive an allocation of interest and investment income earned on the private self-insurer's moneys deposited within the Fund.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the Commission to establish and maintain a system, or systems, of internal fiscal and administrative controls to provide assurance funds applicable to operations are properly accounted for to permit the preparation of accounts and reliable financial reports and to maintain accountability over the State's resources. Good internal controls over financial reporting include ensuring the underlying financial transactions of the Fund are recorded in adherence with the Fund's Summary of Significant Accounting Policies.

2018-001. **FINDING** (Inadequate Control over Financial Reporting) (continued)

Commission officials indicated these errors were due to oversight.

- During testing, we noted the Commission has not sought a judgment in circuit court against seven self-insurers who collectively owe $4,190 dating back to Fiscal Year 2009. The Commission is not holding any security from three of these companies, who collectively owe $2,343.

  The Workers Compensation Act (820 ILCS 305/4a-7(a)) requires, if an assessment is not paid within 30 days after the private self-insurer receives notice, the Commission, at the direction of the Board, "shall proceed in circuit court for judgment against that private self-insurer which judgment shall include the amount of the assessment, the costs of suit, interest and reasonable attorneys' fees."

  Commission officials indicated this error was due to the Attorney General not pursuing these small dollar claims.

Failure to ensure financial statements fairly present the activities of the Fund in accordance with U.S. GAAP could have, if not detected and corrected, resulted in a material misstatement of the Fund's financial statements and represents noncompliance with the Fiscal Control and Internal Auditing Act. In addition, failure to pursue the collection of past due assessments by proceeding in circuit court for a judgment represents noncompliance with the Workers Compensation Act. (Finding Code No. 2018-001, 2017-001)

RECOMMENDATION

We recommend the Commission ensure its staff members involved in preparing and reviewing financial activity reported in accordance with U.S. GAAP have sufficient training and knowledge to prevent, or detect and correct, misstatements on a timely basis. In addition, we recommend the Commission work with the Attorney General to ensure assessments receivable are pursued in accordance with the Act, or seek a legislative remedy.

2018-001. **FINDING** (Inadequate Control over Financial Reporting) (continued)

COMMISSION RESPONSE

All items noted by Auditor during testing that caused the single audit finding consist of:

- Immaterial amounts (excess insurance recoveries and investment/interest income testing)
- Liability misclassification with no effect on total liabilities (security deposits vs. unearned security deposits testing)
- Amounts owed to SISF that are too small for Attorney General pursuit in a Circuit Court (seeking circuit court judgement testing)
- Reporting error caused by unfamiliarity of procedure for this first-time reporting requirement (OPEB testing)

Additionally, all items noted by Auditor during testing that caused the audit finding were corrected (except for requesting Attorney General pursuit of small dollar claims in Circuit Court) prior to final issuance of financial statements.

AUDITOR'S COMMENT

Commission management is responsible for maintaining an adequate internal control environment to prevent, or detect and correct, financial errors on a timely basis. During this engagement, the auditors identified two errors which, if not detected and corrected, would have each individually materially misstated the Fund's financial statements. Further, we identified other non-trivial errors and noncompliance with the Act that, in our opinion, merit attention by those charged with governance. Given this combination of deficiencies which were not corrected until after identification by the auditors and the fact that the Auditor General's post audit program is not a substitute for appropriate internal controls at the Commission, we concluded the Commission's internal control structure did not prevent, or detect and correct, errors prior to the Commission submitting its financial statements for audit.

STATE OF ILLINOIS
ILLINOIS WORKERS' COMPENSATION COMMISSION
SELF-INSURERS SECURITY FUND
SCHEDULE OF FINDINGS
PRIOR FINDINGS NOT REPEATED
For the Year Ended June 30, 2018

None