State of Illinois, Illinois Workers' Compensation Commission

Self-Insurers Security Fund

FINANCIAL AUDIT

FOR THE YEAR ENDED
JUNE 30, 2023

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

Roth&Co
BEYOND BUSINESS

STATE OF ILLINOIS
ILLINOIS WORKERS' COMPENSATION COMMISSION
SELF-INSURERS SECURITY FUND
FINANCIAL AUDIT
For the Year Ended June 30, 2023

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STATE OF ILLINOIS
ILLINOIS WORKERS' COMPENSATION COMMISSION
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COMMISSION OFFICIALS

Chair	Mr. Michael Brennan
Chief Fiscal Officer	Mr. Paul Fichtner
General Counsel	Mr. Ronald Rascia
Manager of Self-Insurance	Ms. Maria Sarli-Dehlin

SELF-INSURERS ADVISORY BOARD

Chair	Mr. Michael Brennan
Public Member (05/18/2023 – Present)	Mr. Shuaib Ahmed
Public Member (12/20/2022 – 05/17/2023)	Vacant
Public Member (07/01/2022 – 12/19/2022)	Mr. Paul Bergmann
Member (05/18/2023 – Present)	Mr. Toni Herwaldt
Member (07/01/2022 – 05/17/2023)	Vacant
Member (05/18/2023 – Present)	Ms. Gina Koenig
Member (12/23/2022 – 05/17/2023)	Vacant
Member (07/01/2022 – 12/22/2022)	Mr. Alex Alexandrou
Member	Mr. David Taylor
Member	Ms. Joan Vincenz
Member	Mr. Michael Castro

COMMISSION OFFICES

The Commission's primary administrative offices are located at:

69 W. Washington Street, Suite 900
Chicago, Illinois 60602

400 S. Ninth Street, Suite 106
Springfield, Illinois 62701

401 Main Street, Suite 640
Peoria, Illinois 61602

STATE OF ILLINOIS
ILLINOIS WORKERS' COMPENSATION COMMISSION
SELF-INSURERS SECURITY FUND
FINANCIAL AUDIT
For the Year Ended June 30, 2023

FINANCIAL STATEMENT REPORT

SUMMARY

The audit of the accompanying financial statements of the Self-Insurers Security Fund (Fund) was performed by Roth & Company, LLP.

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

SUMMARY OF FINDINGS

Number of	Current Report	Prior Report
Findings	2	2
Repeated Findings	2	2
Prior Recommendations Implemented or Not Repeated	-	-

SCHEDULE OF FINDINGS

Item No.	Page	Last/First Reported	Description	Finding Type
			Current Findings	
2023-001	52	2022/2020	Accounting and Financial Reporting Problems	Material Weakness and Noncompliance
2023-002	55	2022/2020	Inaccurate Census Data	Significant Deficiency and Noncompliance

Prior Finding Not Repeated

None

EXIT CONFERENCE

The findings and recommendations appearing in this report were discussed with Commission personnel at an exit conference on January 11, 2024.

Attending were:

Illinois Workers' Compensation Commission	
Michael Brennan	Chairman
Paul Ficthner	Chief Fiscal Officer
Ron Rascia	General Counsel
Cole Garrett	Deputy Legal Counsel
Maria Sarli-Dehlin	Manager, SISF Fund
Patrick Theis	CPA, Accounting Analyst
Tyra Brooks	Accounting Analyst
Maria Parrino	Accounting Analyst
Emily Paelmo	Accounting Analyst
Office of the Auditor General	
Jose G. Roa, CPA	OAG Manager
Roth & Company, LLP	
Leilani N. Rodrigo, CPA, CGMA	Partner
Tiffany Floresca	Supervisor
Ruby Javier	Senior

The responses to the recommendations were provided by Paul Fichtner, Chief Fiscal Officer, in a correspondence dated January 12, 2024.

Roth&Co

INDEPENDENT AUDITOR'S REPORT

Honorable Frank J. Mautino
Auditor General
State of Illinois

and

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

Report on the Audit of Financial Statements

Opinion

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of the Self-Insurers Security Fund (Fund 940) of the State of Illinois, Illinois Workers' Compensation Commission (Commission), as of and for the year ended June 30, 2023, and the related notes to the financial statements, as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the Fund 940 of the Commission, as of June 30, 2023, and the respective 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Commission, and to meet our ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

815 West Van Buren Street,
Suite 500
Chicago, Illinois 60607
P (312) 876-1900
F (312) 876-1911

info@rothcocpa.com
www.rothcocpa.com

Emphasis of Matters

As discussed in Note 2(A), the financial statements present only the financial statements of the Fund 940 and do not purport to, and do not, present fairly the financial position of the State of Illinois or the Commission, as of June 30, 2023, 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. Our opinion is not modified with respect to this matter.

Further, as discussed in Note 13 to the financial statements, Fund 940 has a total net position (deficit) of ($6,393,154) as of June 30, 2023. 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 Commission stated that, subject to approval by the Self-Insurers Advisory Board (Board) established within the Commission, future assessments will be used to meet Fund 940's obligations in the future. Our opinion is not modified with respect to this matter.

Finally, as discussed in Note 2(N) to the financial statements, Fund 940's recorded unpaid claims of $3,893,864 as of June 30, 2023, were determined from an actuarial analysis performed by the Commission's actuary. Additionally, as discussed in Note 15(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 Fund 940's limited historical claim experience to date. Given these conditions, it is possible Fund 940 may experience additional losses than currently reserved for in Fund 940's unpaid claims liability at June 30, 2023. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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 Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- exercise professional judgement and maintain professional skepticism throughout the audit.

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for purpose of expressing an opinion on the effectiveness of the Commission's internal control. Accordingly, no such opinion is expressed.

- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Management has omitted the management's discussion and analysis and pension and other postemployment benefits related information that accounting principles generally accepted in the United States of America require to be presented to supplement the financial statements of the Fund 940. Such missing information, although not a part of the financial statements of the Fund 940, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements of the Fund 940 in an appropriate operational, economic, or historical context. Our opinion on the financial statements of the Fund 940 is not affected by this missing information.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the Commission Officials page but does not include the financial statements of the Fund 940 and our auditor's report thereon. Our opinion on the financial statements of the Fund 940 does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements of the Fund 940, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements of the Fund 940, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 19, 2024, on our consideration of the Commission's internal control over financial reporting of the Fund 940 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 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 Commission's internal control over financial reporting and compliance.

Restricted Use of this Auditor's Report

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

SIGNED ORIGINAL ON FILE

Chicago, Illinois
January 19, 2024

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

Statement of Net Position (Deficit)
June 30, 2023

Assets		
Current Assets		
Restricted Cash Equity in the State Treasury	$	19,485,957
Restricted Cash and Cash on Hand		97,662
Miscellaneous Receivable, Net		-
Restricted Assessment Receivable, Net		18,733
Restricted Application and Renewal Receivable, Net		92,500
Restricted Accrued Interest Receivable		70,378
Restricted Excess Insurance Receivable, Net		133,892
Securities Lending Collateral Equity with the State Treasurer		3,512,458
Prepaid Third-Party Administrator Claims		9,148
Total Current Assets		23,420,728
Total Assets		23,420,728
Deferred Outflows of Resources		
Pension		1,030,053
Other Postemployment Benefits		804,687
Total Deferred Outflows of Resources		1,834,740
Total Assets and Deferred Outflows of Resources	$	25,255,468

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, 2023

Liabilities	
Current Liabilities	
Accounts Payable and Accrued Liabilities	$ 31,785
Compensated Absences	45,945
Obligations Under Securities Lending of the State Treasurer	3,512,458
Security Deposits	693,155
Unearned Security Deposits	191,256
Unpaid Claims	239,712
Net Other Postemployment Benefits Liability	40,671
Total Current Liabilities	4,754,982
Noncurrent Liabilities	
Compensated Absences	3,611
Unearned Security Deposits	17,476,861
Unpaid Claims	3,654,152
Net Pension Liability	2,425,262
Net Other Postemployment Benefits Liability	796,259
Total Noncurrent Liabilities	24,356,145
Total Liabilities	29,111,127
Deferred Inflows of Resources	
Pension	900,733
Other Postemployment Benefits	1,636,762
Total Deferred Inflows of Resources	2,537,495
Total Liabilities and Deferred Inflows of Resources	31,648,622
Net Position (Deficit)	
Unrestricted Net Position (Deficit)	(6,393,154)
Total Net Position (Deficit)	(6,393,154)
Total Liabilities, Deferred Inflows of Resources, and Net Deficit	$ 25,255,468

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 Revenues, Expenses, and Changes in Net Position (Deficit)
Year Ended June 30, 2023

Operating Revenues	
Assessments	$ 1,110,477
Application and Renewal	358,000
Claims Processing Revenue	3,754
Miscellaneous Revenue	22,417
Total Operating Revenues	1,494,648
Operating Expenses	
Personal Services	323,705
Compensated Absences Expense	60,935
Social Security Contributions	26,977
Group Insurance	85,911
Pension Expense	1,459,286
Other Postemployment Benefits Expense	922,633
Contractual Services	106,946
Telecommunication Expense	184
Benefit Claims	(315,313)
Total Operating Expenses	2,671,264
Operating Loss	(1,176,616)
Nonoperating Revenues	
Interest Income	226,331
Total Nonoperating Revenues	226,331
Change in Net Position	(950,285)
Net Position (Deficit), Beginning of the Year, As Restated (See Note 13)	(5,442,869)
Net Position (Deficit), End of the Year	$ (6,393,154)

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, 2023

Cash Flows from Operating Activities	
Cash Inflows from Assessments Collected	$ 1,130,467
Cash Inflows from Application and Renewal Collected	289,452
Cash Inflows from Excess Insurance Recoveries	257,042
Cash Inflows from Claims Processing Fees Collected	3,505
Cash Inflows from Interest Earned for Security Deposits	15,412
Cash Inflows from Interest Earned for Unearned Security Deposits	393,344
Cash Outflows from Benefits Paid	(183,801)
Cash Outflows from Benefits Paid from Unearned Security Deposits	(64,181)
Cash Outflows from Benefits Paid Recoverable from Excess Insurers	(272,220)
Cash Outflows to Employees and for Employee Benefits	(713,931)
Cash Outflows to Vendors	(10,096)
Cash Outflows to Other Funds for Interfund Services	(111,958)
Cash Outflows for Excess Security Deposits Returned	(7,114)
Net Cash Provided by Operating Activities	725,921
Cash Flows from Investing Activities	
Cash Inflows from Interest Earned	156,549
Net Cash Provided by Investing Activities	156,549
Net Increase in Cash Equity in the State Treasury and Cash and Cash on Hand	882,470
Cash Equity in the State Treasury and Cash and Cash on Hand, Beginning of the Year	18,701,149
Cash Equity in the State Treasury and Cash and Cash on Hand, End of the Year	$ 19,583,619

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, 2023

Operating Loss	$ (1,176,616)
Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities:	
Changes in Assets:	
Restricted Assessments Receivable, Net	19,871
Restricted Application and Renewal Receivable, Net	(68,048)
Restricted Accrued Interest Receivable for Security Deposits	618
Restricted Accrued Interest Receivable for Unearned Security Deposits	15,796
Restricted Excess Insurance Receivable, Net	(15,456)
Prepaid Benefits with the Third-Party Administrator	65,070
Changes in Deferred Outflows of Resources:	
Pension	(155,685)
Other Postemployment Benefits	(293,980)
Changes in Liabilities:	
Accounts Payable and Accrued Liabilities	(10,817)
Compensated Absences	9,844
Security Deposits	12,970
Unearned Security Deposits	271,612
Unpaid Claims	(540,079)
Net Pension Liability	1,035,032
Net Other Postemployment Benefits Liability	9,574
Changes in Deferred Inflows of Resources:	
Pension	379,854
Other Postemployment Benefits	1,166,361
Net Cash Provided by Operating Activities	$ 725,921

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

Notes to the Financial Statements
June 30, 2023

(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. Effective January 1, 2020, at the discretion of the Commission's Chair, moneys in the Fund may also be used for paying the salaries and benefits of employees and operating costs of 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 Annual Comprehensive Financial Report (ACFR) 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, 2023, 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 on Hand

Cash and Cash on Hand includes "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, 2023, the Fund did not have any capital assets.

E. Claims Processing Fees and Accounts Receivable

Under certain excess insurance policies, the Fund is entitled to collect administrative fees for claims processing. In addition, other miscellaneous accounts receivables are accounted for within this account, which include recoveries due for unearned benefits already paid at the time of a claimant's death.

When Fund management expects an excess insurer will not fulfill its contractual obligations or it will not be able to recover unearned benefits already paid at the time of the claimant's death, an allowance for doubtful accounts is recorded.

F. 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.

G. Application and Renewal Fees and Receivable

Pursuant to the Act (820 ILCS 305/4a-4(a)), each private self-insurer applying for self-insurance or for renewal of the self-insurance shall pay a non-refundable application fee in the amount of $500, which shall be deposited by the Commission into the Self-Insurers Security Fund. An application fee shall be required of each corporation and each and every corporate subsidiary.

H. 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. This amount was allocated between the Fund and the security accounts of self-insurers with a positive cash balance at both the beginning and end of the month based on available cash at month end. Effective May 2023, pursuant to 50 Ill. Adm. Code 9100.60(g)(5), all the interest earned will be retained to the Fund.

I. 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. Typically, 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.

At June 30, 2023, the Fund has one claim for one insolvent self-insurer with an excess insurance policy where the total loss has exceeded the stated amount of the claim; however, the policies split the future payments on the claim between the insolvent self-insurer and the various excess insurers 34.19% and 65.81%, respectively.

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 or reserves within the insolvent self-insurer's unearned security deposit balance to reflect benefit amounts previously expected to be paid by the excess insurer will now be borne by either the Fund or the insolvent self-insurer's unearned security deposit balance.

J. Prepaid Benefits with the Third-Party Administrator

One insolvent self-insurer had an existing contractual relationship with a third-party administrator to administer its workers' compensation claims. From time to time, the third-party administrator will make a claim, initially from the insolvent self-insurer's security and then from the Fund itself, to provide the third-party administrator with sufficient cash to cover future near-term claims expected to be liquidated by the third-party administrator. This balance represents cash resources sent to the third-party administrator in excess of claims paid by the third-party administrator at June 30, 2023.

K. 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.

L. 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.

M. 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.

N. 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) unearned security deposits for the balance of the insolvent self-insurer's security and (2) unpaid claims for any portion of the insolvent self-insurer's estimated outstanding claims which exceeds the insolvent self-insurer's security.

The unpaid claims liabilities classified as current are the estimated claims to be paid within one year from the date of the Fund's statement of net position (deficit).

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.

O. Compensated Absences

The liability for compensated 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.

P. 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).

Q. 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.

R. 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, 2023.

S. 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, 2023, 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, 2023, 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, 2023, the Fund reported an unrestricted net position (deficit) of ($6,393,154).

T. 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.

U. Classification of Cash Flows

Operating activities include operating revenues, operating expenses, and all activity associated with the various security deposits and unearned security deposits accounts, including interest inflows.

V. 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.

W. Current Adoption of GASB Statements

Effective for the period ending June 30, 2023, the Fund adopted GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, which improves financial reporting by addressing issues related to public-private and public-public partnership arrangements. The implementation of this statement had no financial impact on the Fund's net position or results of operations.

Effective for the period ending June 30, 2023, the Fund adopted GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, which provides guidance on the accounting and financial reporting for subscription-based information technology arrangements for government end users. The implementation of this statement had no financial impact on the Fund's net position or results of operations.

Effective for the period ending June 30, 2023, the Fund adopted GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*, which:

1) increases consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties

that a governing board typically would perform;
2) mitigates costs associated with the reporting of certain defined contribution pension plans, defined contribution OPEB plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and,
3) enhances the relevance, consistency, and comparability of the accounting and financial reporting for Section 457 deferred compensation plans that meet the definition of a pension plan and for benefits provided through those plans.

The implementation of this statement had no financial impact on the Fund's net position or results of operations.

Effective for the period ending June 30, 2023, the Fund adopted the portion of Statement No. 99, *Omnibus 2022*, which is intended to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees related to leases, public-private and public-public partnerships, and subscription-based information technology arrangements. The implementation of the portion of this statement had no financial impact on the Fund's net position or results of operations.

X. Future Adoption of GASB Statements

Effective for the period ending June 30, 2024, the Fund will adopt the portion of Statement No. 99, *Omnibus 2022*, related to financial guarantees and the classification and reporting of derivative instruments within the scope of GASB Statement No 53. The Commission has not yet determined the impact on the Fund's financial statements as a result of adopting the portion of this statement.

Effective for the period ending June 30, 2024, the Fund will adopt GASB Statement No. 100, *Accounting Changes and Error Corrections – an amendment of GASB Statement No. 62*, which enhances accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. The Commission has not yet determined the impact on the Fund's financial statements as a result of adopting this statement.

Effective for the period ending June 30, 2024, the Fund will adopt GASB Statement No. 101, *Compensated Absences*, which provides guidance to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. The Commission has not yet determined the 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 "Restricted 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 State's Treasurer 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 ACFR.

The total deposits of $19,583,519 consists of cash on deposit within the Fund's State Treasury account of $19,485,957 and cash in-transit of $97,562.

B. Petty Cash

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.

(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 State Treasurer has, through a Securities Lending Agreement, authorized Deutsche Bank AG to lend the State Treasurer's securities to broker-dealers and banks pursuant to a form of loan agreement.

During Fiscal Year 2023, 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 State Treasurer did not impose any restrictions during Fiscal Year 2023 on the amount of the loans of available, eligible securities. In the event of borrower default, Deutsche Bank AG provides the State Treasurer with counterparty default indemnification. In addition, Deutsche Bank AG is obligated to indemnify the State Treasurer if Deutsche Bank AG loses any securities, collateral, or investments of the State Treasurer in Deutsche Bank AG's custody. There were no losses during Fiscal Year 2023 resulting from a default of the borrowers or Deutsche Bank AG.

During Fiscal Year 2023, 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 as a result 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, 2023 were $4,839,941,771 and $4,746,251,183.

In accordance with GASB Codification I60: *Investments – Security Lending*, the Treasurer has allocated assets and obligations arising from securities lending agreements to the various funds of the State. The total allocated to the Fund was $3,512,458 on June 30, 2023.

(5) Capital Assets

The Fund did not have any capital assets or related activity during the fiscal year ended June 30, 2023.

(6) Miscellaneous Receivable

At June 30, 2023, the Fund's total miscellaneous receivable were $1,284, with an allowance for doubtful accounts of $1,284.

(7) Assessment Receivables

At June 30, 2023, the Fund's total assessment receivables were $18,961, with an allowance for doubtful accounts of $228.

(8) Application and Renewal Receivables

At June 30, 2023, the Fund's total application and renewal fee receivables were $92,500.

(9) Excess Insurance Receivables

At June 30, 2023, the Fund's total excess insurance receivables were $136,381, with an allowance for doubtful accounts of $2,489. All of the excess insurance companies located within the United States of America had an AM Best rating of "A" or better as of June 30, 2023.

$14,524 of the total excess insurance receivables, and the entire balance of the allowance for doubtful accounts of $2,489, relate to one insolvent self-insurer's excess insurance carriers based in the United Kingdom. Fund management is aware one of these excess insurance carriers is currently undergoing the United Kingdom equivalent of bankruptcy, and due to uncertainty as to whether the Fund will ever be reimbursed for its claims, has recorded the full balance owed as uncollectible. As the other excess insurance companies liquidated their obligations to the Fund during the normal course of business during Fiscal Year 2023, Fund management deemed these receivables collectible.

(10) Long-Term Obligations

A. Changes in Long-Term Obligations

The Fund's changes in long-term obligations from July 1, 2022, through the year ended June 30, 2023, were as follows:

	Unearned Security Deposits	Unpaid Claims
Balance on July 1, 2022	$ 17,396,505	$ 4,433,943
Change in Estimate and/or Claim Development	(14,880)	(300,434)
Additions	377,548	-
Deletions	(91,056)	(239,645)
Balance on June 30, 2023	$ 17,668,117	$ 3,893,864
Current Liabilities	$ 191,256	$ 239,712
Noncurrent Liabilities	17,476,861	3,654,152
Total	$ 17,668,117	$ 3,893,864

	Compensated Absences	Net Pension Liability	Net OPEB Liability
Balance on July 1, 2022	$ 39,712	$ 1,390,230	$ 827,356
Additions	60,935	1,125,424	792,883
Deletions	(51,091)	(90,392)	(783,309)
Balance on June 30, 2023	$ 49,556	$ 2,425,262	$ 836,930
Current Liabilities	$ 45,945	$ -	$ 40,671
Noncurrent Liabilities	3,611	2,425,262	796,259
Total	$ 49,556	$ 2,425,262	$ 836,930

The change in estimate and/or claim development occurring within Fiscal Year 2023 was due the Commission settling two claims and six beneficiaries who unexpectedly passed away.

B. Benefit Claims Expense

The Fund's benefit claims expense consisted of a change in estimate and/or claim development.

(11) 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 State Employees' Retirement Plan System (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 ACFR available at www.srs.illinois.gov or that may be obtained by writing to the SERS, 2101 South Veterans Parkway, Springfield, Illinois, 62794-9255.

The pension plan's fiduciary net position was $22,224,502,748 as of June 30, 2022.

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 that are covered under the federal Social Security Act 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.

Regular Formula – Tier 1	Regular Formula – Tier 2
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; or, • 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	A member must have a minimum of 10 years of credited service and may retire at: • age 67, with 10 years of credited service; or, • 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 salary limit for calendar year 2022 is \$119,892.

Regular Formula – Tier 1	Regular Formula – Tier 2
year on January 1, following the first full year of retirement. 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 2022, this amount was $119,892.

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 2023, 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 2023, the employer contribution rate was 53.258%. The Fund's contribution amount recognized during Fiscal Year 2023 was $200,092.

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

The Self-Insurers Administration Fund merged with the Self-Insurance Security Fund (SISF) as of Fiscal Year 2023. All numbers reflect this consolidation. At June 30, 2023, the Fund reported a liability of $2,425,262 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, 2022 (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, 2022. As of the current year measurement date of June 30, 2022, the Fund's proportion was 0.0075%, which was a decrease of 0.0001% from its proportion measured as of the prior year measurement date (0.0076%).

For the year ended June 30, 2023, the Fund recognized pension expense of $1,459,286. At June 30, 2023, the Fund reported deferred outflows and deferred inflows of resources related to the pension liability, as of the measurement date of June 30, 2022, from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and experience	$ 27,311	$ 267
Changes of assumptions	62,941	207,697
Net difference between projected and actual investments earnings on plan investments	46,597	-
Changes in proportion	693,112	692,769
Contributions subsequent to the measurement date	200,092	-
Balance on June 30, 2023	$ 1,030,053	$ 900,733

The Fund reported $200,092 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, 2023. The other remaining deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Years Ended June 30,	Net Deferred Outflows of Resources
2024	$ 11,703
2025	14,846
2026	58,364
2027	(14,138)
Total	$ 70,775

Actuarial Methods and Assumptions

The total pension liability was determined by an actuarial valuation as of June 30, 2022, using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation Date	June 30, 2022
Measurement Date	June 30, 2022
Actuarial Cost Method	Entry Age
Actuarial assumptions: Investment Rate of Return	6.75%
Projected Salary Increases*	2.50% - 7.41%
Inflation rate	2.25%

Post-retirement Benefit Increases	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 on original benefit^
Retirement Age Experience and Study ^^	July 2018 – June 2021
Mortality^^^	Pub-2010 General and Public Safety Healthy Retiree mortality tables, sex distinct, with rates projected to 2021 generational mortality improvement factors were updated to projection scale MP-2021

Note: the above actuarial assumptions were used to calculate the total pension liability as of the current year measurement date and are consistent with the actuarial assumptions used to calculate the total pension liability as of the prior year measurement date except for the following:

Project Salary Increases*	2.75% - 7.17%
Retirement Age Experience and Study ^^	July 2015 - June 2018
Mortality^^^	Pub-2010 General and Public Safety Healthy Retiree mortality tables, sex distinct, with rates projected to 2018 generational mortality improvement factors were updated to projection scale MP-2018

* Includes inflation rate listed
^ Consumer Price Index
^^ The actuarial assumptions used in the respective actuarial valuations are based on the results of actuarial experience studies for the periods defined.
^^^ Mortality rates are based on mortality tables published by the Society of Actuaries' Retirement Plans Experience Committee.

The long-term expected real rate of return on pension plan investments was determined using the best estimates of geometric real rates of 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 and by adding expected inflation. 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, 2022, 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%	4.6%
Developed Foreign Equity	13%	4.9%
Emerging Market Equity	8%	5.9%
Private Equity	9%	6.9%
Intermediate Investment Grade Bonds	15%	-0.5%
Long-Term Government Bonds	5%	3.0%
TIPS	3%	-0.5%
High Yield and Bank Loans	2%	1.9%
Opportunistic Debt	9%	4.4%
Emerging Market Debt	0%	0.0%
Real Estate	10%	3.3%
Infrastructure	3%	6.8%
Total	**100%**	

Discount Rate

A discount rate of 6.58% was used to measure the total pension liability as of the measurement date of June 30, 2022, as compared to a discount rate of 6.20% used to measure the total liability as of the prior year measurement date. The June 30, 2022 single blended discount rate was based on the expected rate of return on pension plan investments of 6.75% and a municipal bond rate of 3.69%, 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 employer contributions will be made at rates equal to the difference between the statutory contributions and the member rate. 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 2076. As a result, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the year 2076, 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 (5.58%)	Discount Rate (6.58%)	1% Increase (7.58%)
Fund's proportionate share of the net pension liability	$ 2,950,796	$ 2,425,262	$ 1,990,650

Payables to the Pension Plan

At June 30, 2023, the Fund reported a payable of $8,339 for outstanding contributions due to SERS required for the year ended June 30, 2023.

(12) Other Postemployment Benefit Plan

Plan Description

The State Employees Group Insurance Act of 1971 ("Act"), as amended, authorizes the Illinois 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 Funds'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 other post-employment benefits (OPEB). The eligibility provisions for each of the retirement systems are defined within Note 11. 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 Act. 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 Act 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 $5,000.

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 the State Employee's Retirement System 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 2023, the annual cost of the basic program of group health, dental, and vision benefits before the State's contribution was $12,636 ($6,990 if Medicare eligible) if the annuitant chose benefits provided by a health maintenance organization and $14,646 ($5,882 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 OPEB Expense

The Self-Insurers Administration Fund merged with the Self-Insurance Security Fund (SISF) as of Fiscal Year 2023. All numbers reflect this consolidation. The total OPEB liability, as reported at June 30, 2023, was measured as of June 30, 2022, with an actuarial valuation as of June 30, 2021. At June 30, 2023, the Fund recorded a liability of $836,930 for its proportionate share of the State's total OPEB liability. The Department'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, 2022. As of the current year measurement date of June 30, 2022, the Fund's proportion was 0.0049%, which was 0.0025% higher from its proportion measured as of the prior year measurement date of June 30, 2021.

The Fund recognized OPEB expense for the year ended June 30, 2023, of $ 922,633. At June 30, 2023, the Fund reported deferred outflows and deferred inflows of resources, as of the measurement date of June 30, 2022, from the following sources

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and experience	$ 8,561	$ 228,859
Changes of assumptions	20,659	819,786
Changes in proportion and differences between employer contributions and proportionate share of contributions	734,796	588,117
Contributions subsequent to the measurement date	40,671	-
Balance on June 30, 2023	$ 804,687	$ 1,636,762

The amounts 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, 2024. Other amounts reported as deferred outflows and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Years Ended June 30,	Net Deferred Inflows of Resources
2024	$ (232,150)
2025	(252,912)
2026	(193,792)
2027	(153,501)
2028	(40,393)
Total	$ (872,748)

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, 2021, for eligible SEGIP employees, and SEGIP retiree data as of June 30, 2021.

<table>
<tr><td>Valuation Date</td><td>June 30, 2021</td></tr>
<tr><td>Measurement Date</td><td>June 30, 2022</td></tr>
<tr><td>Actuarial Cost Method</td><td>Entry Age Normal</td></tr>
<tr><td>Inflation</td><td>2.25%</td></tr>
<tr><td>Projected Salary Increases*</td><td>2.50% - 12.75%</td></tr>
<tr><td>Healthcare Cost Trend Rate:
Medical & Rx
(Pre-Medicare and QCHP**)

(Post-Medicare and MAPD***)</td><td>
Trend rates start at 8.00% in 2024, decreasing by 0.25% per year to an ultimate trend rate of 4.25% in year 2039.

Trend rates are 0.00% in years 2024 to 2028, 19.42% from 2029 to 2033, then 5.77% in 2034 decreasing ratably to an ultimate trend rate of 4.25% in 2039.</td></tr>
<tr><td>Retirees' Share of Benefit-Related Costs</td><td>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 2022 and 2023 are based on actual premiums. Premiums after 2023 were projected based on the same healthcare cost trend rates applied to per capita claim costs.</td></tr>
<tr><td colspan="2">Note: the above actuarial assumptions were used to calculate the OPEB liability as of the current year measurement date and are consistent with the actuarial assumptions used to calculate the OPEB liability as of the prior year measurement date except for the following:</td></tr>
<tr><td>Healthcare Cost Trend Rate:
Medical and Rx
(Pre-Medicare & Post-Medicare)</td><td>
1.80% grading up 6.20% in the first year to 8.00%, then grading down 0.25% per year to an ultimate trend of 4.25% in year 2038. There is no additional trend rate adjustment due to the repeal of the Excise Tax.</td></tr>
</table>

Medical and Rx (Pre-Medicare & Post-Medicare)	-7.56% grading up 15.56% in the first year to 8.00%, then grading down 0.25% per year to an ultimate trend of 4.25% in year 2038.
Dental and Vision	3.75% grading up 0.25% in the first year to 4.00% through 2038.

* Dependent upon service and participation in the respective retirement systems. Includes inflation rate listed.
** Quality Care Health Plan
*** Medicare Advantage Prescription Drug

Additionally, the demographic assumptions used in the OPEB valuation are identical to those used in the June 30, 2021 valuations for GARS, JRS, SERS, TRS, and SURS as follows:

	Retirement Age Experience Study^	Mortality^^
GARS	July 2018 - June 2021	Pub-2010 Above-Median Income General Healthy Retiree Mortality tables, sex distinct, scaling factors of 99% for males and females, and the MP-2018 two-dimensional generational mortality improvement scales
JRS	July 2018 - June 2021	Pub-2010 Above-Median Income General Healthy Retiree Mortality tables, sex distinct, scaling factors of 102% for males and 98% for females, and the MP-2018 two-dimensional generational mortality improvement scales
SERS	July 2018 - June 2021	Pub-2010 General and Public Safety Healthy Retiree mortality tables, sex distinct, with rates projected to 2018 generational mortality improvement factors were updated to projection scale MP-2018
TRS	July 2017 - June 2020	Pub-2010 adjusted for TRS experience for future mortality improvements on a fully generational basis using projection table MP-2020
SURS	July 2017 - June 2020	Rates based on Pub-2010 Healthy Retiree Mortality tables and the most recent MP-2020 projection scale. Teachers table was used for

Retirement Age Experience Study^	Mortality^^
	Academic members and General Employees table was used for Non-Academic members

^ The actuarial assumptions used in the respective actuarial valuations are based on the results of actuarial experience studies for the periods defined.
^^ Mortality rates are based on mortality tables published by the Society of Actuaries' Retirement Plans Experience Committee.

Demographic assumptions used in OPEB valuation are identical to those used in the June 30, 2021 valuations for Pensions. Thus, for all five plans, the 2021 valuation information for pensions is presented in the Fiscal Year 2022 ACFR in Note 11. For TRS and SURS, the total pension liability presented in the June 30, 2021, actuarial valuation is based on census data as of June 30, 2020, rolled-forward to the measurement date of June 30, 2021.

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 1.92% at June 30, 2021, and 3.69% at June 30, 2022, was used to measure the total OPEB liability.

Sensitivity of the 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 3.69%, 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 (4.69%) or lower (2.69%) than the current rate:

	1% Decrease (2.69%)	**Current Single Discount Rate Assumption** (3.69%)	**1% Increase** (4.69%)
Fund's proportionate share of net OPEB liability	$ 923,381	$ 836,930	$ 743,368

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 8.00% in 2024 decreasing to an ultimate trend rate of 4.25% in 2039.

	1% Decrease**	Current Healthcare Cost Trend Rates Assumptions*	1% Increase***
Fund's proportionate share of the net OPEB liability	$ 724,614	$ 836,930	$ 950,765

* Current healthcare trend rates - Pre-Medicare per capita costs: 6.08% in 2023, 8.00% in 2024, decreasing by 0.25% per year to an ultimate rate of 4.25% in 2039. Post-Medicare per capita costs: 2.78% in 2023, 0.00% in 2024 to 2028, 19.42% from 2029 to 2033, 5.77% in 2034 decreasing ratably to an ultimate trend rate of 4.25% in 2039.

** One percentage point decrease in current healthcare trend rates - Pre-Medicare per capita costs: 5.08% in 2023, 7.00% in 2024, decreasing by 0.25% per year to an ultimate rate of 3.25% in 2039. Post-Medicare per capita costs: 1.78% in 2023, 0.00% in 2024 to 2028, 18.42% from 2029 to 2033, 4.77% in 2034 decreasing ratably to an ultimate trend rate of 3.25% in 2039.

*** One percentage point increase in current healthcare trend rates - Pre-Medicare per capita costs: 7.08% in 2023, 9.00% in 2024, decreasing by 0.25% per year to an ultimate rate of 5.25% in 2039. Post-Medicare per capita costs: 3.78% in 2023, 1.00% in 2024 to 2028, 20.42% from 2029 to 2033, 6.77% in 2034 decreasing ratably to an ultimate trend rate of 5.25% in 2039.

(13) Deficit and Change in Beginning Balance

At June 30, 2023, the Fund has a deficit of $6,393,154 because the Fund's liabilities and deferred inflows of resources – including postemployment benefits, actuarially-determined claims liabilities, security deposits, and unearned security deposits – exceed the Fund's assets and deferred outflows of resources. Subject to Board approval, future assessments will be used to meet the Fund's obligations in the future.

During Fiscal Year 2023, the Commission implemented Public Act 102-910. The Self-Insurers Administration Fund (Fund 274) was merged into the Self-Insurers Security Fund

(Fund 940). The beginning balance of Fund 940 included the $24,452 cash that was transferred from Fund 274.

(14) 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 the Department of Central Management Services 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, 2023.

(15) Contingencies

A. Black Lung Cases

As of June 30, 2023, 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 18 black lung death claims since the Fund assumed the formerly self-insured companies' liabilities in 2003.

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

As of June 30, 2023, 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, 2023, estimated contingent liabilities for unpaid claims of self-insurers under bankruptcy protection, net of excess insurance, was $44,141, with $1,216 and $42,925 representing current and noncurrent liabilities, respectively. 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, 2023, 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, 2023, all excess insurance companies located within the United States of America had an AM Best rating of "A" or better for the Financial Strength Rating (FSR). According to Understanding Best's Credit Ratings (dated October 6, 2023), 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.

One insolvent self-insurer's excess insurance carriers for one beneficiary are based in the United Kingdom. Fund management is aware of one of these excess insurance carriers is currently undergoing the United Kingdom equivalent of bankruptcy, and due to uncertainty as to whether the Fund will ever be reimbursed for its claims, has recorded the full balance owed as uncollectible.

Based upon this independent analysis and the continued payment of excess insurance claims by most of the excess insurance companies, 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.

(16) Commitments

The Fund had no significant commitments at June 30, 2023.

(17) Subsequent Events

On September 18, 2023, the Board approved an assessment of 0.6%, which was issued on November 13, 2023.

On October 14, 2023, the Board became aware that one claimant filed a claim. The Board did not record a liability as it is still verifying if the claimant was an employee of the self-insured company at the time of the accident.

On August 6, 2023, Yellow Corporation, parent company of current self-insurers YRC Inc. dba YRC freight and USF Holland LLC dba Holland, filed a Chapter 11 petition in the United States Bankruptcy Court for the District of Delaware. On August 23, 2023, the Board made demand on the surety bond. Currently, the security posted is adequate for the reported claim reserves.

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.

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 Advisory 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 (Fund 940) of the State of Illinois, Illinois Workers' Compensation Commission (Commission), as of and for the year ended June 30, 2023, and the related notes to the financial statements, and we have issued our report thereon dated January 19, 2024.

Report on Internal Control Over Financial Reporting

Management of the Commission is responsible for establishing and maintaining effective internal control over financial reporting of the Fund 940 (internal control).

In planning and performing our audit of the financial statements, we considered the Commission's internal control as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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 were not identified. However, as described in the accompanying Schedule of Findings as items 2023-001 and 2023-002, we identified certain deficiencies in internal control that we consider to be a material weakness and a significant deficiency.

815 West Van Buren Street,
Suite 500
Chicago, Illinois 60607
P (312) 876-1900
F (312) 876-1911
info@rothcocpa.com
www.rothcocpa.com

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. We consider the deficiency described in the accompanying Schedule of Findings as item 2023-001 to be a material weakness.

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. We consider the deficiency described in the accompanying Schedule of Findings as item 2023-002 to be a significant deficiency.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commission's financial statements of Fund 940 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 financial statements. 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings as items 2023-001 and 2023-002.

Commission's Responses to the Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Commission's responses to the findings identified in our audit and described in the accompanying Schedule of Findings. The Commission's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Restricted Use of this Report

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

SIGNED ORIGINAL ON FILE

Chicago, Illinois
January 19, 2024

2023-001. **FINDING** (Accounting and Financial Reporting Problems)

The Illinois Workers' Compensation Commission (Commission) did not ensure all events and transactions impacting the Self-Insurers Security Fund (Fund 940) were appropriately recorded in its internal accounting records and presented fairly in its financial statements.

During testing, we noted the following:

- The Fund 940's balance of unearned security deposit account reported on the financial statements did not agree with the balance in the supporting schedule. The variance amounted to $14,880. In addition, current unearned security deposits were understated, while noncurrent unearned security deposits were overstated, by $92,457.
- The Fund 940's deferred outflow of resources pension and other postemployment benefits accounts were understated by $91,579 and $19,220, respectively.
- The Commission did not reverse the accrual for an expense incurred in prior year upon payment during the current fiscal year. The error overstated the accounts payable account by $14,924.

On October 11, 2023, the Commission provided new set of supporting schedules. During this process, some of the further problems found in assessment receivable and application/renewal fee receivable and related revenue accounts, included the following:

- <u>*Assessment receivable and revenue accounts*</u>
    - The Commission improperly recorded the collection of prior year assessment receivable as current year revenue, thereby, overstating both assessment revenue and receivable accounts by $38,180.
    - The Commission made an erroneous entry to record the already recorded deposit in transit as assessment receivable, thereby, overstating both assessment receivable and revenue accounts by $12,325.
    - The Commission had not accounted for the assessment revenue earned through a credit from a refund payable of $630, resulting to understatement of revenue account and overstatement of accounts payable account.
    - The Commission deducted an erroneous debit memo of $6,083 from the assessment revenue, thereby, understating both assessment revenue and receivable accounts.
    - The Commission had not accounted for $3,408 assessment receivable and revenue thereby understating both assessment receivable and revenue accounts.

2023-001. **FINDING** (Accounting and Financial Reporting Problems) (Continued)

- The Commission made several erroneous entries to correct the prior year error of recording a collection for Fund 685 as a revenue of Fund 940. The errors resulted in overstatement of both assessment receivable and revenue accounts totaling $5,530.

- *Application/renewal fee receivable and revenue accounts*
  - The Commission made an erroneous entry by recording the already recorded deposit in transit as receivable, thereby, overstating both application/renewal receivable and revenue accounts by $14,000.
  - The Commission had not accounted for $22,000 application/renewal receivable and revenue accounts, thereby, understating both application/renewal receivable and revenue accounts.
  - The Commission erroneously recorded the transfer of the Self-Insurers Administration Fund cash balance amounting to $24,452 to the Fund 940's application/renewal revenue instead of recording the transaction to unrestricted net position account.

- The Commission did not properly set up a miscellaneous receivable account during the year prior to crediting to the account its collections from excess insurance carrier for reimbursement of claim administration and prorated fees, as a result, the miscellaneous receivable account had a negative ending balance of $3,754, and the claims processing revenue account was understated by the same amount.

We proposed, and the Commission posted, adjusting entries to correct these errors in Fund 940's final financial statements.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the Commission establish and maintain a system, or systems, of internal fiscal and administrative controls to provide assurance assets, resources, and funds applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial reports and to maintain accountability over the State's resources.

In addition, complete and accurate financial statements are necessary to enable Fund 940's governing board, the Self-Insurers Advisory Board, to inform its economic, social, and political decision making and other users in assessing the financial condition and results of operations of Fund 940, as noted in Concepts Statement No. 1 of the Governmental Accounting Standards Board (paragraph 32), *Objectives of Financial Reporting*.

2023-001. **FINDING** (Accounting and Financial Reporting Problems) (Continued)

Further, the Governmental Accounting Standards Board Statement No. 34, paragraph 92, *Measurement Focus and Basis of Accounting*, requires the presentation of proprietary funds, such as the Fund, under the accrual basis of accounting and the economic resources measurement focus. Additionally, Governmental Accounting Standards Board Statement No. 34 (Footnote 11) notes transactions occur when something of value passes between two or more parties. Finally, National Council on Governmental Accounting Statement No. 1 (Paragraph 59), Governmental Accounting and Financial Reporting Principles, states that under the accrual basis of accounting, transactions are generally recorded when the transaction occurs, regardless of when cash is received or disbursed.

Commission officials indicated these problems were due to inexperience in recording infrequent events and oversight.

Failure to establish and maintain adequate internal fiscal and administrative controls over Fund 940's accounting records and financial reporting could have, if not detected and corrected through the audit process, resulted in a material misstatement of Fund 940's financial statements. (Finding Code No. 2023-001, 2022-001, 2021-001, 2020-001)

RECOMMENDATION

We recommend the Commission ensure all transactions and events impacting Fund 940 are recorded and reported in strict adherence with the generally accepted accounting principles applicable to Fund 940. Additionally, we recommend the Commission ensure an independent supervisory review by an individual with sufficient skills, knowledge, and experience to identify and correct errors is performed during the preparation of Fund 940's supporting schedules, journal entries, and financial statements.

COMMISSION RESPONSE

The Commission agrees with the finding. The Commission has recently hired a new CPA for financial statement preparation as recommended. Note that all items listed in the finding have been corrected on the financial statement and most were corrected prior to submission to the IOC. The largest errors detected were one-time errors that would have self-corrected on next year's financial statement.

2023-002. **FINDING** (Inaccurate Census Data)

The Illinois Workers' Compensation Commission (Commission) had certain deficiencies in their internal control to ensure accurate census data was provided to the State Employees' Retirement System of Illinois (System) for use in the applicable annual actuarial valuations.

Census data is demographic data (date of birth, gender, years of service, etc.) of the active, inactive, or retired members of a pension or other postemployment benefit (OPEB) plan. The accumulation of inactive or retired members' census data occurs before the current accumulation period of census data used in the plan's actuarial valuations (which eventually flows into each employer's financial statements), meaning the plan is solely responsible for establishing internal controls over these records and transmitting this data to the plan's actuary. In contrast, responsibility for active members' census data during the current accumulation period is split among the plan and each member's current employer(s). Initially, employers must accurately transmit census data elements of their employees to the plan. Then, the plan must record and retain these records for active employees and then transmit this census data to the plan's actuary.

We noted the Commission's employees are members of both the pension plan administered by the System and the State Employees Group Insurance Program (SEGIP) sponsored by the State of Illinois which includes OPEB. In addition, we noted these plans have characteristics of different types of pension and OPEB plans, including single employer plans and cost-sharing multiple-employer plans.

During the performance of the OPEB census examination (covering data as of June 30, 2021, used in the June 30, 2022 OPEB actuarial valuation, for use in the employer's June 30, 2023 financial statements), it was identified that:

- During backwards testing, the auditors identified two of twenty-three (9%) employees included on Commission payroll reports included an incorrect retirement deduction code which resulted in them being improperly excluded from participating in the SEGIP and therefore improperly excluded from the census data.
- In addition, during the auditor's data reconciliation procedures, two additional employees were identified as improperly excluded from participation in the SEGIP and therefore improperly excluded from the census data.
- Finally, during the review of the Commission's reconciliation of its census data recorded by the System and State to its internal records, it was noted that only three of the four errors previously identified during the external examination above were included and communicated to the System.

2023-002. **FINDING** (Inaccurate Census Data) (Continued)

During the performance of the pension census examination (covering data as of June 30, 2022, used in the June 30, 2022 pension actuarial valuation, for use in the employer's June 30, 2023 financial statements), it was identified that:

- During backwards testing, the auditors identified one of twenty-three (4%) employees on Commission payroll reports that had an incorrect gender.
- During the review of the Commission's reconciliation of its census data recorded by the System and State to its internal records, it was noted that the reconciliation was not communicated to the System in a timely manner (submission was nearly three months after the due date requested by the System).

The result of the errors in each of the first bullet points above led to inaccurate census data being utilized by the System and the State in the performance of the annual pension and OPEB actuarial valuation processes. The independent actuaries utilized by the System and the State of Illinois for the pension and OPEB plans deemed the error immaterial to the plan level valuations as a whole.

The State Records Act (5 ILCS 160/8) requires the Commission make and preserve records containing adequate and proper documentation of its essential transactions to protect the legal and financial rights of the State and of persons directly affected by the Commission's activities.

Further, the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the Commission establish and maintain a system, or systems, of internal fiscal and administrative control to provide assurance funds applicable to operations are properly recorded and accounted for to permit the preparation of reliable financial and statistical reports.

Commission officials indicated these exceptions were due to oversight.

Failure to ensure census data reported to the System was complete and accurate may result in significant misstatements of the Commission's financial statements and reduce the overall accuracy of System-related pension liabilities, deferred inflows and outflows of resources, and expense recorded by the State and its agencies. In addition, failure to reconcile active members' census data reported to and held by the System to the Commission's records in a timely manner could result in each plan's actuary relying on incomplete or inaccurate census data in the calculation of the Commission's pension and OPEB balances, which may result in a misstatement of these amounts. (Finding Code No. 2023-002, 2022-002, 2021-002, 2020-002)

2023-002. **FINDING** (Inaccurate Census Data) (Continued)

RECOMMENDATION

We recommend the Commission strengthen controls to ensure accurate census data is provided to the System and State for use in the annual actuarial valuation process. If differences are noted between the Commission's data and the System and State's data, these differences should be communicated timely and rectified to ensure the actuarial valuations are using accurate data.

COMMISSION RESPONSE

The Commission agrees with the finding. For the OPEB related issues, these immaterial errors to the plan level valuations as a whole were due to the new payroll manager's unfamiliarity with processes and that it was the Human Resources division's first time reporting such issues. For the pension related issues, these immaterial errors to the plan level valuations as a whole were due to a single incorrect coding for the one person and misplacement of the document that caused the untimely filing.