

South Carolina  
Department of Employment and Workforce  
Columbia, South Carolina  
Financial Statements  
and Independent Auditor's Reports  
Year Ended June 30, 2014

# State of South Carolina



## Office of the State Auditor

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January 30, 2015

The Honorable Nikki R. Haley, Governor  
and  
Ms. Cheryl M. Stanton, Executive Director  
South Carolina Department of Employment and Workforce  
Columbia, South Carolina

This report on the audit of the basic financial statements of the South Carolina Department of Employment and Workforce and the accompanying schedule of expenditures of federal awards as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, for the fiscal year ended June 30, 2014, was issued by Scott and Company, LLC, Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

If you have any questions regarding this report, please let us know.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Richard H. Gilbert Jr.", written in a cursive style.

Richard H. Gilbert, Jr., CPA  
Deputy State Auditor

RHGjr/trb

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## Independent Auditor's Report

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Mr. Richard H. Gilbert, Jr. CPA  
Deputy State Auditor  
South Carolina Office of the State Auditor  
Columbia, South Carolina

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the South Carolina Department of Employment and Workforce (the "Agency") as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## **Opinions**

In our opinion, the financial statements referred to above fairly present, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Agency as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of Matters**

As described in Note 2, the financial statements of the Agency are intended to present the financial position, the changes in financial position and, where applicable, cash flows of only that portion of the governmental activities, business-type activities, and each major fund of the State of South Carolina (the “State”) that is attributable to the transactions of the Agency. They do not purport to and do not present fairly the financial position of the State as of June 30, 2014, the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America and do not include other agencies, divisions, or component units of the State. Our opinions are not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that management’s discussion and analysis on pages 4-14 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Agency’s basic financial statements. The accompanying schedule of expenditures of federal awards, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States and Local Governments, and Non-Profit Organizations* is presented for purposes of additional analysis and is not a required part of the financial statements.

The accompanying schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated January 30, 2015, on our consideration of the Agency's internal control over financial reporting 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 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 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 Agency's internal control over financial reporting and compliance.

*Scott and Company LLC*

Columbia, South Carolina  
January 30, 2015

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Management of the South Carolina Department of Employment and Workforce (the "Agency") offers readers this narrative overview and analysis of the financial activities for the year ended June 30, 2014. Please read this information in conjunction with the Agency's financial statements and accompanying notes.

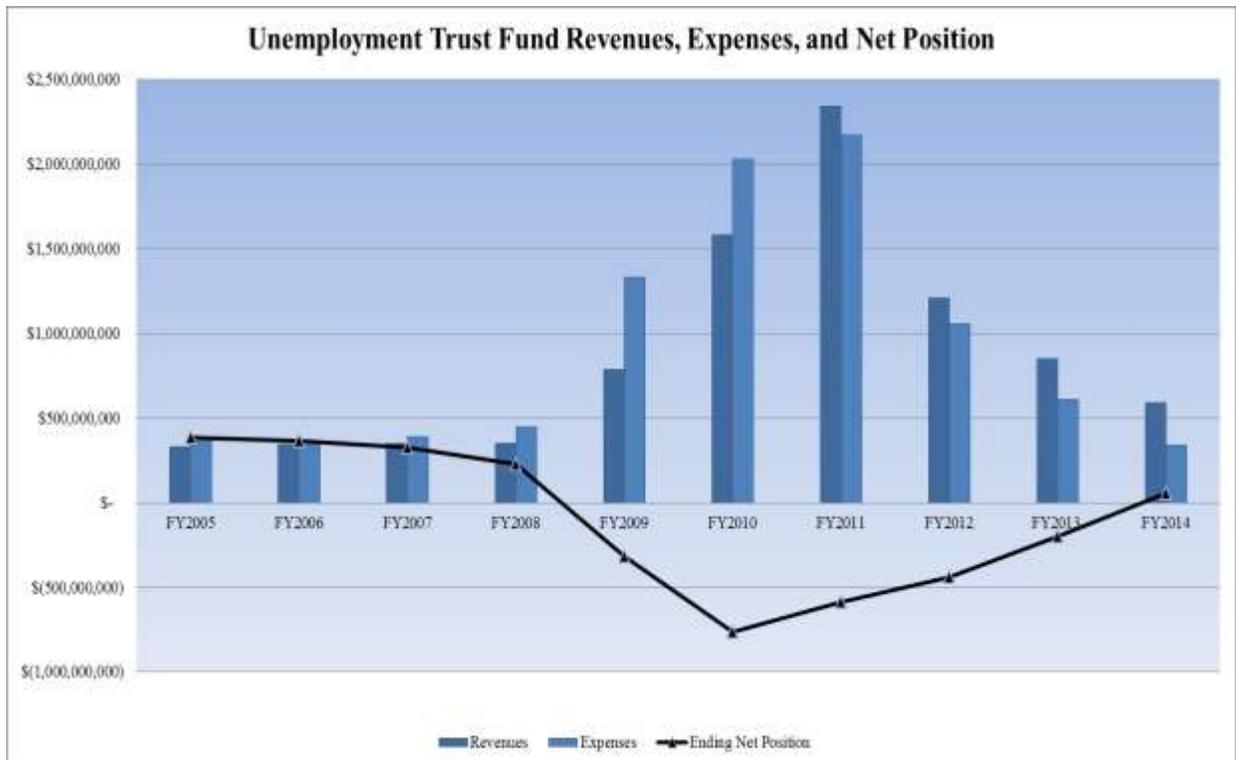
### Overview of the Agency

- The South Carolina Department of Employment and Workforce is a federally-funded state agency. The programs of the Agency, under the direction of the governor of South Carolina, report to the federal government. The United States Congress appropriates all funds expended to administer the Agency's federal programs. Funding for the employment service labor exchange functions comes from the federal Wagner-Peyser Act. Funding for the Unemployment Insurance Program comes from the Federal Unemployment Tax Act (FUTA) on employers for administrative funds and from State of South Carolina (the State) employer taxes and the federal government for benefit funds. All federal funds received by the Agency are cleared through the State's treasury, and authority to expend these funds is granted by the State's legislature.
- In March 2010, via Act 146 and under Section 41-29-35 of the South Carolina Code of Laws, the General Assembly replaced the Commissioners with an Executive Director, nominated by the State Department of Employment and Workforce Review Committee and appointed by the Governor, who then transmits the name of the appointee to the Senate for advice and consent. The term of the executive director is conterminous with that of the Governor and until a successor is appointed. The Act also renamed the Agency, moved it to the Governor's cabinet, moved the Workforce Investment Act (WIA) and Trade Assistance Act (TAA) programs back to the Agency, and established an appellate panel charged with hearing higher level appeals for unemployment benefits. The State's General Assembly elects the three-member appellate panelists to four year terms.
- The South Carolina Department of Employment and Workforce Unemployment Compensation Fund (the "Trust Fund") was created per Section 41-33-10 of the South Carolina Employment Security Law. The Trust Fund is made up of three separate accounts: (1) a clearing account which is used for the deposit of contributions, interest, penalties, contingency, service charges, recording fees, and payments in lieu of contributions received from employers in the State; (2) an unemployment trust fund account consisting of funds transferred from the clearing account and funds received from other states to be held to withdraw for unemployment benefit claims and to make required principal payments on federal unemployment account advances. This account also contains money received from the federal government as reimbursements pursuant to Section 204 of the Federal-State Extended Compensation Act of 1970 and Reed Act funds received from the federal government; and (3) a benefit payment account which receives funds from the Trust Fund to pay unemployment benefit claims.
- Generally, the principal source of revenue for the Trust Fund is quarterly unemployment tax contributions paid by employers. However, the fund also receives federal reimbursements for emergency and extended unemployment benefits. Federal law requires the Trust Fund to hold all reserves in the Federal Unemployment Trust Fund, which invests in obligations guaranteed by the United States, and earnings on the Trust Fund may be used only to pay benefits. With the exception of certain federal allocations, the Trust Fund's reserves may be used only to pay unemployment benefits or, in certain circumstances, to refund benefit overpayments to employers, claimants, or the federal government.

- Federal special administrative allocations granted by the United States Department of Labor (USDOL) and distributed to the Fund, may be used to pay costs associated with implementing and administering the provisions of state law that qualified the state to receive incentive payments under the February 2009 Assistance for Unemployed Workers and Struggling Families Act, and certain other administrative costs.
- If the Fund exhausts all of its reserves, it may borrow from the Federal Unemployment Account (FUA) to continue paying benefits. With the exception of some short-term cash flow loan situations and the period of federal interest forgiveness between February 2009 and December 2010, any federal borrowing carries interest charges. The interest charges may not be funded from regular employer tax contributions.
- The Agency's administrative costs funded under the UI, WIA, Wagner-Peyser, and other programs are accounted for in the Agency's special revenue fund. The Agency's operations are primarily funded via a series of federal grants from the United States Department of Labor (USDOL), and the Agency is economically dependent on those grant funds to provide for its overall administration, the payment of certain unemployment benefits and the administration and funding of UI, WIA, and other such programs for the State.

### **Unemployment Compensation Trust Fund Financial Highlights**

- Legislative reforms to the State's UI tax structure implemented in 2011 continue to facilitate the Fund's path to solvency. State unemployment tax rates are structured to raise revenues that accurately address the demands of the State's UI system and the changing economic environment in which the system operates. While the Trust Fund remains in federal loan status, required tax revenues consist of estimated benefit payouts for the subsequent year, an amount required to repay the principal on all outstanding federal advances over five years, and an additional surcharge designated to pay accrued interest on outstanding advances. As the level of State UI benefit payments continues to decrease, a greater proportion of State UI tax revenues will be available to repay the advanced funds. In addition, these factors have allowed the state to make early payments on federal advances of \$135 million and \$144 million in fiscal years 2014 and 2013, respectively, resulting in over \$2 million in aggregate interest savings.
- The health of the Trust Fund continued to improve over the last fiscal year. The State was not required to borrow any funds from the federal government to make benefit payments. Tax revenues have been sufficient to allow the State to continue repaying outstanding federal advances, and benefit payments to unemployed individuals continue to fall as the economy recovers.
- For the first time since the 2008 fiscal year-end, assets of the Fund exceeded its liabilities as of June 30, 2014 by approximately \$54.8 million, which is shown as net position. The net position as of June 30, 2013 was a net deficit of \$198.5 million. The Fund has continued to steadily improve its net position since 2011, and has not been required to borrow from the FUA to make benefit payments since May of 2011. Tax revenues have been sufficient to allow the state to continue repaying outstanding federal advances, and benefit payments to unemployed individuals continue to fall as the economy recovers from the national recession.
- The Fund's net position has increased by approximately \$816 million during the four-year period from July 1, 2010, through June 30, 2014, largely due to the legislative tax reforms effective in 2011, and the continued decline of unemployment compensation benefit payments.



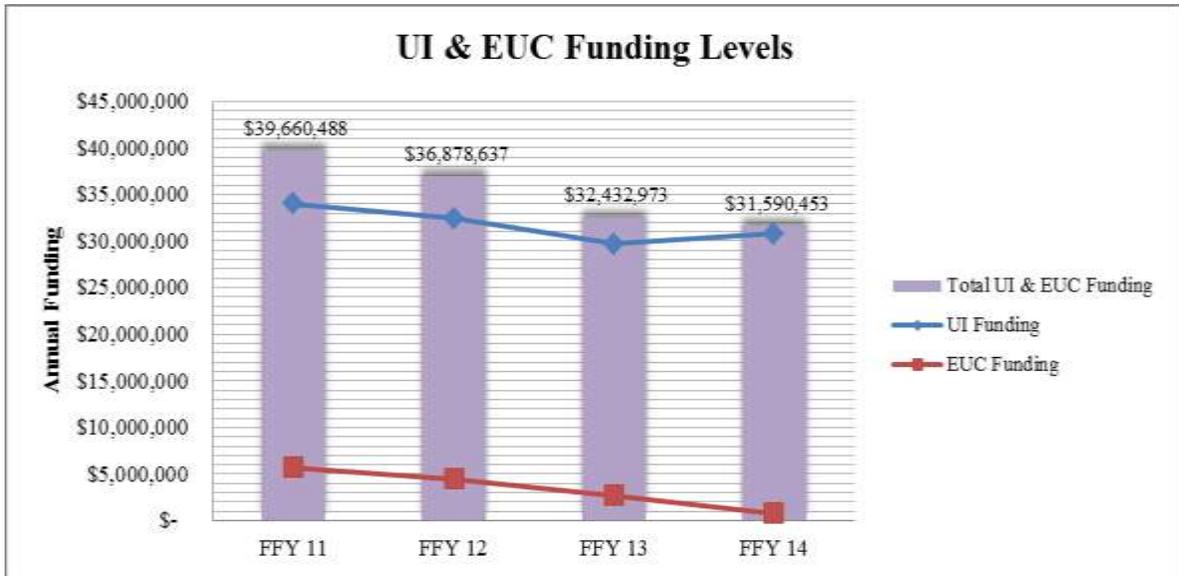
- Total unemployment compensation benefit payments were \$328,372,168 and \$598,605,547 during the years ended June 30, 2014 and 2013, respectively.
- In January of 2013, the Fund began receiving federal tax refunds intercepted by the United States Treasury, which were initially due from claimants that received unemployment compensation payments to which they were not entitled. The Department's successful implementation of the Treasury Offset Program (TOP) allowed the fund to recover overpayments of \$11.2 million and \$11.3 million in fiscal years, 2014 and 2013, respectively.
- In addition, the Agency made a \$126 million principal payment and a \$75 million principal payment on FUA advances subsequent to year-end, further reducing the total liability to the Federal government to approximately \$195.5 million as of the date of this report.

## Agency Administration Financial Highlights

- Major administrative federal funding sources for the Agency's operations continue to experience declines as the nation recovers from the national recession, and as federal budget reductions are implemented by the United States Congress.
- Funding for the Workforce Investment Act (WIA) program has experienced an overall decline for the state of 31%, or \$17 million, from approximately \$57 million allocated to the state for the 2010 federal program year ended June 30, 2011, to approximately \$39 million for the 2013 federal program year ended June 30, 2014. In addition, beginning in program year 2011, discretionary WIA dollars available for state-wide activities (state set-aside) under WIA were reduced from 15% of the annual allocation, to 5%. This, coupled with the overall reduction in the state's WIA funding, amounted to a reduction in the state's set-aside funding of \$6.5 million, or approximately 77% over the last three program years.



- Federal funding for the UI and Emergency Unemployment Compensation (EUC) programs has also experienced a decline over the last three fiscal years. Amounts granted to the State for these programs are closely tied to projected and actual state-wide workloads for various required activities associated with administering the UI and EUC programs. Overall, UI and EUC funding levels have declined by 20%, or approximately \$8.1 million from the federal fiscal year (FFY) ended September 30, 2011 to the FFY ended September 30, 2014. The Agency's modernized UI service delivery model, discussed under the Governmental Activities section below, was designed to better balance statewide UI workload while absorbing these federal funding reductions.



- Beginning in June 2013, the Agency began streamlining its service delivery model to become more efficient, provide improved customer service, and increase the use of technology to provide critical services to individuals and businesses in the State. These changes have also facilitated positive changes in the agency’s financial condition and results, primarily via reducing recurring costs, and increasing the financial resources available for process and technology improvements.
- The overall financial condition of the Agency improved during the fiscal year ended June 30, 2014. The Agency’s assets exceeded its liabilities at fiscal year ending June 30, 2014 by \$123,674,557 (shown as “total net position”), which represents an improvement in net position of \$263,794,570 from the prior year, and is also the first positive net position reported by the agency on a government-wide level since 2008. As explained below, this improvement, along with most of the Agency’s net position, is attributable to the dollar magnitude and greatly improved financial position of the Trust Fund.
- Interest liabilities and payments on outstanding advances from the federal government are accounted for in the Agency’s interest assessment fund. The revenues for this fund consist of assessments collected under Section 41-31-55(A) of the State code of laws.

**Overview/Discussion of the Annual Financial Report**

The discussion and analysis provides an introduction to the Agency’s basic financial statements, which include the following parts: (1) government-wide financial statements; (2) fund financial statements; and (3) notes to the financial statements.

**Government-wide Financial Statements**

The government-wide financial statements present a longer-term view of the Agency’s finances as a whole, using accrual-basis accounting; the same accounting methods that most businesses use. There are two government-wide financial statements:

## Government-wide Financial Statements (continued)

**Statement of Net Position:** This statement presents information on all of the Agency's assets and liabilities, both short-term (current) and long-term (non-current). The statement also reports the differences between assets and liabilities as net position. Over time, increases or decreases in net position may indicate whether the Agency's financial health (financial position) is strengthening or weakening. But in order to assess the Agency's overall financial health, you would also need to consider factors such as the State's economy and the condition of the Agency's capital assets, such as its buildings.

**Statement of Activities:** This statement presents information showing how the Agency's overall net position changed during the year. The statement of activities can help to show how much it costs the Agency to provide various services. It can also help to show the extent to which each Agency function covers its own costs through user fees, charges, or grants.

The government-wide statements report two different kinds of activities:

### **Governmental Activities:**

The Agency's internal administrative activities are reported as governmental activities including general administration, employment and training services, and unemployment insurance administrative costs. Federal grants finance most of these activities.

### **Business-type Activities:**

These activities usually recover all or a significant portion of the costs of their services or goods by charging fees to customers. The activities of the Trust Fund are considered business-type activities. This fund collects money through federal grant revenues, unemployment taxes paid by businesses, and federal loans, when needed.

## Fund Financial Statements

The fund financial statements provide detailed information about the Agency's most significant funds, not the Agency as a whole. Funds are accounting designations that the Agency uses to track specific funding sources and spending for particular purposes. The Agency uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

### **Governmental Funds:**

The Agency reports most of its basic services in governmental funds. Governmental funds account for activities that the Agency reports as governmental activities in its government-wide financial statements. These funds focus on short-term inflows and outflows of expendable resources. All of the Agency's governmental funds are accounted for in its special revenue fund.

The special revenue fund accounts for the various federal grants and other revenues which the Agency receives for administration purposes and special projects.

### **Proprietary Funds:**

Proprietary funds charge customers for the services they provide to generate operating revenue. The principle operating revenue of the Agency's proprietary fund is from assessments to employers and reimbursement from the federal government for the payment of unemployment benefits. The Agency's proprietary fund is used to account for the Trust Fund.

## Fund Financial Statements (continued)

A brief description of the fund financial statements is as follows:

The balance sheet is the statement of expendable assets which are assigned to the governmental funds according to the purposes for which they may or may not be used. Liabilities are assigned to the fund for which they are to be paid, and the difference between assets and liabilities is the fund balance.

The statement of net position is the statement of expendable assets which are assigned to the proprietary funds according to the purposes for which they may or may not be used. Liabilities are assigned to the fund for which they are to be paid; and the difference between assets and liabilities is net position.

The statement of revenues, expenditures, and changes in fund balances presents the results of the governmental activities over the course of the fiscal year and information as to how the fund balance changed during the year.

The statement of revenues, expenses, and changes in net position presents the results of the proprietary activities over the course of the fiscal year and information as to how the net position changed during the year.

The statement of cash flows presents changes in cash and cash equivalents resulting from operational, financing, and investing activities for the proprietary fund. This statement presents cash receipts and cash disbursements information.

## Notes to the Financial Statements

The notes to the financial statements provide required disclosures and other information that is essential to a full understanding of amounts provided in the financial statements. These notes present information about the accounting policies, significant account balances, and activities of the Agency.

## South Carolina Department of Employment and Workforce

### Statements of Net Position June 30, 2014 and 2013 (Condensed Financial Data)

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Assets:						
Current & other assets	\$ 71,383,461	\$ 66,479,566	\$ 472,570,996	\$ 376,789,699	\$ 543,954,457	\$443,269,265
Capital assets	19,363,197	19,896,326	—	—	19,363,197	19,896,326
Total assets	<u>\$ 90,746,658</u>	<u>\$ 86,375,892</u>	<u>\$ 472,570,996</u>	<u>\$ 376,789,699</u>	<u>\$563,317,654</u>	<u>\$463,165,591</u>
Liabilities:						
Current	\$ 21,315,120	\$ 27,362,348	\$ 147,211,515	\$ 118,718,405	168,526,635	146,080,753
Non-current	615,619	647,438	270,500,843	456,557,413	271,116,462	457,204,851
Total liabilities	<u>21,930,739</u>	<u>28,009,786</u>	<u>417,712,358</u>	<u>575,275,818</u>	<u>439,643,097</u>	<u>603,285,604</u>
Net position:						
Net investment in capital assets	19,363,197	19,896,326	—	—	19,363,197	19,896,326
Restricted for debt service	28,688,964	15,230,229	54,858,638	—	83,547,602	15,230,229
Unrestricted	20,763,758	23,239,551	—	(198,486,119)	20,763,758	(175,246,568)
Total net position	<u>68,815,919</u>	<u>58,366,106</u>	<u>54,858,638</u>	<u>(198,486,119)</u>	<u>123,674,557</u>	<u>(140,120,013)</u>
Total liabilities & net position	<u>\$ 90,746,658</u>	<u>\$ 86,375,892</u>	<u>\$ 472,570,996</u>	<u>\$ 376,789,699</u>	<u>\$563,317,654</u>	<u>\$463,165,591</u>

**Statements of Activities**  
**June 30, 2014 and 2013**  
**(Condensed Financial Data)**

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Revenues:						
Program revenues:						
Charges for services	\$ 40,142,397	\$ 37,892,780	\$ 503,807,283	\$ 458,863,951	\$ 543,949,680	\$ 496,756,731
Operating grants & contributions	97,659,916	111,109,094	88,790,190	320,482,492	186,450,106	431,591,586
General revenues:						
State appropriations	365,389	4,362,786	—	73,000,000	365,389	77,362,786
Total revenues	<u>138,167,702</u>	<u>153,364,660</u>	<u>592,597,473</u>	<u>852,346,443</u>	<u>730,765,175</u>	<u>1,005,711,103</u>
Expenses:						
Employment, workforce development, and training services	126,947,444	142,418,793	—	—	126,947,444	142,418,793
Unemployment benefits	—	—	339,167,818	612,344,506	339,167,818	612,344,506
Total expenses	<u>126,947,444</u>	<u>142,418,793</u>	<u>339,167,818</u>	<u>612,344,506</u>	<u>466,115,262</u>	<u>754,763,299</u>
Gain/(Loss) on disposal of capital assets	18,948	(94,603)	—	—	18,948	(94,603)
Non-operating revenue/(expense)	—	—	(84,898)	24,089	(84,898)	24,089
Indirect cost remitted to general fund of the State	<u>(789,393)</u>	<u>(256,070)</u>	<u>—</u>	<u>—</u>	<u>(789,393)</u>	<u>(256,070)</u>
Increase in net position	10,449,813	10,595,194	253,344,757	240,026,026	263,794,570	250,621,220
Net position – beginning	<u>58,366,106</u>	<u>47,770,912</u>	<u>(198,486,119)</u>	<u>(438,512,145)</u>	<u>(140,120,013)</u>	<u>(390,741,233)</u>
Net position – ending	<u>\$ 68,815,919</u>	<u>\$ 58,366,106</u>	<u>\$ 54,858,638</u>	<u>\$(198,486,119)</u>	<u>\$123,674,557</u>	<u>\$(140,120,013)</u>

**Government-wide Financial Analysis**

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. As of June 30, 2014, the Agency's assets exceeded its liabilities by \$123,674,557. As of the close of the prior fiscal year, liabilities exceeded assets by \$140,120,013.

The improved overall condition at the Agency is largely attributable to the effectiveness of the new unemployment insurance tax rate structure, effective January 1, 2011. At the end of the 2014 fiscal year, the Agency was able to report positive net position balances in the governmental activities, which represent capital assets, amounts restricted for debt service and unrestricted net position, as well as business-type activities, which represents the financial position of the Fund.

**Governmental Activities**

**Statement of Net Position:**

Total assets increased by approximately \$4.4 million (5%) from the prior year, largely due to increases in the cash balances in contingency assessment, penalties and interest, and interest assessment funds.

Total liabilities decreased by approximately \$6.1 million (22%), primarily due to the amount payable to the federal government for the Agency's annual interest loan payment decreasing, along with expenses paid on a timelier basis reducing overall accounts payable.

### **Statement of Activities:**

There was a decrease in federal grant activity, decreasing revenue by approximately \$13.4 million (12%), primarily due to reductions in administrative funding received from the USDOL for the UI, EUC, and WIA programs. These administrative funding levels are closely tied to changes in overall workloads associated with the State's unemployment compensation program, and have also been impacted by recent budget reductions at the federal level.

Expenses for the governmental fund declined by approximately \$15.5 million (11%), primarily due to the Agency's restructuring of its service delivery model, and a reduced amount of interest expense for the 2014 fiscal year on advances from the FUA. The UI division completed its transition from providing in-person unemployment services in approximately 40 offices to providing telephone assistance through 15 call centers, which allowed the Agency to better balance statewide workload while operating with reduced funding from the DOL. In-person UI services were transitioned to self-service options through either the telephone or an online portal.

Also in response to declining federal resources, the Agency has worked to reduce administrative and operating costs over the course of the last two fiscal years. Operating expenses including supplies, postage, travel, utilities, and services were reduced by approximately \$5 million in fiscal year 2014 as compared to fiscal year 2013.

### **Business-Type Activities**

### **Statement of Net Position:**

Total assets increased by approximately \$95.8 million (25%) primarily due to an increase in cash and assessments receivable. The Fund reported positive cash flow for fiscal year 2014, having a net increase in cash of approximately \$82.4 million versus a \$9 million net decrease in cash during the 2013 fiscal year.

Current liabilities increased by approximately \$28.5 million, (24%) primarily due to the increase in current portion of advances due to the federal government. During FY14, the Fund made payments of approximately \$135 million to repay the federal government for FUA advances.

Federal intergovernmental payables include claimant overpayment refunds received by the Department, cancelled payments, and other items being owed back to the federal government.

Non-current liabilities decreased by approximately \$186 million (41%), due to the state making principal payments on federal advances during the year. At June 30, 2014, the Fund owed the federal government approximately \$396 million compared to \$531 million at June 30, 2013.

Ending net position increased by approximately \$253 million as compared to a \$240 million increase for the prior year, which is the result of the continued decrease in unemployment compensation benefits payments as the economy continues to recover from the national recession.

### **Statement of Activities**

Assessments increased by approximately \$57.9 million compared to last year due to increase in employer tax collections. In July 2012 the General Assembly required the agency to revise the unemployment tax rates as a result of state appropriated funding. The tax rates for calendar year 2012 were revised in October 2012 retroactive to January 1, 2012, resulting lower tax rates for the second half of FY12, and the first half of FY13. Credits were used by employers during the 2013 fiscal year, and therefore caused assessments revenue to be higher in fiscal year 2014 compared to fiscal year 2013.

Total operating revenue decreased by approximately \$260 million fiscal year 2014 primarily due to a reduction in federal funds received to fund emergency unemployment compensation benefits.

Unemployment compensation benefits decreased by approximately \$270 million in fiscal year 2014 due to a number of factors, including the expiration of Emergency Unemployment Compensation (EUC), a reduction in unemployment rate and stricter disqualification from benefits for individuals fired for cause or misconduct. Emergency Unemployment Compensation (EUC) decreased by \$228.4 million and State benefits paid decreased by \$38.0 million in fiscal year 2014 compared to fiscal year 2013. Benefit payments have also fallen due to a general improvement in the South Carolina economy with the unemployment rate falling from 8.0 percent in June 2013 to 5.3 percent as of June 2014. With the lapsing of the federally funded EUC program, a maximum of 20 weeks of state-funded UI benefits are now available to unemployed individuals in South Carolina.

The following is a summary of the benefits paid (in millions) for the year ended June 30,

	2014	2013	Change
Other Federal Benefits	\$ 6.2	\$ 9.0	\$ (2.8)
EUC Benefits	82.6	311.5	(228.9)
State Benefits	239.6	278.1	(38.5)
Total	<u>\$ 328.4</u>	<u>\$ 598.6</u>	<u>\$ (270.2)</u>

Operating income for 2014 was approximately \$253 million as compared to \$240 million for the prior year, primarily due to the decrease in unemployment compensation benefit payments.

### **Fund Financial Analysis**

The Agency uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

#### **Governmental Fund**

The focus of the Agency's governmental fund is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Agency's financing requirements. In particular, the assigned fund balance may serve as a useful measure of the Agency's net resources available for spending at the end of the fiscal year. As of the end of the current fiscal year, the Agency's governmental fund reported combined ending fund balances of \$52 million, an increase of approximately \$11 million for the year.

Assigned fund balance accounts for approximately 44%, or \$23.1 million, of ending fund balance, and is available for administrative expenditures made in accordance with federal and State regulations.

Restricted fund balance accounts for approximately 55%, or \$28.9 million, of ending fund balance, and includes amounts that can only be spent for specific purposes stipulated by constitution, external resource providers, or through enabling legislation. The Agency's restricted fund balance consists primarily of amounts restricted for interest payments on FUA advances.

Non-spendable fund balance accounts for 0.11%, or \$69,495, of ending fund balance, and represents prepaid and inventory items.

#### **Proprietary Fund**

The Agency's proprietary fund provides the same type of information found in the entity-wide financial statements in more detail for the Trust Fund. Restricted net position of the Trust Fund at the end of the year amounted to approximately \$55 million.

The Fund reported positive cash flow for fiscal year 2014, having a net increase in cash of approximately \$82.4 million versus a \$9 million net decrease in cash during the 2013 fiscal year.

Other information concerning this Fund has been addressed in the discussion of the Agency's business-type activities above, as well as in the audited financial statements for the Fund, which was issued on October 28<sup>th</sup>, 2014.

### **Capital Assets and Debt Administration**

Primary changes in capital amounts during the year were related to incurring expenses related to development of internally generated/modified computer software, currently classified as construction in progress (CIP), relating to the development of a modernized consolidated appeals information system. In addition, a significant amount of computer software equipment was disposed of during the year.

Long-term liabilities fell into two areas as follows:

Advances from the federal government; and  
Accrued compensated absences and related benefits.

More detailed information about the Agency's capital assets is presented in Note 6 to the financial statements. More detailed information about the Agency's debt administration is presented in Notes 7 and 14 to the financial statements.

### **Economic Factors and Next Year's Rate**

Tax rates for calendar year 2014 were set to raise sufficient revenues to cover projected benefit costs, estimated loan repayments, interest owed on outstanding federal advances and to increase net trust fund solvency as required to avoid FUTA credit reductions for State businesses. The State anticipates being able to pay off all outstanding debt to the federal government prior to the end of fiscal year 2015 based on current economic projections and enacted legislation. The Trust Fund's net position is expected to continue increasing as additional loans are repaid in each year and revenues are sufficient to meet projected obligations. With the expiration of the federally funded Emergency Unemployment Compensation (EUC) program in December of 2013, 20 weeks is now the maximum benefit period available to claimants for state UI payments in South Carolina.

Unemployment insurance tax rates for the 2015 calendar year have been set based on projected benefit expenses of \$223 million and loan payments of \$180 million. The interest assessment fund has sufficient resources to pay the expected amounts of accrued interest remaining on FUA advances without applying an interest surcharge for the 2015 calendar year.

### **Request for Information**

This management's discussion and analysis is designed to provide a general overview of the South Carolina Department of Employment and Workforce's finances for all those with interest in the Agency's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the CFO, 1550 Gadsden Street, Post Office Box 995, Columbia, South Carolina 29202.

South Carolina Department of Employment and Workforce  
Statement of Net Position  
June 30, 2014

	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Totals</b>
<b>Assets:</b>			
Current assets:			
Cash and cash equivalents	\$ 7,245,065	\$ 329,782,441	\$ 337,027,506
Restricted cash	28,688,964	—	28,688,964
Assessments receivable, net	14,604,707	125,044,224	139,648,931
Benefit overpayments receivable, net	—	17,530,130	17,530,130
Due from reimbursable employers, net	—	350,393	350,393
Internal balances	3,754,607	(3,754,607)	—
Intergovernmental receivables, net:			
Federal	15,957,347	338,744	16,296,091
State agencies	1,063,276	1,000,416	2,063,692
Local governments	—	1,018,977	1,018,977
Other states	—	1,260,278	1,260,278
Prepaid and inventory items	69,495	—	69,495
Total current assets	<u>71,383,461</u>	<u>472,570,996</u>	<u>543,954,457</u>
Non-current assets:			
Capital assets, net of accumulated depreciation	<u>19,363,197</u>	<u>—</u>	<u>19,363,197</u>
Total assets	<u>\$ 90,746,658</u>	<u>\$ 472,570,996</u>	<u>\$ 563,317,654</u>
<b>Liabilities:</b>			
Current liabilities:			
Benefits payable	\$ —	\$ 1,563,998	\$ 1,563,998
Accounts payable	8,072,829	—	8,072,829
Tax withholdings payable	—	187,101	187,101
Contributions payable	—	16,620,046	16,620,046
Accrued salaries and related benefits	3,061,800	—	3,061,800
Intergovernmental payables:			
Federal	8,186,320	253,546	8,439,866
Other states	—	2,336,824	2,336,824
State agencies	—	250,000	250,000
Advances from federal government	—	126,000,000	126,000,000
Current portion of accrued compensated absences and related benefits	<u>1,994,171</u>	<u>—</u>	<u>1,994,171</u>
Total current liabilities	<u>21,315,120</u>	<u>147,211,515</u>	<u>168,526,635</u>
Non-current liabilities:			
Advances from federal government, net of current portion	—	270,500,843	270,500,843
Accrued compensated absences and related benefits	<u>615,619</u>	<u>—</u>	<u>615,619</u>
Total non-current liabilities	<u>615,619</u>	<u>270,500,843</u>	<u>271,116,462</u>
Total liabilities	<u>21,930,739</u>	<u>417,712,358</u>	<u>439,643,097</u>
<b>Net Position:</b>			
Net investment in capital assets	19,363,197	—	19,363,197
Restricted for debt service	28,688,964	54,858,638	83,547,602
Unrestricted	<u>20,763,758</u>	<u>—</u>	<u>20,763,758</u>
Total net position	<u>68,815,919</u>	<u>54,858,638</u>	<u>123,674,557</u>
Total liabilities and net position	<u>\$ 90,746,658</u>	<u>\$ 472,570,996</u>	<u>\$ 563,317,654</u>

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

South Carolina Department of Employment and Workforce  
Statement of Activities  
Year ended June 30, 2014

Function/Program	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position	
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-type Activities
Governmental activities: Employment, workforce development, and training services	\$ 126,947,444	\$ 40,142,397	\$ 97,659,916	\$ 10,854,869	\$ —
Business-type activities: Unemployment benefits	339,167,818	503,807,283	88,790,190	—	253,429,655
Totals	<u>\$ 466,115,262</u>	<u>\$ 543,949,680</u>	<u>\$ 186,450,106</u>	<u>10,854,869</u>	<u>253,429,655</u>
		General revenues (expenses):			
		State appropriations		365,389	—
		Gain on sale of capital assets		18,948	—
		FUTA tax adjustments		—	(84,898)
		Indirect costs remitted to General Fund of the State		(789,393)	—
		Total general revenue and (expenses)		<u>(405,056)</u>	<u>(84,898)</u>
		Increase in net position		10,449,813	253,344,757
		Net position – beginning		<u>58,366,106</u>	<u>(198,486,119)</u>
		Net position – ending		<u>\$ 68,815,919</u>	<u>\$ 54,858,638</u>

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

South Carolina Department of Employment and Workforce  
 Balance Sheet  
 Governmental Fund – Special Revenue  
 June 30, 2014

<b>Assets:</b>	
Cash and cash equivalents	\$ 7,245,065
Restricted cash	28,688,964
Assessments receivable, net	14,604,707
Intergovernmental receivables:	
Federal	15,957,347
State agencies	1,063,276
Due from – unemployment compensation fund	3,754,607
Prepaid and inventory items	<u>69,495</u>
 Total assets	 <u><u>\$ 71,383,461</u></u>
 <b>Liabilities and Fund Balances:</b>	
Liabilities:	
Accounts payable	\$ 8,072,829
Intergovernmental payables:	
Federal	8,186,320
Accrued salaries and related benefits	<u>3,061,800</u>
 Total liabilities	 <u><u>19,320,949</u></u>
 Fund balances:	
Non-spendable:	
Prepaid and inventory items	69,495
Restricted:	
Debt service	28,688,964
Reed Act expenditures	47,779
South Carolina Occupational Information Coordinating Committee	115,827
Assigned fund balance	<u>23,140,447</u>
 Total fund balances	 <u><u>52,062,512</u></u>
 Total liabilities and fund balances	 <u><u>\$ 71,383,461</u></u>

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

South Carolina Department of Employment and Workforce  
Reconciliation of Governmental Fund Balance – Special Revenue to  
Net Position of Governmental Activities  
June 30, 2014

**Reconciliation to the Statements of Net Position:**

Fund balances – governmental funds	\$ 52,062,512
Amounts reported for governmental activities in the statement of net position are different because:	
Liabilities that are not due and payable in the current period are not reported in the fund:	
Accrued compensated absences	(2,609,790)
Assets are capitalized and depreciated in statement of net position and charged to expenditures in the governmental fund:	
Capital assets, net of accumulated depreciation	<u>19,363,197</u>
Net position – governmental activities	<u><u>\$ 68,815,919</u></u>

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

South Carolina Department of Employment and Workforce  
Statement of Revenues, Expenditures, and Changes in Fund Balances  
Governmental Fund – Special Revenue  
Year ended June 30, 2014

**Revenues:**

Employer tax contingency assessments	\$ 9,982,526
Employer tax penalties and interest	7,402,567
Interest surcharge	21,500,937
User fees	3,555
Intergovernmental:	
Federal	97,659,916
State of South Carolina	365,389
Local	1,205,545
Parking	47,267
Total Revenues	138,167,702

**Expenditures:**

Employment and training administration	45,615,583
Contingency assessments	7,811,736
Penalties and interest	370,284
Workforce Investment Act	47,098,892
Trade Adjustment Assistance	8,568,605
Other federal programs	3,485,140
Parking	40,851
Occupational Information Coordinating Committee	392,057
Capital outlay	1,391,891
Debt service:	
Interest on federal advance	11,625,883
Total Expenditures	126,400,922

Excess of Revenues Over Expenditures	11,766,780
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Other Financing Sources and (Uses):

Proceeds from sale of capital assets	18,948
Indirect costs remitted to General Fund of the State	(789,393)

Total Other Financing Sources and (Uses)	(770,445)
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Net Increase in Fund Balance	10,996,335
Beginning Fund Balance	41,066,177
Ending Fund Balance	\$ 52,062,512

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

South Carolina Department of Employment and Workforce  
 Reconciliation of the Statement of Revenues, Expenditures and Changes in Governmental Fund  
 Balance – Special Revenue Fund to the Statement of Activities  
 Year ended June 30, 2014

**Reconciliation to the Statement of Activities:**

Net increase in fund balance	\$ 10,996,335
Amounts reported for governmental activities in the statement of activities are different because:	
Costs of capital assets are reported as expenditures in the governmental funds and are reported as capital asset additions in the statement of net position	1,462,920
Depreciation of capital assets is reported as an expense in the statement of activities	(2,014,997)
The carrying values of capital assets disposed of are reported as revenues in the statement of activities	18,948
Net increase in accrued compensated absences is reported as a decrease of expenses in the statement of activities	<u>(13,393)</u>
Increase in net position	<u>\$ 10,449,813</u>

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

South Carolina Department of Employment and Workforce  
Statement of Net Position  
Proprietary Fund  
June 30, 2014

**Assets:**

Current assets:

Cash and cash equivalents	\$ 329,782,441
Assessments receivable, net	125,044,224
Benefit overpayments receivable, net	17,530,130
Due from reimbursable employers, net	350,393
Intergovernmental receivables, net:	
Local governments	1,018,977
State agencies	1,000,416
Other states	1,260,278
Federal	338,744
Total assets	\$ 476,325,603

**Liabilities:**

Current liabilities:

Benefits payable	\$ 1,563,998
Tax withholding payable	187,101
Contributions payable	16,620,046
Intergovernmental payables:	
Federal	253,546
Other states	2,336,824
State agencies	250,000
Interfund payable	3,754,607
Advances from federal government	126,000,000
Total current liabilities	150,966,122

Advances from federal government, net of current portion	270,500,843
Total liabilities	421,466,965

**Net Position:**

Restricted	54,858,638
Total liabilities and net position	\$ 476,325,603

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

South Carolina Department of Employment and Workforce  
Statement of Revenues, Expenses, and Changes in Net Position  
Proprietary Fund  
Year ended June 30, 2014

<b>Operating Revenues:</b>	
Assessments	\$ 473,525,681
Reimbursement of unemployment compensation benefits from employers	2,467,415
Benefit overpayment recoveries	14,579,162
Intergovernmental:	
Federal	88,790,190
State agencies	3,609,323
Other states	5,151,595
Local governments	4,474,107
Total operating revenues	592,597,473
 <b>Operating Expenses:</b>	
Payments returned to federal government	10,795,650
Unemployment compensation benefits	328,372,168
Total operating expenses	339,167,818
Operating income	253,429,655
 <b>Non-operating revenue:</b>	
FUTA credit adjustment	(84,898)
Total non-operating revenues	(84,898)
Changes in net position	253,344,757
<b>Total net position – beginning</b>	(198,486,119)
<b>Total net position – ending</b>	\$ 54,858,638

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

South Carolina Department of Employment and Workforce  
Statement of Cash Flows  
Proprietary Fund  
Year ended June 30, 2014

<b>Cash flows provided by operating activities:</b>	
Cash received from assessments	\$ 455,463,171
Cash received from employer reimbursements	2,537,684
Cash received from benefit overpayment recoveries	18,194,333
Cash received from federal, state and local agencies	106,113,946
Benefits paid	(361,674,709)
Refund overpayment of assessments	(3,063,018)
Net cash provided by operating activities	217,571,407
 <b>Cash flows provided by non-capital financing activities:</b>	
Payments to federal government net of FUTA credits applied	(135,141,468)
Net cash used in non-capital financing activities	(135,141,468)
Net increase in cash	82,429,939
<b>Cash and cash equivalents – beginning</b>	247,352,502
<b>Cash and cash equivalents – ending</b>	\$ 329,782,441
 Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 253,429,655
Net changes in assets and liabilities:	
Assessments receivable	(11,037,118)
Benefit overpayments receivable	3,615,170
Due from reimbursable employers	70,268
Intergovernmental receivables:	
Local governments	147,282
State agencies	258,411
Other states	(154,592)
Federal	3,837,629
Benefits payable	(5,248,159)
Due to state agencies	250,000
Tax withholdings payable	(172,626)
Contributions payable	(915,740)
Due to Department	(10,088,408)
Intergovernmental payable:	
Federal tax withholdings	(13,420,759)
Other states	(2,999,606)
Net cash provided by operating activities	\$ 217,571,407

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

# South Carolina Department of Employment and Workforce

## Notes to Financial Statements

### **Note 1. Liquidity**

In previous years, the Trust Fund generated substantial operating losses due to tax revenues consistently being outpaced by unemployment insurance compensation payments. This trend was accelerated during the national recession, beginning in 2007, eventually causing the liquidation of fund reserves, and requiring the state to begin to obtain advances from the Federal Unemployment Account (“FUA”) in December of 2008. Revised tax legislation, effective January 1, 2011, significantly increased tax assessment revenues for the Trust Fund, which has reported positive net operating cash flows for the 2011, 2012, 2013 and 2014 fiscal years. Cash balances at June 30, 2014 consist primarily of state unemployment tax amounts received from employers, which is deposited in the State of South Carolina’s (“State”) account in the Federal Unemployment Trust Fund for purposes of paying state unemployment insurance benefits and repaying principal on advances from the federal unemployment account.

Although the federal government has not established a maximum amount that the Trust Fund can borrow, increased tax collections, coupled with decreases in the number of individuals eligible for and claiming State unemployment insurance benefits, have enabled the Fund to operate without obtaining additional advances from the federal government since May of 2011.

### **Note 2. Summary of Significant Accounting Policies**

#### ***Reporting Entity***

The accounting policies of the Agency conform to accounting principles generally accepted in the United States of America (“GAAP”) as applied to governmental units. The Governmental Accounting Standards Board (“GASB”) is the accepted standard-setting body in the United States of America for establishing governmental accounting and financial reporting principles. The more significant of the Agency’s accounting principles are described below.

A primary government or entity is financially accountable if it appoints a voting majority of the organization's governing body, including situations in which the voting majority consists of the primary entity's officials serving as required by law (e.g., employees who serve in an ex officio capacity on the component unit's board are considered appointments by the primary entity) and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary entity. The primary entity is financially accountable if an organization is fiscally dependent on and there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government regardless of whether the organization has (1) a separately elected governing board, (2) a governing board appointed by a higher level of government, or (3) a jointly appointed board.

An organization can provide a financial benefit to, or impose a financial burden on, a primary government in a variety of ways. The benefit or burden may result from legal entitlements or obligations, or it may be less formalized and exist because of decisions made by the primary government or agreements between the primary government and a component unit. If a primary government appoints a voting majority of an organization’s officials, or if the organization is fiscally dependent on the primary government, and there is a potential for those organizations either to provide specific financial benefits to, or to impose specific financial burdens on, the primary government, the primary government is financially accountable for those organizations.

# South Carolina Department of Employment and Workforce

## Notes to Financial Statements

### **Note 2. Summary of Significant Accounting Policies (continued)**

#### **Reporting Entity (continued)**

An organization has a financial benefit or burden relationship with the primary government if, for example, any one of these conditions exists:

- (1) The primary government is legally entitled to or can otherwise access the organization's resources.
- (2) The primary government is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide financial support to, the organization.
- (3) The primary government is obligated in some manner for the debt of the organization.

Based on these criteria, the Agency has determined it is not a component of another entity and it has no component units. This financial reporting entity includes only the Agency (a primary entity).

Enactment of the first South Carolina Unemployment Compensation Law followed action by Congress in passing the Social Security Act on August 14, 1935. The original South Carolina law, which established a free public employment service and a system of unemployment insurance, became effective June 6, 1936. In 1966, the name of the law was changed to the South Carolina Employment Security Law.

The Agency was created by Section 41-29-10 of the South Carolina Code of Laws to administer the South Carolina Employment Security Law which provides for the payment of unemployment insurance benefits, the collection of the unemployment tax from subject employers, and the operation of a system for statewide employment services. In March 2010, Section 41-29-10 of the South Carolina Code of Laws was amended by the General Assembly through Act 146, restructuring the Agency into a State cabinet agency under the Governor. The Agency merged with the Workforce Development division of the South Carolina Department of Commerce to become the South Carolina Department of Employment and Workforce. Act 159 designated the Department of Employment and Workforce as the entity responsible for the administration of the Workforce Investment Act (WIA) and Trade Adjustment Assistance (TAA) activities and for carrying out all functions necessary to comply with WIA and the Trade Act of 1974, as amended by the Trade and Globalization Adjustment Assistance Act of 2009. The administrative costs of the Agency are paid from grants primarily from the United States Department of Labor (USDOL).

The Unemployment Insurance Program collects taxes from employers covered by the law, and pays out unemployment benefits to eligible unemployed citizens under both state and federal law.

The Employment Services Program operates as a free labor exchange where workers and jobs are brought together in local "SC Works" centers throughout the State. Workers of all skills, professions, and types, including veterans, migrant and seasonal farm workers, youth, older workers, and disabled individuals are placed in suitable jobs by Employment Services staff. Special emphasis is given to the job placement of unemployment insurance (UI) claimants. In addition, the Agency maintains a comprehensive Labor Market Information Program, which collects and disseminates employee statistics, job forecasts, wage information, demographics, and other information in cooperation with the USDOL's Bureau of Labor Statistics.

The Agency is primarily funded with federal grant funding, but prepares an annual budget to be included in the state's Appropriations Act to request spending authority for its federal, state, and other funds. The appropriation, as enacted, becomes the state-level legal operating budget for the Agency. The Appropriations Act authorizes expenditures from the General Fund of the State and authorizes expenditures of total funds.

# South Carolina Department of Employment and Workforce

## Notes to Financial Statements

### **Note 2. Summary of Significant Accounting Policies (continued)**

#### ***Governmental Funds***

The laws of the State and the policies and procedures specified by the State for State agencies are applicable to the activities of this entity. The reporting entity operates somewhat autonomously, but lacks full corporate powers. The accompanying financial statements present the financial position and results of operations and note disclosures of only those transactions of the State of South Carolina, the primary government, that are attributable to the Agency reporting entity defined above.

Governmental funds are used to account for the government's general government activities. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used; current liabilities are assigned to the fund from which they are to be paid; and the differences between the assets and liabilities is the fund balance. All of the Agency's governmental funds are accounted for in the special revenue fund.

The special revenue fund accounts for the various federal grants and other revenue which the Agency receives for administrative purposes and special projects. Federal grants received for unemployment compensation benefits are accounted for in the proprietary fund. The primary accounts included in the special revenue fund are as follows:

*Employment and Training Administration* – The division of the USDOL which administers and provides funding for the Agency's major grant programs.

*Administrative Contingency Assessment (Contingency Assessments)* – The assessment was established by the Legislature in 1986 in response to federal budget cuts which would have forced office closing and reductions in staff. The contingency assessment portion of the tax is accounted for in the special revenue fund which is used primarily to fund administrative costs and employment services, whereas State unemployment taxes fund unemployment compensation benefits in the proprietary fund.

*Special Administrative Account (Penalties and Interest)* – Employers who do not submit required reports or tax payments by their due dates are subject to penalties, and must pay interest on unpaid contributions. The monies are transferred to the Special Administrative Account each month.

*Unemployment Compensation Modernization Incentive Payments*– This is a special transfer of funds from the USDOL to the Agency's account at the Federal Unemployment Trust Fund to be used for certain administrative purposes. Administrative purposes include the improvement of unemployment compensation benefit and tax operations, including responding to increased demand for unemployment compensation and staff-assisted reemployment services for unemployment compensation claimants.

*South Carolina Occupational Information Coordinating Committee (SCOICC)* – The SCOICC was established in 1977 as a consortium of agencies mandated by the Carl D. Perkins Vocational Education Act. The primary function of the SCOICC is to improve coordination, communication, and cooperation in the development and use of occupational information to meet the common occupational information and data needs of education programs and the employment and training programs at national, state, and local levels. These functions have primarily been delivered by the on-line Career Information System referred to as the South Carolina Occupational Information System ("SCOIS"). SCOIS also develops printed career development products for schools grade K-12. The SCOICC is charged with giving special attention to the career and educational needs of individuals involved in career decision making. The SCOIS system delivers up-to-date occupational, educational, employment and career guidance information to career decision makers and job seekers. The SCOICC is funded by an appropriation from the State of South

South Carolina Department of Employment and Workforce

Notes to Financial Statements

**Note 2. Summary of Significant Accounting Policies (continued)**

***Governmental Funds (continued)***

Carolina to support its operations. All school districts in South Carolina have free access to the SCOIS Career System.

*Workforce Investment Act (WIA)* – WIA is a federal program administered in South Carolina through the Workforce and Economic Development Division of the Agency, and through 12 Workforce Investment areas throughout the State. A statewide board, appointed by the Governor and comprised of business owners, state government officials, educators and private citizens, guides policy for all WIA-funded programs. WIA programs help businesses meet their need for skilled workers and provide individuals with access to training that helps them prepare for work.

*Trade Adjustment Assistance (TAA)* - TAA is a federal program funded by USDOL that provides reemployment services to workers who have been adversely impacted by increased imports or by a shift in production or services to another country. The goal of the TAA program is to help workers become reemployed in a suitable job as quickly as possible.

***Proprietary Funds***

Proprietary funds distinguish operating revenues from non-operating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principle ongoing operations. The principle operating revenue of the Agency's proprietary fund is from assessments to employers and reimbursement from the federal government for the payment of unemployment benefits. The Agency's proprietary fund is used to account for the Trust Fund.

The Trust Fund accounts for all financial transactions related to employer tax contributions, employer reimbursements in lieu of tax contributions, and federal and other funds used for the payment of unemployment compensation benefits. Interest income earned on excess funds on deposit with the U.S. Treasury may be retained in the fund for the payment of unemployment compensation benefits, unless the state has outstanding FUA advances.

The Trust Fund includes the following accounts:

*Basic Unemployment Compensation (UI)* – This accounts for regular unemployment benefits paid to individuals. It is funded by quarterly tax remittances from employers within the State, as well as reimbursement from other states, recoupment on overpayments, and interest received on Fund balances, when applicable.

*Unemployment Compensation for Federal Employees (UCFE)* – This fund accounts for unemployment compensation paid to ex-federal employees and is funded by the federal government.

*Unemployment Compensation for Ex-Servicemen (UCX)* – This fund accounts for unemployment compensation paid to ex-servicemen and is funded by the federal government.

*Trade Readjustment Allowance (TRA)* – This fund accounts for unemployment paid to individuals who have lost their jobs due to foreign trade. These payments are made after regular UI benefits and extended benefits have been exhausted. It is funded by the federal government.

## South Carolina Department of Employment and Workforce

### Notes to Financial Statements

#### **Note 2. Summary of Significant Accounting Policies (continued)**

##### ***Proprietary Funds (continued)***

*Alternative Trade Adjustment Assistance Program (ATAA)* - This fund provides eligible individuals over the age of 50 who obtain new employment within 26 weeks of their separation with a wage subsidy to help bridge the salary gap between their old and new employment. It is funded by the federal government.

*Reemployment Trade Adjustment Assistance (RTAA)* – This program was implemented in fiscal year 2009 as a wage option available to older workers under the TAA program to eventually replace ATAA. Consists of monies paid to individuals age 50+ who had lost their jobs due to imports but are now working again at a lower salary. They are paid 50% of the difference in their old and new salary. It is funded by the federal government.

*Extended Benefits (EB)* - This is a permanent program to pay benefits to unemployed workers who are no longer eligible for other types of unemployment claims during times of high unemployment. This program is available when the state insured unemployment rate reaches a predetermined level and stops when the level drops below this predetermined level. The minimum time period for these benefits is a thirteen week period. South Carolina's participation in EB ended as of the week ending April 7, 2012.

*Emergency Unemployment Compensation Tier I (EUC 08)* - The Emergency Unemployment Compensation ("EUC") program, created in June 2008 and expanded in November 2008, provides up to 20 weeks of benefits to eligible jobless workers in all states and up to 13 additional weeks of benefits in states with high unemployment. It was set to expire on March 31, 2009. The ARRA extended the date for new EUC claims to December 31, 2009, with payments on those claims ending on May 31, 2010. The Unemployment Compensation Extension Act of 2010 extended the date for new EUC claims to November 30, 2010, with payments on those claims ending April 30, 2011. The date was extended again for new claims to be filed by December 24, 2011 with last week payable of January 2, 2013. The American Taxpayer Relief Act of 2012 extended EUC08 through January 1, 2014, with the actual week ending date being December 28, 2013. It is funded by the federal government.

*Emergency Unemployment Compensation Tier II (EUC 2)* – This is an expansion of the Emergency Unemployment Compensation Tier I for individuals who had no rights to regular, extended, or additional benefits under State law. The extension for new EUC claims was through December 31, 2011, with payments on those claims ending on January 2, 2013. The American Taxpayer Relief Act of 2012 extended EUC08 through January 1, 2014, with the actual week ending date being December 28, 2013. It is funded by the federal government.

*Emergency Unemployment Compensation Tier III (EUC 3)* - This is an additional 13 week expansion of the EUC for individuals who had no rights to regular, extended, or additional benefits under State law. The extension for new EUC claims was through December 31, 2011 with payments on those claims ending on January 2, 2013. The American Taxpayer Relief Act of 2012 extended EUC08 through January 1, 2014, with the actual week ending date being December 28, 2013. It is funded by the federal government.

*Emergency Unemployment Compensation Tier IV (EUC 4)* - This is an additional 6 week expansion of the EUC for individuals who had no rights to regular, extended, or additional benefits under State law. The American Taxpayer Relief Act of 2012 extended EUC08 through January 1, 2014, with the actual week ending date being December 28, 2013. It is funded by the federal government.

Notes to Financial Statements

**Note 2. Summary of Significant Accounting Policies (continued)**

***Government-wide and Fund Financial Statements***

The financial statements of the Agency are presented in accordance with GAAP applicable to state and local governmental units. The GASB is the accepted standard setting body in the United States of America for establishing governmental accounting and financial reporting principles. The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items not properly included among program revenues are reported instead as general revenues.

***Measurement Focus, Basis of accounting, and Financial Statement Presentation***

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis method of accounting. Revenues are recorded when earned and expenses are recorded when liabilities are incurred, regardless of the timing of the cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis method of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Agency considers non-federal revenues to be available if they are collected within one year of the end of the current reporting period while federal revenues are recorded based on when related expenses are incurred. Expenditures generally are recorded when liabilities are incurred, as under the accrual basis method of accounting.

The proprietary fund financial statements are reported using the accrual basis method of accounting. For the business-type activities, the Agency applies all applicable GASB pronouncements and has elected to apply only those standards issued by the Financial Accounting Standards Board (“FASB”) on or before November 30, 1989, unless those pronouncements conflict or contradict GASB pronouncements.

***Non-exchange Transactions***

Non-exchange transactions involving financial or capital resources are transactions in which the Agency either gives value to another party without directly receiving equal value in exchange or receives value from another party without directly giving equal value in exchange. The Agency mainly engages in voluntary non-exchange transactions. This type of transaction includes most federal grants and State capital improvement bond proceeds. Voluntary non-exchange transactions usually involve eligibility requirements that must be met before transactions are recognized. The eligibility requirements can include one or more of the following:

- a) The recipient has met the characteristics specified by the provider;
- b) The recipient has met the time requirements specified by the provider;
- c) The provider offers resources on a reimbursement basis and the recipient has incurred the allowable costs under the applicable program;
- d) The provider’s offer of resources is contingent upon a specified action of the recipient and that action has occurred.

# South Carolina Department of Employment and Workforce

## Notes to Financial Statements

### **Note 2. Summary of Significant Accounting Policies (continued)**

#### ***Budget Policy***

The Agency is granted an annual appropriation for operating purposes by the General Assembly. The appropriation as enacted becomes the legal operating budget for the Agency. The Appropriation Act authorizes expenditures from funds appropriated from the General Fund of the State and authorizes expenditures of Federal and Other funds by the Agency. The Total Funds column in the Appropriation Act for each individual budgetary unit authorizes expenditures from all budgeted resources. A revenue budget is not adopted for individual budgetary units. The General Assembly enacts the budget through passage of line-item appropriations by program within budgetary unit within budgetary fund category, State General Fund, or other budgeted funds. Budgetary control is maintained at the line-item level of the budgetary entity. Agencies may process disbursement vouchers in the State's budgetary accounting system only if enough cash and appropriation authorization exist.

The Agency's budget is not presented for comparison purposes because GASB 34 requires only major special revenue funds of the State to present such information. Since the Agency is not a major special revenue fund of the State, budgetary comparison information is excluded from the basic financial statements.

#### ***Cash and Cash Equivalents***

The amounts shown in the financial statements as "cash and cash equivalents" represent petty cash, cash on hand with the State Treasurer, cash invested in various instruments by the State Treasurer as part of the State's internal cash management pool, and cash on deposit with the U.S. Treasury and in various depository financial institutions.

Most State agencies, including the Agency, participate in the State's internal cash management pool. Because the internal cash management pool operates as a demand deposit account, amounts invested in the pool are classified as cash and cash equivalents.

The State Treasurer administers the internal cash management pool. The pool includes some long-term investments such as obligations of the United States and certain agencies of the United States, obligations of the State of South Carolina and certain of its political subdivisions, certificates of deposit, collateralized repurchase agreements, and certain corporate bonds. The pool operates as a demand deposit. For credit risk information pertaining to the internal cash management pool, see the deposits disclosure in Note 3.

The State's internal cash management pool consists of a general deposit account and several special deposit accounts. The State records each fund's equity interest in the general deposit account. However, all earnings on that account are credited to the General Fund of the State. The Agency records and reports its deposits in the general deposit account at cost.

Some State Treasurer accounts are not included in the State's internal cash management pool because of restrictions on the use of the funds. For those accounts, cash equivalents include investments in short-term highly liquid securities having an initial maturity of three months or less.

#### ***Restricted Cash***

At June 30, 2014, approximately \$28.7 million is restricted for payment of interest on debt service.

South Carolina Department of Employment and Workforce

Notes to Financial Statements

**Note 2. Summary of Significant Accounting Policies (continued)**

***Receivables***

Receivables consist primarily of the following:

Assessments Receivable

Assessments receivable includes employer tax contributions, contingency assessments, interest surcharges, and related penalties, and interest and collection charges, net of the allowance for uncollectibles.

Unemployment tax contributions are assessed each quarter based on covered wages during the quarter. Also, effective January 1, 1986, most covered employers are assessed a special contingency assessment at the rate of six one-hundredths of one percent upon all covered wages. This contingency assessment is due in the same time and manner as the unemployment tax contribution.

Taxes and contingency assessments for a quarter are due on or before the end of the month following the close of the quarter. Amounts not paid by such date are considered delinquent and the Agency is required to notify employers of such tax delinquencies. If the delinquent amount is not paid within ten days thereafter, the Agency is directed to initiate a collection notification process consisting of follow-up notices, telephone calls, and ultimately the issuance of a warrant of execution upon real and personal property of the employer.

Various penalties and interest are levied on delinquent employer tax receivables for failure to timely file quarterly wage reports and timely make the required payments.

Receivables are written off by reducing the allowance account and the corresponding receivable.

Due from Reimbursable Employers

The amounts due from reimbursable employers include those amounts attributable to the actual benefits paid on behalf of certain non-profit and governmental employers to former employees, net of the allowance for uncollectibles.

Intergovernmental Receivables

The federal receivable amount represents reimbursements due under various federal grant programs in which the Agency participates. Revenues and related receivables are recognized at the time and to the extent that allowable expenditures are incurred under such programs.

The amounts due from the State in the proprietary fund represent unemployment benefit reimbursements due from other South Carolina state agencies.

The benefit reimbursement receivable from other states and local governments is based on the prorata share of wages earned by the employees in those states and localities for which benefits are being paid by the Agency.

South Carolina Department of Employment and Workforce

Notes to Financial Statements

**Note 2. Summary of Significant Accounting Policies (continued)**

***Receivables (continued)***

Benefit Overpayments Receivable

Overpayments of unemployment compensation benefits occur due to changes in facts or estimates upon which benefits were originally paid or by claimant fraud. Overpayments are due upon detection or discovery and are recovered by cash recoupments or withheld from subsequent benefits due the claimants. In 1986, the State enacted a law which provides for recovery of overpayments by the South Carolina Department of Revenue from State income tax refunds. In January of 2013, the Fund also began receiving federal tax refunds intercepted by the United States Treasury, under the Treasury Offset Program (TOP), which were initially due from claimants that received unemployment compensation payments to which they were not entitled. Benefit overpayments attributable to reimbursable employers or federal programs are due to such employers or the federal government. The Agency generally uses collection on overpayments to fund current benefit obligations. Refunds are made only when there are no current benefit obligations. Benefit overpayment receivables are recorded net of an allowance for uncollectibles.

Allowance for Uncollectibles

The allowance for uncollectibles is computed based upon an estimate of collections over the past five years with all receivables over 24 months old being allowed for as uncollectible. All receivables under ten years old, although allowed for as doubtful accounts, are left on the books as a receivable but netted out for financial statement purposes, and the Agency continues to pursue collection of such amounts.

***Capital Assets***

Capital assets are recorded at cost at the date of acquisition or fair market value at the date of donation in the case of gifts. The Agency follows capitalization guidelines established by the State of South Carolina. All land is capitalized, regardless of cost. Qualifying improvements that rest in or on the land itself are recorded as depreciable land improvements. Major additions and renovations and other improvements that add to the usable space, prepare existing buildings for new uses, or extend the useful life of an existing building are capitalized.

The Agency capitalizes movable personal property with a unit value in excess of \$5,000 and a useful life in excess of two years and depreciable land improvements, buildings and improvements, and intangible assets costing in excess of \$100,000. Routine repairs and maintenance are charged to operating expenses in the year in which the expense was incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 20 to 50 years for buildings and improvements and land improvements and 3 to 25 years for software, machinery, equipment, furniture, and vehicles.

***Benefits Payable***

Benefits payable represent amounts paid after year-end for unemployment compensation benefits for weeks ending prior to June 30.

South Carolina Department of Employment and Workforce

Notes to Financial Statements

**Note 2. Summary of Significant Accounting Policies (continued)**

***Compensated Absences***

Generally all full-time equivalent State employees and certain part-time employees scheduled to work at least one-half of the Agency's work week are entitled to accrue and carry forward at calendar year-end up to maximums of 180 days sick leave and 45 days annual vacation leave. Upon termination of State employment, employees are entitled to be paid for accumulated unused annual vacation leave up to the maximum, but are not entitled to any payment for unused sick leave. The compensated absences liability includes accrued annual leave earned for which the employees are entitled to paid time off or payment at termination.

The Agency calculates the gross compensated absences liability based on recorded balances of unused leave. The entire unpaid liability for which the employer expects to compensate employees through paid time off or cash payments, inventoried at fiscal year-end current salary costs and the cost of the salary-related benefit payments, is recorded in the statement of net position.

***Indirect Cost***

The Agency recovers indirect costs from federal funding sources based on a negotiated indirect cost agreement approved by the U.S. Department of Labor, Office of Cost Determination. The indirect costs recovered from this agreement are used to offset the administrative costs of the Agency and services provided by other State agencies. During the period July 1, 2013 through June 30, 2014, the Agency recovered \$9,119,442 of indirect costs from the indirect cost agreement. Of this amount, \$789,393 was remitted to the State and \$8,330,049 was retained by the Agency. Indirect cost recoveries are reported as federal revenues.

***Interfund Transactions***

Expenditures are initially recorded in the fund making the disbursement. However, if they are properly applicable to another fund, a reimbursement must be recorded. Reimbursements from one fund to another are treated as expenditures of the reimbursing fund and a reduction of the expenditures or expenses of the reimbursed fund. The primary transaction that falls into this category is indirect costs, which are allocated to the various funds through the Agency's cost allocation system.

Transfers from funds receiving revenues to funds through which the resources are to be expended are classified as operating transfers.

***Prepaid Items***

Payments made to vendors for services that will benefit periods beyond the fiscal year-end are recorded as prepaid items. Prepaid items benefiting more than one accounting period are accounted for under the consumption method and recognized as expenses/expenditures when used.

These services include maintenance contracts on data processing and office equipment, equipment rentals, professional services, software costs paid in advance, and insurance coverage.

South Carolina Department of Employment and Workforce

Notes to Financial Statements

**Note 2. Summary of Significant Accounting Policies (continued)**

***Intergovernmental Payables – Other States***

The amounts reported as intergovernmental payables-other states represent amounts due as reimbursements to other states for benefits paid by those states to South Carolina claimants.

***Contributions Payable***

Contributions payable includes amounts received from employers in excess of current unemployment tax liabilities. The Agency retains the payments on account to cover future tax liabilities.

***Operating and Nonoperating Revenues and Expenses***

The Trust Fund distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and delivering goods in connection with a proprietary fund's principal ongoing operations. The Trust Fund's primary operating revenues are from assessments. Operating expenses include unemployment compensation benefits paid. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

***Net Position / Fund Balances***

The Agency records reservations for portions of its fund equity which are legally segregated for specific future uses or which do not represent available expendable resources and therefore are not available for expenditures in the governmental fund balance sheet. Unassigned fund balances indicate that portion of fund equity which is available for appropriations in future periods. If restricted and unrestricted assets are available for the same purpose, then restricted assets will be used before unrestricted assets.

Net position is categorized as follows:

*Net investment in capital assets* – This component of net position consists of capital assets, net of accumulated depreciation, as well as costs to be recovered from future revenues, and unamortized debt expense reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

*Restricted* – This component of net position consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net position* – This component of net position consists of items that do not meet the definition of "restricted" or "net investment in capital assets."

The financial statements of the Trust Fund are prepared as an enterprise fund using the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

South Carolina Department of Employment and Workforce

Notes to Financial Statements

**Note 2. Summary of Significant Accounting Policies (continued)**

*Net Position / Fund Balances (continued)*

The Agency has adopted GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions (required implementation date of June 2011). This Statement establishes criteria for classifying governmental fund balances into specifically defined classifications. Classifications are hierarchical and are based primarily on the extent to which the Agency is bound to honor constraints on the specific purposes for which amounts in the funds may be spent. Application of the Statement requires the Agency to classify and report amounts in the appropriate fund balance classifications. The Agency's accounting and finance policies are used to interpret the nature and/or requirements of the funds and their corresponding assignment of restricted, committed, assigned, or unassigned. Fund balances are classified as follows:

Non-spendable – Amounts that cannot be spent either because they are not in a spendable form, such as inventory or prepaid insurance, or because they are legally or contractually required to be maintained intact, such as a trust.

Restricted – Amounts that can be spent only for specific purposes because of Agency ordinances, state or federal laws, or externally imposed conditions by grantors or creditors, such as, the surcharge adopted to pay the Trust Fund's debt.

Committed – Amounts constrained to specific purposes by the Agency itself, using the highest level of decision-making authority. To be reported as committed, amounts cannot be used for any other purpose unless the Agency takes the same highest level action to remove or change the constraint.

Assigned – Amounts the Agency intends to use for a specific purpose. Intent can be expressed by an official or body to which the Agency delegates the authority.

Unassigned – All amounts not included in other spendable classifications.

The Agency permits funds to be expended in the following order: committed, assigned, and unassigned.

At June 30, 2014, the Agency's restricted balances are as follows:

Debt service – The Trust Fund had outstanding advances of approximately \$397 million from the federal government as of June 30, 2014. By law, the Trust Fund is a proprietary fund and only permitted to pay unemployment benefits. Therefore debt service of the interest due on the advances must be accounted for in the governmental funds of the Agency. At June 30, 2014, approximately \$28.7 million is restricted for payment of debt service interest.

Reed Act – The Agency has no funds available under the Reed Act in the proprietary funds. During 2010, due to the Trust Fund becoming insolvent, all funds remaining were used to pay benefits. These funds are granted to the Trust Fund from the federal government from federal unemployment tax collections to be used for unemployment benefits if they are needed. Upon appropriation by the State legislature and after approval of the Governor, these funds can be used for other purposes. Of these funds, \$13,827,461 was appropriated by the General Assembly in prior fiscal years to partially fund the purchase of new software and information technology equipment, land acquisition, and office expansion. The \$13,827,461 was shown as a transfer from the Trust Fund to the Special Revenue Fund upon Legislative appropriation.

South Carolina Department of Employment and Workforce

Notes to Financial Statements

**Note 2. Summary of Significant Accounting Policies (continued)**

*Net Position / Fund Balances (continued)*

During fiscal year 2014, \$0 was spent from the previously appropriated funds and \$47,779 is shown as a restricted fund balance for the Special Revenue Fund.

SCOICC – Pursuant to 2005 Appropriation Act Proviso 51.2, all user fees collected by the South Carolina Occupational Information Coordinating Committee through the Agency may be retained to use for operating the South Carolina Occupational Information System. All user fees not expended in the prior fiscal year were brought forward for use in the current fiscal year.

As provided by 2014 Appropriation Act Proviso 83.1, all user fees not expended in fiscal year 2013 may be carried forward to fiscal year 2014 for use in the SCOICC program. As of June 30, 2014, \$115,827 was carried forward and is reported as a restricted fund balance.

*Use of Estimates*

The preparation of financial statements in conformance with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. The most significant estimates are the allowance for doubtful accounts and the useful lives of capital assets.

**Note 3. Deposits**

The amount shown as cash and cash equivalents in the statement of net position at June 30, 2014 is composed of the following:

Cash on hand	\$	1,500
Deposits held by State Treasurer		41,815,545
Deposits held by U.S. Treasury		310,119,088
Other deposits		13,780,337
Totals	\$	<u>365,716,470</u>

**Deposits held by State Treasurer**

State law requires full collateralization of all State Treasurer bank balances. The State Treasurer must correct any deficiencies in collateral within seven days. As of June 30, 2014, all State Treasurer bank balances were fully insured or collateralized with securities held by the State or its agent in the State's name.

With respect to investments in the State's internal cash management pool, all of the State Treasurer's investments are insured or registered or are investments for which the securities are held by the State or its agent in the State's name. Information pertaining to the reported amounts, fair values, and credit risk of the State Treasurer's investments is disclosed in the Comprehensive Annual Financial Report of the State of South Carolina.

South Carolina Department of Employment and Workforce

Notes to Financial Statements

**Note 3. Deposits (continued)**

**Deposits held by U.S. Treasury**

Under the provisions of Section 904(e) of the Social Security Act, the Secretary of the Treasury is authorized to credit to the account of each state agency, on a quarterly basis, a proportionate part of the earnings of the Trust Fund. However, individual states are not due any interest while carrying federal unemployment account advances on their books.

**Other Deposits**

Custodial credit risk for deposits is the risk that in the event of a depository financial institution's failure, the Agency's deposits may not be returned or the Agency will not be able to recover collateral securities in the possession of an outside party.

Section 11-13-60 of the South Carolina Code of Laws requires these funds to be fully insured or collateralized. All deposits of the Agency met these requirements and are either covered by federal depository insurance or collateralized with securities held by the depository financial institution's trust department or agent in the Agency's name.

The Agency does not invest in foreign securities or have transactions with foreign currency and, as a result, does not have a policy for foreign currency risk.

**Note 4. Interfund Receivables/Payables**

The amounts shown on the financial statements as being interfund receivables/payables represent amounts which were collected for penalties and interest and contingency assessments in tax remittances from employers and unemployment compensation modernization funds as of June 30, 2014 are as follows:

Contingency assessments	\$ 78,403
Penalty, interest, service charges and fees	337,465
Interest Surcharge	295,383
Special Administration Fund	3,012,134
Reed Act	25,733
FUTA Penalty Integrity Fund	5,489
Total	<u>\$ 3,754,607</u>

South Carolina Department of Employment and Workforce

Notes to Financial Statements

**Note 5. Receivables**

The receivable balances at June 30, 2014 and the related amounts for allowances for uncollectibles are as follows:

	<u>Receivables</u>	<u>Allowances for Uncollectibles</u>	<u>Net Receivables</u>
<b>Special Revenue Fund:</b>			
Assessments receivable:			
Contingency	\$ 2,994,321	\$ (180,638)	\$ 2,813,683
Penalty, interest, service charge and fees	7,208,285	(1,415,190)	5,793,095
Interest surcharge	7,194,597	(1,196,668)	5,997,929
Intergovernmental receivables:			
Federal	15,957,347	-	15,957,347
State agencies	1,063,276	-	1,063,276
Totals	<u>\$ 34,417,826</u>	<u>\$ (2,792,496)</u>	<u>\$ 31,625,330</u>

	<u>Receivables</u>	<u>Allowances for Uncollectibles</u>	<u>Net Receivables</u>
<b>Proprietary Fund:</b>			
Assessments receivable	\$ 137,810,252	\$ (12,766,028)	\$ 125,044,224
Due from reimbursable employers	350,393	-	350,393
Intergovernmental receivables			
Federal	338,744	-	338,744
State agencies	1,000,416	-	1,000,416
Local governments	1,018,977	-	1,018,977
Other states	1,260,278	-	1,260,278
Benefit overpayments receivable:			
Basic unemployment compensation (UI)	14,719,451	(4,911,880)	9,807,571
Federal employees (UCFE)	61,786	(24,567)	37,219
Ex-servicemen (UCX)	144,015	(55,227)	88,788
Trade readjustment compensation (TRA)	28,923	(22,990)	5,933
Emergency unemployment compensation (EUC)	10,702,572	(3,111,953)	7,590,619
Totals	<u>\$ 167,435,807</u>	<u>\$ (20,892,645)</u>	<u>\$ 146,543,162</u>

South Carolina Department of Employment and Workforce

Notes to Financial Statements

**Note 6. Capital Assets**

A summary of capital assets activity for the year ended June 30, 2014 is as follows:

	Balances July 1, 2013	Increases	Decreases	Balances June 30, 2014
Capital assets not being depreciated:				
Land and land improvements	\$ 3,377,248	\$ —	\$ —	\$ 3,377,248
Construction in progress	265,691	1,052,790	—	1,318,481
<b>Total capital assets not being depreciated</b>	<b>3,642,939</b>	<b>1,052,790</b>	<b>—</b>	<b>4,695,729</b>
Other capital assets:				
Buildings and improvements	30,593,198	—	(133,526)	30,459,672
Equipment and furniture	3,055,780	862,418	(173,290)	3,744,908
Vehicles	344,719	48,186	(66,084)	326,821
Intangible assets	7,930,881	177,049	(802,226)	7,305,704
<b>Total other capital assets</b>	<b>41,924,578</b>	<b>1,087,653</b>	<b>(1,175,126)</b>	<b>41,837,105</b>
Less accumulated depreciation for				
Buildings and improvements	(16,609,394)	703,206	(252,684)	(17,059,916)
Equipment and furniture	(2,497,164)	612,363	(198,683)	(2,910,844)
Vehicles	(307,113)	29,810	(65,184)	(271,739)
Intangible assets	(6,257,520)	669,618	—	(6,927,138)
<b>Total accumulated depreciation</b>	<b>25,671,191</b>	<b>2,014,997</b>	<b>(516,551)</b>	<b>27,169,637</b>
<b>Total capital assets being depreciated, net</b>	<b>16,253,387</b>	<b>(927,344)</b>	<b>(658,575)</b>	<b>14,667,468</b>
<b>Total capital assets, net</b>	<b>\$ 19,896,326</b>	<b>\$ 125,446</b>	<b>\$ (658,575)</b>	<b>\$ 19,363,197</b>

Depreciation expense was \$2,014,997. Total outstanding commitments on projects were \$1,382,618.

**Note 7. Long-Term Liabilities**

A summary of changes in long-term liabilities for the year ended June 30, 2014 is as follows:

	Balance, July 1, 2013	Additions	Reductions	Balance, June 30, 2014	Due within one year
<b>Governmental</b>					
Accrued compensated absences and related benefits	2,596,397	4,116,580	(4,103,187)	2,609,790	1,994,171
	<b>\$ 2,596,397</b>	<b>\$ 4,116,580</b>	<b>\$ (4,103,187)</b>	<b>\$ 2,609,790</b>	<b>\$ 1,994,171</b>

South Carolina Department of Employment and Workforce

Notes to Financial Statements

**Note 7. Long-Term Liabilities (continued)**

Business-type	Balance, July 1, 2013	Additions	Reductions	Balance, June 30, 2014	Due within one year
Advances from federal government	\$531,557,413	\$ —	\$135,056,570	\$396,500,843	\$126,000,000
	<u>\$531,557,413</u>	<u>\$ —</u>	<u>\$135,056,570</u>	<u>\$396,500,843</u>	<u>\$126,000,000</u>

**Note 8. Leases**

The Agency has entered into operating leases for office rent, equipment and computers. All of the leases are non-cancelable leases with no purchase options and their terms are greater than one year. Payments are due on an annual basis. Ending payment dates range from fiscal years 2014 through 2018. Certain operating leases provide for renewal options for periods from one to five years at their fair rental value at the time of renewal. In the normal course of business, operating leases are generally renewed or replaced by other leases. The Agency is responsible for maintenance on most leased property. Rental expenditures for office rent, equipment and computers were approximately \$1,045,808 for the year ended June 30, 2014.

The following is a schedule by years of future minimum rental payments required under the noncancelable operating lease agreements with remaining terms at June 30, 2014 in excess of one year. The future minimum rental payments for the capital leases exclude the monthly executory costs.

	Year Ended June 30,	Operating Leases
	2015	\$ 284,520
	2016	153,383
	2017	5,710
	2018	716
Total minimum lease payments		<u>\$ 444,329</u>

**Note 9. Pension Plans**

The majority of employees of the Agency are covered by a retirement plan through the South Carolina Retirement System (SCRS), a cost-sharing multiple-employer defined benefit pension plan administered by the Retirement Benefits Division of the South Carolina Public Employee Benefit Authority (PEBA), a public employee retirement system. Generally, all full-time or part-time equivalent State employees in a permanent position are required to participate in and contribute to the SCRS as a condition of employment unless exempted by law as provided in Section 9-1-480 of the South Carolina Code of Laws, as amended, or are eligible and elect to participate in the State Optional Retirement Program (ORP). The SCRS plan provides life-time monthly retirement annuity benefits to eligible members as well as disability, survivor options, annual benefit adjustments, death benefits, and incidental death benefits to eligible employees and retired members.

The Retirement Division maintains five independent defined benefit plans and issues its own publicly available Comprehensive Annual Financial Report (CAFR) which includes financial statements and required supplementary information. A copy of the separately issued CAFR may be obtained by writing to the South Carolina Public Employee Benefit Authority, P.O. Box 11960, Columbia, South Carolina 29211-1960. Furthermore, the Division and the five pension plans are included in the State of South Carolina's CAFR.

## South Carolina Department of Employment and Workforce

### Notes to Financial Statements

#### **Note 9. Pension Plans (continued)**

Under the SCRS, Class II members are eligible for a full service retirement annuity upon reaching age 65 or completion of 28 years of credited service regardless of age. Employees who first became members of the System after June 30, 2012 are considered Class III members and are eligible for a full service retirement annuity upon reaching age 65 or upon meeting the rule of 90 requirement (i.e., the members age plus the years of service add up to a total of at least 90). The benefit formula for full service retirement annuity effective since July 1, 1989 for the SCRS is 1.82 percent of an employee's average final compensation (AFC) multiplied by the number of years of credited service. For Class II members, AFC is the average annual earnable compensation during 12 highest consecutive quarters and includes an amount for up to 45 days termination pay at retirement for unused annual leave. For Class III members, AFC is the average annual earnable compensation during 20 highest consecutive quarters and termination pay for unused annual leave at retirement is not included. Early retirement options with reduced benefits are available as early as age 55 for Class II members and age 60 for Class III members. Class II members are vested for a deferred annuity after five years of earned service. Class III members are vested for a deferred annuity after eight years of earned service. Members qualify for a survivor's benefit upon completion of 15 years of credited service (five years effective January 1, 2002).

Disability annuity benefits are available to Class II members if they have permanent incapacity to perform regular duties of the member's job and they have at least 5 years of earned service (this requirement does not apply if the disability is a result of a job related injury). Class III members can apply for disability annuity benefits provided they have a permanent incapacity to perform the regular duties of the member's job and they have a minimum of eight years of credited service. For disability applications received after December 31, 2013, a member of SCRS will have to be approved for disability benefits from the Social Security Administration in order to be eligible for SCRS disability retirement benefits.

An incidental death benefit equal to an employee's annual rate of compensation is payable upon the death of an active employee with a minimum of one year of credited service or to a working retired contributing member. There is no service requirement for death resulting from actual performance of duties for an active member. For eligible retired members, a lump-sum payment is made to the retiree's beneficiary of up to \$6,000 based on years of service at retirement. TERI participants and retired contributing members are eligible for the increased death benefit equal to their annual salary in lieu of the standard retired member benefit.

Effective January 1, 2001, Section 9-1-2210 of the South Carolina Code of Laws allows employees eligible for service retirement to participate in the Teacher and Employee Retention Incentive (TERI) Program. TERI participants may retire and begin accumulating retirement benefits on a deferred basis without terminating employment for up to five years. Upon termination of employment or at the end of the TERI period, whichever is earlier, participants will begin receiving monthly service retirement benefits which will include any benefit adjustments granted during the TERI period. Because participants are considered retired during the TERI period, they do not earn service credit and are ineligible for disability retirement benefits. The TERI program will end effective June 30, 2018 and a member's participation may not continue after this date.

## South Carolina Department of Employment and Workforce

### Notes to Financial Statements

#### **Note 9. Pension Plans (continued)**

Effective July 1, 2013, employees participating in the SCRS were required to contribute 7.50% of all earnable compensation. The employer contribution rate for SCRS was 15.52%. Included in the total SCRS employer contribution rate is a base retirement contribution of 10.45%, .15% for the incidental death benefit program and a 4.92% surcharge that will fund retiree health and dental insurance coverage. The Agency's actual retirement and incidental death benefit program contributions to the SCRS for the years ended June 30, 2014, 2013, and 2012 were approximately \$4,415,000, \$5,537,000, and \$5,082,000, respectively, and equaled the base required retirement contribution rate, excluding surcharge, of 10.45% for 2014, 10.45% for 2013, and 9.385% for 2012. Also, the Agency paid employer incidental death program contributions of approximately \$43,000, \$55,000, and \$56,000, at the rate of .15% of compensation for the current fiscal years ended June 30, 2014, 2013, and 2012, respectively.

The South Carolina Police Officers Retirement System (PORS) is a cost-sharing multiple employer defined benefit public employee retirement plan. Generally, all full-time employees whose principal duties are the preservation of public order or the protection or prevention and control of property destruction by fire are required to participate in and contribute to PORS as a condition of employment. This plan provides for lifetime monthly annuity benefits as well as disability, survivor benefits and incidental death benefits to eligible employees and retirees. In addition, participating employers in the PORS may elect to contribute to the accidental death program which provides annuity benefits to beneficiaries of police officers and firemen killed in the actual performance of their duties. These benefits are independent of any other retirement benefits available to the beneficiary.

Under the PORS, Class II members are eligible for a full service retirement annuity upon reaching age 55 or completion of 25 years of credited service regardless of age. Class III members are eligible for a full service retirement annuity upon reaching age 55 or 27 years of credited service. The benefit formula for full benefits for the PORS is 2.14 percent of an employee's average final compensation (AFC) multiplied by the number of years of credited service. For Class II members, AFC is the average annual compensation during 12 consecutive quarters and includes an amount for up to 45 days termination pay for unused annual leave. For Class III members, AFC is the average annual earnable compensation during 20 consecutive quarters and termination pay for unused annual leave at retirement is not included. PORS does not have an early retirement option. Class II members are vested for a deferred annuity after five years of earned service. Class III members are vested for a deferred annuity after eight years of earned service. Members qualify for a survivor's benefit upon completion of 15 years of credited service (five years effective January 1, 2002).

Effective July 1, 2013, employees participating in the PORS were required to contribute 7.84% of all earnable compensation. The employer contribution rate for PORS was 17.76%. Included in the total PORS employer contribution rate is a base retirement contribution of 12.44%, .20% for the incidental death benefit program, .20% for the accidental death program, and a 4.92% surcharge that will fund retiree health and dental insurance coverage. The Agency's actual contributions to the PORS for the years ended June 30, 2014, 2013, and 2012 were approximately \$38,000, \$37,000, and \$25,000, respectively, and equaled the base retirement required contribution rate, excluding surcharge, of 12.44% for 2014, 11.90% for 2013, and 11.36% for 2012. The Agency also paid employer incidental death program contributions of approximately \$400, \$400, and \$300, at the rate of .20% of compensation for the fiscal years ended June 30, 2014, 2013, and 2012 respectively. In addition, the Agency paid accidental death program contributions of approximately \$400, \$400, and \$300, at the rate of .20% of compensation for the current fiscal years ended June 30, 2014, 2013, and 2012, respectively.

## South Carolina Department of Employment and Workforce

### Notes to Financial Statements

#### **Note 9. Pension Plans (continued)**

As an alternative to membership in the SCRS, newly hired State and school district employees may elect to participate in the State Optional Retirement Program (ORP), a defined contribution retirement plan. The ORP was established in 1987 under Title 9, Chapter 20, of the South Carolina Code of Laws. State ORP participants direct the investment of their funds into a plan administered by one of four investment providers. The State assumes no liability for the State ORP plan other than for the employer's payment of contributions to designated companies. To elect participation in the ORP, eligible employees must elect membership within their first 30 days of employment. Under State law, contributions to the ORP are required at the same rates as for the SCRS, 10.60% plus the retiree surcharge of 4.92% from the employer in fiscal year 2014. Of the 10.60% employer contribution rate, the employer remits 5.00% directly to the participant's ORP account and the remaining 5.45% retirement contribution and .15% incidental death benefit program contribution amounts are remitted to SCRS.

For fiscal year 2014, total contributions requirements to the ORP were approximately \$111,000 (excluding the surcharge) from the Agency as employer and approximately \$151,000 from its employees as plan members.

The amounts paid by the Agency for pension, incidental death benefit program, and accidental death program contributions are reported as employer contribution expenditures within the applicable functional expenditure categories to which the related salaries are charged.

Article X, Section 16, of the South Carolina Constitution requires that all State-operated retirement systems be funded on a sound actuarial basis. Title 9 of the South Carolina Code of Laws of 1976, as amended, prescribes requirements relating to membership, benefit, and employee/employer contributions for each retirement system. Employee and employer contribution rates to SCRS and PORS are actuarially determined.

While the surcharge to fund retiree health and dental insurance benefits is collected by the Retirement Benefits Division of PEBA, it is remitted to the Insurance Benefits Division of PEBA, which is responsible for administration of retiree health and dental insurance benefits and establishment of the applicable retiree insurance surcharge rate.

For the current fiscal year, the SCRS and PORS do not make separate measurements of assets and pension benefit obligations for individual employers within the cost-sharing plan. Under Title 9 of the South Carolina Code of Laws, the Department's liability under the plans is limited to the amount of required employer contributions (stated as a percentage of covered payroll) as established by the South Carolina Public Employee Benefit Authority and as appropriated in the South Carolina Appropriation Act and from other applicable revenue sources. Accordingly, the Agency recognizes no contingent liability for unfunded costs associated with participation in the plans.

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, is effective for financial statements for periods beginning after June 15, 2014. This statement improves financial reporting by state and local governments for pensions by establishing standards for measuring and recognizing liabilities, deferred outflows of resources and expenditures for employers with liabilities to a defined benefit pension plan and for employers whose employees are provided with defined contribution pension. State and local governments will now be required to recognize a liability for its proportionate share of the net pension liability of that plan. It is GASB's intention that this new statement will provide citizens and other users of the financial statements with a clearer picture of the size and nature of the Agency's financial obligations to current and former employees for past services rendered.

## South Carolina Department of Employment and Workforce

### Notes to Financial Statements

#### **Note 10. Post-Employment Benefits Other than Pensions**

##### **Plan Description**

In accordance with the South Carolina Code of Laws and the annual Appropriations Act, the State provides post-employment health and dental and long-term disability benefits to retired State and school district employees and their covered dependents. The Agency contributes to the South Carolina Retiree Health Insurance Trust Fund (SCRHITF) and the South Carolina Long-Term Disability Insurance Trust Fund (SCLTDITF), cost-sharing multiple employer defined benefit postemployment healthcare, and long-term disability plans administered by the Insurance Benefits Division (IB), a part of the South Carolina Public Employee Benefit Authority (PEBA).

#### **Note 10. Post-Employment Benefits Other than Pensions (continued)**

Generally, retirees are eligible for the health and dental benefits if they have established at least ten years of retirement service credit. For new hires beginning employment May 2, 2008 and after, retirees are eligible for benefits if they have established 25 years of service for 100% employer funding and 15 through 24 years of service for 50% employer funding.

Benefits become effective when the former employee retires under a State retirement system. Basic Long-Term Disability (BLTD) benefits are provided to active state, public school district, and participating local government employees approved for disability.

##### **Funding Policies**

Section 1-11-710 of the South Carolina Code of Laws of 1976, as amended, requires these postemployment and long-term disability benefits be funded through annual appropriations by the General Assembly for active employees to the IB and participating retirees to the PEBA, except for the portion funded through the pension surcharge and provided from the other applicable sources of the IB, for its active employees who are not funded by State General Fund appropriations. Employers participating in the RMP are mandated by State statute to contribute at a rate assessed each year by the Office of the State Budget, 4.92% of annual covered payroll for 2014 and 4.55% of annual covered payroll for 2013. The IB sets the employer contribution rate based on a pay-as-you-go basis. The Agency paid approximately \$1,552,000 and \$1,836,000 applicable to the surcharge included with the employer contribution for retirement benefits for the fiscal years ended June 30, 2014 and 2013, respectively. BLTD benefits are funded through a person's premium charged to State agencies, public school districts, and other participating local governments. The monthly premium per active employee paid to IB was \$3.22 for the fiscal years ended June 30, 2014 and 2013.

Effective May 1, 2008 the State established two trust funds through Act 195 for the purpose of funding and accounting for the employer costs of retiree health and dental insurance benefits and long-term disability insurance benefits. The SCRHITF is primarily funded through the payroll surcharge. Other sources of funding include additional State appropriated dollars, accumulated IB reserves, and income generated from investments. The SCLTDITF is primarily funded through investment income and employer contributions. A copy of the complete financial statements for the benefit plans and the trust funds can be obtained from PEBA Insurance Benefits, PO Box 11960, Columbia, South Carolina 29211-1960.

South Carolina Department of Employment and Workforce

Notes to Financial Statements

**Note 11. Deferred Compensation Plans**

Several optional deferred compensation plans are available to State employees and employers of its political subdivisions. Certain employees of the Agency have elected to participate. The multiple employer plans, created under Internal Revenue Code Section 457, 401(k) and 403(b), are administered by third parties and are not included in the Comprehensive Annual Financial Report of the State of South Carolina.

Compensation deferred under the plans is placed in trust for the contributing employee. The State has no liability for losses under these plans. Employees may withdraw the current value of their contributions when they terminate State employment. Employees may also withdraw contributions prior to termination if they meet requirements specified by the applicable plan.

**Note 12. Risk Management**

The Agency is exposed to various risks of loss and maintains State or commercial insurance coverage for each of those risks except for automobile collision and losses on building contents.

Management believes such coverage is sufficient to preclude any significant uninsured losses for the covered risks. There were no significant reductions in insurance coverage from coverage that was in place in the prior year. Settled claims have not exceeded any of its coverages in any of the prior three years. The Agency pays insurance premiums to certain other State agencies and commercial insurers to cover risks that may occur in normal operations. The insurers promise to pay to or on behalf of the insured for covered economic losses sustained during the policy period in accord with insurance policy and benefit program limits except for deductibles.

State management believes it is more economical to manage certain risks internally and to set aside assets for claim settlement. Several State funds accumulate assets and the State itself assumes substantially all risks for the following:

1. Claims of covered employees for workers' compensation benefits for job-related illnesses or injuries (State Accident Fund);
2. Claims of covered public employees for health and dental insurance benefits (Public Employee Benefit Authority – Insurance Benefits); and
3. Claims of covered public employees for long-term disability and group life insurance benefits (Public Employee Benefit Authority – Insurance Benefits).

Employees elect health coverage through either a health maintenance organization or through the State's self-insured plan. All of the other coverages listed above are through the applicable State self-insured plan except dependent and optional life premiums, which are remitted to commercial carriers.

The Agency and other entities pay premiums to the State's Insurance Reserve Fund (“IRF”) which issues policies, accumulates assets to cover the risks of loss, and pays claims incurred for covered losses related to the following assets, activities, and/or events:

1. Theft of, damage to, or destruction of assets;
2. Real property;
3. Motor vehicles liability; and
4. Torts.

The IRF is a self-insurer and purchases reinsurance to obtain certain services and specialized coverage and to limit losses in the areas of certain property and equipment and auto liability. The IRF's rates are determined actuarially.

South Carolina Department of Employment and Workforce

Notes to Financial Statements

**Note 12. Risk Management (continued)**

State agencies and other entities are the primary participants in the State's Health and Disability Insurance Fund and IRF. The Agency obtains coverage through a commercial insurer for employee fidelity bond insurance for all employees for losses arising from theft or misappropriation, up to a maximum of \$100,000 per employee. The Agency has recorded insurance premium expenditures in the applicable program expenditure categories of the special revenue fund.

In management's opinion, claim losses in excess of insurance coverage for insured risks are unlikely, and if incurred, would be insignificant to the Agency's financial position. Furthermore, there is no evidence of asset impairment or other information to indicate that a loss expenditure and liability should be recorded at year-end for such risks. Therefore, no loss accrual has been recorded.

**Note 13. Transactions with State Agencies**

The Agency has significant transactions with the State of South Carolina and various State agencies.

The Agency was required to remit \$789,393 of indirect cost recoveries to the General Fund of the State in payment of services received from State agencies including maintenance of certain accounting records and payroll and disbursement processing from the Comptroller General, check preparation and banking from the State Treasurer, legal services from the Attorney General, records storage from the Department of Archives and History, retirement plan administration from the South Carolina Public Employee Benefits Authority, insurance plan administration, procurement services, grant services, personnel management, assistance in the preparation of the state budget, and approval of certain budget amendments and other centralized functions from the South Carolina Budget and Control Board.

The Agency had additional direct financial transactions with various State agencies during the fiscal year. Payments were made to divisions of the South Carolina Budget and Control Board for unemployment insurance, building, auto and tort liability insurance, building and grounds maintenance, office supplies, telephone, and interagency mail. Payments were also made during the year to the State Accident Fund for worker's compensation insurance. The amounts of expenditures applicable to related party transactions with State agencies in the governmental fund – special revenue are as follows for the year ended June 30, 2014:

PEBA	\$9,702,984
Budget and Control Board	1,331,092
Comptroller General	211,748
State Accident Fund	248,145
University of South Carolina	91,039
Legislative Audit Council	112,610
Winthrop University	45,983
Clemson University	38,560
Department of Revenue	100,290
Coastal Carolina University	35,499
Attorney General	13,355
Department of Corrections	13,576
Department of Education	57,698
Other	17,542
	<u>\$ 12,020,121</u>

# South Carolina Department of Employment and Workforce

## Notes to Financial Statements

### **Note 13. Transactions with State Agencies (continued)**

In the governmental fund - special revenue, the Agency received \$365,389 from State appropriations during the year for expenditures of the SCOICC. In the proprietary fund, the Agency recorded revenues of approximately \$3,609,000 for reimbursements of benefits paid to State employees and was due \$1,000,416 for these benefits at year-end.

### **Note 14. Advances from Federal Government**

On December 26, 2008, the Fund began to obtain advances from the federal government in order to pay unemployment benefits due to the exhaustion of all other funds to pay benefits. These advances were obtained due to the significant increase in unemployment benefits resulting from a significant increase in the unemployment rate in the State of South Carolina and the extension of the period by the federal government that benefits are paid to claimants. Section 1201 of Title XII of the Social Security Act provides that an advance from the Federal Unemployment Fund to the account of a state's unemployment trust fund is allowed if the governor of a state applies for payment for any 3-month period. Only amounts actually drawn down for benefit payments must be repaid. At June 30, 2014 and 2013, the outstanding balance of these advances was approximately \$397 million and \$532 million, respectively. Principal payments began on September 30, 2011 with interest accruing at an interest rate of approximately 4 percent beginning on January 1, 2011. Of the \$397 million total amount payable at June 30, 2014, approximately \$271 million is reported as a non-current liability, and \$126 million is reported as being due within one year.

Under Section 1201 of Title XII of the Social Security Act, if a balance of advances to a state is outstanding on January 1, in two consecutive years and not fully repaid prior to November 10 of the second year, employers subject to contributions under such state's unemployment compensation law will be subject to additional federal unemployment taxes determined by a formula of reductions in credit against the tax. Such credit reduction will apply beginning with the second consecutive January 1 as of the beginning of which there is a balance of such advances. The credit reductions, pursuant to Section 3302(c) (2) of FUTA, increase employers' federal tax liability each year. The amount equal to the reduced credits, excluding penalty and interest, will be applied to reduce the state's balance of advances. For the fiscal year ended June 30, 2014, a total of \$84,898 in FUTA tax adjustments were added to the balance, and for fiscal year ended June 30, 2013, \$24,089 was applied to reduce the balance of federal unemployment account advances to the Fund as a result of the reduced FUTA credits. This amount has been reported as non-operating revenue in the Statements of Revenues, Expenses and Changes in Net Position.

As mentioned in Note 1, comprehensive changes to the State's UI tax structure have been implemented and specifically designed to assist in putting the Trust Fund back on the path to solvency. State unemployment tax rates are now structured to raise revenues that more accurately address the demands on the Trust Fund and the changing economic environment in which the Trust Fund operates. While the Trust Fund remains in federal loan status, required tax revenues will consist of estimated benefit payouts for the subsequent year, an amount required to repay the principal on all outstanding federal advances over five years, and an additional surcharge designated to pay accrued interest on outstanding advances. As the expected level of state UI benefits continues to decrease, a greater proportion of state UI tax revenues will be available to repay the advanced funds.

Increased tax collections coupled with decreases in the number of individuals eligible for and claiming state UI benefits have enabled the Trust Fund to operate without obtaining additional advances from the federal government since May of 2011. Management plans to continue to borrow from the federal

## South Carolina Department of Employment and Workforce

### Notes to Financial Statements

#### **Note 14. Advances from Federal Government (continued)**

government, if needed, to fund its deficits for the foreseeable future; however, management estimated that no additional advances will be required under the new tax system. The federal government has not established a maximum amount that the Trust Fund can borrow. The amount due within one year consists of the amount paid subsequent to year-end, in September of 2014. Federal regulations specify that interest on federal unemployment account advances may not be paid from the Trust Fund; therefore, no accrued interest is reported in the financial statements of the Trust Fund.

The Agency paid interest of approximately \$11.6 million from the Agency's interest surcharge administrative fund subsequent to June 30, 2014, and paid approximately \$18.7 million during the year then ended.

#### **Note 15. Contingencies**

**Federal Grants** – The various programs administered by the Agency for fiscal years June 30, 2014 and years prior to that are subject to audit by the federal grantor agencies. At the present time, amounts, if any, which may be due to federal grantors have not been determined, but the Agency believes that any such amounts in the aggregate would not have a material adverse effect on the financial position of the Agency.

**Litigation** – The Agency is a party to various legal proceedings arising principally in the normal course of operations. The outcome of any litigation has an element of uncertainty. Because, in the opinions of management and legal counsels, the risk of loss in excess of insurance coverage for any litigation is remote, the outcome of any litigation and claims is not expected to have a material adverse effect on the financial position of the Agency. Therefore, an estimated liability has not been recorded.

#### **Note 16. Subsequent Events**

The balance of advances from the federal government was \$397 million at June 30, 2014. Principal payments of \$126 million and \$75 million were made in September 2014 and December 2014, respectively, bringing the balance down to \$195 million, net of \$11.385 million of FUTA credits, at the date of the audit report. The Trust Fund has not taken any additional advances from the federal government since May 2011.

Unemployment insurance tax rates for the 2015 calendar year have been set based on projected benefit expenses of \$223 million and loan payments of \$180 million. The interest assessment fund has sufficient resources to pay the expected amounts of interest remaining on the federal loan without applying an interest surcharge for the 2015 calendar year.

On July 22, 2014 the President signed the Workforce Innovation and Opportunity Act (WIOA) into law. WIOA supersedes the Workforce Investment Act of 1998 and amends the Adult Education and Family Literacy Act, the Wagner-Peyser Act, and the Rehabilitation Act of 1973. In general, the Act takes effect on July 1, 2015, the first full program year after enactment. The State's successful implementation of provisions required under WIOA will have a financial and operational impact for the Agency, but the scope of such impact is not determinable as of the date of this report. USDOL is set to issue five Notices of Proposed Rulemaking (NPRMs) for implementing WIOA in the Spring of 2015, and expects Final Rules implementation for WIOA in early 2016.

South Carolina Department of Employment and Workforce

Notes to Financial Statements

**Note 16. Subsequent Events (continued)**

On December 16, 2014, the President signed the Consolidated and Further Continuing Appropriations Act, 2015 (H.R. 83), also known as the “omnibus” appropriations bill into law. This finalized funding levels for the USDOL and for most of the federal government for the remainder of federal fiscal year 2015, ending September 30, 2015. The Act includes 1.4% increases for the WIA adult, dislocated worker, and youth programs, and increases the governor’s set-aside from 8.75% to 10% of a state’s allocation under each of the three WIA funding streams. The enacted budget reduces funding for Unemployment Insurance (UI) State Administration grants from \$2.9 billion to \$2.8 billion nation-wide, primarily due to decreasing UI workloads

The Act also included retroactive language, to the 2011 federal fiscal year, will allow the State an additional year to expend supplemental funds allocated to SC as the lead procurement state for the Southeastern Consortium of Unemployment Benefits Integration (SCUBI) project, aimed at replacing outdated mainframe UI benefit systems in South Carolina, North Carolina, and Georgia. The infrastructure replacement effort is currently underway, and all funds must be expended by September 30, 2017.

The Agency’s allocated state-wide indirect costs due to the General Fund of the State has decreased from \$789,393 paid in fiscal year 2014, to \$579,924 for fiscal year 2015, which represents a decrease of \$209,469. The decrease is largely due to the usage of the South Carolina Enterprise Information System (SCEIS) system not being utilized as much as originally planned.

**South Carolina Department of Employment and Workforce  
Schedule of Expenditures of Federal Awards**

**Year Ended June 30, 2014**

<b>Federal Grantor/Program Title</b>	<b>Federal CFDA Number</b>	<b>Total Federal Expenditures</b>	<b>Passed Through to Sub- Recipients</b>
Direct Programs:			
<b>U.S. Department of Labor</b>			
Labor Force Statistics	17.002	\$ 842,214	\$ —
Employment Service*	17.207	10,450,196	—
Unemployment Insurance	17.225	124,875,222	—
Trade Adjustment Assistance – Workers	17.245	8,606,546	—
Workforce Investment Act – Adult **	17.258	13,300,115	11,765,359
Workforce Investment Act – Youth**	17.259	14,239,514	12,059,979
Workforce Investment Act – Dislocated Workers**	17.278	19,185,808	15,447,797
Workforce Investment Act – National Emergency Grant**	17.277	246,200	—
Workforce Investment Act – Dislocated Workers National Reserve Demonstration**	17.280	17,135	—
Work Opportunity Tax Credit	17.271	250,364	—
Workforce Investment Act – Pilots, Demonstrations, and Research Projects**	17.261	37,079	—
Work Incentives Grant	17.266	24,807	—
Labor Certification for Alien Workers	17.272	117,883	—
Disabled Veterans Outreach Program (DVOP)*	17.801	1,338,179	—
Local Veterans Employment Representative (LVER)* Program	17.804	1,290,889	—
<b>Total U.S. Department of Labor</b>		<b>194,822,151</b>	<b>39,273,135</b>
<b>Appalachian Regional Commission</b>			
Appalachian Area Development (SC JAG)	23.002	93,328	—
Totals		<b>\$ 194,915,479</b>	<b>\$ 39,273,135</b>

\* - part of Employment Services federal awards cluster

\*\* - part of Workforce Investment Act federal awards cluster

**South Carolina Department of Employment and Workforce  
Notes to Schedule of Expenditures of Federal Awards**

**Year Ended June 30, 2014**

**NOTE 1 – BASIS OF PRESENTATION**

The accompanying Schedule of Federal Awards (“Schedule”) presents the activity of all federal awards programs of the Agency for the year ended June 30, 2014. The information in the Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Expenditures for federal financial assistance awarded directly from federal agencies, as well as those passed through other government agencies, are included on the Schedule.

**Loan Program – Federal Unemployment Account Advance (CFDA 17.225)**

This loan is funded by the federal government through the Federal Unemployment Trust Fund and is used by the Agency to pay unemployment benefits. Loans made during fiscal year 2014 were \$0 and the loan balance at June 30, 2014 was approximately \$397 million.

**NOTE 2 – BASIS OF ACCOUNTING**

The accompanying Schedule is presented using the full accrual basis of accounting, which is described in the notes to the Agency’s basic financial statements.



**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***

Mr. Richard H. Gilbert, Jr., CPA  
Deputy State Auditor  
South Carolina Office of the State Auditor  
Columbia, South Carolina

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 governmental activities, the business-type activities, and each major fund of the South Carolina Department of Employment and Workforce (the "Agency") as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements and have issued our report thereon dated January 30, 2015.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Agency's internal control over financial reporting (internal control) to determine the 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 Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Agency's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Agency's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **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 Agency'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 Agency's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Scott and Company LLC".

Columbia, South Carolina  
January 30, 2015



**Independent Auditor's Report on Compliance For Each Major Federal Program  
and Report on Internal Control Over Compliance Required by OMB Circular A-133**

Mr. Richard H. Gilbert, Jr., CPA  
Deputy State Auditor  
South Carolina Office of the State Auditor  
Columbia, South Carolina

**Report on Compliance for the Major Federal Program**

We have audited South Carolina Department of Employment and Workforce's (the "Agency") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on the Agency's major federal program for the year ended June 30, 2014. The Agency's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the Agency's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Agency's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Agency's compliance.

***Opinion on the Major Federal Program***

In our opinion, the Agency complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

## Report on Internal Control over Compliance

Management of the Agency is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Agency's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Columbia, South Carolina  
January 30, 2015

**South Carolina Department of Employment and Workforce  
Schedule of Findings and Questioned Costs**

**Year Ended June 30, 2014**

**Section I—Summary of Auditor’s Results**

**Financial Statements:**

We have issued an unmodified opinion dated January 30, 2015 on the basic financial statements of the South Carolina Department of Employment and Workforce.

**Internal control over financial reporting:**

- Material weaknesses identified? No
- Significant deficiencies identified that are not considered to be material weaknesses? No
- Noncompliance material to financial statements noted? No

**Federal Awards:**

**Internal control over major programs:**

- Material weaknesses identified? No
- Significant deficiencies identified? No

We have issued an unmodified opinion dated January 30, 2015 on the South Carolina Department of Employment and Workforce’s compliance for major programs.

- Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? No

**Identification of Major Program:**

<u>CFDA Number</u>	<u>Name of Federal Program</u>
17.225	Unemployment Insurance

Dollar threshold used to be distinguished between Type A and Type B Programs: \$3,000,000

Auditee qualified as low-risk auditee? No

**South Carolina Department of Employment and Workforce  
Schedule of Findings and Questioned Costs**

**Year Ended June 30, 2014**

**Section II- Financial Statement Findings:**

NONE

**Section III- Federal Award Findings and Questioned Costs:**

NONE

**Summary Schedule of Prior Audit Findings:**

During the current year audit, we reviewed the status of corrective action taken on the findings as reported in our prior year's reports on internal control and compliance of the Agency dated April 28, 2014, resulting from the audit of the financial statements and OMB Circular A-133 audit reports for the year ended June 30, 2013. We found that adequate corrective action was taken for all of the management letter comments, findings, and questioned costs except for *2013-5: Segregation of Duties*. The Agency is in the process of taking corrective action on this finding and expects for corrective action to be complete by June 30, 2015.