

Independent Auditor's Report on the  
Financial Statements of  
South Carolina Department of Employment and Workforce  
Unemployment Compensation Fund  
*for the years ended June 30, 2014 and 2013*

*State of South Carolina*



*Office of the State Auditor*

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October 28, 2014

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 Unemployment Compensation Fund 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

We have audited the accompanying financial statements of the South Carolina Department of Employment and Workforce Unemployment Compensation Fund (the "Fund") as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Fund'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 an opinion on these financial statements based on our audits. We conducted our audits 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 audits 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 Fund'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 Fund'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 opinion.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the South Carolina Department of Employment and Workforce Unemployment Compensation Fund, as of June 30, 2014 and 2013, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of Matter**

As described in Note 1, the financial statements of the Fund are intended to present the financial position, the changes in financial position and cash flows of only that portion of the funds of the State of South Carolina financial reporting entity that is attributable to the transactions of the Fund. They do not purport to and do not present the financial position of the State of South Carolina as of June 30, 2014 and 2013, the changes in its financial position, or its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3–8 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2014, on our consideration of the Fund'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 Fund's internal control over financial reporting and compliance.



Columbia, South Carolina  
October 28, 2014

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Management of the South Carolina Department of Employment and Workforce (the "Department") offers readers this narrative overview and analysis of the financial activities attributed to the South Carolina Department of Employment and Workforce's Unemployment Compensation Fund (the "Fund") for the fiscal years ended June 30, 2014 and 2013. Please read this information in conjunction with the Fund's financial statements and accompanying notes.

### Overview of the Fund

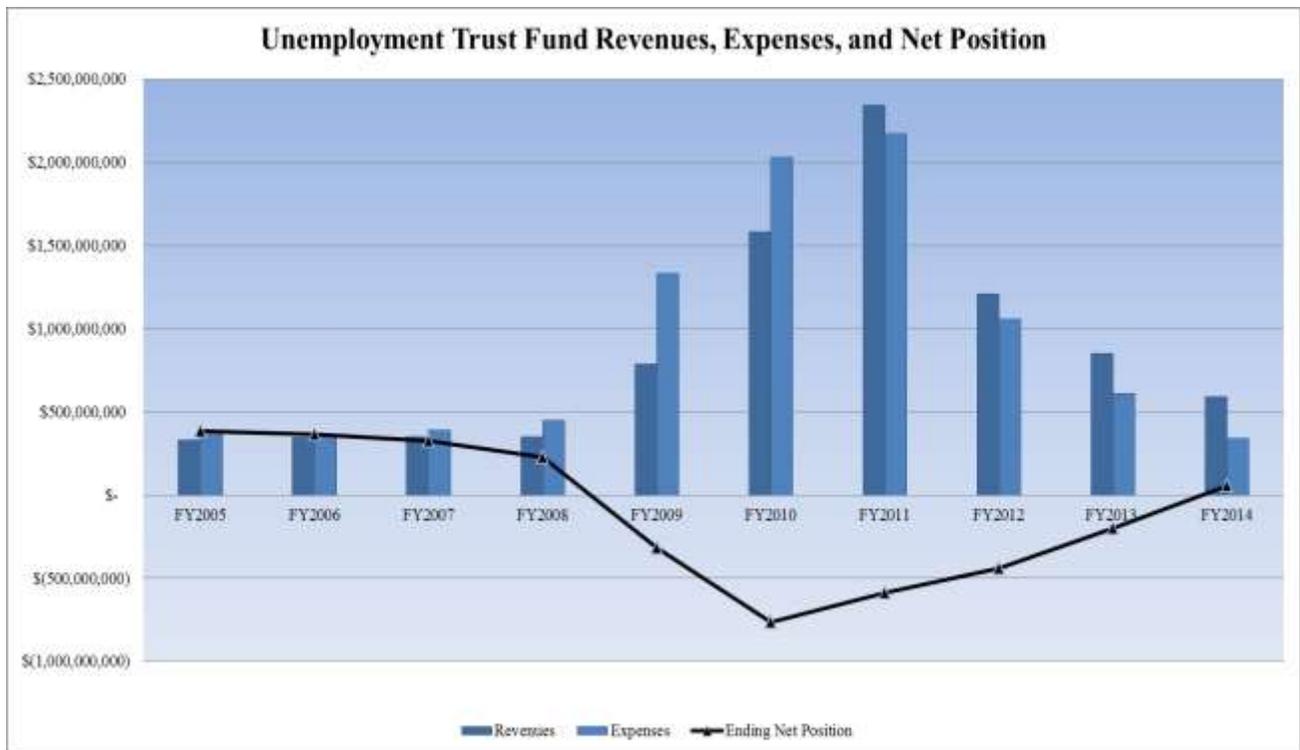
- The Fund was created per Section 41-33-10 of the South Carolina Employment Security Law. The Fund is made up of three separate accounts: (1) a clearing account which is used for the deposit of contributions, interest surcharges, penalties and interest, contingency funds, service charges, recording 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 (3) a benefit payment account which receives funds from the Fund to pay unemployment benefit claims.
- In March 2010, Section 41-29-10 of the South Carolina Code of Laws was amended by the General Assembly through Act 146 to replace the Commissioners with an Executive Director, appointed by the Governor for a four year term. The act also renamed the Department, moved it to the Governor's cabinet, moved the Workforce Investment Act ("WIA") and Trade Assistance Act ("TAA") programs back to the Department, and established an appellate panel charged with hearing higher level appeals for unemployment benefits. The State General Assembly elects the three-member appellate panelists to four year terms. Although the legislative restructuring affected the organization, governance, and operation of the Department as a whole, the character, operating regulations and responsibilities of the Fund were not changed.
- Generally, the principal source of revenue for the Fund is quarterly unemployment tax contributions paid by employers. However, the Fund also receives federal reimbursements for federal emergency and extended unemployment benefits. Federal law requires the 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 Fund's reserves may be used only to pay unemployment benefits and, in certain circumstances, to refund excess overpayment recoveries to employers, claimants or the federal government.
- Federal special administrative allocations, which are special distributions to each state, may be used to pay costs associated with implementing and administering the provisions of state law that qualify it for incentive payments made 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 situation 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.

- Administrative costs of the Unemployment Insurance program are accounted for in the Department's Administration Fund and are not reported within the Unemployment Compensation Fund's financial statements. In addition, interest liabilities and payments on outstanding advances from the federal government are accounted for in the Department's Interest Assessment Fund, and are not reported within these financial statements.
- 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 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 by 2015, and an additional surcharge designated to pay accrued interest on outstanding advances. As the expected 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.
- In January of 2013, the Fund began receiving federal tax refunds intercepted by the United States Treasury, which were initially due to claimants that have 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.

### **Financial Highlights**

- 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.



### Overview/Discussion of the Financial Statements

Management’s discussion and analysis serves as an introduction to the basic financial statements. These financial statements consist of (1) statements of net position; (2) statements of revenues, expenses, and changes in Fund net position; (3) statements of cash flows; and (4) notes to financial statements. The management discussion and analysis represents management’s analysis of the Fund’s financial condition.

The statements of net position provide information about the nature and amount of resources (assets) and obligations (liabilities) at year-end.

The statements of revenues, expenses, and changes in Fund net position present the results of the business activities over the course of the fiscal year and information as to how the net position changed during the year.

The statements of cash flows present changes in cash and cash equivalents resulting from operational, financing, and investing activities. This statement presents cash receipts and cash disbursements information.

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

## Condensed Financial Data

### Statements of Net Position

	<u>2014</u>	<u>2013</u>	<u>Change</u>
Assets – all current	<u>\$ 476,325,603</u>	<u>\$ 390,632,714</u>	<u>\$ 85,692,889</u>
Current liabilities	<u>\$ 150,966,122</u>	<u>\$ 132,561,420</u>	<u>\$ 18,404,702</u>
Non-current liabilities	<u>270,500,843</u>	<u>456,557,413</u>	<u>(186,056,570)</u>
Total liabilities	<u>421,466,965</u>	<u>589,118,833</u>	<u>(167,651,868)</u>
Net position, restricted	<u>54,858,638</u>	-	<u>54,858,638</u>
Net position, unrestricted	<u>-</u>	<u>(198,486,119)</u>	<u>(198,486,119)</u>
Total Net Position	<u>54,858,638</u>	<u>(198,486,119)</u>	<u>253,344,757</u>
Total liabilities and net position	<u>\$ 476,325,603</u>	<u>\$ 390,362,714</u>	<u>\$ 85,692,889</u>

### Statements of Revenues, Expenses, and Changes in Net Position

	<u>2014</u>	<u>2013</u>	<u>Change</u>
Operating Revenues			
Assessments	<u>\$ 473,525,681</u>	<u>\$ 415,592,707</u>	<u>\$ 57,932,974</u>
Federal grants	<u>88,790,190</u>	<u>320,482,492</u>	<u>(231,692,302)</u>
Other	<u>30,281,602</u>	<u>116,271,244</u>	<u>(85,989,642)</u>
Total operating revenues	<u>592,597,473</u>	<u>852,346,443</u>	<u>(259,748,970)</u>
Operating Expenses			
Payments returned to the Federal Government	<u>\$ 10,795,650</u>	<u>\$ 13,738,959</u>	<u>\$ (2,943,309)</u>
Unemployment compensation benefits	<u>328,372,168</u>	<u>598,605,547</u>	<u>(270,233,379)</u>
Total operating expenses	<u>339,167,818</u>	<u>612,344,506</u>	<u>(273,176,688)</u>
Operating income	<u>253,429,655</u>	<u>240,001,937</u>	<u>13,427,718</u>
Non-operating revenues			
FUTA Credit Adjustment	<u>(84,898)</u>	<u>24,089</u>	<u>(108,987)</u>
Changes in net position	<u>253,344,757</u>	<u>240,026,026</u>	<u>13,318,731</u>
Total net position – beginning	<u>(198,486,119)</u>	<u>(438,512,145)</u>	<u>240,026,026</u>
Total net position – ending	<u>\$ 54,858,638</u>	<u>\$ (198,486,119)</u>	<u>\$ 253,344,757</u>

## **Financial Analysis**

### **Statements of Net Position:**

Total assets increased by approximately \$85.6 million 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 approximately \$18.4 million, 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 \$135 million, 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. In September of 2014, the Fund made a principal payment of \$126 million.

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 significant decrease in unemployment compensation benefits payments as the economy continues to recover from the national recession.

### **Revenues, Expenses, and Changes in Net Position:**

Assessments increased by approximately \$57.9 million compared to last year due to increase in collection of assessments. 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.

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

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

**Request for information:**

The primary purpose of this financial report is to provide a general overview of the Fund's finances and to demonstrate the Fund's accountability for the money it receives and spends. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

South Carolina Department of Employment and Workforce  
 Attn: Chief Financial Officer  
 1550 Gadsden Street, P.O. Box 995  
 Columbia, SC 29202

South Carolina Department of Employment and Workforce  
Unemployment Compensation Fund  
Statements of Net Position  
as of June 30,

	2014	2013
<b>Assets:</b>		
Current assets:		
Cash and cash equivalents	\$ 329,782,441	\$ 247,352,502
Assessments receivable, net	125,044,224	114,007,106
Benefit overpayments receivable, net	17,530,130	21,145,300
Due from reimbursable employers, net	350,393	420,661
Intergovernmental receivables, net		
Local governments	1,018,977	1,166,259
State agencies	1,000,416	1,258,827
Other states	1,260,278	1,105,686
Federal	338,744	4,176,373
Total assets	\$ 476,325,603	\$ 390,632,714
<b>Liabilities:</b>		
Current liabilities:		
Benefits payable	\$ 1,563,998	\$ 6,812,157
Income tax withholdings payable	187,101	359,727
Contributions payable	16,620,046	17,535,786
Intergovernmental payables:		
Amounts due to federal government	253,546	13,674,305
Amounts due to other states	2,336,824	5,336,430
Amounts due to state agencies	250,000	-
Due to Department	3,754,607	13,843,015
Advances from federal government	126,000,000	75,000,000
Total current liabilities	150,966,122	132,561,420
Advances from federal government, net of current portion	270,500,843	456,557,413
Total liabilities	421,466,965	589,118,833
<b>Net Position:</b>		
Restricted	54,858,638	-
Unrestricted	-	(198,486,119)
Total liabilities and net position	\$ 476,325,603	\$ 390,632,714

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

South Carolina Department of Employment and Workforce  
Unemployment Compensation Fund  
Statements of Revenues, Expenses, and Changes in Net Position  
for the years ended June 30,

	2014	2013
<b>Operating Revenues:</b>		
Assessments	\$ 473,525,681	\$ 415,592,707
Reimbursement of unemployment compensation benefits from employers	2,467,415	2,732,073
Benefit overpayment recoveries	14,579,162	26,809,781
Intergovernmental:		
Federal	88,790,190	320,482,492
State budget appropriation	-	73,000,000
State agencies	3,609,323	3,583,133
Other states	5,151,595	5,049,785
Local governments	4,474,107	5,096,472
Total operating revenues	592,597,473	852,346,443
 <b>Operating Expenses:</b>		
Payments returned to federal government	10,795,650	13,738,959
Unemployment compensation benefits	328,372,168	598,605,547
Total operating expenses	339,167,818	612,344,506
 Operating income	253,429,655	240,001,937
 <b>Non-operating revenue:</b>		
FUTA credit adjustment	(84,898)	24,089
Total non-operating revenues	(84,898)	24,089
 Changes in net position	253,344,757	240,026,026
 <b>Total net position – beginning</b>	<b>(198,486,119)</b>	<b>(438,512,145)</b>
 <b>Total net position – ending</b>	<b>\$ 54,858,638</b>	<b>\$ (198,486,119)</b>

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

South Carolina Department of Employment and Workforce  
Unemployment Compensation Fund  
Statements of Cash Flows  
for the years ended June 30,

	2014	2013
<b>Cash flows used by operating activities:</b>		
Cash received from assessments	\$ 455,463,171	\$ 426,449,621
Cash received from state budget appropriations	-	73,000,000
Cash received from employer reimbursements	2,537,684	3,265,532
Cash received from benefit overpayment recoveries	18,194,333	18,827,948
Cash received from federal, state and local agencies	106,113,946	343,463,014
Benefits paid	(361,674,709)	(618,913,627)
Refunds of overpaid assessments	(3,063,018)	(4,555,975)
Net cash provided by operating activities	217,571,407	241,536,513
<b>Cash flows provided by non-capital financing activities:</b>		
Payments to federal government net of FUTA credits	(135,141,468)	(250,606,482)
Net cash used in non-capital financing activities	(135,141,468)	(250,606,482)
Net increase (decrease) in cash	82,429,939	(9,069,969)
<b>Cash and cash equivalents – beginning</b>	247,352,502	256,422,471
<b>Cash and cash equivalents – ending</b>	\$ 329,782,441	\$ 247,352,502
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 253,429,655	\$ 240,001,937
Net changes in assets and liabilities:		
Assessments receivable	(11,037,118)	11,171,313
Benefit overpayments receivable	3,615,170	(7,981,833)
Due from reimbursable employers	70,268	533,459
Intergovernmental receivables:		
Local governments	147,282	1,025,249
State agencies	258,411	9,449
Other states	(154,592)	(41,036)
Federal	3,837,629	8,257,470
Benefits payable	(5,248,159)	(11,398,072)
Due to state agencies	250,000	-
Income tax withholdings payable	(172,626)	345,108
FUTA credit overage payable	-	(61,692)
Contributions payable	(915,740)	(2,895,904)
Due to Department	(10,088,408)	(4,870,374)
Intergovernmental payable:		
Federal tax withholdings	(13,420,759)	6,711,301
Other states	(2,999,606)	730,138
Net cash provided by operating activities	\$ 217,571,407	\$ 241,536,513

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

South Carolina Department of Employment and Workforce  
Unemployment Compensation Fund  
Notes to Financial Statements

**Note 1. Summary of Significant Accounting Policies**

**Liquidity**

Prior to fiscal year 2011, the 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 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 account in the Federal Unemployment Trust Fund for purposes of paying state unemployment insurance benefits and repaying principal on advances from the FUA.

Although the federal government has not established a maximum amount that the Fund can borrow, increased tax collections, coupled with decreases in the number of individuals who are 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.

**Reporting Entity**

The accounting policies of the Fund 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 Fund's accounting principles related to the Fund are described below.

For the year ended June 30, 2013, the Fund adopted GASB Statement No. 61, "The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14 and No. 34." Statement 61 is effective for the Fund's fiscal year ending June 30, 2013 and modifies certain requirements for inclusion of component units in the financial reporting entity. An organization other than a primary government may serve as a nucleus for a reporting entity when it issues separate financial statements. That organization is identified herein as a primary entity. The financial entity includes the Fund (a primary entity). The Fund has determined that it has no component units.

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.

South Carolina Department of Employment and Workforce  
Unemployment Compensation Fund  
Notes to Financial Statements

**Note 1. Summary of Significant Accounting Policies (continued)**

**Reporting Entity (continued)**

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. 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 Fund has determined it is not a component of another entity and it has no component units. This financial reporting entity includes only the Fund (a primary entity).

The reporting entity is part of the State of South Carolina primary government unit and is included in the Comprehensive Annual Financial Report of the State of South Carolina. The accompanying financial statements present the financial position and the results of operations of only the portions of the funds of the State of South Carolina that are attributable to the transactions of the Fund and do not include any other funds, agencies, divisions, instrumentalities or component units of the State of South Carolina.

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 Employment Security Commission 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 statewide employment service. Section 41-29-10 was amended by the South Carolina General Assembly in 2011 through Act 146 to replace the Commissioners with an Executive Director. The act also renamed the agency the Department of Employment and Workforce (the "Department"), moved it to the Governor's cabinet, moved the Workforce Investment Act ("WIA") and Trade Assistance Act ("TAA") programs back to the agency from another state agency, and established an appellate panel charged with hearing higher level appeals for unemployment benefits.

These financial statements include only the portion of the activities of the Department attributable to the Unemployment Compensation Fund. All administrative costs of programs are paid from the administrative funds of the Department, which are not reported in the Fund's financial statements.

South Carolina Department of Employment and Workforce  
Unemployment Compensation Fund  
Notes to Financial Statements

**Note 1. Summary of Significant Accounting Policies (continued)**

**Reporting Entity (continued)**

The Department is part of the primary government of the State of South Carolina. The funds of the Department, including the Unemployment Compensation Fund, are included in the Comprehensive Annual Financial Report of the State of South Carolina. The South Carolina General Assembly elects the three members of the appellate panel for four-year terms. The South Carolina Department of Employment and Workforce must be managed and operated by an executive director nominated by the State Department of Employment and Workforce Review Committee and appointed by the Governor. The Governor must transmit the name of his 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 executive director is subject to removal by the Governor.

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, cash flows and note disclosures of only those transactions of the State of South Carolina, the primary government that is attributable to the Department's Unemployment Compensation Fund.

The 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 is retained in the Fund for the payment of unemployment compensation benefits as long as the fund is not indebted to the federal government for Federal Unemployment Account advances. The Fund includes the following:

*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, reimbursements from various state and local government and non-profit entities, 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.

*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.

South Carolina Department of Employment and Workforce  
Unemployment Compensation Fund  
Notes to Financial Statements

**Note 1. Summary of Significant Accounting Policies (continued)**

**Reporting Entity (continued)**

*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 who are 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 triggered off EB as of the week ending April 7, 2012. All benefits which are not reimbursable by other states are funded by the federal government.

*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 American Recovery and Reinvestment Act 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.

South Carolina Department of Employment and Workforce  
Unemployment Compensation Fund  
Notes to Financial Statements

**Note 1. Summary of Significant Accounting Policies (continued)**

**Reporting Entity (continued)**

**Basis of Presentation** - The Fund reports under the provisions of Statement No. 34 ("Statement 34") of the GASB, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments. Statement 34 established standards for external financial reporting for all state and local governmental entities, which includes a statement of net position, a classification of net position into three components – invested in capital assets, net of related debt; restricted net position; and unrestricted net position. These classifications are defined as follows:

*Invested in capital assets, net of related debt* – This component of net position consists of capital assets, net of accumulated depreciation, 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. The Fund does not have any capital assets, thus this classification is not used.

*Restricted net position* – This component of net position consists of constraints placed on net position used 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. Since the Fund reported a positive net position as of June 30, 2014, its net position has been classified as restricted net position.

*Unrestricted net position* – This component of net position consists of net positions that do not meet the definition of “restricted net position” or “invested in capital assets, net of related debt.” Since the Fund had a deficit reported as of June 30, 2013, this deficit is included in unrestricted net position.

The financial statements of the Fund are prepared as an enterprise fund using the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred. The Fund implemented GASB 62, “Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements” in the year ended June 30, 2013.

**Cash and Cash Equivalents** - The amounts shown in the financial statements as cash and cash equivalents represent 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 banks.

Most State agencies, including the Fund, participate in the State's internal cash management pool. Because the 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 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. Information pertaining to carrying amounts, fair value, 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  
Unemployment Compensation Fund  
Notes to Financial Statements

**Note 1. Summary of Significant Accounting Policies (continued)**

**Cash and Cash Equivalents (continued)**

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 Fund 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 at the time of acquisition. At year-end, the Fund held no short-term investments.

**Receivables** - Receivables consist of the following:

*Assessments Receivable* - Unemployment tax contributions are assessed each quarter based on covered wages during the quarter. Taxes 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 Department is required to notify employers of such tax delinquencies. If the delinquent amount is not paid within ten days thereafter, the Department is directed to issue a warrant of execution upon real and personal property of the employer.

*Benefit Overpayments Receivable* - Overpayments of unemployment compensation benefits occur due to changes in facts or estimates upon which benefits were originally paid or due to claimant fraud. Overpayments are due upon detection or discovery and are recovered by cash recoupments, intercepting of state and federal income tax refunds, wage withholdings from claimant's pay checks or withholdings from subsequent benefits due the claimants. Benefit overpayment recoupments attributable to reimbursable employers or federal programs are due to such employers or the federal government and are classified as intergovernmental payables. Refunds are made only when there are no current benefit obligations.

In January of 2013, the Fund began receiving federal tax refunds intercepted by the United States Treasury, which were initially due to claimants that have received unemployment compensation payments to which they were not entitled. The Fund's successful implementation of the Treasury Offset Program (TOP) allowed the Fund to recover significant amounts of overpayments receivable from unemployment compensation recipients during the year.

*Due from Reimbursable Employers* - Amounts due from reimbursable employers include those amounts attributable to the actual benefits paid on behalf of certain non-profit employers to former employees.

*Intergovernmental Receivables, Federal* - The federal receivable amount represents reimbursements due under various federal grant programs under which the Department pays unemployment benefits. Revenues and related receivables are recognized at the time and to the extent that allowable expenditures are incurred under such programs.

*Intergovernmental Receivables, State Agencies* - The amounts due from the State represent unemployment benefit reimbursements due from other South Carolina state agencies.

*Intergovernmental Receivables, Other States and Local Governments* - The benefit reimbursement receivable from other states and local governments is based on the prorata share of wages earned by the employees to whom benefits are being paid by South Carolina in those states and localities.

South Carolina Department of Employment and Workforce  
 Unemployment Compensation Fund  
 Notes to Financial Statements

**Note 1. Summary of Significant Accounting Policies (continued)**

**Payables** – Payables consist of the following:

*Benefits Payable* - Represents unemployment compensation amounts paid after year-end for benefit weeks ending prior to June 30<sup>th</sup>.

*Contributions Payable* - Includes amounts received from employers in excess of actual unemployment tax liabilities. The Department maintains these amounts as credits on the employer’s account to cover future tax liabilities.

*Intergovernmental Payables* - Represents income taxes withheld from unemployment compensation payments and due to the federal government as well as amounts due to other states as reimbursement for benefits paid by those states to South Carolina claimants. Overpayments of unemployment compensation benefits occur due to changes in facts or estimates upon which benefits were originally paid or due to claimant fraud. Such overpayments that were funded by the federal government are due back to the federal government and are included as intergovernmental payables.

**Operating and Non-operating Revenues and Expenses**

The Fund distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and delivering goods in connection with an enterprise fund’s principal ongoing operations. The Fund’s primary operating revenues are from assessments and federal grants. The Fund’s primary operating expenses include unemployment compensation benefit payments. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

**Use of Estimates** - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Note 2. Deposits**

The amounts shown as cash and cash equivalents on the balance sheet are composed of the following at June 30,

	2014	2013
Deposits held by State Treasurer	\$ 6,046,086	\$ 10,908,111
Deposits held by U.S. Treasury	310,119,088	209,097,970
Other deposits	13,617,267	27,346,421
Total	\$ 329,782,441	\$ 247,352,502

**Deposits held by State Treasurer** – State unemployment taxes received from businesses are initially deposited in the Fund’s clearing bank account, held by the State Treasurer. The deposits of the Fund held by the State Treasurer are under the control of the State Treasurer who, by law, has sole authority for investing State funds. State law requires full collateralization of all State Treasurer bank balances. The State Treasurer must correct any deficiencies in collateral within seven days.

South Carolina Department of Employment and Workforce  
Unemployment Compensation Fund  
Notes to Financial Statements

**Note 2. Deposits (continued)**

**Deposits held by State Treasurer (continued)**

With respect to investments in the State's internal cash management pool, all of the State Treasurer's investments are required to be either insured or registered, or are investments for which the securities are held by the State or its agent in the State's name. The State's investment policy, by law, authorizes investments that vary by fund, but generally include 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, certain corporate bonds, and commercial paper.

Custodial credit risk for investments is the risk that in the event of a failure of the counterparty to a transaction, the State will not be able to recover the value of investments or collateral securities that are in possession of an outside party. All of the State Treasurer's investments are fully insured or collateralized.

More information pertaining to carrying amounts, fair value, credit and other risks as required by GASB 40, *Deposits and Investments – Risk Disclosures*, of the State Treasurer's investments is disclosed in the Comprehensive Annual Financial Report of the State of South Carolina.

**Deposits held by U.S. Treasury** – Amounts are regularly transferred from the Fund's clearing account to the state's account in the Federal Unemployment Trust Fund. 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 Fund. States are not due any interest while carrying federal unemployment advances on their books.

**Other Deposits** – Amounts needed to cover federal and state unemployment compensation expenditures and related tax withholdings are drawn from the state's account in the Federal Unemployment Trust Fund into the Fund's benefit payment account on a regular basis. Custodial credit risk for deposits is the risk that in the event of a bank failure, the Fund's deposits may not be returned or the Fund 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 be fully insured or collateralized. All deposits of the Fund 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 Fund's name. Funds are transferred on a regular basis from the deposits held by U.S. Treasury to cover all benefit payments from this account.

**Note 3. Due to Department**

The amount shown on the financial statements as being due to the Department represents amounts which were collected for penalties, interest, contingency assessments, and interest surcharges in tax remittances from employers, as well as special administration funds received from the federal government that are payable to the Department to support its administration of the Fund. Interest surcharge amounts are collected from employers and transferred into a special administrative account to fund accrued interest payments on the federal unemployment account advances.

South Carolina Department of Employment and Workforce  
Unemployment Compensation Fund  
Notes to Financial Statements

**Note 3. Due to Department (continued)**

Amounts due to the Department as of June 30, are as follows:

	<u>2014</u>	<u>2013</u>
Contingency assessments	\$ 78,403	\$ 2,990,260
Penalty, interest, service charge and fees	337,465	340,240
Special administration funds	3,012,134	3,606,121
Interest surcharge	295,383	6,880,661
Reed Act	25,733	25,733
FUTA Penalty-Integrity Fund	5,489	-
<b>Total</b>	<b>\$ 3,754,607</b>	<b>\$ 13,843,015</b>

**Note 4. Receivables**

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

	<u>2014</u>		
	<u>Receivables at June 30, 2014</u>	<u>Allowance for Uncollectibles</u>	<u>Net Receivables</u>
Assessments receivable (UI)	<u>\$ 137,810,252</u>	<u>\$ 12,766,028</u>	<u>\$ 125,044,224</u>
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 (TRA)	28,923	22,990	5,933
Emergency Unemployment Compensation (EUC)	<u>10,702,572</u>	<u>3,111,953</u>	<u>7,590,619</u>
Totals	<u>\$ 25,656,747</u>	<u>\$ 8,126,617</u>	<u>\$ 17,530,130</u>
Due from reimbursable employers (UI)	<u>\$ 350,393</u>	<u>\$ -</u>	<u>\$ 350,393</u>
Intergovernmental receivables (UI):			
Local governments	<u>\$ 1,018,977</u>	<u>\$ -</u>	<u>\$ 1,018,977</u>
State agencies	<u>\$ 1,000,416</u>	<u>\$ -</u>	<u>\$ 1,000,416</u>
Other states	<u>\$ 1,260,278</u>	<u>\$ -</u>	<u>\$ 1,260,278</u>
Federal	<u>\$ 338,744</u>	<u>\$ -</u>	<u>\$ 338,744</u>

South Carolina Department of Employment and Workforce  
Unemployment Compensation Fund  
Notes to Financial Statements

**Note 4. Receivables (continued)**

	2013		
	Receivables at June 30, 2013	Allowance for Uncollectibles	Net Receivables
Assessments receivable (UI)	\$ 129,744,209	\$ 15,737,103	\$ 114,007,106
Benefit overpayments receivable:			
Basic unemployment compensation (UI)	18,156,814	7,076,285	11,080,529
Federal employees (UCFE)	73,088	26,489	46,599
Ex-servicemen (UCX)	159,017	71,419	87,598
Trade readjustment (TRA)	57,924	32,159	25,765
Emergency Unemployment Compensation (EUC)	16,727,029	6,822,220	9,904,809
Totals	<u>\$ 35,173,872</u>	<u>\$ 14,028,572</u>	<u>\$ 21,145,300</u>
Due from reimbursable employers (UI)	\$ 420,661	\$ -	\$ 420,661
Intergovernmental receivables (UI):			
Local governments	\$ 1,166,259	\$ -	\$ 1,166,259
State agencies	\$ 1,258,827	\$ -	\$ 1,258,827
Other states	\$ 1,105,686	\$ -	\$ 1,105,686
Federal	\$ 4,176,373	\$ -	\$ 4,176,373

**Note 5. Information on Business-Type Activities**

The following information is provided for incorporation in the State of South Carolina Comprehensive Annual Financial Report for the year ended June 30,

	2014	2013
Charges for services	\$ 503,807,283	\$ 458,863,951
Operating grants and contributions	88,790,190	320,482,492
State budget appropriation	-	73,000,000
Non-operating revenue	(84,898)	24,089
Less: expenses	(339,167,818)	(612,344,506)
Net program revenue	253,344,757	240,026,026
Change in net position	253,344,757	240,026,026
Net position-beginning of year	(198,486,119)	(438,512,145)
Net position-end of year	<u>\$ 54,858,638</u>	<u>\$ (198,486,119)</u>

**Note 6. 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 tax revenues historically being insufficient to pay unemployment insurance compensation benefits. This trend was accelerated during the national recession beginning in 2007, eventually causing complete liquidation of fund reserves. Revised tax legislation, effective January 1, 2011, significantly increased tax assessment revenues for the Fund, which has reported positive net operating cash flows for the 2011, 2012, 2013 and 2014 fiscal years.

South Carolina Department of Employment and Workforce  
Unemployment Compensation Fund  
Notes to Financial Statements

**Note 6. Advances from Federal Government (continued)**

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 \$396.5 million and \$531.5 million, respectively. The interest rate charged on loans made prior to December 31, 2013 is 2.5765% and 2.3874% after January 1, 2014. Of the \$396.5 million total amount payable at June 30, 2014, approximately \$270.5 million is reported as a non-current liability, and \$126.0 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, is applied to reduce the state's balance of advances.

When subsequent amended returns are filed and the resulting credits offset the amount applied to the state's balance, the offset is deducted from the state's unemployment trust fund. For the fiscal year ended June 30, 2014 there was a total of \$(84,898) FUTA tax adjustments which were added to the Fund's balance. For the fiscal year ended June 30, 2013, \$24,089 was applied to reduce the balance of FUA advances payable to the Federal government.

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 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 Fund and the changing economic environment in which the Fund operates. While the 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 claiming and receiving state UI benefits have enabled the Fund to operate without obtaining additional advances from the federal government since May of 2011. The Fund may borrow from the federal government, if needed, to fund its deficits for the foreseeable future; however, it is estimated that no additional borrowings will be required under the new tax system. The federal government has not established a maximum amount that the Fund can borrow.

The amount due within one year consists of an amount to be paid in September of 2014 based on the U.S. Department of Labor's estimate of potential FUTA credit reduction for 2014. Federal regulations specify that interest on federal unemployment account advances may not be paid, either directly or indirectly, from the Fund; therefore, no accrued interest is reported in the financial statements of the Fund. The Department paid interest of approximately \$10.3 million from the Department's interest surcharge administrative fund subsequent to June 30, 2014.

South Carolina Department of Employment and Workforce  
Unemployment Compensation Fund  
Notes to Financial Statements

**Note 6. Advances from Federal Government (continued)**

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
Advances from federal government	\$531,557,413	\$ -	\$135,056,570	\$396,500,843	\$126,000,000

See Note 9 for a description of subsequent events relating to the change in federal advances.

**Note 7. Contingencies**

**Federal Grants** – The various programs administered by the Fund 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 Fund believes that any such amounts in the aggregate would not have a material adverse effect on the financial position of the Fund. Furthermore, there is no evidence to indicate that a liability should be recorded at year-end.

**Note 8. Change in Accounting Principle for New GASB Statement**

During the year ended June 30, 2013, the Fund implemented the requirements of GASB Statement No. 63, “Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.” Statement 63 is effective for the Fund’s fiscal year ending June 30, 2013 and provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net positions (which is the net residual amount of the other elements). This Statement requires that deferred outflows of resources and deferred inflows of resources be reported separately from assets and liabilities. This Statement also amends certain provisions of GASB Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments, and related pronouncements to reflect the residual measure in the statement of financial position as net position, rather than net assets. As such, the Fund modified its financial statement presentation to incorporate these requirements. The Fund had no deferred inflows or outflows for the years ended June 30, 2013.

During the year ended June 30, 2014, the Fund implemented the requirements of GASB Statement No. 65, “Items Previously Reported as Assets and Liabilities.” This statement provides new guidelines on changes to the accounting treatment for certain items previously reported as assets and liabilities. This statement affects entities with reporting periods beginning after December 15, 2012. The requirements of GASB Statement No. 65 did not have an effect on the Fund’s financial statements for the year ended June 30, 2014.

**Note 9. Subsequent Events**

The balance of advances from federal government is \$270,490,526, net of \$10,317 of FUTA credits, at the date of the audit report. A principal payment of \$126,000,000 was made in September 2014. The Fund has not taken any advances from the Federal Unemployment Account since May 2011.

**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***



**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***

The 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 South Carolina Department of Employment and Workforce Unemployment Compensation Fund (the "Fund") as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements and have issued our report thereon dated October 28, 2014.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Fund'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 Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control.

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

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

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund'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  
October 28, 2014