

South Carolina
Department of Employment and Workforce

Columbia, South Carolina

Report on the Financial Statements

Year Ended June 30, 2016



**South Carolina
Office of the State Auditor**

**George L. Kennedy, III, CPA
State Auditor**

January 31, 2017

The Honorable Henry McMaster, 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 Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), for the fiscal year ended June 30, 2016, was issued by Elliott Davis Decosimo, 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 blue ink that reads "George L. Kennedy, III".

George L. Kennedy, III, CPA
State Auditor

GLKIII/sag

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Independent Auditor's Report

Mr. George L. Kennedy, III, CPA
State Auditor
Office of the State Auditor
Columbia, South Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, 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, 2016, 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 Agency'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 Agency'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 present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, and each major fund of the South Carolina Department of Employment and Workforce as of June 30, 2016, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Reporting Entity

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 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 of South Carolina as of June 30, 2016, the changes in its financial position, or, where applicable, its cash flows for the year then ended. Our opinion is not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, the schedule of the employer's proportionate share of the net pension liability, and the schedule of the employer's contributions, as listed in the table of contents, 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 schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations*, Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The 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 basic 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 31, 2017, 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.

A handwritten signature in black ink that reads "Elliott Davis Decosimo, LLC". The signature is written in a cursive style with a large, sweeping initial 'E'.

Columbia, South Carolina
January 31, 2017

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, 2016. 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 (UI) 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 "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, 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 Fund to pay unemployment benefit claims.
- 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 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 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 or, in certain circumstances, to refund benefit overpayments to employers, claimants, or the federal government.

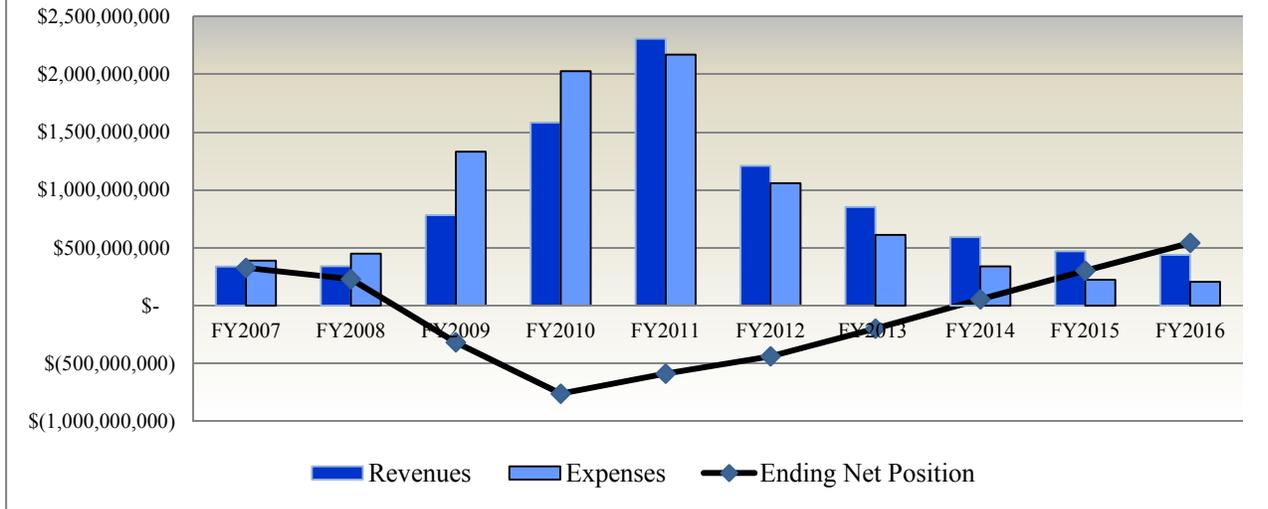
Overview of the Agency (continued)

- 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, Workforce Innovation and Opportunity Act (WIOA), 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 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, WIOA, 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. As of June 30, 2016, all Title XII advances have been repaid. Since 2011, State unemployment tax rates have been structured to raise revenues that adequately address the demands of the State's UI system and the changing economic environment in which the system operates. During the time that the State had outstanding federal loans, unemployment insurance tax rates were set to raise sufficient revenue to pay projected benefits for the subsequent year, an amount to repay all loans by 2015, and an additional surcharge designated to pay accrued interest on outstanding advances. As the expected level of State UI benefit payments decreased, a greater proportion of the State UI tax revenues were available to repay the advanced funds. Improving economic conditions resulted in lower than anticipated benefit payments which allowed the State to make early payments on federal advances. The State's voluntary, early payments on the federal loans resulted in approximately \$12.5 million in interest savings.
- Assets of the Fund exceeded its liabilities as of June 30, 2016 by approximately \$542.2 million, which is shown as net position. The net position as of June 30, 2015 was approximately \$302.1 million. The Fund has continued to steadily improve its net position since 2011, and has not borrowed from the FUA to make benefit payments since May 2011. Tax revenues have been sufficient to allow the State to repay outstanding federal advances, continue making benefit payments to unemployed individuals, and continue restoring the Fund's solvency level to an acceptable threshold, following best practices issued by the USDOL.
- The Fund's net position has increased by approximately \$240.1 million during the fiscal year ended June 30, 2016, and has increased by approximately \$1.3 billion during the period from July 1, 2010, through June 30, 2016, largely due to the legislative tax reforms effective in 2011, the continued decline of unemployment compensation benefit payments, and increased taxable wages due to an improved economy.

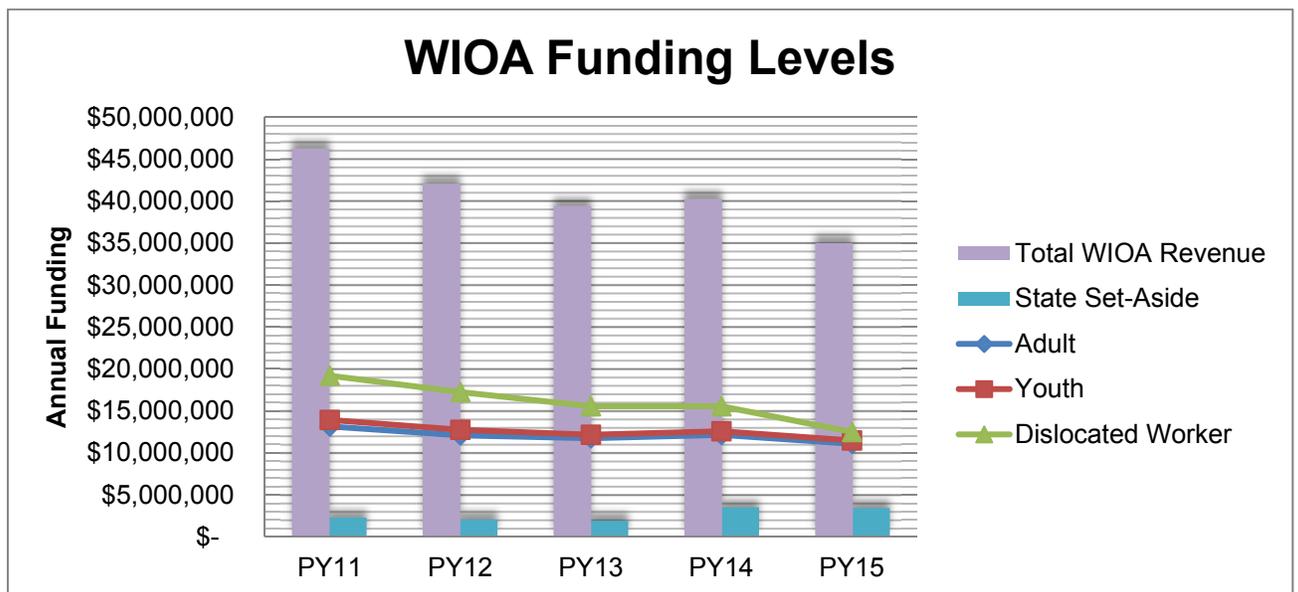
Unemployment Trust Fund Revenues, Expenses and Net Position



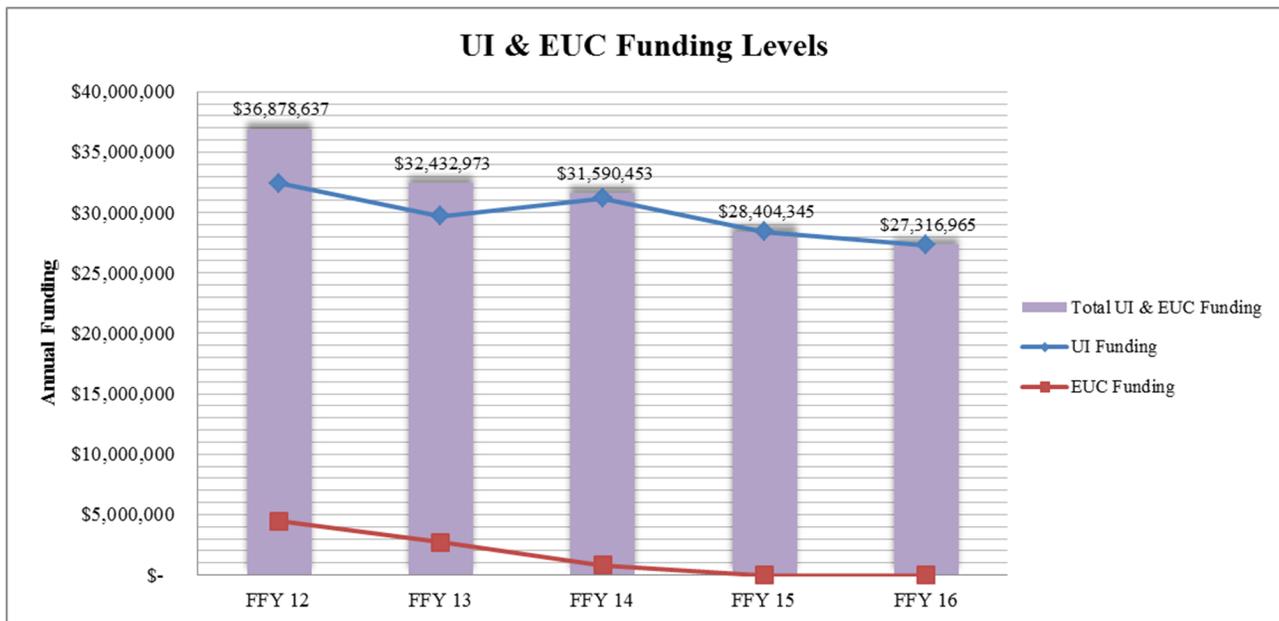
- Total unemployment compensation benefit payments were approximately \$201.3 million and \$216.5 million during the years ended June 30, 2016 and 2015, respectively.
- In January 2013, the Fund began receiving federal tax refunds intercepted by the United States Treasury, which were initially due from claimants that received unemployment compensation payments to which they were not entitled. The Agency’s successful implementation of the Treasury Offset Program (TOP) allowed the Fund to recover overpayments of \$5.0 million, \$9.3 million and \$11.2 million in fiscal years 2016, 2015 and 2014, respectively.
- The Agency may recover overpaid unemployment benefits through involuntary wage withholdings. The Agency’s emphasis on this collection method during 2016 resulted in a \$3.9 million increase in wage withholding recoveries over the previous year, with a total of \$8.1 million collected in FY2016 versus \$4.2 million recovered in FY2015.

Administrative 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 WIOA program has experienced an overall decline for the State of approximately 24%, or \$11 million, from approximately \$46 million allocated to the State for the 2011 federal program year ended June 30, 2012, to approximately \$35 million for the 2015 federal program year ended June 30, 2016. 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%, until they were increased to 8.75% in federal program year 2014, 10% in federal program year 2015, and back to 15% in federal program year 2016 under WIOA.



- Federal funding for the UI and Emergency Unemployment Compensation (EUC) programs has also experienced a decline over the last five 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 33%, or approximately \$12.3 million from the federal fiscal year (FFY) ended September 30, 2012 to the FFY ended September 30, 2016. 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 Agency has also consolidated its UI Hub call center locations to become more efficient and reduce overhead costs. This has also enabled the Agency to continue to sell vacated facilities, and utilize those sales proceeds to fund the UI tax system modernization.
- The Agency is actively pursuing the sale of vacant buildings. During the fiscal year ended June 30, 2016, three (3) properties and one (1) parcel of land were sold, providing \$767,422 in net proceeds after remitting the proportionate share of non-federal equity to the Department of Administration.
- The reported financial condition of the Governmental Activities declined during the fiscal year ended June 30, 2016, due mainly to the transfer of residual interest assessment funds to the Trust Fund. The Governmental Activities assets exceeded its liabilities at June 30, 2016 by \$13,640,454 (shown as “total net position”), which represents a decline in net position of \$13,406,818 from the prior year, but continues to be positive.

Overview/Discussion of the Annual Financial Report

This 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 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. In order to assess the Agency's overall financial health, readers must also consider factors such as the national and state economy, the condition of the Agency's capital assets, such as its buildings, and any changes in Generally Accepted Accounting Principles (GAAP).

Statement of Activities: This statement presents information showing how the Agency's overall net position changed during the year. The statement of activities is useful in illustrating the costs incurred by 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 financial statements report two different kinds of activities:

Governmental Activities:

The Agency's internal administrative activities are reported as governmental activities including reemployment, workforce development and job training services. Federal grants finance most of these activities. The activities of the special revenue fund are considered governmental 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 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 its governmental fund. The governmental fund accounts for activities that the Agency reports as governmental activities in its government-wide financial statements. This fund focuses on short-term inflows and outflows of expendable resources. The special revenue fund is the Agency's only governmental 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 on businesses and reimbursement from the federal government for the payment of unemployment benefits. The Agency's proprietary fund is used to account for the activities of the 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 fund's 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 fund's 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 Financial Statements

The notes to 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, 2016 and 2015 (Condensed Financial Data)

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Assets:						
Current	\$ 53,210,994	\$ 80,015,399	\$ 566,999,440	\$ 324,217,339	\$ 620,210,434	\$ 404,232,738
Capital assets	34,017,270	22,017,648	-	-	34,017,270	22,017,648
Total assets	87,228,264	102,033,047	566,999,440	324,217,339	654,227,704	426,250,386
Deferred outflows of resources	4,646,069	4,896,618	-	-	4,646,069	4,896,618
Liabilities:						
Current	18,621,350	20,991,187	24,786,230	22,137,168	43,407,580	43,128,355
Non-current	57,755,287	54,091,518	-	-	57,755,287	54,091,518
Total liabilities	76,376,637	75,082,705	24,786,230	22,137,168	101,162,867	97,219,873
Deferred inflows of resources	1,857,242	4,799,688	-	-	1,857,242	4,799,688
Net position:						
Net investment in capital assets	34,017,270	22,017,648	-	-	34,017,270	22,017,648
Restricted for payment of benefits	-	-	542,213,210	302,080,171	542,213,210	302,080,171
Restricted for debt service	-	30,359,572	-	-	-	30,359,572
Unrestricted	(20,376,816)	(25,329,948)	-	-	(20,376,816)	(25,329,948)
Total net position	\$ 13,640,454	\$ 27,047,272	\$ 542,213,210	\$ 302,080,171	\$ 555,853,664	\$ 329,127,443

South Carolina Department of Employment and Workforce
Statements of Activities
June 30, 2016 and 2015
(Condensed Financial Data)

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Revenues:						
Program revenues:						
Charges for services	\$ 16,507,828	\$ 21,819,734	\$ 428,287,055	\$ 457,167,889	\$ 444,794,883	\$ 478,987,623
Operating grants & contributions	101,306,964	98,680,026	11,091,395	13,234,627	112,398,359	111,914,653
General revenues:						
State appropriations	28,162	374,038	-	-	28,162	374,038
Total revenues	117,842,954	120,873,798	439,378,450	470,402,516	557,221,404	591,276,314
Expenses:						
Employment, workforce development & training services	103,372,752	112,950,917	-	-	103,372,752	112,950,917
Unemployment benefits	-	-	206,445,463	223,973,588	206,445,463	223,973,588
Total expenses	103,372,752	112,950,917	206,445,463	223,973,588	309,818,215	336,924,505
Gain/(loss) on disposal of capital assets	(880)	4,255,447	-	-	(880)	4,255,447
Non-operating revenues/(expenses)	-	-	7,200,052	792,605	7,200,052	792,605
Indirect cost remitted to General Fund of the State	(356,311)	(579,924)	-	-	(356,311)	(579,924)
Transfers out	(27,519,829)	-	-	-	(27,519,829)	-
Change in net position	(13,406,818)	11,598,404	240,133,039	247,221,533	226,726,221	258,819,937
Net position, beginning of year	27,047,272	15,448,868	302,080,171	54,858,638	329,127,443	70,307,506
Net position, end of year	\$ 13,640,454	\$ 27,047,272	\$ 542,213,210	\$ 302,080,171	\$ 555,853,664	\$ 329,127,443

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, 2016, the Agency's assets exceeded its liabilities by \$555.85 million. As of the close of the prior fiscal year, assets exceeded liabilities by \$329.13 million.

The Agency's net position increase is attributable to the overall improvement in the State's economy. At the end of the 2016 fiscal year, the Agency was able to report positive net position balances in the governmental activities, which represent capital assets 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 decreased by approximately \$14.8 million (14.5%) from the prior year, largely due to the transfer of restricted cash from interest surcharge assessments to the Trust Fund, combined with an increase in capital assets due to expenditures for the development of software for the Agency's modernized UI benefits system.

Total liabilities increased by approximately \$1.3 million (1.7%), primarily due to the addition of retainage payable and amounts due to other state agencies for general service and repair work.

The Agency's unrestricted net deficit and total net position for its governmental activities decreased from the prior year by approximately \$5.0 million (19.6%) and \$13.4 million (49.6%), respectively. The decrease in unrestricted net deficit was primarily the result of the increase in the Agency's net investment in capital assets. The decrease in total net position was primarily the result of the Agency transferring approximately \$27.5 million in residual interest assessment funds from Title XII advances to the Trust Fund during August 2015.

Statement of Activities:

There was a decrease in charges for services, decreasing total revenue by approximately \$5.3 million, or 24.3%, primarily due to the elimination of interest surcharge assessed on businesses.

Expenses for the governmental activities declined by approximately \$9.6 million, or 8.5%, primarily due to the elimination of interest expense for the 2016 fiscal year on advances from the FUA, from \$5.3 million to zero, and a reduction in the amount of TAA and WIOA funding received from USDOL.

Business-Type Activities

Statement of Net Position:

Total assets increased by approximately \$242.6 million due to an increase in cash. During fiscal year 2016, there were no payments for federal advances since the Fund paid its final federal advances in full during June 2015. The Fund reported positive cash flow for fiscal year 2016.

Current liabilities increased by approximately \$2.5 million, primarily due to the increase in contributions payable.

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

Ending net position increased by approximately \$240.1 million and \$247.2 million during the fiscal years ended June 30, 2016 and 2015, respectively, which is the result of a higher than expected growth in employment, causing tax revenues to grow rapidly, along with a significant decrease in unemployment compensation benefits payments as the economy continues to recover from the national recession.

Statement of Activities

Assessments decreased by approximately \$27.6 million compared to last year due to a decrease in taxes assessed on businesses. Tax rates are adjusted annually in accordance with state law, taking into account the solvency level of the Fund, and changes in taxable wages for the businesses of South Carolina. Unemployment insurance tax rates are set each year to raise sufficient revenue to pay projected benefits as well as to either repay outstanding federal loans or begin rebuilding the State's trust fund to an adequate level as defined in State law.

Statement of Activities (continued)

In calendar year 2015, tax rates were set to raise \$403 million (\$223 million for benefit payments and \$180 million for loan payments). In calendar year 2016, tax rates were lowered due to improving economic conditions and thus lower projected benefit payments.

The tax rates for calendar year 2016 were set to raise \$333.9 million (\$192 million for benefit payments and \$141.9 million for trust fund replenishment).

Unemployment compensation benefits decreased by approximately \$15.2 million in fiscal year 2016, primarily due to a general improvement in the South Carolina economy, a reduction in the unemployment rate and a decrease in state and federal UI benefits as a result. State benefits paid decreased by \$13 million and federal benefits decreased by \$2.2 million during fiscal year 2016 compared to fiscal year 2015.

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

	<u>2016</u>	<u>2015</u>	<u>Change</u>
State Benefits	\$ 190.2	\$ 203.2	\$ (13.0)
Federal Benefits	11.1	13.3	(2.2)
Total	<u>\$ 201.3</u>	<u>\$ 216.5</u>	<u>\$ (15.2)</u>

Total operating revenues decreased by approximately \$31 million during fiscal year 2016 primarily due to a reduction in assessment revenues.

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 approximately \$40.1 million, a decrease of approximately \$24.1 million for the year.

Assigned fund balance accounts for 99.5%, or \$39.9 million, of total ending fund balance, and is available for administrative expenditures made in accordance with federal and state guidelines.

Restricted fund balance accounts for 0.40%, or \$143,657, of total ending fund balance, and includes amounts that can only be spent for specific purposes stipulated by constitution, external resource providers, or through enabling legislation.

Non-spendable fund balance accounts for 0.10%, or \$36,901, of total 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 government-wide financial statements in more detail for the Fund. Restricted net position of the Fund at the end of the year amounted to approximately \$542.2 million.

Proprietary Fund (continued)

The Fund reported positive cash flow for fiscal year 2016, with an increase of approximately \$273.4 million versus a net decrease of \$133.7 million in cash during the 2015 fiscal year. The Fund continued to report positive cash flow provided by operating activities of approximately \$266.2 million during the 2016 fiscal year, versus approximately \$262 million during the 2015 fiscal year.

Other information concerning the 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 were issued on September 30, 2016.

Capital Assets and Debt Administration

Primary changes in capital asset amounts during the year were related to incurring expenses related to development of internally generated/modified computer software, currently classified as intangible asset construction in progress (CIP), relating to the development of modernized unemployment insurance benefits and unemployment tax systems. In addition, three (3) properties and one (1) parcel of land were sold.

Long-term liabilities fell into two areas; accrued compensated absences and related benefits, and net pension liability.

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 long-term liabilities is presented in Notes 7, 9 and 14 to the financial statements.

Economic Factors and Next Year's Rate

Tax rates for calendar year 2016 were set to raise sufficient revenues to cover projected benefit costs and to increase net trust fund solvency as required to avoid FUTA credit reductions for State businesses. The Fund's net position is expected to continue increasing as the State begins a five year rebuilding plan to bring the Fund balance to a level sufficient to withstand a moderate recession. The maximum number of weeks of benefits for unemployment insurance is 20 weeks.

Unemployment insurance tax rates for the 2017 calendar year have been set based on projected benefit expenses of \$220 million.

Per State law and regulation, and following best practices issued by the USDOL, a healthy unemployment insurance trust fund has a sufficient balance to pay one year of benefits (at historically high cost rates) with no additional contributions. This is referred to as having an Average High Cost Multiple (AHCM) of 1.0 or greater. The South Carolina General Assembly has directed the Fund to rebuild the South Carolina Unemployment Compensation Fund to a level that is equal to having an ACHM of 1.0 by the year 2020. Tax year 2016 was the first time that assessments included a portion going towards rebuilding the South Carolina Unemployment Compensation Fund. State regulations also provide for a suspension of the rebuilding process if the State enters into a future recession.

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.

BASIC FINANCIAL STATEMENTS

South Carolina Department of Employment and Workforce
Statement of Net Position
June 30, 2016

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Totals</u>
Assets:			
Current assets:			
Cash	\$ 26,750,295	\$ 469,444,385	\$ 496,194,680
Assessments receivable, net	6,581,936	86,714,201	93,296,137
Benefit overpayments receivable, net	-	10,502,884	10,502,884
Internal balances	2,595,874	(2,595,874)	-
Intergovernmental receivables, net:			
Federal	16,940,417	-	16,940,417
State agencies	178,779	730,555	909,334
Local governments	126,792	831,034	957,826
Other states	-	1,372,255	1,372,255
Prepaid and inventory items	36,901	-	36,901
Total current assets	<u>53,210,994</u>	<u>566,999,440</u>	<u>620,210,434</u>
Non-current assets:			
Capital assets, net of accumulated depreciation	34,017,270	-	34,017,270
Total assets	<u>87,228,264</u>	<u>566,999,440</u>	<u>654,227,704</u>
Deferred Outflows of Resources:			
Pension plan difference between expected and actual experience	1,069,604	-	1,069,604
Net difference between projected and actual earnings on pension plan investments	403,163	-	403,163
Pension plan contributions made subsequent to the measurement date	3,173,302	-	3,173,302
Total deferred outflows of resources	<u>4,646,069</u>	<u>-</u>	<u>4,646,069</u>
Liabilities:			
Current liabilities:			
Benefits payable	-	681,905	681,905
Accounts payable	7,960,022	-	7,960,022
Retainage payable	643,178	-	643,178
Tax withholdings payable	-	11,451	11,451
Contributions payable	-	19,843,966	19,843,966
Accrued salaries and related benefits	2,923,086	-	2,923,086
Intergovernmental payables:			
Federal	-	2,147,794	2,147,794
State agencies	1,550,952	-	1,550,952
Other states	-	2,079,282	2,079,282
Amounts due to reimbursable employer	-	21,832	21,832
Current portion of accrued compensated absences and related benefits	2,370,810	-	2,370,810
Current portion of net pension liability	3,173,302	-	3,173,302
Total current liabilities	<u>18,621,350</u>	<u>24,786,230</u>	<u>43,407,580</u>
Non-current liabilities:			
Net pension liability, net of current portion	57,023,347	-	57,023,347
Accrued compensated absences and related benefits, net of current portion	731,940	-	731,940
Total non-current liabilities	<u>57,755,287</u>	<u>-</u>	<u>57,755,287</u>
Total liabilities	<u>76,376,637</u>	<u>24,786,230</u>	<u>101,162,867</u>
Deferred Inflows of Resources:			
Pension plan difference between actual and expected experience	107,551	-	107,551
Changes in proportion and differences between employer contributions and proportionate share of contributions	1,749,691	-	1,749,691
Total deferred inflows of resources	<u>1,857,242</u>	<u>-</u>	<u>1,857,242</u>
Net Position:			
Net investment in capital assets	34,017,270	-	34,017,270
Restricted for payment of benefits	-	542,213,210	542,213,210
Unrestricted	(20,376,816)	-	(20,376,816)
Total net position	<u>\$ 13,640,454</u>	<u>\$ 542,213,210</u>	<u>\$ 555,853,664</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, 2016

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	Total
Governmental activities:						
Employment, workforce development, and training services	\$103,372,752	\$ 16,507,828	\$ 101,306,964	\$14,442,040	\$ -	\$ 14,442,040
Business-type activities:						
Unemployment benefits	206,445,463	428,287,055	11,091,395	-	232,932,987	232,932,987
Totals	\$309,818,215	\$ 444,794,883	\$ 112,398,359	\$14,442,040	\$232,932,987	\$247,375,027
		General revenues (expenses):				
				28,162	-	28,162
				(880)		(880)
				-	7,200,052	7,200,052
				Indirect costs remitted to		
				(356,311)	-	(356,311)
				Transfers out		
				(27,519,829)		(27,519,829)
				Total general revenues, (expenses) and transfers		
				(27,848,858)	7,200,052	(20,648,806)
				(13,406,818)	240,133,039	226,726,221
				Change in net position		
				27,047,272	302,080,171	329,127,443
				Net position, beginning of year		
				\$13,640,454	\$542,213,210	\$555,853,664
				Net position, end of year		

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

South Carolina Department of Employment and Workforce
 Balance Sheet
 Governmental Fund
 June 30, 2016

Assets:

Cash	\$ 26,750,295
Assessments receivable, net	6,581,936
Intergovernmental receivables, net:	
Federal	16,940,417
State agencies	178,779
Local governments	126,792
Due from Trust Fund	2,595,874
Prepaid and inventory items	<u>36,901</u>
 Total assets	 <u><u>\$ 53,210,994</u></u>

Liabilities and Fund Balances:

Liabilities:	
Accounts payable	\$ 7,960,022
Retainage payable	643,178
Intergovernmental payables:	
State agencies	1,550,952
Accrued salaries and related benefits	<u>2,923,086</u>
 Total liabilities	 <u>13,077,238</u>

Fund balances:

Non-spendable:	
Prepaid and inventory items	36,901
Restricted:	
Reed Act expenditures	57,604
South Carolina Occupational Information Coordinating Committee	86,053
Assigned fund balance	<u>39,953,198</u>
 Total fund balances	 <u>40,133,756</u>
 Total liabilities and fund balances	 <u><u>\$ 53,210,994</u></u>

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

South Carolina Department of Employment and Workforce
 Reconciliation of the Balance Sheet of the Governmental Fund to the
 Statement of Net Position
 June 30, 2016

Reconciliation to the Statement of Net Position:

Fund balances – governmental fund	\$ 40,133,756
<p>Amounts reported for governmental activities in the statement of net position are different because:</p> <p>Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental fund. These assets consist of:</p>	
Land	2,550,570
Land improvements	237,556
Buildings and improvements	27,305,735
Equipment and furniture	4,464,311
Construction in progress (CIP) and intangible asset CIP	19,322,484
Intangible assets	7,055,352
Vehicles	384,470
Accumulated depreciation	(27,303,208)
Total capital assets	34,017,270
<p>Balances for deferred outflows and deferred inflows related to the net pension liability are not reported in the governmental fund</p>	
Net pension plan difference between expected and actual experience	962,053
Net difference between projected and actual earnings on pension plan investments	403,163
Pension plan contributions made subsequent to the measurement date	3,173,302
Changes in proportion and differences between employer contributions and proportionate share of contributions	(1,749,691)
	2,788,827
<p>Some liabilities and deferred amounts are not due and payable in the current period and therefore are not reported in the governmental fund. These liabilities and deferred amounts consist of:</p>	
Accrued compensated absences	(3,102,750)
Net pension liability	(60,196,649)
	(63,299,399)
Net position – governmental activities	\$ 13,640,454

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
Year Ended June 30, 2016

Revenues:

Employer tax contingency assessments	\$ 12,651,389
Employer tax penalties and interest	2,020,044
Employer tax integrity assessments	598,967
User fees	2,148
Intergovernmental:	
Federal	101,304,445
State of South Carolina	28,162
Local	1,191,717
Parking	46,082
Total revenues	<u>117,842,954</u>

Expenditures:

Employment and training administration	39,070,181
Contingency assessments	11,380,654
Penalties and interest	271,856
Integrity assessments	30,665
Workforce Innovation and Opportunity Act	38,063,957
Trade Adjustment Assistance	7,569,954
Other federal programs	4,446,261
Other non federal expenditures	83,705
Occupational Information Coordinating Committee	36,614
Capital outlay	13,889,309
Total expenditures	<u>114,843,156</u>

Excess of revenues over expenditures	<u>2,999,798</u>
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Other financing sources and (uses):

Proceeds from sale of capital assets	990,410
Remittance to Department of Administration for proceeds from disposal of capital assets	(222,988)
Indirect costs remitted to General Fund of the State	(356,311)
Transfers out	<u>(27,519,829)</u>

Total other financing sources and (uses)	<u>(27,108,718)</u>
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Change in fund balance	(24,108,920)
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Beginning fund balance	<u>64,242,676</u>
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Ending fund balance	<u><u>\$ 40,133,756</u></u>
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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 Fund Balances of
 the Governmental Fund to the Statement of Activities
 Year Ended June 30, 2016

Reconciliation to the Statement of Activities:

Net increase (decrease) in fund balance \$ (24,108,920)

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in the governmental fund. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	13,889,309
Depreciation expense	<u>(1,121,384)</u>
	<u>12,767,925</u>

The proceeds from the disposal of capital assets are reported as revenue in the governmental fund. The cost of the capital assets are removed from the capital asset account on the statement of net position and is offset against the proceeds from the sale of capital assets resulting in a gain or loss on disposal of capital assets on the statement of activities.

Net proceeds from disposal of capital assets	(767,422)
Loss on disposal of capital assets	<u>(880)</u>
	<u>(768,302)</u>

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the government fund.

Pension expense	(701,706)
Net increase in accrued compensated absences	<u>(595,815)</u>
	<u>(1,297,521)</u>

Decrease in net position \$ (13,406,818)

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

South Carolina Department of Employment and Workforce
Statement of Fund Net Position
Proprietary Fund
June 30, 2016

Assets:

Current assets:

Cash	\$ 469,444,385
Assessments receivable, net	86,714,201
Benefit overpayments receivable, net	10,502,884
Intergovernmental receivables, net	
Local governments	831,034
State agencies	730,555
Other states	1,372,255
Total assets	<u><u>569,595,314</u></u>

Liabilities:

Current liabilities:

Benefits payable	681,905
Income tax withholdings payable	11,451
Contributions payable	19,843,966
Intergovernmental payables:	
Amounts due to federal government	2,147,794
Amounts due to other states	2,079,282
Amounts due to reimbursable employer	21,832
Due to Department	2,595,874
Total liabilities	<u><u>27,382,104</u></u>

Net Position:

Restricted for payment of benefits	542,213,210
Total net position	<u><u>\$ 542,213,210</u></u>

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 Fund Net Position
Proprietary Fund
Year Ended June 30, 2016

Operating revenues:	
Assessments	\$ 401,286,923
Reimbursement of unemployment compensation benefits from employers	1,650,550
Benefit overpayment recoveries	13,700,756
Intergovernmental:	
Federal	11,091,395
State agencies	2,274,943
Other states	5,796,024
Local governments	3,577,859
Total operating revenues	<u>439,378,450</u>
 Operating expenses:	
Unemployment compensation benefits	201,288,326
Payments returned to federal government	<u>5,157,137</u>
Total operating expenses	<u>206,445,463</u>
 Operating income	 <u>232,932,987</u>
 Non-operating revenues:	
Interest income	7,192,500
Reed Act proceeds	-
FUTA credit adjustment	<u>7,552</u>
Total non-operating revenues	<u>7,200,052</u>
 Changes in net position	 240,133,039
 Total net position – beginning	 <u>302,080,171</u>
 Total net position – ending	 <u><u>\$ 542,213,210</u></u>

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, 2016

Cash flows from operating activities:	
Cash received from assessments	\$ 431,369,481
Cash received from employer reimbursements, net	1,928,811
Cash received from benefit overpayment recoveries	17,626,608
Cash received from federal, state and local agencies	23,141,684
Cash paid for benefits	(203,818,233)
Cash paid for refunds of overpaid assessments	(4,090,855)
Net cash flow provided by operating activities	266,157,496
Cash flows from non-capital related financing activities:	
Proceeds from federal government, net of FUTA credits	7,552
Net cash flow provided by non-capital related financing activities	7,552
Cash flows from investing activities:	
Cash received from interest earned on trust fund	7,192,500
Net cash flow provided by investing activities	7,192,500
Net increase in cash	273,357,548
Cash – beginning	196,086,837
 Cash – ending	 \$ 469,444,385
Reconciliation of operating income to net cash	
provided by operating activities:	
Operating income	\$ 232,932,987
Net changes in assets and liabilities:	
Assessments receivable	26,168,632
Benefit overpayments receivable	3,925,852
Due from reimbursable employers	256,429
Intergovernmental receivables:	
Local governments	(202,937)
State agencies	740,250
Other states	(135,850)
Benefits payable	(328,845)
Income tax withholdings payable	(14,851)
Contributions payable	1,958,976
Due to Department	(176,929)
Intergovernmental payables:	
Federal	964,162
Other states	47,788
Due to reimbursable employers	21,832
Net cash provided by operating activities	\$ 266,157,496

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

South Carolina Department of Employment and Workforce
Notes to Financial Statements
Year Ended June 30, 2016

Note 1. Liquidity

In previous years, the Unemployment Compensation Fund (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 of South Carolina (the “State”) to begin to obtain advances from the Federal Unemployment Account (“FUA”) in December 2008. Revised tax legislation, effective January 1, 2011, along with improvements in the economy, increased tax assessment revenues for the Fund, which has reported positive net operating cash flows for the fiscal years 2011, 2012, 2013, 2014, 2015 and 2016. Cash balances at June 30, 2016 consist primarily of state unemployment tax amounts received from employers, which is deposited in the 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 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 2011, while continuing to build a reserve deemed adequate by United States Department of Labor (USDOL).

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.

The Agency applied the provisions of GASB Statement No. 61, *The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14 and No. 34*, in evaluating the nature of the financial reporting entity. This Statement modifies certain requirements for inclusion of component units in the financial reporting entity. An organization other than the primary government may serve as a nucleus for a reporting entity when it issues separate financial statements. That organization is identified herein as the primary entity. Therefore, the Agency has determined that it is not a component of another entity and it has no component units. This financial reporting entity only includes the Agency (a primary entity).

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
Notes to Financial Statements
Year Ended June 30, 2016

Note 2. 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.

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, as amended by the Workforce Innovation and Opportunity Act of 2014 (WIOA), 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 USDOL.

The Unemployment Insurance (UI) 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 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.

South Carolina Department of Employment and Workforce
Notes to Financial Statements
Year Ended June 30, 2016

Note 2. Summary of Significant Accounting Policies (continued)

Reporting Entity (continued)

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.

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. The Agency's governmental fund is 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 Fund (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. Contingency assessment funds are used for purposes established under Section 41-33-710 of the South Carolina Code of Laws.

Special Administrative Fund (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 Fund each month to be used for purposes established under Section 41-33-610 of the South Carolina Code of Laws.

Integrity Fund – This fund consists of penalties assessed and received from UI claimants found to have received unemployment compensation due to having made false statements or failing to disclose a material fact pursuant to state law. Integrity funds are used for purposes established under Section 41-33-910 of the South Carolina Code of Laws.

South Carolina Department of Employment and Workforce
Notes to Financial Statements
Year Ended June 30, 2016

Note 2. Summary of Significant Accounting Policies (continued)

Governmental Funds (continued)

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 to support its operations. All school districts in the State have free access to the SCOIS Career System. For fiscal year 2015-16, the SCOIS, its authority, responsibilities, full time equivalent (FTE) employees, and funding has been transferred to the Department of Education.

Workforce Innovation and Opportunity Act (WIOA) - WIOA is a federal program administered throughout the State 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 WIOA-funded programs. WIOA programs help businesses meet their need for skilled workers and provide individuals with access to training that helps them prepare for work. WIOA was signed into law on July 22, 2014 and became effective on July 1, 2016, amending the Workforce Investment Act (WIA).

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 revenues of the Agency’s proprietary fund are assessments from employers and reimbursements from the federal government for the payment of unemployment benefits. The Agency’s proprietary fund is used to account for the activity of the 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.

South Carolina Department of Employment and Workforce
Notes to Financial Statements
Year Ended June 30, 2016

Note 2. Summary of Significant Accounting Policies (continued)

Proprietary Funds (Continued)

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 Fund includes the following accounts:

Basic Unemployment Compensation (UI) - This program 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 program accounts for unemployment compensation paid to ex-federal employees and is funded by the federal government.

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

Trade Readjustment Allowance (TRA) - This program 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 program 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. This program consists of monies paid to individuals age 50+ who lost their jobs due to imports but are now working again at a lower salary. The recipients are paid 50% of the difference between their old and new salary. It is funded by the federal government.

Disaster Unemployment Insurance (DUA) – This program provides temporary benefits to people whose jobs or self-employment has been lost or interrupted due to a major disaster.

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.

South Carolina Department of Employment and Workforce
Notes to Financial Statements
Year Ended June 30, 2016

Note 2. Summary of Significant Accounting Policies (continued)

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 60 days 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.

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.

South Carolina Department of Employment and Workforce
Notes to Financial Statements
Year Ended June 30, 2016

Note 2. Summary of Significant Accounting Policies (continued)

Budget Policy (continued)

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 Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, 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

The amounts shown in the financial statements as "cash" represent petty cash, cash on hand with the State Treasurer, and cash on deposit with the U.S. Treasury and in various depository financial institutions.

Most state agencies, including the Department of Employment and Workforce, participate in the State's internal cash management pool. Because the internal cash management pool operates as a demand deposit account, amounts deposited in the pool are classified as cash. The State Treasurer administers the internal cash management pool. 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.

Receivables

Receivables consist primarily 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 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 issue a warrant of execution upon real and personal property of the employer. Historical collection information is used to estimate and establish an allowance for uncollectible accounts. The allowance for uncollectible accounts is computed based upon collections activity over the past five years with all receivables over 24 months old being allowed for as uncollectible accounts. All receivables under ten years old, although allowed for as uncollectible accounts, are left on the books as a receivable, and the Agency continues to pursue collection of them.

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 employers to former employees.

South Carolina Department of Employment and Workforce
Notes to Financial Statements
Year Ended June 30, 2016

Note 2. Summary of Significant Accounting Policies (continued)

Receivables (continued)

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.

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, intercepting of state and federal income tax refunds, wage withholdings from claimant's pay checks or withholdings from subsequent benefits due to 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. Historical collection information, along with USDOL recommended best practices, are used to estimate and establish an allowance for uncollectible accounts. The allowance for uncollectible accounts represents receivables over 451 days old.

In January 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.

Capital Assets

Capital assets are recorded at cost at the date of acquisition or value at the date of donation in the case of gifts. The Agency follows the State's capitalization guidelines. 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 one year 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, equipment, furniture, and vehicles.

South Carolina Department of Employment and Workforce
Notes to Financial Statements
Year Ended June 30, 2016

Note 2. Summary of Significant Accounting Policies (continued)

Benefits Payable

Benefits payable represents unemployment compensation amounts paid after year-end for benefit weeks ending prior to June 30th.

Accrued Compensated Absences

Generally all full-time equivalent State employees and certain part-time employees scheduled to work at least one-half of the month 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 cost allocation plan approved by the USDOL, 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, 2015 through June 30, 2016, the Agency recovered \$9,386,170 of indirect costs within the cost allocation plan. Of this amount, \$356,311 was remitted to the State and \$9,029,859 was retained by the Agency. Indirect cost recoveries are reported as a reduction to federal expenditures.

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 transactions that fall into this category are indirect costs, which are initially captured in the cost pool, then 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.

Prepays

Payments made to vendors for services that will benefit periods beyond the fiscal year-end are recorded as prepaids. Prepays 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, and insurance coverage.

South Carolina Department of Employment and Workforce
Notes to Financial Statements
Year Ended June 30, 2016

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 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 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.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the South Carolina Retirement System (SCRS) and additions to/deductions from SCRS's fiduciary net position have been determined on the same basis as they are reported by SCRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Outflows of Resources and Deferred Inflows of Resources

Changes in the net pension liability not included in pension expense are reported as deferred outflows of resources or deferred inflows of resources. Employer contributions made subsequent to the measurement date of the net pension liability are reported as deferred outflows of resources.

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.

South Carolina Department of Employment and Workforce
Notes to Financial Statements
Year Ended June 30, 2016

Note 2. Summary of Significant Accounting Policies (continued)

Net Position / Fund Balances (continued)

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 net investment in capital assets. 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 position 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 Agency has adopted GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. 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 non-spendable, 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 prepaids, 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 interest surcharge adopted to pay the Fund's debt.

Committed - Amounts constrained to specific purposes by the Agency itself, using the highest level of decision-making authority, the Legislature and the Governor. 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.

South Carolina Department of Employment and Workforce
Notes to Financial Statements
Year Ended June 30, 2016

Note 2. Summary of Significant Accounting Policies (continued)

Net Position / Fund Balances (continued)

At June 30, 2016, the Agency's restricted balances are as follows:

Payment of benefits – The principal source of revenue for the Fund is quarterly unemployment tax contributions paid by employers, which may only be used to pay 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.

Reed Act - The Agency sold real property containing Reed Act equity, and as of June 30, 2016, \$214,294 of funds are available under the Reed Act in the proprietary fund. No funds were spent during fiscal year 2016 from the previously appropriated funds and \$57,604 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 (SCOIS). All user fees not expended in the prior fiscal year were brought forward for use in the current fiscal year. As of June 30, 2016, \$86,053 was carried forward and is reported as a restricted fund balance.

For fiscal year 2016, the SCOIS, its authority, responsibilities, FTEs, and funding has been transferred to the Department of Education (DOE) and the remaining user fees will be transferred to DOE in fiscal year 2017.

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 uncollectible accounts and the useful lives of capital assets.

Subsequent Events

In preparing these financial statements, management has evaluated events and transactions for potential recognition or disclosure through January 31, 2017, the date these financial statements were available to be issued.

Note 3. Deposits

The amount shown as cash in the statement of net position at June 30, 2016 is composed of the following:

Cash on hand	\$	1,500
Deposits held by State Treasurer		29,012,035
Deposits held by U.S. Treasury		461,637,676
Other deposits		5,543,469
Totals	\$	<u>496,194,680</u>

South Carolina Department of Employment and Workforce
Notes to Financial Statements
Year Ended June 30, 2016

Note 3. Deposits (continued)

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, 2016, all State Treasurer bank balances were fully insured or collateralized with securities held by the State or its agent in the State's name.

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 by the Fund for penalties and interest, contingency assessments, and interest surcharges via tax remittances from employers, unemployment insurance special administrative funds, Reed Act and FUTA integrity funds as of June 30, 2016:

Contingency assessments	\$ 20,361
Penalty, interest, service charges and fees	46,991
Special Administration Fund	1,979,137
Reed Act	214,294
FUTA Penalty Integrity Fund	335,091
Total	<u>\$ 2,595,874</u>

South Carolina Department of Employment and Workforce
Notes to Financial Statements
Year Ended June 30, 2016

Note 5. Receivables

The receivable balances at June 30, 2016 and the related amounts for allowances for uncollectible accounts are as follows:

	<u>Receivables</u>	<u>Allowances for Uncollectibles</u>	<u>Net Receivables</u>
Special Revenue Fund:			
Assessments receivable:			
Contingency	\$ 4,150,595	\$ 917,709	\$ 3,232,886
Penalty, interest, service charge and fees	16,497,388	13,148,338	3,349,050
Interest surcharge	1,582,823	1,582,823	-
Totals	<u>\$ 22,230,806</u>	<u>\$ 15,648,870</u>	<u>\$ 6,581,936</u>
Intergovernmental receivables:			
Federal	16,940,417	-	16,940,417
State agencies	178,779	-	178,779
Local governments	126,792	-	126,792
Totals	<u>\$ 17,245,988</u>	<u>\$ -</u>	<u>\$ 17,245,988</u>
	<u>Receivables</u>	<u>Allowances for Uncollectibles</u>	<u>Net Receivables</u>
Proprietary Fund:			
Assessments receivable (UI)	<u>\$ 144,656,672</u>	<u>\$ 57,942,471</u>	<u>\$ 86,714,201</u>
Benefit overpayments receivable:			
Basic unemployment compensation (UI)	20,528,182	11,588,563	8,939,619
Federal employees (UCFE)	85,497	36,292	49,205
Ex-servicemen (UCX)	203,836	118,434	85,402
Trade readjustment compensation (TRA)	8,849	4,671	4,178
Emergency unemployment compensation (EUC)	7,005,723	5,581,243	1,424,480
Totals	<u>\$ 27,832,087</u>	<u>\$ 17,329,203</u>	<u>\$ 10,502,884</u>
Intergovernmental receivables (UI)			
Local governments	831,034	-	831,034
State agencies	730,555	-	730,555
Other states	1,372,255	-	1,372,255
Totals	<u>\$ 2,933,844</u>	<u>\$ -</u>	<u>\$ 2,933,844</u>

South Carolina Department of Employment and Workforce
Notes to Financial Statements
Year Ended June 30, 2016

Note 6. Capital Assets

A summary of capital assets activity for the year ended June 30, 2016 is as follows:

	Balance at June 30, 2015	Increases	Decreases	Balance at June 30, 2016
Capital assets not being depreciated:				
Land	\$ 2,753,391	\$ -	\$ (202,821)	\$ 2,550,570
Intangible Asset CIP	6,013,238	13,207,134	-	19,220,372
Construction in progress	-	102,112	-	102,112
Total capital assets not being depreciated	<u>8,766,629</u>	<u>13,309,246</u>	<u>(202,821)</u>	<u>21,873,054</u>
Depreciable capital assets:				
Buildings and improvements	28,797,270	-	(1,491,535)	27,305,735
Land improvements	237,556	-	-	237,556
Equipment and furniture	3,970,380	499,042	(5,111)	4,464,311
Intangible assets	7,055,352	-	-	7,055,352
Vehicles	357,947	81,021	(54,498)	384,470
Total depreciable capital assets	<u>40,418,505</u>	<u>580,063</u>	<u>(1,551,144)</u>	<u>39,447,424</u>
Less accumulated depreciation for:				
Buildings and improvements	16,118,440	698,546	(926,053)	15,890,933
Land Improvements	237,556	-	-	237,556
Equipment and furniture	3,567,960	316,141	(5,111)	3,878,990
Intangible assets	6,985,581	59,016	-	7,044,597
Vehicles	257,949	47,681	(54,498)	251,132
Total accumulated depreciation	<u>27,167,486</u>	<u>1,121,384</u>	<u>(985,662)</u>	<u>27,303,208</u>
Depreciable capital assets, net	<u>13,251,019</u>	<u>(541,321)</u>	<u>(565,482)</u>	<u>12,144,216</u>
Total capital assets, net	<u>\$ 22,017,648</u>	<u>\$ 12,767,925</u>	<u>\$ (768,303)</u>	<u>\$ 34,017,270</u>

Depreciation expense was \$1,121,384. Total outstanding commitments on projects were \$57,055,591.

Note 7. Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2016 is as follows:

	Balance, June 30, 2015	Additions	Reductions	Balance, June 30, 2016	Due within one year
Governmental					
Accrued compensated absences and related benefits	\$ 2,506,935	\$ 2,794,993	\$ 2,199,178	\$ 3,102,750	\$ 2,370,810
	<u>\$ 2,506,935</u>	<u>\$ 2,794,993</u>	<u>\$ 2,199,178</u>	<u>\$ 3,102,750</u>	<u>\$ 2,370,810</u>

South Carolina Department of Employment and Workforce
Notes to Financial Statements
Year Ended June 30, 2016

Note 8. Leases

The Agency has entered into operating leases for office rent, equipment and computers. All of the leases are non-cancellable 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 2017 through 2021. 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 \$1,120,215 for the year ended June 30, 2016.

The following is a schedule by years of future minimum rental payments required under the non-cancellable operating lease agreements with remaining terms at June 30, 2016 in excess of one year. The future minimum rental payments for the operating leases exclude the monthly executory costs.

	Year Ended June 30,	Operating Leases
	2017	\$ 419,919
	2018	339,839
	2019	167,042
	2020	76,992
	2021	18,951
Total minimum lease payments		\$ 1,022,743

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

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 SCRS 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).

South Carolina Department of Employment and Workforce
Notes to Financial Statements
Year Ended June 30, 2016

Note 9. Pension Plans (continued)

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 the 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 the 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 five years of earned service and either have at least 15 years of total service credit or you are at least 60 years of age at the time of death.

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 the 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. Teacher and Employee Retention Incentive (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 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.

Effective July 1, 2015, employees participating in the SCRS were required to contribute 8.16% of all earnable compensation. The employer contribution rate for SCRS was 16.39%. Included in the total SCRS employer contribution rate is a base retirement contribution of 10.91%, 0.15% for the incidental death benefit program and a 5.33% 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, 2016, 2015, and 2014 were approximately \$4,368,000, \$4,474,000, and \$4,415,000, respectively, and equaled the base required retirement contribution rate, excluding surcharge, of 10.91% for 2016, 10.75% for 2015, and 10.45% for 2014. Also, the Agency paid employer incidental death program contributions of approximately \$40,000, \$42,000, and \$43,000, at the rate of 0.15% of compensation for the fiscal years ended June 30, 2016, 2015, and 2014, respectively.

South Carolina Department of Employment and Workforce
Notes to Financial Statements
Year Ended June 30, 2016

Note 9. Pension Plans (continued)

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 AFC multiplied by the number of years of credited service. For Class II members, AFC is the average annual compensation during the 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 the 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, 2015, employees participating in the PORS were required to contribute 8.74% of all earnable compensation. The employer contribution rate for PORS was 19.07%. Included in the total PORS employer contribution rate is a base retirement contribution of 13.34%, 0.20% for the incidental death benefit program, 0.20% for the accidental death program, and a 5.33% surcharge that will fund retiree health and dental insurance coverage. The Agency's actual contributions to the PORS for the years ended June 30, 2016, 2015, and 2014 were approximately \$5,300, \$6,000, and \$38,000 respectively, and equaled the base retirement required contribution rate, excluding surcharge, of 13.34% for 2016, 13.01% for 2015, and 12.44% for 2014. The Agency also paid employer incidental death program contributions of approximately \$60, \$60, and \$400 at the rate of 0.20% of compensation for the fiscal years ended June 30, 2016, 2015, and 2014, respectively. In addition, the Agency paid accidental death program contributions of approximately \$60, \$60, and \$400 at the rate of 0.20% of compensation for the fiscal years ended June 30, 2016, 2015, and 2014, respectively.

As an alternative to membership in the SCRS, newly hired State and school district employees may elect to participate in the 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 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, 5.76% plus the retiree surcharge of 5.00% from the employer in fiscal year 2016. Of the 10.91% employer contribution rate, the employer remits 5.00% directly to the participant's ORP account and the remaining 5.76% retirement contribution and 0.15% incidental death benefit program contribution amounts are remitted to SCRS.

South Carolina Department of Employment and Workforce
Notes to Financial Statements
Year Ended June 30, 2016

Note 9. Pension Plans (continued)

Total contribution requirements to the ORP were approximately \$393,000, \$383,000 and \$302,000 for the years ended June 30, 2016, 2015 and 2014, respectively.

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 the 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 Agency's liability under the plans is limited to the amount of required employer contributions (stated as a percentage of covered payroll) as established by PEBA and as appropriated in the South Carolina Appropriations Act and from other applicable revenue sources. Accordingly, the Agency recognizes no contingent liability for unfunded costs associated with participation in the plans.

Net Pension Liability

At June 30, 2016, the Agency reported a liability of \$60,140,832 and \$55,817 for its proportionate share of the SCRS and PORS net pension liability, respectively. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Agency's proportionate share of the net pension liability was based on a projection of the Agency's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2015, the Agency's proportionate shares of the SCRS and PORS plans were 0.31711% and 0.00256%, respectively.

Pension Expense

For the year ended June 30, 2016, the Agency recognized pension expense for the SCRS and PORS plans of \$3,896,996 and (\$62,850), respectively.

South Carolina Department of Employment and Workforce
Notes to Financial Statements
Year Ended June 30, 2016

Note 9. Pension Plans (continued)

Deferred outflows of resources and deferred inflows of resources

At June 30, 2016, the Agency reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	SCRS	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	1,068,498	107,551
Net difference between projected and actual earnings on pension plan investments	402,553	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	1,492,245
Employer contributions subsequent to the measurement date	3,169,609	-
Total	\$ 4,640,660	\$ 1,599,796

	PORS	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	1,106	-
Net difference between projected and actual earnings on pension plan investments	610	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	257,446
Employer contributions subsequent to the measurement date	3,693	-
Total	\$ 5,409	\$ 257,446

The deferred outflows of resources of \$3,169,609 for SCRS and \$3,693 for PORS related to pensions resulting from Agency contributions subsequent to the measurement date for the SCRS and PORS plans during the year ended June 30, 2016. These outflows will be recognized as a reduction of the net pension liabilities during the year ending June 30, 2017.

South Carolina Department of Employment and Workforce
Notes to Financial Statements
Year Ended June 30, 2016

Note 9. Pension Plans (continued)

Deferred outflows of resources and deferred inflows of resources (continued)

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows for the SCRS and PORS plans:

SCRS	
<u>Year Ended June 30:</u>	
2017	\$ 214,157
2018	214,157
2019	581,169
2020	(880,738)
2021	-
	<u>\$ 128,745</u>

PORS	
<u>Year Ended June 30:</u>	
2017	\$ 67,646
2018	67,646
2019	67,646
2020	52,792
2021	-
	<u>\$ 255,730</u>

Actuarial assumptions and methods

Actuarial valuations involve estimates of the reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and future salary increases. Amounts determined during the valuation process are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. South Carolina State statute requires that an actuarial experience study be completed at least once in each five-year period. The last experience study was performed on data through June 30, 2010, and the next experience study is scheduled to be conducted after the June 30, 2016 annual valuation is complete.

The most recent annual actuarial valuation reports adopted by the PEBA Board and the Department of Administration are as of July 1, 2014. The net pension liability of each defined benefit pension plan was therefore determined by PEBA's consulting actuary, Gabriel, Roeder, Smith and Company (GRS) based on the July 1, 2014 actuarial valuations, using membership data as of July 1, 2014, projected forward to the end of the fiscal year, and financial information of the pension trust funds as of June 30, 2015, using generally accepted actuarial procedures. Information included in the following schedules is based on the certification provided by GRS.

South Carolina Department of Employment and Workforce
Notes to Financial Statements
Year Ended June 30, 2016

Note 9. Pension Plans (continued)

Actuarial assumptions and methods (continued)

The following table provides a summary of the actuarial assumptions and methods used in the July 1, 2014 valuation for the SCRS plan administered by PEBA.

Actuarial cost method	Entry age
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases	3.5%
Includes inflation at	2.75%
Benefit adjustments	lesser of 1% or \$500

The post-retiree mortality assumption is dependent upon the member's job category and gender. This assumption includes base rates which are automatically adjusted for future improvement in mortality using published Scale AA projected from the year 2000.

Former Job Class	Males	Females
Educators and Judges	RP-2000 Males (with White Collar adjustment) multiplied by 110%	RP-2000 Females (with White Collar adjustment) multiplied by 95%
General Employees and Members of the General Assembly	RP-2000 Males multiplied by 100%	RP-2000 Females multiplied by 90%
Public Safety, Firefighters and members of the South Carolina National Guard	RP-2000 Males (with Blue Collar adjustment) multiplied by 115%	RP-2000 Females (with Blue Collar adjustment) multiplied by 115%

The long-term expected rate of return on pension plan investments for actuarial purposes is based upon the 30 year capital market outlook at the end of the third quarter 2012. The actuarial long-term expected rates of return represent best estimates of arithmetic real rates of return for each major asset class and were developed in coordination with the investment consultant for the Retirement System Investment Commission (RSIC) using a building block approach, reflecting observable inflation and interest rate information available in the fixed income markets as well as Consensus Economic forecasts. The actuarial long-term assumptions for other asset classes are based on historical results, current market characteristics and professional judgment.

South Carolina Department of Employment and Workforce
Notes to Financial Statements
Year Ended June 30, 2016

Note 9. Pension Plans (continued)

Actuarial assumptions and methods (continued)

The RSIC has exclusive authority to invest and manage the retirement trust funds' assets. As co-fiduciary of the retirement systems, statutory provisions and governance policies allow the RSIC to operate in a manner consistent with a long-term investment time horizon. The expected real rates of investment return, along with the expected inflation rate, form the basis for the target asset allocation adopted annually by the RSIC. For actuarial purposes, the long-term expected rate of return is calculated by weighting the expected future real rates of return by the target allocation percentage and then adding the actuarial expected inflation which is summarized in the table on the following page. For actuarial purposes, the 7.50 percent assumed annual investment rate of return used in the calculation of the total pension liability includes a 4.75 percent real rate of return and a 2.75 percent inflation component.

Asset Class	Target Asset Allocation	Expected Arithmetic Real Rate of Return	Long Term Expected Portfolio Real Rate of Return
Short Term:	5.0%		
Cash	2.0%	1.9%	0.04%
Short Duration	3.0%	2.0%	0.06%
Domestic Fixed Income:	13.0%		
Core Fixed Income	7.0%	2.7%	0.19%
High Yield	6.0%	3.8%	0.23%
Global Fixed Income:	50.0%		
Global Fixed Income	3.0%	2.8%	0.08%
Emerging Markets Debt	6.0%	5.1%	0.31%
Global Public Equity	31.0%	7.1%	2.20%
Global Tactical Asset Allocation	10.0%	4.9%	0.49%
Alternatives:	32.0%		
Hedge Funds (Low Beta)	8.0%	4.3%	0.32%
Private Debt	7.0%	9.9%	0.69%
Private Equity	9.0%	9.9%	0.89%
Real Estate (Broad Market)	5.0%	6.0%	0.30%
Commodities	3.0%	5.9%	0.18%
Total Expected Real Return	100.0%		6.00%
Inflation for Actuarial Purposes			2.75%
Total Expected Nominal Return			8.75%

Discount rate

The discount rate used to measure the total pension liability was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers in SCRS will be made based on the actuarially determined rates based on provisions in the South Carolina State Code of Laws. Based on those assumptions, each retirement system's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

South Carolina Department of Employment and Workforce
Notes to Financial Statements
Year Ended June 30, 2016

Note 9. Pension Plans (continued)

Sensitivity analysis

The following table presents the Agency's proportionate share of the net pension liabilities of the respective plans calculated using the discount rate of 7.50 percent, as well as what the Agency's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1.00 percent lower (6.50 percent) or 1.00 percent higher (8.50 percent) than the current rate.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate			
System	1.00% Decrease (6.50%)	Discount Rate (7.50%)	1.00% Increase (8.50%)
SCRS	\$ 75,820,454	\$ 60,140,832	\$ 46,999,388
PORS	\$ 76,036	\$ 55,817	\$ 37,742

Pension plan fiduciary net position

The net pension liability is calculated separately for each retirement system and represents that particular system's total pension liability determined in accordance with GASB Statement No. 67 less that system's fiduciary net position. As of June 30, 2015, net pension liability amounts for SCRS are as follows:

System	Total Pension Liability	Plan Fiduciary Net Position	Employers' Net Pension Liability (Asset)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
SCRS	\$ 44,097,310,230	\$ 25,131,828,101	\$ 18,965,482,129	57.0%
PORS	\$ 6,151,321,222	\$ 3,971,824,838	\$ 2,179,496,384	64.6%

The total pension liability is calculated by the system's actuary, and each plan's fiduciary net position is reported in the system's financial statements. The net pension liability is disclosed in accordance with the requirements of GASB Statement No. 67 in the system's notes to the financial statements and required supplementary information.

Detailed information regarding the fiduciary net position of the plans administered by PEBA is available in the separately issued Comprehensive Annual Financial Report containing financial statements and required supplementary information for SCRS and PORS which can be accessed via the contact information provided above.

South Carolina Department of Employment and Workforce
Notes to Financial Statements
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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 PEBA.

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 Insurance Benefits Division (IB) and participating retirees to 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 required medical plan are mandated by state statute to contribute at a rate assessed each year by the Executive Budget Office, 5.33%, 5.00% and 4.92% of annual covered payroll for the years ended June 30, 2016, 2015 and 2014, respectively. The IB sets the employer contribution rate based on a pay-as-you-go basis. The Agency paid approximately \$3.70 million, \$3.77 million and \$3.54 million in employer contributions for health and dental benefits for the fiscal years ending June 30, 2016, 2015 and 2014, respectively. The Agency paid approximately \$1.55 million, \$1.53 million and \$1.51 million, applicable to the surcharge included with the employer contributions for retirement benefits for the fiscal years ended June 30, 2016, 2015 and 2014, 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 the IB was \$3.22 for the fiscal years ended June 30, 2016, 2015 and 2014.

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 Public Employee Benefit Authority Insurance Benefits, PO Box 11960, Columbia, South Carolina 29211-1960.

South Carolina Department of Employment and Workforce
Notes to Financial Statements
Year Ended June 30, 2016

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 State's Comprehensive Annual Financial Report.

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.

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 previous 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 accordance 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 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
Year Ended June 30, 2016

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 for 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 and various state agencies. The Agency was required to remit \$356,311 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 PEBA, insurance plan administration, procurement services, grant services, personnel management, assistance in the preparation of the State budget, use and support of the State's accounting system, SCEIS, and approval of certain budget amendments and other centralized functions from the South Carolina Department of Administration.

The Agency had additional direct financial transactions with various state agencies during the fiscal year. Payments were made to divisions of the South Carolina Department of Administration 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 special revenue fund are as follows for the year ended June 30, 2016:

PEBA	\$10,096,000
Department of Administration	646,985
State Accident Fund	137,081
State Fiscal Accountability Authority	131,998
Comptroller General	128,483
SLED	88,263
Department of Commerce	67,969
Technical & Comprehensive Education Board	67,216
University of South Carolina	66,505
Department of Education	55,497
Clemson University	21,402
Francis Marion University	14,683
The Citadel	10,934
Winthrop University	10,902
Department of Corrections	6,847
Attorney General	1,799
Other	16,637
	<u>\$11,569,201</u>

South Carolina Department of Employment and Workforce
Notes to Financial Statements
Year Ended June 30, 2016

Note 13. Transactions with State Agencies (continued)

In the proprietary fund, the Agency recorded revenues of \$2,274,943 for reimbursements of benefits paid to State employees and was due \$730,555 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 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 fiscal years 2011, 2012, 2013, 2014, 2015 and 2016.

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, 2015, all Title XII advances have been paid by the State.

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.

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, 2016, a total of \$7,552 of FUTA tax adjustments were added to the Fund's balance.

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 Fund and the changing economic environment in which the Fund operates. Required annual tax revenues consist of estimated benefit payouts for the subsequent year, and an additional solvency surcharge to return the Fund to an acceptable reserve level. An additional interest surcharge was assessed prior to January 2015, with all assessments used to pay accrued interest on outstanding Title XII advances.

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 2011. The Fund may be required to borrow from the federal government, if needed, to fund UI benefit payments in the future.

South Carolina Department of Employment and Workforce
Notes to Financial Statements
Year Ended June 30, 2016

Note 15. Commitments and Contingencies

Commitments - The Agency had significant purchase commitments as of June 30, 2016. These include \$40,509,705 for the design and implementation of the Southeast Consortium Unemployment Benefits Insurance system (SCUBI); \$14,163,171 for the design and implementation of the UI Tax System; \$506,412 for implementation of a new Interactive Voice Response (IVR) and Virtual Contact Center system, \$400,114 for equipment leases, and \$1,476,189 for other miscellaneous commitments.

Federal Grants - The various programs administered by the Agency for fiscal years June 30, 2016 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

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. The WIOA Final Rules, made publicly available on June 30, 2016, enable the workforce development system to more efficiently and effectively provide career pathways to Americans of all walks of life and a talented pool of workers for businesses of all sizes, which are vital to shared prosperity and a growing U.S. economy.

As noted in the administrative financial highlights in the MD&A, the Agency continues to actively pursue the sale of vacant buildings. In November 2016, the Hartsville building was sold for \$1.1 million and those proceeds will be used to fund a portion of its UI Tax system modernization project, which is currently underway.

REQUIRED SUPPLEMENTARY INFORMATION

South Carolina Department of Employment and Workforce
Schedule of the Employer's Proportionate Share of the Net Pension Liability
Year Ended June 30, 2016

	SCRS		
	2016	2015	2014
Proportion of the net pension liability	0.31711%	0.32790%	0.32790%
Proportionate share of the net pension liability	<u>\$ 60,140,832</u>	<u>\$ 56,455,388</u>	<u>\$ 58,813,742</u>
Covered payroll during the measurement period	<u>\$ 30,544,918</u>	<u>\$ 30,462,010</u>	<u>\$ 38,735,226</u>
Proportionate share of the net pension liability as a percentage of its covered-employee payroll	196.9%	185.3%	151.8%
Plan fiduciary net position as a percentage of the total pension liability	57.0%	59.9%	56.4%

	PORS		
	2016	2015	2014
Proportion of the net pension liability	0.00256%	0.01816%	0.01816%
Proportionate share of the net pension liability	<u>\$ 55,817</u>	<u>\$ 347,659</u>	<u>\$ 376,493</u>
Covered payroll during the measurement period	<u>\$ 31,521</u>	<u>\$ 213,665</u>	<u>\$ 222,891</u>
Proportionate share of the net pension liability as a percentage of its covered-employee payroll	177.1%	162.7%	168.9%
Plan fiduciary net position as a percentage of the total pension liability	64.6%	67.6%	63.0%

South Carolina Department of Employment and Workforce
Schedule of the Employer's Contributions
Year Ended June 30, 2016

	SCRS									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Contractually required contribution	\$ 2,907,729	\$ 3,283,578	\$ 3,183,280	N/A						
Contributions in relation to the contractually required contribution	2,907,729	3,283,578	3,183,280	N/A						
Contribution deficiency (excess)	\$ -	\$ -	\$ -							
Covered-employee payroll	\$ 26,651,965	\$ 30,544,918	\$ 30,462,010							
Contributions as a percentage of covered-employee payroll	10.91000%	10.75000%	10.45000%	N/A						
	PORS									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Contractually required contribution	\$ 3,693	\$ 4,101	\$ 26,580	N/A						
Contributions in relation to the contractually required contribution	3,693	4,101	26,580	N/A						
Contribution deficiency (excess)	\$ -	\$ -	\$ -							
Covered-employee payroll	\$ 27,681	\$ 31,521	\$ 213,665							
Contributions as a percentage of covered-employee payroll	13.34128%	13.01037%	12.44003%	N/A						

This schedule is presented to illustrate the requirement to show information for ten (10) years. However, information for fiscal years 2007 through 2013 is not readily available.

SINGLE AUDIT SECTION

South Carolina Department of Employment and Workforce
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2016

Federal Grantor/Program or Cluster Title	Federal CFDA Number	Total Federal Expenditures	Subrecipient Expenditures
U.S. Department of Labor			
Labor Force Statistics	17.002	\$ 851,264	\$ -
Unemployment Insurance	17.225	54,099,533	-
Trade Adjustment Assistance - Workers	17.245	7,569,954	-
Work Incentives Grant	17.266	116,356	110,904
Work Opportunity Tax Credit	17.271	232,063	-
Labor Certification for Alien Workers	17.273	158,695	-
Workforce Innovation and Opportunity Act - National Emergency Grant	17.277	600,193	589,677
Workforce Innovation and Opportunity Act - Dislocated Workers			
National Reserve Demonstration	17.280	697,343	686,345
WIOA Cluster:			
Workforce Innovation and Opportunity Act - Adult	17.258	11,809,178	9,205,284
Workforce Innovation and Opportunity Act - Youth	17.259	11,314,052	10,710,692
Workforce Innovation and Opportunity Act - Dislocated Workers	17.278	13,498,544	11,982,270
Total WIOA Cluster		<u>36,621,774</u>	<u>31,898,246</u>
Employment Service Cluster:			
Employment Service	17.207	8,934,823	-
Disabled Veterans Outreach Program	17.801	1,521,569	-
Local Veterans Employment Representative Program	17.804	995,016	-
Total Employment Services Cluster		<u>11,451,408</u>	<u>-</u>
Total U.S. Department of Labor		<u>112,398,583</u>	<u>33,285,172</u>
Appalachian Regional Commission			
Appalachian Area Development (SC JAG)	23.002	28,291	27,807
Total Appalachian Regional Commission		<u>28,291</u>	<u>27,807</u>
U.S. Department of Defense			
Economic Adjustment Assistance	12.617	1,044,027	-
Total U.S. Department of Defense		<u>1,044,027</u>	<u>-</u>
U.S. Social Security Administration			
Employment Network - Navigator Program	96.000	66,546	-
Total U.S. Social Security Administration		<u>66,546</u>	<u>-</u>
Total Expenditures of Federal Awards		<u>\$113,537,447</u>	<u>\$33,312,979</u>

South Carolina Department of Employment and Workforce
Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2016

Note 1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the “Schedule”) presents the activity of all federal awards programs of the Agency for the year ended June 30, 2016. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations*, Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards*. Expenditures for federal financial assistance awarded directly from federal agencies, as well as those passed through other government agencies, are included on the Schedule. Because the Schedule presents only a selected portion of the operations of the Agency, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Agency.

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. George L. Kennedy, III, CPA
State Auditor
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, 2016, 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 31, 2017.

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

A handwritten signature in black ink that reads "Elliott Davis Decosimo, LLC". The signature is written in a cursive, flowing style.

Columbia, South Carolina
January 31, 2017



Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance in Accordance with the Uniform Guidance

Mr. George L. Kennedy, III, CPA
State Auditor
Office of the State Auditor
Columbia, South Carolina

Report on Compliance for Each 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 Compliance Supplement* that could have a direct and material effect on the Agency's major federal programs for the year ended June 30, 2016. The Agency's major federal programs are 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 programs 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 Title 2 U.S. *Code of Federal Regulations*, Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 Each 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, 2016.

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 the Uniform Guidance, 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink that reads "Elliott Davis Decosimo, LLC". The signature is written in a cursive, flowing style.

Columbia, South Carolina
January 31, 2017

South Carolina Department of Employment and Workforce
 Schedule of Findings and Questioned Costs
 Year Ended June 30, 2016

SECTION I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified? _____ Yes X None reported

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified? _____ Yes X None reported

Type of auditor's report issued on compliance for major federal programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a) of the Uniform Guidance? _____ Yes X No

Identification of major federal programs:

<u>CFDA #</u>	<u>Program / Cluster Name</u>
Various 17.225	Employment Services Cluster Unemployment Insurance

Dollar threshold used to distinguish between Type A and Type B programs \$ 3,000,000

Auditee qualified as low-risk auditee? _____ Yes X No

SECTION II. FINANCIAL STATEMENT FINDINGS _____ Yes X None reported

SECTION III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS _____ Yes X None reported

South Carolina Department of Employment and Workforce
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2016

SECTION I. FINANCIAL STATEMENT FINDINGS

Item 2015-001: Capital Assets

Condition: For the year ended June 30, 2015, it was discovered that the Agency's capital assets and net position were understated by \$2,639,563 and \$1,514,068 in its financial statements as of June 30, 2014 and 2015, respectively.

Recommendation: We recommended that management maintain detailed capital expenditure records that track capital expenditures by project and that management periodically review these records for proper classification.

Current Status: For the fiscal year ended June 30, 2015, management recorded a prior period adjustment for \$2,639,563 to correct the beginning balances for capital assets and net position as of July 1, 2014. It then recorded a current year adjustment for \$1,514,068 to correct the ending balances for capital assets and net position as of June 30, 2015. Management then represented to us that it would maintain detailed capital expenditure records that track capital expenditures by project and that management would periodically review these records for proper classification. No similar finding was noted during the fiscal year 2016 audit.

SECTION II. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

UNITED STATES DEPARTMENT OF LABOR

Item 2015-002: Unemployment Insurance Program – CFDA No. 17.225; Timely Reconciliations and Review of Subsidiary Records

Condition: After gaining an understanding of the Unemployment Insurance (UI) Accounting Department's financial reporting process, it became evident that certain balances reflected on the general ledger were not reconciled to subsidiary records throughout the year. At year-end, reports that reflected summary level balances were obtained from the UI benefits information system. These balances were then posted to the general ledger without the opportunity for the UI Accounting staff to review the subsidiary records that support such balances.

For the year ended June 30, 2015, we noted that the Agency's schedule of expenditures of federal awards included expenditures related to UI programs that agreed to the general ledger. However, subsidiary records supporting the general ledger balances could not be provided by the UI Accounting Department. Therefore, the UI Accounting Department had to rely on its Division of Information and Business Solutions to generate subsidiary records from the Agency's mainframe system to support the expenditures reflected on the general ledger. We then noted that these subsidiary records reflected expenditures that were significantly different than the expenditures reflected on the general ledger and schedule of expenditures of federal awards. Total expenditures reflected on the general ledger and schedule of expenditures of federal awards related to five (5) UI programs were \$13,234,628. Total expenditures for these five (5) programs reflected on the subsidiary records were \$14,306,201. Therefore, the subsidiary records reflected expenditures that exceeded the expenditures reflected on the general ledger and schedule of expenditures of federal awards by \$1,071,573.

South Carolina Department of Employment and Workforce
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2016

SECTION II. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)

UNITED STATES DEPARTMENT OF LABOR (CONTINUED)

Item 2015-002: Unemployment Insurance Program – CFDA No. 17.225; Timely Reconciliations and Review of Subsidiary Records (Continued)

Recommendation: We recommended that the Division of Information and Business Solutions provide the UI Accounting Department with all requested monthly subsidiary records to be used for reviewing and recording transactions to the general ledger and schedule of expenditures of federal awards. We also recommended that the UI Accounting Department utilize the UI benefit system reports provided by the Division of Information and Business Solutions to review and reconcile the subsidiary records to the general ledger to help ensure the accuracy of the federal expenditures reported on the general ledger and schedule of expenditures of federal awards.

Current Status: Management agreed with this recommendation, and facilitated collaborative efforts between the Division of Information and Business Solutions, Business Intelligence Division, UI Division and the Division of Organizational Integrity to ensure that these detailed reports were compiled, scheduled, distributed to the UI Accounting Department, and reviewed timely throughout the year to further support the accuracy of the balances reported on the general ledger.

In response to this finding, a request was submitted to the Division of Information and Business Solutions to receive detailed subsidiary records on a monthly basis. Simultaneously, a new project was initiated to enhance the reporting of information contained in the Agency's ETA 227 report, which is prepared by the Division of Organizational Integrity. The completion of this new project resulted in the ability to provide accurate subsidiary records to the Finance Department. The Finance Department now has the ability to review and reconcile subsidiary records to ensure accurate reporting on the general ledger. No similar finding was noted during the fiscal year 2016 audit.