

Financial Statements of  
South Carolina Department of Employment and Workforce  
Unemployment Compensation Fund  
*for the years ended June 30, 2012 and 2011*

*State of South Carolina*



*Office of the State Auditor*

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October 12, 2012

The Honorable Nikki R. Haley, Governor  
and  
Mr. Abraham Turner, Director  
South Carolina Department of Employment and Workforce  
Columbia, South Carolina

This report on the audit of the basic financial statements of the South Carolina Department of Employment and Workforce Unemployment Compensation Fund for the fiscal year ended June 30, 2012 was issued by Scott and Company, LLP, Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

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

Respectfully submitted,

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

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

RHGjr/trb

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## Independent Auditors' Report

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The Office of the State Auditor  
South Carolina Department of Employment and Workforce Unemployment Compensation Fund  
Columbia, South Carolina

We have audited the accompanying financial statements of the South Carolina Department of Employment and Workforce Unemployment Compensation Fund (the "Fund") as of and for the years ended June 30, 2012 and 2011, as listed in the table of contents. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 1, the financial statements of the Fund are intended to present the financial position and results of operations of only that portion of the funds of the State of South Carolina financial reporting entity that is attributable to the transactions of the Fund. They do not purport to and do not present the financial position of the State of South Carolina as of June 30, 2012 and 2011, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America, and do not include any other agencies, divisions, or component units of the State of South Carolina.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Fund as of June 30, 2012 and 2011, and the changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 1, 2012, on our consideration of the Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. 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 financial statements, and other knowledge we obtained during our audits of the 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.

*Scott and Company LLC*

Columbia, South Carolina  
October 1, 2012

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Management of the South Carolina Department of Employment and Workforce (the "Department") offers readers this narrative overview and analysis of the financial activities attributed to the South Carolina Department of Employment and Workforce's Unemployment Compensation Trust Fund (the "Fund") for the fiscal years ended June 30, 2012 and 2011. Please read this information in conjunction with the Fund's financial statements and accompanying notes.

### Financial Highlights

- In recent years, the Fund generated substantial operating losses and was required to use most of its cash resources to fund its operations. Due to the increasing unemployment rate and the resulting increased amount of unemployment benefits, and the increased length of time over which the benefits are paid, the Fund has been required to obtain advances from the Federal Unemployment Fund of \$0 and \$115,594,636 during the years ended June 30, 2012 and 2011, respectively.
- The health of the trust fund has improved dramatically over the past fiscal year. For the first time since FY 2008 the state has not had to borrow any funds from the federal government to make benefit payments. Tax revenues have been sufficient to allow the state to begin repaying outstanding federal loan, and benefit payments to unemployed individuals continue to fall as the economy recovers.
- Recent legislative reforms to the State's UI tax structure have been implemented that are specifically designed to assist in putting the Fund back on the path to solvency since 2011. State unemployment tax rates structured to raise revenues that more accurately address the demands of the State's UI system and the changing economic environment in which the system operates. While the Fund remains in federal loan status, required tax revenues will consist of estimated benefit payouts for the subsequent year, an amount required to repay the principal on all outstanding federal advances over five years, and an additional surcharge designated to pay accrued interest on outstanding advances. As the expected level of State UI benefit payments continues to decrease, a greater proportion of State UI tax revenues will be available to repay the advanced funds.
- 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.
- In March 2010, Section 41-29-10 of the South Carolina Code of Laws was amended by the General Assembly through Act 146 to replace the Commissioners with an Executive Director, appointed by the Governor for a four year term. The act also renamed the Department, moved it to the Governor's cabinet, moved the Workforce Investment Act ("WIA") and Trade Assistance Act ("TAA") programs back to the Department, and established an appellate panel charged with

hearing higher level appeals for unemployment benefits. The State General Assembly elects the three-member appellate panelists to four year terms. Although the legislative restructuring affected the organization, governance, and operation of the Department as a whole, the character, operating regulations and responsibilities of the Fund were not changed.

- Liabilities exceeded assets as of June 30, 2012 by \$(438,512,145) which is shown as a net deficit. The net deficit as of June 30, 2011 was \$(588,095,425).
- Total unemployment compensation benefits paid were \$1,059,341,778 and \$2,171,063,209 during the years ended June 30, 2012 and 2011, respectively.

### **Overview/Discussion of the Financial Statements**

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

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

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

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

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

## Condensed Financial Data

### Statements of Net Deficit

	<u>2012</u>	<u>2011</u>	<u>Change</u>
Assets	\$ 412,676,753	\$ 411,146,669	\$ 1,530,084
Current liabilities	\$ 175,500,915	\$ 215,548,618	\$ (40,047,703)
Non-current liabilities	675,687,983	783,693,476	(108,005,493)
Total liabilities	<u>851,188,898</u>	<u>999,242,094</u>	<u>(148,053,196)</u>
Net deficit, unrestricted	<u>(438,512,145)</u>	<u>(588,095,425)</u>	<u>149,583,280</u>
Total liabilities and net deficit	<u>\$ 412,676,753</u>	<u>\$ 411,146,669</u>	<u>\$ 1,530,084</u>

### Statements of Revenues, Expenses, and Changes in Fund Net Deficit

	<u>2012</u>	<u>2011</u>	<u>Change</u>
Operating Revenues			
Assessments	\$ 384,480,481	\$ 502,622,038	\$ (118,141,557)
Federal grants	643,582,602	1,753,813,746	(1,110,231,144)
Other	180,742,650	52,491,098	128,251,552
Total operating revenues	<u>1,208,805,733</u>	<u>2,308,926,882</u>	<u>(1,100,121,149)</u>
Operating Expenses			
Unemployment compensation benefits	<u>1,059,341,778</u>	<u>2,171,063,209</u>	<u>(1,111,721,431)</u>
Operating income (loss)	<u>149,463,955</u>	<u>137,863,673</u>	<u>11,600,282</u>
Non-operating revenues			
Gain on forgiveness of debt	<u>119,325</u>	<u>35,188,745</u>	<u>(35,069,420)</u>
Changes in net assets	<u>149,583,280</u>	<u>173,052,418</u>	<u>(23,469,138)</u>
Total net deficit –beginning	<u>(588,095,425)</u>	<u>(761,147,843)</u>	<u>173,052,418</u>
Total net deficit – ending	<u>\$ (438,512,145)</u>	<u>\$ (588,095,425)</u>	<u>\$ 149,583,280</u>

## **Financial Analysis**

### **Statements of Net Deficit:**

Total assets increased by approximately \$1.5 million primarily due to a decrease in State-funded unemployment benefit claims paid during 2012 fiscal year and the increased federal receivable amounts. Many individuals exhausted regular State UI benefits during the year, and thereby began receiving benefit payments fully-funded by the federal government instead of being funded by the State.

Current liabilities decreased approximately \$40 million mainly due to current portion of advances from federal government. Due to Department increased at the end of FY12, due to the money transfer to finance for Surcharge collection including April, May and June of 2012.

Federal intergovernmental payable includes claimant refunds, cancelled payments, and other items being owed back to the federal government.

Ending net deficit decreased by approximately \$150 million as compared to a \$173 million decrease for the prior year, which is the result of the significant decrease in unemployment compensation benefits payments as the economy recovers.

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

Assessments decreased by approximately \$118 million compared to last year due to lower tax rates being assessed on employers as a result of revised tax legislation passed by the legislature. The agency was required to recalculate business unemployment taxes for 2011 retroactive to January 1, 2011. The recalculation of rates resulted in overpayments from businesses for the first two calendar quarters of 2011. Credits resulting from the lower rates were available to be applied to future quarters. Business that were interested in receiving a refund for any overpayments made in the 2<sup>nd</sup> quarter of 2011, could begin requesting those refunds October 1, 2011. It is estimated that approximately \$23 million was available to South Carolina businesses as refunds. Of this amount available for refunds, approximately \$4 million in refunds were paid. Any overpayments associated with the 1<sup>st</sup> quarter was required to be kept on the books with the agency as credit to be applied to future tax liability, and the estimate of that amount was approximately \$67 million.

In July 2012 the General Assembly again required the agency to revise the unemployment tax rates as a result of General Fund appropriations. The tax rates for 2012 are being revised in October 2012 retroactive to January 1, 2012. This will result in overpayments for the first and second quarter of 2012. Businesses can use the resulting credits towards future tax liability. Due to the timing of the revision, no refunds will be available per federal law.

Total operating revenue decreased by approximately \$1.1 billion due to a reduction in the amount of revenue collected from businesses to cover benefit costs and a reduction in federal funding to pay extended unemployment benefits.

Unemployment compensation benefits decreased by approximately \$1.1 billion due to a number of factors including the end of the federal Extended Benefit (EB) program, a reduction in the number of federal weeks available in the Emergency Unemployment Compensation (EUC) program, and a reduction in the number of state-funded unemployment benefits from a maximum of 26 weeks to 20 weeks. Benefit payments have also fallen due to a general improvement in the South Carolina economy with the unemployment rate falling from a high of 12 percent in December 2009 to 9.4 percent as of June 2012.

Operating income for 2012 was approximately \$149 million as compared to \$138 million for the prior year due to the decrease in unemployment compensation benefit payments. Non-operating revenues decreased by approximately \$35 million for the year 2012 due to the recognition of a gain on refunding of debt of \$35.1 million for fiscal year 2011.

South Carolina Department of Employment and Workforce  
 Unemployment Compensation Fund  
 Statements of Net Deficit  
 As of June 30,

	2012	2011
<b>Assets:</b>		
Current assets:		
Cash and cash equivalents	\$ 256,422,471	\$ 260,981,907
Assessments receivable, net	125,178,418	126,936,099
Benefit overpayments receivable, net	13,163,467	10,627,713
Due from reimbursable employers, net	954,120	1,508,560
Intergovernmental receivables, net		
Local governments	2,191,508	3,459,727
State agencies	1,268,276	2,320,509
Other states	1,064,650	1,718,119
Federal	12,433,843	3,594,035
Total assets	\$ 412,676,753	\$ 411,146,669
<b>Liabilities:</b>		
Current liabilities:		
Benefits payable	\$ 18,210,229	\$ 3,778,647
Tax withholdings payable	14,619	40,704
FUTA credit overage payable	61,692	-
Contributions payable	20,431,690	8,979,575
Intergovernmental payables:		
Federal tax withholdings	6,963,004	9,896,282
Other states	4,606,292	4,391,551
Due to Department	18,713,389	5,087,092
Advances from federal government	106,500,000	183,374,767
Total current liabilities	175,500,915	215,548,618
Advances from federal government, net of current portion	675,687,983	783,693,476
Total liabilities	851,188,898	999,242,094
<b>Net Deficit:</b>		
Unrestricted	(438,512,145)	(588,095,425)
Total liabilities and net deficit	\$ 412,676,753	\$ 411,146,669

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

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

	2012	2011
<b>Operating Revenues:</b>		
Assessments	\$ 384,480,481	\$ 502,622,038
Reimbursement of unemployment compensation benefits from employers	4,664,857	5,946,656
Benefit overpayment recoveries	9,864,345	8,933,828
Intergovernmental:		
Federal	643,582,602	1,753,813,746
State budget appropriation	139,669,463	-
State agencies	6,758,986	10,042,141
Other states	6,117,424	8,548,524
Local governments	13,667,575	19,019,949
Total operating revenues	1,208,805,733	2,308,926,882
<b>Operating Expenses:</b>		
Unemployment compensation benefits	1,059,341,778	2,171,063,209
Total operating expenses	1,059,341,778	2,171,063,209
Operating income	149,463,955	137,863,673
<b>Non-operating revenue:</b>		
Gain on forgiveness of debt	119,325	35,188,745
Total non-operating revenues	119,325	35,188,745
Changes in net assets	149,583,280	173,052,418
<b>Total net deficit – beginning</b>	(588,095,425)	(761,147,843)
<b>Total net deficit – ending</b>	\$ (438,512,145)	\$ (588,095,425)

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

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

	2012	2011
<b>Cash flows used by operating activities:</b>		
Cash received from assessments	\$ 410,484,086	\$ 424,942,221
Cash received from state budget appropriations	139,669,463	-
Cash received from employer reimbursements	5,219,297	6,014,734
Cash received from benefit overpayment recoveries	7,328,591	4,970,992
Cash received from federal, state and local agencies	663,508,020	1,821,405,854
Benefits paid	(1,035,388,331)	(2,180,196,869)
Refund overpayment of assessments	(10,619,627)	(2,981,905)
Net cash provided by operating activities	180,201,499	74,155,027
<b>Cash flows provided by non-capital financing activities:</b>		
(Payments to) proceeds from advances from federal government net of FUTA credits applied	(184,760,935)	115,594,636
Net cash (used in) provided by non-capital financing activities	(184,760,935)	115,594,636
Net (decrease) increase in cash	(4,559,436)	189,749,663
<b>Cash and cash equivalents – beginning</b>	260,981,907	71,232,244
<b>Cash and cash equivalents – ending</b>	\$ 256,422,471	\$ 260,981,907
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 149,463,955	\$ 137,863,673
Net changes in assets and liabilities:		
Assessments receivable	1,757,681	(77,526,374)
Benefit overpayments receivable	(2,535,754)	(3,962,836)
Due from reimbursable employers	554,440	68,078
Intergovernmental receivables:		
Local governments	1,268,219	482,350
State agencies	1,052,233	1,950,206
Other states	653,469	686,969
Federal	(8,839,808)	26,861,969
Benefits payable	14,431,582	(16,905,933)
Tax withholdings payable	(26,085)	(43,009)
FUTA credit overage payable	61,692	-
Contributions payable	11,452,115	2,171,441
Due to Department	13,626,297	(3,135,348)
Intergovernmental payable:		
Federal tax withholdings	(2,933,278)	5,996,009
Other states	214,741	(352,168)
Net cash provided by operating activities	\$ 180,201,499	\$ 74,155,027

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

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

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

**Liquidity**

Over the last decade, the Fund generated substantial operating losses and was required to use all of its cash resources to fund the continued payment of unemployment insurance benefits. Revised tax legislation, effective January 1, 2011, significantly increased tax assessment revenues for the Fund. Cash balances at June 30, 2012 consist primarily of funds received from employers and held in the State of South Carolina's ("State") account in the Federal Unemployment Compensation Fund for purposes of paying state unemployment insurance benefits and repaying principle on advances from the federal unemployment account. Due to the increasing unemployment rate, the resulting increased amount of unemployment benefits paid, and the increased length of time over which the benefits are paid, the Fund has been required to obtain advances from the Federal Unemployment Account ("FUA") of \$0 and \$115,594,636 during the years ended June 30, 2012 and 2011, respectively.

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 April of 2011. The federal government has not established a maximum amount that the Fund can borrow.

State supplemental funding provided via SC FY 12-13 Proviso 90.20 and Act 290 provided the Fund with \$77 million earmarked for federal loan repayments (received in September 2012). The Fund was required to recalculate business unemployment taxes for 2012 retroactive to January 1, 2012. The recalculation of rates resulted in overpayments from businesses for the first two calendar quarters of 2012. Any credits resulting from the lower rates will be applied to future quarters. Due to the timing of the appropriation and restrictions in federal law, no refunds are available from these credits in 2012. All credits must be used against future tax liability. At this time there is no final estimate of the amount of credits that will be issued, but there is an estimate that it will be around \$40 million.

**Reporting Entity**

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

The core of the financial reporting entity is the primary government, which has a separately elected governing body. As required by GAAP, the financial reporting entity includes both the primary government and all of its component units. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The South Carolina Department of Employment and Workforce (the "Department") has determined it has no component units. The primary government is the State of South Carolina. The State has determined that the Department is a part of the primary government.

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

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

**Reporting Entity (continued)**

An organization other than a primary government may serve as a nucleus for a reporting entity when it issues separate financial statements. That organization is identified herein as a primary entity.

The 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 also may be financially accountable if an organization is fiscally dependent on it even if it does not appoint a voting majority of the board. An organization is fiscally independent if it holds all three of the following powers:

- (1) Determines its budget without another government having the authority to approve and modify that budget;
- (2) Levies taxes or sets rates or charges without approval by another government; or,
- (3) Issues bonded debt without approval by another government.

Otherwise, the organization is fiscally dependent on the primary entity that holds one or more of these powers.

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

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

These financial statements include only the portion of the activities of the Department attributable to the Fund. All administrative costs of the programs are paid from the General Fund of the Department.

The Department is part of the primary government of the State of South Carolina. The funds of the Department, including the Fund, are included in the Comprehensive Annual Financial Report of the State of South Carolina. The South Carolina General Assembly elects the three-members of the appellate panelist for four-year terms, while the Governor appoints the Executive Director for a four-year term.

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

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

**Reporting Entity (continued)**

The laws of the State and the policies and procedures specified by the State for State agencies are applicable to the activities of this entity. The reporting entity operates somewhat autonomously, but lacks full corporate powers. The accompanying financial statements present the financial position and results of operations, cash flows and note disclosures of only those transactions of the State of South Carolina, the primary government that is attributable to the Department's Unemployment Compensation Fund.

The Fund accounts for all financial transactions related to employer tax contributions, employer reimbursements in lieu of tax contributions, and federal and other funds used for the payment of unemployment compensation benefits. Interest income earned on excess funds on deposit with the U.S. Treasury is retained in the Fund for the payment of unemployment compensation benefits as long as the fund is not indebted to the federal government for unemployment compensation advances. The Fund includes the following:

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

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

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

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

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

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

*Extended Benefits ("EB")* - This is a permanent program to pay benefits to unemployed workers who are no longer eligible for other types of unemployment claims during times of high unemployment. This program is available when the state insured unemployment rate reaches a predetermined level and stops when the level drops below this predetermined level. The minimum time period for these benefits is a thirteen week period. All benefits which are not reimbursable by other states are funded by the federal government and partially funded with ARRA funds.

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

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

**Reporting Entity (continued)**

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

*Emergency Unemployment Compensation Tier II ("EUC 2")* - This is an expansion of the Emergency Unemployment Compensation Tier I for individuals who had no rights to regular, extended, or additional benefits under State law. The extension for new EUC claims is through December 31, 2011, with payments on those claims ending on January 2, 2013. It is funded by the federal government.

*Emergency Unemployment Compensation Tier II, wk 14 ("EUC 2 wk 14")* - This is the 14<sup>th</sup> week of EUC2 which was granted subsequent to EUC3 and EUC4 and allows an extra week of EUC2 claims to be paid to eligible claimants. It is funded by the federal government.

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

*Emergency Unemployment Compensation Tier IV ("EUC 4")* - This is an additional 6 week expansion of the EUC for individuals who had no rights to regular, extended, or additional benefits under State law. The extension for new EUC claims is through December 31, 2011 with payments on those claims ending on January 2, 2013. It is funded by the federal government.

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

*Invested in capital assets, net of related debt* – This component of net assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds. The Fund does not have any capital assets, thus this classification is not used.

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

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

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

**Reporting Entity (continued)**

*Unrestricted net assets* – This component of net assets consists of net assets or deficits that do not meet the definition of “restricted net assets” or “invested in capital assets, net of related debt.” Since the Fund has a net deficit, this deficit is included in unrestricted net deficit at June 30, 2012 and 2011.

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

**Cash and Cash Equivalents** - The amounts shown in the financial statements as cash and cash equivalents represent cash on hand with the State Treasurer, cash invested in various instruments by the State Treasurer as part of the State's internal cash management pool and cash on deposit with the U.S. Treasury and in various banks.

Most State agencies, including the Fund, participate in the State's internal cash management pool. Because the cash management pool operates as a demand deposit account, amounts invested in the pool are classified as cash and cash equivalents. The State Treasurer administers the cash management pool. The pool includes some long-term investments such as obligations of the United States and certain agencies of the United States, obligations of the State of South Carolina and certain of its political subdivisions, certificates of deposit, collateralized repurchase agreements, and certain corporate bonds. Information pertaining to carrying amounts, fair value, and credit risk of the State Treasurer's investments is disclosed in the Comprehensive Annual Financial Report of the State of South Carolina.

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

Some State Treasurer accounts are not included in the State's internal cash management pool because of restrictions on the use of the funds. For those accounts, cash equivalents include investments in short-term highly liquid securities having an initial maturity of three months or less at the time of acquisition. At year-end, the Fund held no short-term investments.

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

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

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

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

**Receivables (continued)**

*Benefit Overpayments Receivable* - Overpayments of unemployment compensation benefits occur due to changes in facts or estimates upon which benefits were originally paid or by claimant fraud. Overpayments are due upon detection or discovery and are recovered by cash recoupments or withheld from subsequent benefits due the claimants. During 1986, the State enacted a law which provides for recovery of overpayments by the South Carolina Department of Revenue from State income tax refunds. Benefit overpayment recoupments attributable to reimbursable employers or federal programs are due to such employers or the federal government. Refunds are made only when there are no current benefit obligations.

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

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

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

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

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

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

*Contributions Payable* - Contributions payable includes amounts received from employers in excess of current unemployment tax liabilities. The Department maintains the "credits" on account to cover future tax liabilities.

*Intergovernmental Payables* - The amounts reported as intergovernmental payables – states represents amounts due as reimbursements to other states as reimbursements for benefits paid by those states to South Carolina claimants.

***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 an enterprise fund's principal ongoing operations. The Fund's primary operating revenues are from assessments and federal grants. Operating expenses include unemployment compensation benefits paid. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

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

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

**Note 2. Deposits**

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

	2012	2011	
Deposits held by State Treasurer	\$ 7,155,714	\$ 3,295,405	
Deposits held by U.S. Treasury	237,726,585	244,275,981	
Other deposits	11,540,172	13,410,521	
Total	\$ 256,422,471	\$ 260,981,907	

**Deposits held by State Treasurer** - The deposits of the Fund held by the State Treasurer are under the control of the State Treasurer who, by law, has sole authority for investing State funds. State law requires full collateralization of all State Treasurer bank balances. The State Treasurer must correct any deficiencies in collateral within seven days.

With respect to investments in the State's internal cash management pool, all of the State Treasurer's investments are required to be either insured or registered, or are investments for which the securities are held by the State or its agent in the State's name. The State's investment policy, by law, authorizes investments that vary by fund, but generally include obligations of the United States and certain agencies of the United States, obligations of the State of South Carolina and certain of its political subdivisions, certificates of deposit, collateralized repurchase agreements, certain corporate bonds, and commercial paper.

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

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

**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 Fund. States are not due any interest while carrying federal unemployment advances on their books.

**Other Deposits** - Custodial credit risk for deposits is the risk that in the event of a bank failure, the Fund's deposits may not be returned or the Fund will not be able to recover collateral securities in the possession of an outside party. Section 11-13-60 of the South Carolina Code of Laws requires these funds be fully insured or collateralized. All deposits of the Fund met these requirements and are either covered by federal depository insurance or collateralized with securities held by the depository financial institution's trust department or agent in the Fund's name. Funds are transferred on a regular basis from the deposits held by U.S. Treasury to cover all benefit payments from this account.

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

**Note 3. Payable to Department**

The amount shown on the financial statements as being payable to Department represents amounts which were collected for penalties, interest, and contingency assessments in tax remittances from employers and special administration funds. Special administration funds are funds received from the federal government that are payable to the Department to support its administration of the Fund. Interest surcharge amounts are collected from employer and transferred into a special administrative account to fund accrued interest payments on the federal unemployment account advances. Amounts due to the Department as of June 30, 2012 and 2011 are as follows:

	2012	2011
Contingency assessments	\$ 108,821	\$ 103,441
Penalty, interest, service charge and fees	196,823	167,099
Special administration funds	4,384,956	4,396,500
Interest surcharge	13,997,056	394,319
Reed Act	25,733	25,733
Total	\$ 18,713,389	\$ 5,087,092

**Note 4. Reed Act Funds**

The Fund has no funds available under the Reed Act as of June 30, 2012 and 2011. During 2009, due to the Fund becoming insolvent, all funds remaining were used to pay benefits. These funds were granted to the Fund from the federal government from federal unemployment tax collections to be used for unemployment benefits should they become needed. Upon appropriation by the State legislature and after approval of the Governor, these funds could be used for other purposes. Of these funds, \$13,827,461 were appropriated by the General Assembly in prior fiscal years to partially fund the purchase of new software and information technology equipment, land acquisition, and office expansion. The \$13,827,461 was shown as a transfer from the Fund to the Department upon Legislative appropriation prior to the fiscal year ended June 30, 2009. During the fiscal year ended June 30, 2011, \$25,733 in unexpended prior-year project funds was transferred to the Fund's Reed Act account. These funds are shown as payable to the Department at June 30, 2012, and will be properly transferred and/or otherwise utilized upon receiving final guidance on the appropriate treatment from the United States Department of Labor.

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

**Note 5. Receivables**

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

	2012		
	Receivables at June 30, 2012	Allowance for Uncollectibles	Net Receivables
Assessments receivable (UI)	\$ 134,589,408	\$ 9,410,990	\$ 125,178,418
Benefit overpayments receivable:			
Basic unemployment compensation (UI)	13,833,069	6,451,643	7,381,426
Federal employees (UCFE)	137,512	101,599	35,913
Ex-servicemen (UCX)	122,415	64,803	57,612
Trade readjustment (TRA)	65,796	32,764	33,032
Emergency Unemployment Compensation (EUC)	13,224,355	7,568,871	5,655,484
Totals	<u>\$ 27,383,147</u>	<u>\$ 14,219,680</u>	<u>\$ 13,163,467</u>
Due from reimbursable employers (UI)	<u>\$ 954,120</u>	<u>\$ -</u>	<u>\$ 954,120</u>
Intergovernmental receivables (UI):			
Local governments	<u>\$ 2,191,508</u>	<u>\$ -</u>	<u>\$ 2,191,508</u>
State agencies	<u>\$ 1,268,276</u>	<u>\$ -</u>	<u>\$ 1,268,276</u>
Other states	<u>\$ 1,064,650</u>	<u>\$ -</u>	<u>\$ 1,064,650</u>
Federal	<u>\$ 12,433,843</u>	<u>\$ -</u>	<u>\$ 12,433,843</u>
	2011		
	Receivables at June 30, 2011	Allowance for Uncollectibles	Net Receivables
Assessments receivable (UI)	\$ 139,401,750	\$ 12,465,651	\$ 126,936,099
Benefit overpayments receivable:			
Basic unemployment compensation (UI)	10,016,293	3,632,023	6,384,270
Federal employees (UCFE)	78,289	70,212	8,077
Ex-servicemen (UCX)	64,254	55,720	8,534
Trade readjustment (TRA)	78,445	37,508	40,937
Emergency Unemployment Compensation (EUC)	9,270,228	5,084,333	4,185,895
Totals	<u>\$ 19,507,509</u>	<u>\$ 8,879,796</u>	<u>\$ 10,627,713</u>
Due from reimbursable employers (UI)	<u>\$ 1,631,050</u>	<u>\$ 122,490</u>	<u>\$ 1,508,560</u>
Intergovernmental receivables (UI):			
Local governments	<u>\$ 3,497,110</u>	<u>\$ 37,383</u>	<u>\$ 3,459,727</u>
State agencies	<u>\$ 2,320,509</u>	<u>\$ -</u>	<u>\$ 2,320,509</u>
Other states	<u>\$ 1,718,119</u>	<u>\$ -</u>	<u>\$ 1,718,119</u>
Federal	<u>\$ 3,594,035</u>	<u>\$ -</u>	<u>\$ 3,594,035</u>

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

**Note 6. Information on Business-Type Activities**

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

	<u>2012</u>	<u>2011</u>
Charges for services	\$ 425,553,668	\$ 555,113,136
Operating grants and contributions	643,582,602	1,753,813,746
State budget appropriation	139,669,463	-
Non-operating revenue	119,325	35,188,745
Less: expenses	<u>(1,059,341,778)</u>	<u>(2,171,063,209)</u>
Net program revenue	<u>149,583,280</u>	<u>173,052,418</u>
Change in net assets	149,583,280	173,052,418
Net (deficit) assets-beginning of year	<u>(588,095,425)</u>	<u>(761,147,843)</u>
Net (deficit) assets-end of year	<u>\$ (438,512,145)</u>	<u>\$ (588,095,425)</u>

**Note 7. Advances from Federal Government**

On December 26, 2008, the Fund began to obtain advances from the federal government in order to pay unemployment benefits due to the exhaustion of all other funds to pay benefits. These advances were obtained due to the significant increase in unemployment benefits resulting from a significant increase in the unemployment rate in the State of South Carolina and the extension of the period by the federal government that benefits are paid to claimants. Section 1201 of Title XII of the Social Security Act provides that an advance from the Federal Unemployment Fund to the account of a state's unemployment trust fund is allowed if the governor of a state applies for payment for any 3-month period. Only amounts actually drawn down for benefit payments must be repaid. At June 30, 2012 and 2011, the outstanding balance of these advances was approximately \$782 million and \$967 million, respectively. Principal payments began on September 30, 2011 with interest accruing at an interest rate of approximately 4 percent beginning on January 1, 2011. Of the \$782 million total amount payable, approximately \$675 million is reported as a non-current liability, and \$107 million is reported as being due within one year.

Under Section 1201 of Title XII of the Social Security Act, if a balance of advances to a state is outstanding on January 1, in two consecutive years and not fully repaid prior to November 10 of the second year, employers subject to contributions under such state's unemployment compensation law will be subject to additional federal unemployment taxes determined by a formula of reductions in credit against the tax. Such credit reduction will apply beginning with the second consecutive January 1 as of the beginning of which there is a balance of such advances. The credit reductions, pursuant to Section 3302(c) (2) of FUTA, increase employers' federal tax liability each year. The amount equal to the reduced credits, excluding penalty and interest, will be applied to reduce the state's balance of advances. For the fiscal years ended June 30, 2012 and 2011, a total of \$119,325 and \$35,188,745, respectively, was applied to reduce the balance of federal unemployment account advances to the Fund as a result of the reduced FUTA credits. This amount has been reported as non-operating revenue in the Statements of Revenues, Expenses and Changes in Fund Net Deficit.

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

**Note 7. Advances from Federal Government (continued)**

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

Increased tax collections coupled with decreases in the number of individuals eligible for and claiming state UI benefits have enabled the Fund to operate without obtaining additional advances from the federal government since May of 2011. Management plans to continue to borrow from the federal government, if needed, to fund its deficits for the foreseeable future; however, it is estimated that no additional advances will be required under the new tax system. The federal government has not established a maximum amount that the Fund can borrow. The amount due within one year consists of an amount to be paid in November of 2012 based on the U.S. Department of Labor's estimate of potential FUTA credit reduction for 2012. Federal regulations specify that interest on federal unemployment account advances may not be paid, either directly or indirectly, from the Fund; therefore, no accrued interest is reported in the financial statements of the Fund. The Department paid interest of approximately \$25 million from the Department's interest surcharge administrative fund subsequent to June 30, 2012.

A summary of changes in long-term liabilities for the year ended June 30, 2012 is as follows:

	Balance, July 1, 2011	Additions	Reductions	Balance, June 30, 2012	Due within one year
Advances from federal government	\$967,068,243	\$ -	\$(184,880,260)	\$782,187,983	\$106,500,000

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

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

**Note 8. Contingencies**

**Federal Grants** – The various programs administered by the Fund for fiscal years June 30, 2012 and years prior to that are subject to audit by the federal grantor agencies. At the present time, amounts, if any, which may be due to federal grantors have not been determined but the Fund believes that any such amounts in the aggregate would not have a material adverse effect on the financial position of the Fund. Furthermore, there is no evidence to indicate that a liability should be recorded at year-end.

**Note 9. Subsequent Events**

The balance of advances from federal government is \$675,680,422, net of \$7,561 of FUTA credits, at the date of the audit report. A principal payment of \$106,500,000 was made in August 2012. The Fund has not taken any additional advances from the federal government since May 2011.

The state of South Carolina's 2012-2013 Appropriations Act enacted August 3, 2012, provided \$77 million for SUTA tax relief, as follows:

Section 67 of the budget	\$ 30,790,650
Proviso 90.20 of the budget	3,009,350
Section 1 of the capital reserve bill	43,200,000
	<u>\$ 77,000,000</u>

The agency was required to recalculate 2012 unemployment taxes retroactive to January 1, 2012 which resulted in overpayments for the first and second calendar quarters of 2012. Credits from these overpayments are available to businesses as credits but due to the timing of the funding are not available for refund. The appropriation will also lower the tax contributions for the third and fourth quarter of 2012. Although final numbers are not yet available, it is estimated that about \$40 million in credits will be issued that can be used to offset future tax liability to the agency.

**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***

**Report on Internal Control Over  
Financial Reporting and On Compliance and Other Matters Based  
On an Audit of Financial Statements Performed in Accordance with  
*Government Auditing Standards***

The Office of the State Auditor  
South Carolina Department of Employment and Workforce Unemployment Compensation Fund  
Columbia, South Carolina

We have audited the financial statements of the South Carolina Department of Employment and Workforce Unemployment Compensation Fund (the "Fund") as of and for the years ended June 30, 2012 and 2011, and have issued our report thereon dated October 1, 2012. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Fund is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Fund's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control over financial reporting.

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 Fund's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund's financial statements are free of 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*.

This report is intended solely for the information and use of the Office of the State Auditor, the Governor of the State of South Carolina, and management of the Fund, and is not intended to be and should not be used by anyone other than these specified parties.

*Scott and Company LLC*

Columbia, South Carolina

October 1, 2012