South Carolina
Department of Employment and Workforce

Columbia, South Carolina

Report on the Financial Statements

Year Ended June 30, 2018

SOUTH CAROLINA OFFICE OF THE STATE AUDITOR
1401 Main Street, Suite 1200 • Columbia, SC 29201

September 11, 2020

Mr. Dan Ellzey, Executive Director
South Carolina Department of Employment and Workforce
Columbia, South Carolina

This report on the audit of the 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, 2018, was issued by Elliott Davis, 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,

George L. Kennedy, III

George L. Kennedy, III, CPA
State Auditor

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Contents

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, 2018, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above 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, 2018, 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.

Prior Period Restatements

As described in Note 15 to the financial statements, beginning net position and fund balance as of July 1, 2017 for the Agency's governmental activities and special revenue fund have been restated to correct misstatements. Our opinion is not modified with respect to these matters.

Reporting Entity

As described in Note 1, 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, 2018, 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.

Implementation of New Accounting Standard

As described in Note 14 to the financial statements, the Agency adopted the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, effective July 1, 2017. 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, schedule of the employer's proportionate share of the net pension liability, schedule of the employer's pension plan contributions, schedule of the employer's proportionate share of the net OPEB liability, and schedule of the employer's OPEB plan 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 September 11, 2020, 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.

Elliott Davis, LLC

Columbia, South Carolina
September 11, 2020

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, 2018. 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 employer taxes and the federal government for benefit funds. All federal funds received by the Agency are cleared through the State of South Carolina's Treasury, and the authority to expend these funds is granted by the State of South Carolina's Legislature.

- During 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 South Carolina 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 of South Carolina'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 "Unemployment Compensation Fund") was created per Section 41-33-10 of the South Carolina Employment Security Law. The Unemployment Compensation 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 Federal Unemployment Trust Fund to pay unemployment benefit claims.

- Generally, the principal source of revenue for the Unemployment Compensation Fund is quarterly unemployment tax contributions paid by employers. However, the Unemployment Compensation Fund also receives federal reimbursements for emergency and extended unemployment benefits. Federal law requires the Unemployment Compensation Fund to hold all reserves in the Federal Unemployment Trust Fund, which invests in obligations guaranteed by the United States, and earnings on the Federal Unemployment Trust Fund may be used only to pay benefits. With the exception of certain federal allocations, the Federal Unemployment Trust Fund's reserves may be used only to pay unemployment benefits, or in certain circumstances, to refund benefit overpayments to employers, claimants, or the federal government.

Overview of the Agency (continued)

- Federal special administrative allocations granted by the U.S. Department of Labor and distributed to the Unemployment Compensation Fund, may be used to pay costs associated with implementing and administering the provisions of state law that qualified the State of South Carolina to receive incentive payments under the February 2009 Assistance for Unemployed Workers and Struggling Families Act, and certain other administrative costs.

- If the Unemployment Compensation Fund exhausts all of its reserves, it may borrow from the Federal Unemployment Account 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), and 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 U.S. Department of Labor, and the Agency is economically dependent on those grant funds to provide for its overall administration, the payment of certain unemployment compensation benefits, and the administration and funding of the UI, WIOA, Wagner-Peyser, and other programs for the State of South Carolina.

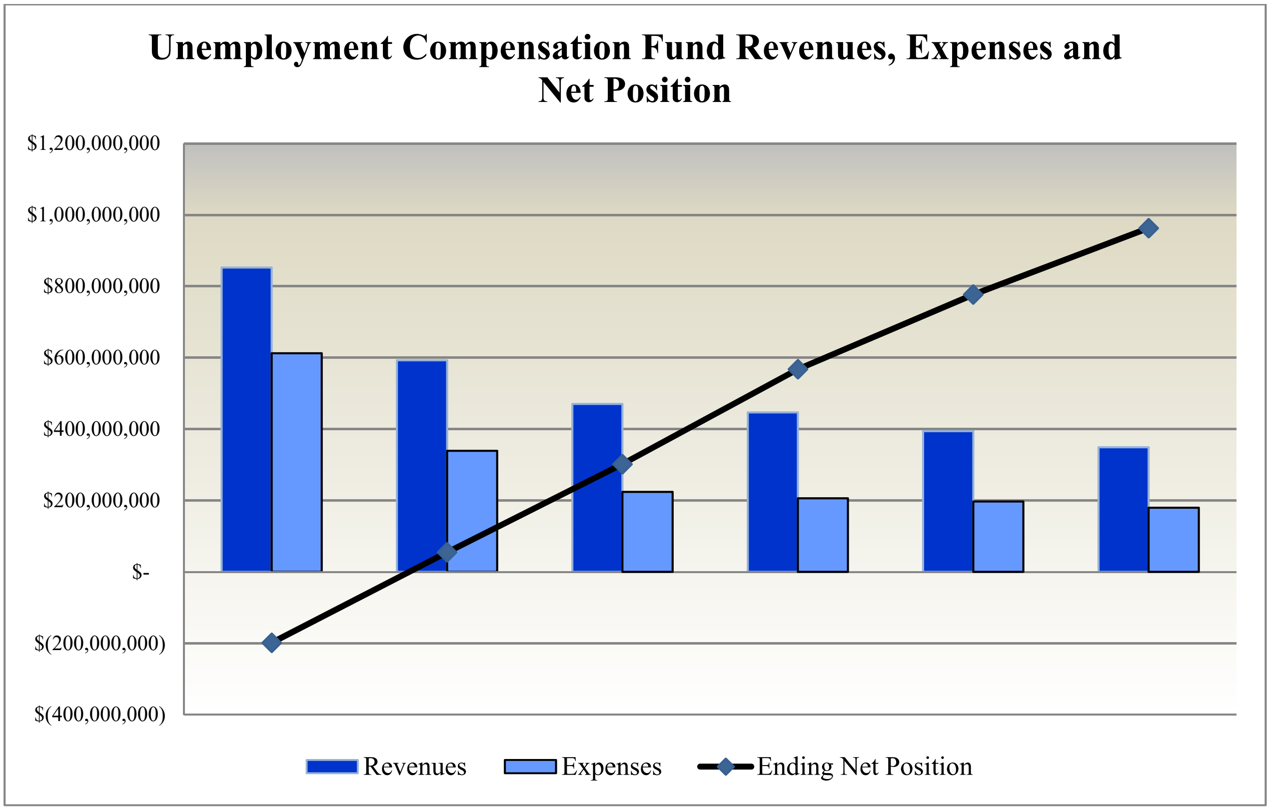
Unemployment Compensation Fund Financial Highlights

- Assets of the Unemployment Compensation Fund exceeded its liabilities as of June 30, 2018 by approximately $963.1 million, which is shown as net position. The net position as of June 30, 2017 was approximately $777.1 million. The Unemployment Compensation Fund has continued to steadily improve its net position since 2011, and has not borrowed from the Federal Unemployment Account to make benefit payments since May 2011. Tax revenues have been sufficient to allow the State of South Carolina to continue making benefit payments to unemployed individuals, and continue restoring the Unemployment Compensation Fund's solvency level to an acceptable threshold, following best practices issued by the U.S. Department of Labor.

- The Unemployment Compensation Fund's net position increased by approximately $186.0 million during the year ended June 30, 2018, and has increased by approximately $1.7 billion during the period from July 1, 2010, through June 30, 2018, largely due to the legislative tax reforms effective during 2011, the continued decline of unemployment compensation benefit payments, and increased taxable wages due to an improved economy.

- Total unemployment compensation benefit payments were approximately $179.1 million and $195.2 million during the years ended June 30, 2018 and 2017, respectively.

Unemployment Compensation Fund Financial Highlights (continued)

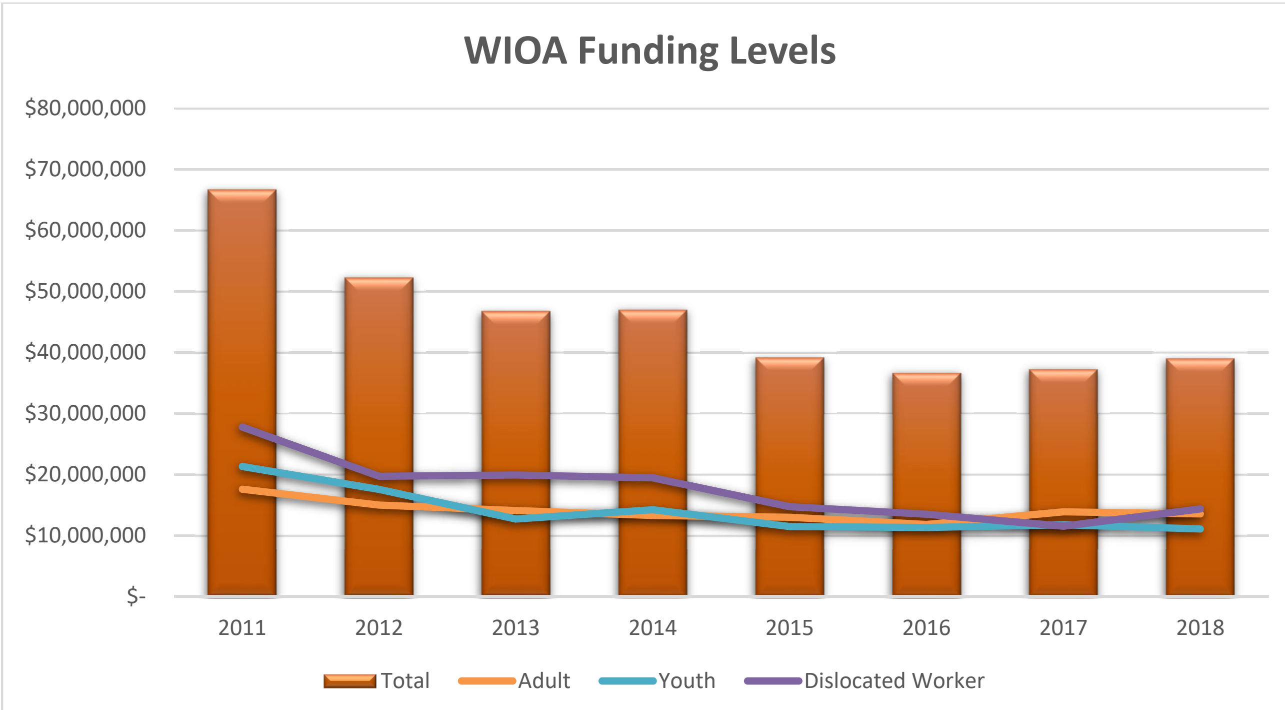


- During January 2013, the Agency began receiving federal tax refunds intercepted by the U.S. Treasury, which were originally due from claimants that received unemployment compensation benefit payments to which they were not entitled. The Agency's successful implementation of the Treasury Offset Program allowed it to recover overpayments of $1.5 million and $4.1 million during the years ended June 30, 2018 and 2017, respectively.

- The Agency may recover overpaid unemployment compensation benefits through involuntary wage withholdings. The wage withholding recoveries were $1.5 million and $5.5 million during the years ended June 30, 2018 and 2017, respectively.

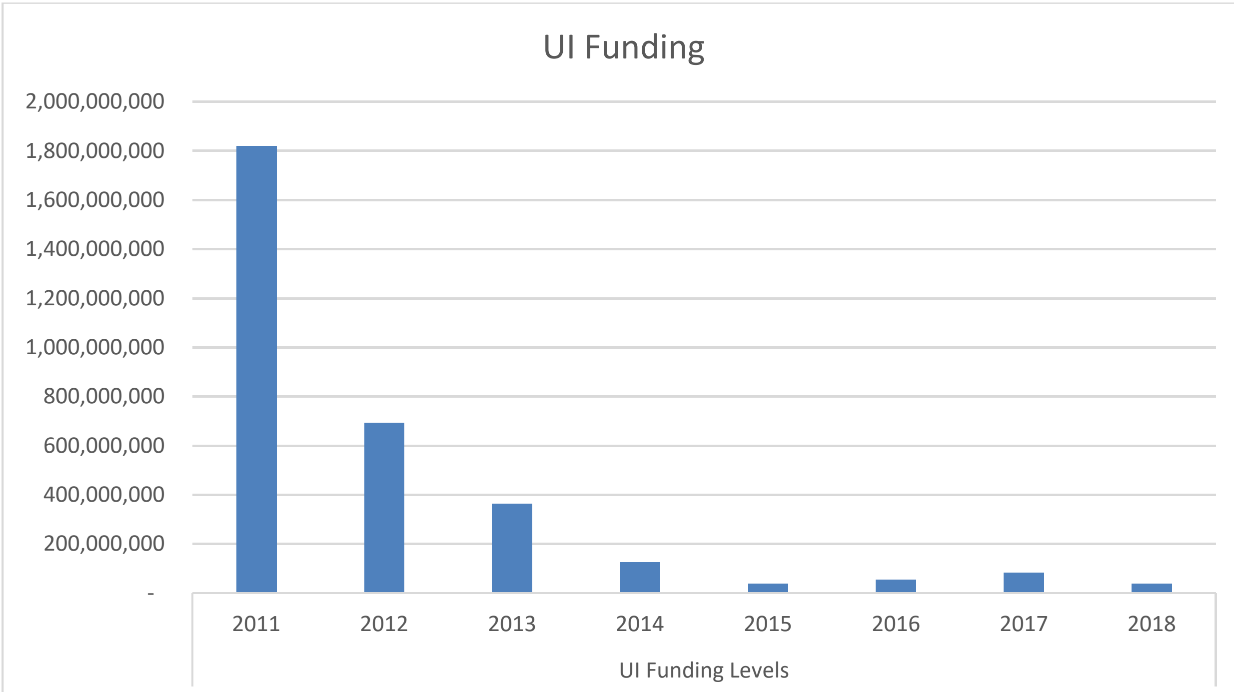
Administrative Financial Highlights

- Funding for the WIOA program has experienced an overall decline for the State of South Carolina of approximately 40%, or $27 million, from approximately $67 million allocated to the State of South Carolina for the year ended June 30, 2011 to approximately $39 million for the fiscal year ended June 30, 2018. This is due primarily to the significant reduction and then expiration of American Reinvestment and Recovery Act ("ARRA") funds after 2011.



- Federal funding for the UI and Emergency Unemployment Compensation (EUC) programs has also experienced a general decline over the last five years, with the exception being the year ended June 30, 2017. During the year ended June 30, 2017, approximately $50 million in additional funding was provided for modernization of the Agency's UI related software systems. That project was completed and put into service during the year ended June 30, 2018, and therefore, additional funding was not needed. Amounts granted to the State of South Carolina for these programs are closely tied to the projected and actual state-wide workloads for various required activities associated with administering the UI and EUC programs. The Agency's modernized UI program service delivery model, discussed under the *Governmental Activities* section below, was designed to better balance the statewide UI program workload while absorbing these federal funding reductions.

Administrative Financial Highlights (continued)



- Beginning during 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 of South Carolina. 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 program 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 program tax system modernization.

- The Agency is actively pursuing the sale of vacant buildings and other capital assets. During the year ended June 30, 2018, assets were sold providing $820,459 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 year ended June 30, 2018, primarily due to the de-recognition of approximately $35.1 million of capital assets (benefits system and software) that were accounted for as contributions to North Carolina and Georgia. The Governmental Activities liabilities and deferred inflows of resources exceeded its assets and deferred outflows of resources at June 30, 2018 by $19,267,663 (shown as "total net position"), which represents a decrease in net position of $33,901,460 from the prior year restated net position. See Notes 14 and 15 in regards to the restatement of beginning net position as of July 1, 2017 for the implementation of GASB 75 and the correction of errors, respectively.

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 the financial statements.

Government-wide Financial Statements

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

> **Statement of Net Position:** This statement presents information on all of the Agency's assets, deferred outflows of resources, liabilities, and deferred inflows of resources. This statement also reports the differences between assets and deferred outflows of resources less liabilities and deferred inflows of resources 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 Unemployment Compensation 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 Fund:**
> 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 Fund:**
> Proprietary funds charge customers for the services they provide to generate operating revenues. The principle operating revenues of the Agency's proprietary fund are from assessments on businesses and reimbursements from the federal government for the payment of unemployment compensation benefits. The Unemployment Compensation Fund is the Agency's only proprietary 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 fund 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 deferred outflows of resources less liabilities and deferred inflows of resources is fund balance.

The Statement of Fund Net Position is the statement of expendable assets which are assigned to the proprietary fund 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 deferred outflows of resources less liabilities and deferred inflows of resources is fund net position.

The Statement of Revenues, Expenditures, and Changes in Fund Balance presents the results of the governmental fund's activities over the course of the year and information as to how the fund balance changed during the year.

The Statement of Revenues, Expenses, and Changes in Fund Net Position presents the results of the proprietary fund's activities over the course of the year and information as to how the fund net position changed during the year.

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

Notes to the Financial Statements

The Notes to the Financial Statements provide required disclosures and other information that is essential to a full understanding of amounts provided in the financial statements. These Notes to the Financial Statements 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, 2018 and 2017
(Condensed Financial Data)

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Assets:						
Current	$ 72,547,068	$ 100,653,010	$ 1,001,036,816	$ 806,621,732	$ 1,073,583,884	$ 907,274,742
Non-current	41,817,098	74,991,901	-	-	41,817,098	74,991,901
Total assets	114,364,166	175,644,911	1,001,036,816	806,621,732	1,115,400,982	982,266,643
Deferred outflows of resources	11,305,650	9,269,610	-	-	11,305,650	9,269,610
Liabilities:						
Current	23,119,563	45,862,657	37,980,363	29,557,045	61,099,926	75,419,702
Non-current	112,991,041	63,342,708	-	-	112,991,041	63,342,708
Total liabilities	136,110,604	109,205,365	37,980,363	29,557,045	174,090,967	138,762,410
Deferred inflows of resources	8,826,875	4,864,440	-	-	8,826,875	4,864,440
Net position:						
Net investment in capital assets	40,846,539	74,954,041	-	-	40,846,539	74,954,041
Restricted	2,976,285	2,367,291	963,056,453	777,064,687	966,032,738	779,431,978
Unrestricted	(63,090,487)	(6,476,616)	-	-	(63,090,487)	(6,476,616)
Total net position	$ (19,267,663)	$ 70,844,716	$ 963,056,453	$ 777,064,687	$ 943,788,790	$ 847,909,403

South Carolina Department of Employment and Workforce

Statements of Activities
June 30, 2018 and 2017
(Condensed Financial Data)

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Revenues:						
Program revenues:						
Charges for services	$ 21,669,178	$ 19,871,944	$ 343,875,198	$ 384,577,444	$ 365,544,376	$ 404,449,388
Operating grants and contributions	90,552,711	130,298,109	5,194,659	9,651,488	95,747,370	139,949,597
General revenues:						
State appropriations	424,008	500,000	-	-	424,008	500,000
Total revenues	112,645,897	150,670,053	349,069,857	394,228,932	461,715,754	544,898,985
Expenses:						
Employment, workforce development, and training services	110,822,658	103,802,820	-	-	110,822,658	103,802,820
Unemployment benefits	-	-	180,015,603	197,281,223	180,015,603	197,281,223
Total expenses	110,822,658	103,802,820	180,015,603	197,281,223	290,838,261	301,084,043
Nonoperating revenues	-	-	16,937,512	12,208,292	16,937,512	12,208,292
Transfer of capital assets	(35,070,371)	-	-	-	(35,070,371)	-
Indirect costs remitted to General Fund of the State	(654,328)	(606,773)	-	-	(654,328)	(606,773)
Change in net position	(33,901,460)	46,260,460	185,991,766	209,156,001	152,090,306	255,416,461
Net position, beginning of year, as originally reported	70,844,716	13,640,454	777,064,687	542,213,210	847,909,403	555,853,664
Implementation effect of GASB No. 75	(49,516,261)	-	-	-	(49,516,261)	-
Prior period restatement	(6,694,658)	10,943,802	-	25,695,476	(6,694,658)	36,639,278
Net position, beginning of year, as restated	14,633,797	24,584,256	777,064,687	567,908,686	791,698,484	592,492,942
Net position, end of year	$ (19,267,663)	$ 70,844,716	$ 963,056,453	$ 777,064,687	$ 943,788,790	$ 847,909,403

Certain prior year amounts have been reclassified to conform to the current year presentation. There was no effect on previously reported net position or change in net position as a result of these reclassifications.

The Agency implemented the provisions of GASB No. 75 during the year ended June 30, 2018. Net position as of July 1, 2017 was restated in accordance with the provisions of this Statement. However, information to determine the restatement of beginning net position as of July 1, 2016 was not available, and is therefore not restated. See Note 14.

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, 2018 and 2017, the Agency's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources by approximately $943.8 million and $847.9 million, respectively.

Government-wide Financial Analysis (continued)

The increase in the Agency's net position is attributable to the overall improvement in the State of South Carolina's economy which has allowed the Unemployment Compensation Fund's net position to continue to grow as benefit payments are lower than the collections made by the Unemployment Compensation Fund.

Governmental Activities

Statement of Net Position:

Total assets decreased by approximately $61.3 million or 35% from the prior year, primarily due to the de-recognition of a portion of the new benefits system that was accounted for as a contribution to North Carolina and Georgia. A total of approximately $35.1 million was considered a contribution to these states.

Total liabilities increased by approximately $26.9 million or 25.0%, primarily due to the increase in the amount of payables recognized for the vendor completion of the new benefits system implementation during the year ended June 30, 2017.

Statement of Activities:

There was a decrease in operating grants and contributions and state appropriations, thereby decreasing total revenues by approximately $38.0 million or 25%, primarily due to the recognition of revenue received from the U.S. Department of Labor resulting from the billing of expenses incurred as a result of the implementation of the new benefits system during the year ended June 30, 2017 which was a one-time source of revenue and not available during the year ended June 30, 2018.

Total expenses for the year ended June 30, 2018 increased by $42.1 million or 40% as compared to the year ended June 30, 2017. The substantial increase is due to the transfer of a portion of the new benefits system valued at approximately $35.1 million to North Carolina and Georgia, offset by reductions in spending associated with the reduction in overall revenues.

Business-Type Activities

Statement of Net Position:

Total assets increased by approximately $194.4 million or 24% due to an increase in cash collected for Unemployment Compensation Fund replenishment. The Unemployment Compensation Fund reported positive cash flow for the year ended June 30, 2018.

Total liabilities increased by approximately $8.4 million or 29%, primarily due to the increase in contributions and benefits 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 $186 million or 24% during the year ended June 30, 2018, which is the result of a higher than expected growth in employment, causing tax revenues to grow at an increased rate, along with a significant decrease in unemployment compensation benefit payments as the economy continues to recover from the national recession.

Statement of Activities

Assessments decreased by approximately $27.2 million or 8% compared to last year due to a decrease in taxes assessed on businesses. Per the South Carolina Code of Laws, unemployment insurance tax rates are set each year to raise sufficient revenues to pay projected benefits as well as to either repay outstanding federal loans or begin rebuilding the Unemployment Compensation Fund to an adequate level as defined in the South Carolina Code of Laws. For the year ended June 30, 2017, tax rates were set to raise $336.95 million ($206 million for benefit payments and $130.95 million for Unemployment Compensation Fund rebuilding). For the year ended June 30, 2018, tax rates were set to raise slightly less money, approximately $327.5 million ($202.5 million for benefit payments and $125.0 million for Unemployment Compensation Fund rebuilding).

Unemployment compensation benefits decreased by approximately $16.1 million during the year ended June 30, 2018 due to a reduction in the unemployment rate. State benefits paid decreased by approximately $11.8 million and federal benefits paid decreased by approximately $4.3 million during the year ended June 30, 2018. Benefit payments have also fallen due to a general improvement in the South Carolina economy.

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

	2018		2017		Change	
State Benefits	$	173.8	$	185.6	$	(11.8)
Federal Benefits		5.3		9.6		(4.3)
Total	$	179.1	$	195.2	$	(16.1)

Total operating revenues decreased by approximately $45.2 million or 12% during the year ended June 30, 2018 primarily due to a reduction in assessment collections.

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 year. As of the end of the current year, the Agency's governmental fund reported a combined ending fund balance of approximately $52.1 million, an increase of approximately $1.6 million from the prior year.

Assigned fund balance accounts for approximately $49.1 million or 94% of total ending fund balance, and is available for administrative expenditures made in accordance with federal and state guidelines.

Restricted fund balance accounts for approximately $2.9 million or 5% 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 approximately $0.1 million or 1% of total ending fund balance, and represents prepaid and inventory items.

Proprietary Fund

The Agency's proprietary fund financial statements provide the same type of information found in the government-wide financial statements in more detail for the Unemployment Compensation Fund. Restricted net position for the Unemployment Compensation Fund as of June 30, 2018 amounted to approximately $963.1 million.

The Unemployment Compensation Fund reported positive cash flow as of June 30, 2018, with an increase in cash of approximately $192.8 million versus $218.4 million for the year ended June 30, 2017. The Unemployment Compensation Fund continued to report positive cash flow provided by operating activities of approximately $175.9 million during the year ended June 30, 2018 versus approximately $206.1 million during the year ended June 30, 2017.

Other information concerning the Unemployment Compensation 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 Unemployment Compensation Fund, which were issued on November 14, 2018.

Capital Assets and Debt Administration

Primary changes in capital asset amounts during the year related to incurring expenses for the development of internally generated/modified computer software, currently classified as intangible asset construction in progress (CIP), and for the development of modernized unemployment insurance benefits and unemployment tax systems. In addition, two (2) buildings, two (2) parcels of land, and one (1) vehicle were sold.

Long-term liabilities fell into four areas: accrued compensated absences and related benefits, capital leases payable, the net pension liability, and the net other post-employment benefit plan liability.

More detailed information about the Agency's capital assets is presented in Note 5 to the financial statements. More detailed information about the Agency's debt administration is presented in Note 6 to the financial statements.

Economic Factors and Next Year's Rate

Tax rates for calendar year 2018 were set to raise sufficient revenues to cover projected benefit costs and to increase net Unemployment Compensation Fund solvency as required to avoid FUTA credit reductions for State of South Carolina businesses. The Unemployment Compensation Fund's net position is expected to continue to increase as the State of South Carolina continues its five-year rebuilding plan to bring the Unemployment Compensation Fund balance to a level sufficient to withstand a moderate recession. The maximum number of weeks of benefits for unemployment insurance is twenty (20) weeks.

Unemployment insurance tax rates for the 2019 calendar year have been set based on projected benefit expenses of $195 million.

Per South Carolina State law and regulation, and following best practices issued by the U.S. Department of Labor, 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 Agency to rebuild the Unemployment Compensation Fund to a level that is equal to having an ACHM of 1.0 by the year 2020. Tax year 2018 was the third year of a five-year rebuilding period that included assessments going towards rebuilding the Unemployment Compensation Fund. South Carolina State regulations also provide for a suspension of the rebuilding process if the State of South Carolina 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 an 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 Chief Financial Officer, 1550 Gadsden Street, P.O. Box 995, Columbia, South Carolina 29202.

BASIC FINANCIAL STATEMENTS

South Carolina Department of Employment and Workforce
Statement of Net Position
June 30, 2018

	Governmental Activities	Business-type Activities	Total
Assets:			
Current assets:			
Cash	$ 26,057,190	$ 880,895,937	$ 906,953,127
Assessments receivable, net	11,695,118	112,953,756	124,648,874
Benefit overpayment receivables, net	-	7,342,229	7,342,229
Accounts receivable, net	-	2,669,388	2,669,388
Internal balances	5,107,159	(5,107,159)	-
Intergovernmental receivables:			
Federal government	24,716,709	300,379	25,017,088
State agencies	23,573	613,589	637,162
Other states	-	732,152	732,152
Local government	4,877,112	636,545	5,513,657
Prepaid and inventory items	70,207	-	70,207
Total current assets	72,547,068	1,001,036,816	1,073,583,884
Non-current assets:			
Non-depreciable capital assets	2,338,135	-	2,338,135
Capital assets, net of accumulated depreciation	39,478,963	-	39,478,963
Total non-current assets	41,817,098	-	41,817,098
Total assets	114,364,166	1,001,036,816	1,115,400,982
Deferred outflows of resources:			
Deferred outflows of resources related to pension plan	9,577,565	-	9,577,565
Deferred outflows of resources related to OPEB plan	1,728,085	-	1,728,085
Total deferred outflows of resources	11,305,650	-	11,305,650
Liabilities:			
Current liabilities:			
Benefits payable	-	4,041,802	4,041,802
Accounts payable	15,443,972	-	15,443,972
Retainage payable	1,690,777	-	1,690,777
Income tax withholdings payable	-	9,675	9,675
Contributions payable	-	28,544,738	28,544,738
Accrued salaries and related benefits	3,200,800	-	3,200,800
Intergovernmental payables:			
Federal government	-	1,501,386	1,501,386
State agencies	77,529	-	77,529
Other states	-	1,839,159	1,839,159
Amounts due to reimbursable employers	-	2,043,603	2,043,603
Current portion of accrued compensated absences and related benefits	2,377,922	-	2,377,922
Current portion of capital lease payable	328,563	-	328,563
Total current liabilities	23,119,563	37,980,363	61,099,926
Non-current liabilities:			
Accrued compensated absences and related benefits net of current portion	731,172	-	731,172
Capital lease payable, net of current portion	641,996	-	641,996
Net pension liability	63,905,917	-	63,905,917
Net OPEB liability	47,711,956	-	47,711,956
Total non-current liabilities	112,991,041	-	112,991,041
Total liabilities	136,110,604	37,980,363	174,090,967
Deferred inflows of resources:			
Deferred inflows of resources related to pension plan	4,316,694	-	4,316,694
Deferred inflows of resources related to OPEB plan	4,510,181	-	4,510,181
Total deferred inflows of resources	8,826,875	-	8,826,875
Net position:			
Net investment in capital assets	40,846,539	-	40,846,539
Restricted	2,976,285	963,056,453	966,032,738
Unrestricted	(63,090,487)	-	(63,090,487)
Total net position	$ (19,267,663)	$ 963,056,453	$ 943,788,790

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, 2018

Function/Program	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position: Governmental Activities	Net (Expense) Revenue and Changes in Net Position: Business-type Activities	Net (Expense) Revenue and Changes in Net Position: Total
Governmental activities:						
Employment, workforce development, and training services	$ 110,822,658	$ 21,669,178	$ 90,552,711	$ 1,399,231	$ -	$ 1,399,231
Business-type activities:						
Unemployment benefits	180,015,603	343,875,198	5,194,659	-	169,054,254	169,054,254
Totals	$ 290,838,261	$ 365,544,376	$ 95,747,370	1,399,231	169,054,254	170,453,485
General revenues (expenses):						
State appropriations				424,008	-	424,008
Non-operating revenues				-	16,937,512	16,937,512
Transfer of capital assets				(35,070,371)	-	(35,070,371)
Indirect costs remitted to the General Fund of the State				(654,328)	-	(654,328)
Total general revenues (expenses)				(35,300,691)	16,937,512	(18,363,179)
Change in net position				(33,901,460)	185,991,766	152,090,306
Net position, beginning of year, as originally reported				70,844,716	777,064,687	847,909,403
Implementation effect of GASB No. 75				(49,516,261)	-	(49,516,261)
Prior period restatement				(6,694,658)	-	(6,694,658)
Net position, beginning of year, as restated				14,633,797	777,064,687	791,698,484
Net position, end of year				$ (19,267,663)	$ 963,056,453	$ 943,788,790

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

South Carolina Department of Employment and Workforce
Balance Sheet
Governmental Fund
June 30, 2018

Assets:		
Cash	$	26,057,190
Assessments receivable, net		11,695,118
Intergovernmental receivables:		
Federal government		24,716,709
State agencies		23,573
Local governments		4,877,112
Interfund receivable		5,107,159
Prepaid and inventory items		70,207
Total assets		72,547,068
Liabilities and fund balance:		
Liabilities:		
Accounts payable		15,443,972
Retainage payable		1,690,777
Intergovernmental payables:		
State agencies		77,529
Accrued salaries and related benefits		3,200,800
Total liabilities		20,413,078
Fund balance:		
Non-spendable:		
Prepaid and inventory items		70,207
Restricted:		
Reed Act		1,835,020
Integrity Funds		1,141,265
Assigned fund balance		49,087,498
Total fund balance		52,133,990
Total liabilities and fund balance	$	72,547,068

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, 2018

Reconciliation to the Statement of Net Position:

Fund balance - governmental fund	$	52,133,990
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and therefore are not reported in the governmental fund.		41,817,098
The net pension and net OPEB liabilities and related deferred outflows and inflows of resources are not due and payable in the current period and are not included in the governmental fund financial statements, but are included in the governmental activities of the Statement of Net Position:		
Net pension liability		(63,905,917)
Deferred outflows of resources related to pension plan		9,577,565
Deferred inflows of resources related to pension plan		(4,316,694)
Net OPEB liability		(47,711,956)
Deferred outflows of resources related to OPEB plan		1,728,085
Deferred inflows of resources related to OPEB plan		(4,510,181)
Other liabilities are not due and payable in the current period and therefore are not reported in the governmental fund. These liabilities consist of:		
Accrued compensated absences		(3,109,094)
Capital lease payable		(970,559)
Net position - governmental activities	$	(19,267,663)

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 Balance
Governmental Fund
Year Ended June 30, 2018

Revenues:		
Employer tax contingency assessments	$	16,627,448
Employer tax penalties and interest		4,705,612
Employer tax integrity assessments		223,750
Other non-federal revenues		41,290
Intergovernmental:		
Federal		90,272,561
State agencies		424,008
Local governments		30,018
Parking		41,060
Total revenues		112,365,747
Expenditures:		
Employment and training administration		46,344,188
Contingency assessments		6,839,344
Penalties and interest		49,110
Integrity assessments		112,787
Workforce Innovation and Opportunity Act		39,099,231
Trade Adjustment Assistance		4,190,128
Other federal programs		4,833,199
Other non-federal expenditures		115,907
Occupational Information Coordinating Committee		10,646
Capital outlay		10,315,251
Total expenditures		111,909,791
Excess of revenues over expenditures		455,956
Other financing sources (uses):		
Proceeds from sale of capital assets		820,459
Issuance of capital lease		1,002,115
Indirect costs remitted to the General Fund of the State		(654,328)
Total other financing sources (uses)		1,168,246
Change in fund balance		1,624,202
Beginning fund balance, as originally reported		57,204,446
Prior period adjustment		(6,694,658)
Beginning fund balance, as restated		50,509,788
Ending fund balance	$	52,133,990

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 Balance of the Governmental Fund to the Statement of Activities
Year Ended June 30, 2018

Reconciliation to the Statement of Activities	
Change in fund balance - governmental fund	$ 1,624,202
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 the capital assets is allocated over its estimated useful life as depreciation expense. In the current period, these amounts are:	
Capital outlay	10,315,251
Depreciation expense	(6,960,957)
The proceeds from the disposal of capital assets are reported as other financing sources in the governmental fund. The net book value of the capital assets are removed from the Statement of Net Position and offset against the proceeds from the disposal of capital assets resulting in a gain or loss on disposal of capital assets in the Statement of Activities:	
Transfer of capital assets	(35,070,371)
Net book value of disposed capital assets	(1,458,726)
Capital leases provide current financial resources to the governmental fund, but the issuance of capital leases increase long-term liabilities in the Statement of Net Position. Repayment of capital lease obligations is an expenditure in the governmental fund, but the repayment reduces long-term liabilities in the Statement of Net Position:	
Issuance of capital lease	(1,002,115)
Repayment of capital lease payable	69,416
Nonemployer contributions to the OPEB plan are considered revenues in the Statement of Activities	280,150
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 governmental fund. Conversely, some expenditures in the governmental fund represent deferred outflows of resources in the Statement of Net Position:	
Pension expense	(4,470,504)
OPEB expense	(2,904,043)
Net decrease in accrued compensated absences and related benefits	265,305
Contributions to the pension plan after the measurement date	3,764,830
Contributions to the OPEB plan after the measurement date	1,646,102
Change in net position - governmental activities	$ (33,901,460)

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, 2018

Assets:	
Current assets:	
Cash	$ 880,895,937
Assessments receivable, net	112,953,756
Benefit overpayments receivable, net	7,342,229
Accounts receivable, net	2,669,388
Intergovernmental receivables:	
Federal government	300,379
State agencies	613,589
Other states	732,152
Local governments	636,545
Total assets	1,006,143,975
Liabilities:	
Current liabilities:	
Benefits payable	4,041,802
Income tax withholdings payable	9,675
Contributions payable	28,544,738
Amounts due to reimbursable employers	2,043,603
Interfund payable	5,107,159
Intergovernmental payables:	
Federal government	1,501,386
Other states	1,839,159
Total liabilities	43,087,522
Total restricted net position	$ 963,056,453

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, 2018

Operating revenues:		
Assessments	$	328,183,504
Reimbursements of unemployment compensation benefits from employers		2,209,073
Benefit overpayment recoveries		3,860,762
Intergovernmental:		
Federal government		5,194,659
State agencies		2,544,736
Other states		4,040,181
Local governments		3,036,942
Total operating revenues		349,069,857
Operating expenses:		
Unemployment compensation benefits		179,080,609
Payments returned to the federal government		934,994
Total operating expenses		180,015,603
Operating income		169,054,254
Non-operating revenues:		
Interest income		16,935,578
FUTA credit adjustment		1,934
Total non-operating revenues		16,937,512
Change in net position		185,991,766
Beginning net position		777,064,687
Ending Net Position	$	963,056,453

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, 2018

Cash flows from operating activities:	
Cash received from assessments	$ 333,976,663
Cash received from employer reimbursements, net	2,193,318
Cash received from benefit overpayment recoveries	5,371,936
Cash received from federal, state, and local agencies	15,268,123
Cash paid for benefits	(171,632,949)
Cash paid for refunds of overpaid assessments	(9,318,073)
Net cash flow provided by operating activities	175,859,018
Cash flows from non-capital related financing activities:	
Proceeds from federal government, net of FUTA credits	1,934
Net cash flow provided by non-capital related financing activities	1,934
Cash flows from investing activities:	
Cash received from interest earned on the federal unemployment trust fund	16,935,578
Net cash flow provided by investing activities	16,935,578
Net increase in cash	192,796,530
Cash - beginning	688,099,407
Cash - ending	$ 880,895,937
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	$ 169,054,254
Net changes in operating assets and liabilities:	
Assessments receivable, net	(6,707,725)
Benefit overpayments receivable, net	1,922,073
Accounts receivable, net	(410,900)
Intergovernmental receivables, net	
Federal government	(243,961)
Local governments	123,285
State agencies	(67,635)
Other states	639,916
Benefits payable	3,507,686
Income tax withholdings payable	17
Contributions payable	5,118,688
Interfund payable	3,182,811
Amounts due to reimbursable employers	(15,755)
Intergovernmental payables:	
Federal government	(140,283)
Other states	(103,453)
Net cash provided by operating activities	$ 175,859,018

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

Note 1. Summary of Significant Accounting Policies

Reporting Entity

Enactment of the first South Carolina Unemployment Compensation Law followed action by Congress in passing the Social Security Act on August 14, 1935. The original South Carolina law, which established a free public employment service and a system of unemployment insurance, became effective June 6, 1936. During 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 compensation benefits, the collection of the unemployment tax from subject employers, and the operation of a system for statewide employment services. During March 2010, Section 41-29-10 of the South Carolina Code of Laws was amended by the General Assembly through Act 146, restructuring the Employment Security Commission into a State of South Carolina cabinet agency under the Governor. The Employment Security Commission merged with the Workforce Development Division of the South Carolina Department of Commerce to become the South Carolina Department of Employment and Workforce (the “Agency”). Act 159 designated the Agency 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 the 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 U.S. Department of Labor.

The Agency’s Unemployment Compensation Fund accounts for all financial transactions related to employer tax contributions, employer reimbursements in lieu of tax contributions, and federal and state 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 Unemployment Compensation Fund for the payment of unemployment compensation benefits as long as the Unemployment Compensation Fund is not indebted to the federal government for Federal Unemployment Trust Fund advances.

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 of South Carolina. Workers of all skills, professions, and types, including veterans, migrant and seasonal farm workers, youth, older workers, and disabled individuals are placed in suitable jobs by Employment Services staff.

Special emphasis is given to the job placement of unemployment insurance 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 U. S. Department of Labor’s Bureau of Labor Statistics.

The Agency is primarily funded with federal grant funding, but prepares an annual budget to be included in the State of South Carolina’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 State of South Carolina’s General Fund and authorizes expenditures of total funds.

Note 1. Summary of Significant Accounting Policies (continued)

Reporting Entity (continued)

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.

The core of a financial reporting entity is normally the primary government, which has a separately elected governing body. The Agency is reported as part of the primary government of the State of South Carolina. 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 unit 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.

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.

Note 1. Summary of Significant Accounting Policies (continued)

Governmental Fund

The laws of the State of South Carolina and the policies and procedures specified by the State of South Carolina 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 a 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 deferred outflows of resources less liabilities and deferred inflows of resources is the fund balance. The Agency's Special Revenue Fund is its only governmental fund and it is considered to be a major 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 activities accounted for in the Special Revenue Fund are as follows:

Employment and Training Administration – This is the division of the U.S. Department of Labor which administers and provides funding for the Agency's major grant programs.

Administrative Contingency (Contingency Assessments) – The assessment was established by the South Carolina State Legislature during 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 of South Carolina 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 Administration (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 Administration Fund each month to be used for purposes established under Section 41-33-610 of the South Carolina Code of Laws.

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

Unemployment Compensation Modernization Incentive Payments – This is a special transfer of funds from the U.S. Department of Labor 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 benefit claimants.

Note 1. Summary of Significant Accounting Policies (continued)

Governmental Fund (continued)

South Carolina Occupational Information Coordinating Committee (SCOICC) – The SCOICC was established during 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). The SCOIS also develops printed career development products for schools grade K through 12. The SCOICC is charged with giving special attention to the career and educational needs of individuals involved in career decision making. The SCOIS delivers up-to-date occupational, educational, employment and career guidance information to career decision makers and job seekers.

The SCOICC is funded by an appropriation from the State of South Carolina to support its operations. All school districts in the State of South Carolina have free access to the SCOIS. During the year ended June 30, 2016, the SCOIS, its authority, responsibilities, full-time equivalent employees, and funding were transferred to the South Carolina Department of Education.

Workforce Innovation and Opportunity Act (WIOA) – The WIOA program is a federal program administered throughout the State of South Carolina through the Workforce and Economic Development Division of the Agency, and through twelve (12) Workforce Investment areas throughout the State of South Carolina. 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. The 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) – The TAA program is a federal program funded by the U.S. Department of Labor 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 Fund

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 compensation benefits. The Unemployment Compensation Fund is the Agency's only proprietary fund and it is considered to be a major fund.

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

Note 1. Summary of Significant Accounting Policies (continued)

Proprietary Fund (continued)

The Unemployment Compensation Fund includes the following programs:

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 of South Carolina, as well as reimbursements from other states, recoupment on overpayments, and interest received on Unemployment Compensation 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 compensation benefits paid to individuals who have lost their jobs due to foreign trade. These payments are made after regular unemployment compensation benefits and extended benefits have been exhausted. It is funded by the federal government.

Alternative Trade Adjustment Assistance (ATAA) - This program provides eligible individuals over the age of fifty (50) who obtain new employment within twenty-six (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 during the year ended June 30, 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 older than the age of fifty (50) who lost their jobs due to imports, but are now working again at a lower salary. The recipients are paid fifty percent (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 individuals 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.

Note 1. 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 sixty (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.

The Agency reports two major funds which are the Special Revenue Fund and the Unemployment Compensation Fund.

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.

Note 1. Summary of Significant Accounting Policies (continued)

Budget Policy

The Agency is granted an annual appropriation for operating purposes by the South Carolina General Assembly. The appropriation as enacted becomes the legal operating budget for the Agency. The Appropriation Act authorizes expenditures from funds appropriated from the State of South Carolina's General Fund 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 South Carolina General Assembly enacts the budget through the passage of line-item appropriations by program within budgetary unit within budgetary fund category, State of South Carolina General Fund, or other budgeted funds. Budgetary control is maintained at the line-item level of the budgetary entity.

Agencies may process disbursement vouchers in the State of South Carolina'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 of South Carolina to present such information. Since the Agency is not a major special revenue fund of the State of South Carolina, budgetary comparison information is excluded from the basic financial statements.

Accounting Pronouncements Recently Issued but not yet Adopted

During June 2017, the GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The provisions of this Statement are effective for financial statement periods beginning after June 15, 2021. Management is currently evaluating the potential effects of this accounting standard on the Agency's financial statements.

During April 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. The primary objective of this Statement is to improve the information that is disclosed in the notes to governmental financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This Statement requires that additional essential information related to debt be disclosed in the notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. The provisions of this Statement are effective for financial statement periods beginning after June 15, 2018. Management is currently evaluating the potential effects of this accounting standard on the Agency's financial statements.

Note 1. Summary of Significant Accounting Policies (continued)

Accounting Pronouncements Recently Issued but not yet Adopted (continued)

During June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5 through 22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements,* which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund.

This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles. The provisions of this Statement are effective for financial statement periods beginning after December 15, 2020. Management is currently evaluating the potential effects of this accounting standard on the Agency's financial statements.

Cash

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

Most state agencies, including the South Carolina Department of Employment and Workforce, participate in the State of South Carolina'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 South Carolina 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 2.

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

Note 1. Summary of Significant Accounting Policies (continued)

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 (10) 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 historical collection activity applied to outstanding account balances up to two (2) years old with all account balances greater than two (2) years old being fully reserved.

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 state agencies represent unemployment compensation benefit reimbursements due from other South Carolina state agencies.

The benefit reimbursement receivable due from other states and local governments is based on the pro-rata 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 U.S. Department of Labor recommended best practices, are used to estimate and establish an allowance for uncollectible accounts. The allowance for uncollectible accounts represents all outstanding account balances greater than 450 days old.

During January 2013, the Agency began receiving federal tax refunds intercepted by the U.S. Treasury, which were initially due to claimants that have received unemployment compensation benefit payments to which they were not entitled. The Agency's successful implementation of the Treasury Offset Program allowed it to recover significant amounts of overpayments receivable due from unemployment compensation benefit recipients during the year.

Note 1. Summary of Significant Accounting Policies (continued)

Capital Assets

Capital assets are recorded at cost at the date of acquisition or acquisition value at the date of donation in the case of gifts. The Agency follows the State of South Carolina'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 (1) 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 during 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 twenty (20) to fifty (50) years for buildings and improvements and land improvements and three (3) to twenty-five (25) years for intangible assets, equipment, furniture, and vehicles.

Benefits Payable

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

Accrued Compensated Absences

Generally all full-time equivalent State of South Carolina 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 one hundred eighty (180) days sick leave and forty-five (45) days annual vacation leave. Upon termination of State of South Carolina 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 current year-end salary costs and the cost of the salary-related benefit payments, is recorded on 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 U.S. Department of Labor, Office of Cost Determination. The indirect costs recovered from this agreement are used to offset the administrative costs of the Agency and services provided by other state agencies. During the year ended June 30, 2018, the Agency recovered $10,132,280 of indirect costs within the cost allocation plan. Of this amount, $654,328 was remitted to the State of South Carolina and $9,477,952 was retained by the Agency. Indirect cost recoveries are reported as a reduction to federal expenditures.

Note 1. Summary of Significant Accounting Policies (continued)

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.

Prepaids

Payments made to vendors for services that will benefit periods beyond the current year-end are recorded as prepaids. Prepaids 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.

Intergovernmental Payables

The amounts reported as intergovernmental payables – state agencies represent those amounts due to the South Carolina Technical College System.

The amounts reported as intergovernmental payables – federal agencies represent amounts due to the U.S. Department of Labor for the UCX, EB and EUC programs.

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 Non-operating Revenues and Expenses

The Agency distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and delivering goods in connection with an entity's principal ongoing operations. The Agency's primary operating revenues are from assessments and reimbursement from the federal government for the payment of unemployment compensation benefits. Operating expenses include unemployment compensation benefits paid. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Pension Plan

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to the pension plan, 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.

Note 1. Summary of Significant Accounting Policies (continued)

Postemployment Benefits Other than Pensions (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to the OPEB plan, and OPEB expense, information about the fiduciary net position of the State's retiree health plan and additions to/deductions from the OPEB plan's fiduciary net position have been determined on the same basis as they are reported by SCRS. For this purpose, the benefit payments 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

A deferred outflow or inflow of resources is a consumption or acquisition of net position that is applicable to a future reporting period. The Agency has recorded deferred outflows and inflows of resources in connection with the retirement and OPEB contributions made subsequent to the measurement date, the difference between projected and actual investment earnings on retirement plan assets, the difference between actual and expected retirement plan experience, and changes in proportion and differences between the Agency's actual contributions and its proportionate share of contributions.

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 balance indicates that portion of fund equity which is available for appropriations in future periods. If restricted and unrestricted assets are available for the same purpose, then restricted assets will be used before unrestricted assets.

Net position is categorized as follows:

Net investment in capital assets - This component of net position consists of capital assets, net of accumulated depreciation, as well as costs to be recovered from future revenues, and unamortized debt expense reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of 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 follows the provisions of 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 this Statement requires the Agency to classify and report amounts in the appropriate fund balance classifications.

Note 1. Summary of Significant Accounting Policies (continued)

Net Position / Fund Balances (continued)

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 established by grantors or creditors.

Committed - Amounts constrained to specific purposes by the Agency itself, using the highest level of decision-making authority, the South Carolina State 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 of action to remove or change the constraint.

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

Unassigned - All amounts not included in other spendable classifications.

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

At June 30, 2018, the Agency's restricted balances are as follows:

Payment of benefits – The principal source of revenue for the Agency is quarterly unemployment tax contributions paid by employers, which may only be used to pay unemployment compensation benefits. Federal law requires the Agency to hold all reserves in the Federal Unemployment Trust Fund, which invests in obligations guaranteed by the United States, and earnings may be used only to pay unemployment compensation benefits.

Reed Act - The Agency sold real property containing Reed Act equity, and as of June 30, 2018, $1,226,026 of funds are available under the Reed Act in the Unemployment Compensation Fund. No funds were spent during the year ended June 30, 2018 from the previously appropriated funds. An additional $608,994 was received through the sale of real property during the year ended June 30, 2018 and had not yet been remitted to the proprietary fund as of June 30, 2018. As such, $1,835,020 is shown as a restricted fund balance under the Reed Act for the Special Revenue Fund.

Integrity – The Integrity account, and any related receivables, consist of monetary penalties recorded pursuant to the South Carolina Code of Laws. Integrity funds are restricted as they are solely to be used for the purpose of specifically promoting unemployment insurance integrity efforts. These efforts may include, but are not limited to, identifying overpayments, verifying eligibility, determining status, and updating technology and educational tools to support integrity activities.

Note 1. Summary of Significant Accounting Policies (continued)

Net Position / Fund Balances (continued)

SCOICC - Pursuant to the 2005 Appropriation Act Proviso 51.2, all user fees collected by the South Carolina Occupational Information Coordinating Committee (SCOICC) through the Agency may be retained to use for operating the South Carolina Occupational Information System (SCOIS). As of June 30, 2018, there were no user fees to carry forward to the year ending June 30, 2019.

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 September 11, 2020, the date these financial statements were available to be issued.

Note 2. Deposits

The amount shown as cash in the Statement of Net Position at June 30, 2018 is composed of the following:

Cash on hand	$	1,500
Deposits held by the South Carolina State Treasurer		31,205,019
Deposits held by the U.S. Treasury		869,420,107
Other deposits		6,326,501
Total	$	906,953,127

Deposits Held by the South Carolina State Treasurer

South Carolina State law requires full collateralization of all South Carolina State Treasurer bank balances. The South Carolina State Treasurer must correct any deficiencies in collateral within seven (7) days. As of June 30, 2018, all South Carolina State Treasurer bank balances were fully insured or collateralized with securities held by the State of South Carolina or its agent in the State of South Carolina's name.

Deposits Held by the U.S. Treasury

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

Note 2. Deposits (continued)

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 3. Interfund Receivables and Payables

The amounts shown on the financial statements as being interfund receivables and payables represent the following amounts which were collected by the Unemployment Compensation 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, 2018:

Contingency assessments	$	2,509,597
Penalties, interest, service charges and fees		1,131,240
Special Administration Fund		35,931
Reed Act		1,226,026
FUTA Penalty Integrity Fund		204,365
Total	$	5,107,159

Note 4. Receivables

The receivable balances at June 30, 2018 and the related amounts for allowances for uncollectible accounts are as follows:

	Receivables	Allowances for Uncollectible Accounts	Net Receivables
Governmental Fund:			
Assessments receivable:			
Contingency	$ 9,408,244	$ 4,103,651	$ 5,304,592
Penalties, interest, service charges, and fees	13,633,017	7,242,491	6,390,526
Total	$ 23,041,261	$ 11,346,143	$ 11,695,118
Intergovernmental receivables:			
Federal government	$ 24,716,709	$ -	$ 24,716,709
State agencies	23,573	-	23,573
Local governments	4,877,112	-	4,877,112
Total	$ 29,617,394	$ -	$ 29,617,394

Note 4. Receivables (continued)

	Receivables	Allowances for Uncollectible Accounts	Net Receivables
Proprietary Fund:			
Assessments receivable	$ 142,327,444	$ 29,373,688	$ 112,953,756
Benefit overpayments receivable:			
Basic unemployment compensation (UI)	$ 14,311,804	$ 7,068,748	$ 7,243,056
Federal employees (UCFE)	30,049	1,881	28,168
Ex-servicemen (UCX)	58,244	29,086	29,158
Disaster unemployment assistance (DUA)	1,957	1,957	—
Trade readjustment compensation (TRA)	32,619	—	32,619
Emergency unemployment compensation (EUC)	992,642	983,414	9,228
Total	$ 15,427,315	$ 8,085,086	$ 7,342,229
Accounts receivable	$ 2,669,388	$ —	$ 2,669,388
Intergovernmental receivables:			
Federal government	$ 300,379	$ —	$ 300,379
State agencies	613,589	—	613,589
Other states	732,152	—	732,152
Local governments	636,545	—	636,545
Total	$ 2,282,665	$ —	$ 2,282,665

The Unemployment Compensation Fund may recover all or a portion of previously written off assessment debt through continued collection efforts from time to time. Those assessment recovery amounts, which were previously written off against assessment revenues, had reduced assessment revenues in the year the debt was initially written off. The recovery of these amounts produced increased cash collections and assessment revenues of $5,265,761 during the year ended June 30, 2018.

Note 5. Capital Assets

A summary of capital assets activity for the year ended June 30, 2018 is as follows:

	Balance at June 30, 2017	Increases	Decreases	Balance at June 30, 2018
Capital assets not being depreciated:				
Land	$ 2,415,570	$ -	$ (77,435)	$ 2,338,135
Intangible asset in progress	62,345,590	9,224,180	(71,569,770)	-
Total capital assets not being depreciated	64,761,160	9,224,180	(71,647,205)	2,338,135
Depreciable capital assets:				
Buildings and improvements	25,305,466	-	(1,987,505)	23,317,961
Land improvements	237,556	-	(24,095)	213,461
Equipment and furniture	4,196,836	1,008,552	(78,422)	5,126,966
Intangible assets	7,212,516	36,255,211	(111,728)	43,355,999
Vehicles	386,802	80,345	-	467,147
Total depreciable capital assets	37,339,176	37,344,108	(2,201,750)	72,481,534
Less accumulated depreciation:				
Buildings and improvements	15,745,057	510,745	(852,576)	15,403,226
Land improvements	237,556	-	(24,095)	213,461
Equipment and furniture	3,781,680	326,122	(78,422)	4,029,380
Intangible assets	7,087,518	6,073,002	(111,728)	13,048,792
Vehicles	256,624	51,088	-	307,712
Total accumulated depreciation	27,108,435	6,960,957	(1,066,821)	33,002,571
Depreciable capital assets, net	10,230,741	30,383,151	(1,134,929)	39,478,963
Total capital assets, net	$ 74,991,901	$ 39,607,331	$ (72,782,134)	$ 41,817,098

Depreciation expense was $6,960,957 for the year ended June 30, 2018. Total outstanding commitments on projects as of June 30, 2018 were approximately $6,752,000.

Consortium Agreement

Previously, the Agency entered into a consortium agreement to develop a new benefits system to replace an aging mainframe benefits system. The consortium consists of three members (South Carolina, North Carolina and Georgia). The Agency had previously reported expenditures for the production of this new benefits system as capital expenditures to be solely captured by the State of South Carolina. South Carolina was the lead state in the consortium and retained all procurement related authority under the benefits system development agreement and paid all expenditures for the development of the benefits system. Its expenditures represented capitalizable costs to develop a software intangible asset. Upon the implementation of the new benefits system on September 12, 2017, the consortium agreed to proportionately account for these capital expenditures during the year ended June 30, 2018. The decision was based on the U.S. Department of Labor's intent that the development of the benefits system should benefit the other consortium states as the system was primarily federally funded.

Note 5. Capital Assets (continued)

Consortium Agreement (continued)

As such, of the total capitalized expenditures of approximately $52,650,000, the Agency contributed approximately $17,550,000 each to the States of North Carolina and Georgia. As a result, approximately $35,100,000 of the total net disposals of capital assets in the table above, is related to this consortium agreement and has been recognized as a transfer of capital assets in the Statement of Activities.

Note 6. Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2018 is as follows:

	Balance at June 30, 2017	Increases	Decreases	Balance at June 30, 2018	Due Within One Year
Accrued compensated absences and related benefits	$ 3,374,399	$ 2,503,749	$ (2,769,054)	$ 3,109,094	$ 2,377,922
Capital lease payable	37,860	1,002,115	(69,416)	970,559	328,563
	$ 3,412,259	$ 3,505,864	$ (2,838,470)	$ 4,079,653	$ 2,706,485

Capital Leases

The Agency's capital lease activity is summarized below:

Lease start date	Principal balance	Interest rate	Term in months	Monthly payment	Assets acquired	Cost of assets acquired	Accumulated depreciation at June 30, 2018
June 1, 2017	$ 37,860	5.47%	36	$ 1,108	Computers	$ 37,860	$ 8,203
June 1, 2018	789,527	6.54%	36	24,212	Firewall	789,527	21,930
September 1, 2017	212,588	5.54%	36	6,423	Computers	212,588	35,431

The future minimum principal and interest payments for the capital leases are as follows:

Year ending June 30	Principal	Interest	Total
2019	$ 328,563	$ 52,362	$ 380,925
2020	348,725	31,091	379,816
2021	293,271	10,125	303,396
	$ 970,559	$ 93,578	$ 1,064,137

Note 7. Operating 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 (1) year. Payments are due on a quarterly or annual basis. Ending payment dates range from the year ended June 30, 2019 through the year ended June 30, 2022. Certain operating leases provide for renewal options for periods from one (1) to five (5) 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 of its leased property. Rental expenditures for office rent, equipment and computers were $412,452 for the year ended June 30, 2018.

Note 7. Operating Leases (continued)

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, 2018 in excess of one year. The future minimum rental payments for the operating leases exclude the monthly executory costs.

Year Ending June 30,	Operating Leases
2019	$ 336,589
2020	128,776
2021	50,425
2022	17,166
	$ 532,946

Note 8. Pension Plans

Description of the Entity

The South Carolina Public Employee Benefit Authority (PEBA), which was created July 1, 2012, administers the various retirement systems and retirement programs managed by its Retirement Division. PEBA has an 11-member Board of Directors, appointed by the Governor and General Assembly leadership, which serves as co-trustee and co-fiduciary of the systems and the trust funds. By law, the State Fiscal Accountability Authority (SFAA), which consists of five elected officials, also reviews certain PEBA Board decisions regarding the funding of the South Carolina Retirement Systems (Systems) and serves as a co-trustee of the Systems in conducting that review. Effective July 1, 2017, the Retirement System Funding and Administration Act of 2017 assigned the PEBA Board of Directors as the Custodian of the Retirement Trust Funds and assigned SC PEBA and the Retirement Systems Investment Commission (RSIC) as co-trustees of the Retirement Trust Funds.

For purposes of measuring the net pension liability, deferred outflows and inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Systems and additions to/deductions from the Systems fiduciary net position have been determined on the accrual basis of accounting as they are reported by the Systems in accordance with generally accepted accounting principles (GAAP). For this purpose, revenues are recognized when earned and expenses are recognized when incurred. Benefit and refund expenses are recognized when due and payable in accordance with the terms of the plan. Investments are reported at fair value.

PEBA issues a Comprehensive Annual Financial Report (CAFR) containing financial statements and required supplementary information for the Systems' Pension Trust Funds. The CAFR is publicly available through the Retirement Benefits' link on PEBA's website at www.peba.sc.gov, or a copy may be obtained by submitting a request to PEBA, 202 Arbor Lake Drive, Columbia, SC 29223. PEBA is considered a division of the primary government of the state of South Carolina and therefore, retirement trust fund financial information is also included in the comprehensive annual financial report of the State.

Plan Descriptions

The South Carolina Retirement System ("SCRS"), a cost-sharing multiple-employer defined benefit pension plan, was established effective July 1, 1945, pursuant to the provisions of Section 9-1-20 of the South Carolina Code of Laws for the purpose of providing retirement allowances and other benefits for employees of the state, its public school districts, and political subdivisions.

Note 8. Pension Plans (continued)

Plan Descriptions (continued)

The State Optional Retirement Program ("State ORP") is a defined contribution plan that is offered as an alternative to certain newly hired State, public school, and higher education employees. State ORP participants direct the investment of their funds into a plan administered by one of four investment providers. PEBA assumes no liability for State ORP benefits. Rather, the benefits are the liability of the investment providers. For this reason, State ORP programs are not part of the retirement systems' trust funds for financial statement purposes. Employee and employer contributions to the State ORP are at the same rates as SCRS. A direct remittance is required from the employers to the member's account with investment providers for the employee contribution and a portion of the employer contribution (5 percent). A direct remittance is also required to SCRS for the remaining portion of the employer contribution and an incidental death benefit contribution, if applicable, which is retained by SCRS.

The Police Officers Retirement System ("PORS"), is cost-sharing multiple-employer defined benefit pension plan was established effective July 1, 1962, pursuant to the provisions of Section 9-11-20 of the South Carolina Code of Laws for the purpose of providing retirement allowances and other benefits for police officers and firemen of the state and its political subdivisions.. To be eligible for PORS membership, an employee must be required by the terms of his employment, by election or appointment, to preserve public order, protect life and property, and detect crimes in the state; to prevent and control property destruction by fire; or to serve as a peace officer employed by the Department of Corrections, the Department of Juvenile Justice, or the Department of Mental Health. Probate judges and coroners may elect membership in PORS. Magistrates are required to participate in PORS for service as a magistrate. PORS members, other than magistrates and probate judges, must also earn at least $2 thousand per year and devote at least 1,600 hours per year to this work, unless exempted by statute. An employee member of the system with an effective date of membership prior to July 1, 2012, is a Class Two member. An employee member of the system with an effective date of membership on or after July 1, 2012, is a Class Three member.

Membership

Membership requirements are prescribed in Title 9 of the South Carolina Code of Laws. A brief summary of the requirements under each system is presented below.

SCRS – Generally, all employees of covered employers are required to participate in and contribute to the system as a condition of employment. This plan covers general employees and teachers and individuals newly elected to the South Carolina General Assembly beginning with the November 2012 general election. An employee member of the system with an effective date of membership prior to July 1, 2012 is a Class Two Member. An employee member of the system with an effective date of membership on or after July 1, 2012 is a Class Three Member.

State ORP – As an alternative to membership in SCRS, newly hired state, public school, and higher education employees and individuals newly elected to the S.C. General Assembly beginning with the November 2012 general election have the option to participate in the State Option Retirement Program (State ORP), which is a defined contribution plan. State ORP participants direct the investment of their funds into a plan administered by one of four investment providers. PEBA assumes no liability for State ORP benefits. Rather, the benefits are the liability of the investment providers. For this reason, State ORP assets are not part of the retirement systems' trust funds for financial statement purposes. Contributions to the State ORP are at the same rate as SCRS. A direct remittance is required from the employers to the member's account with investment providers for the employee contribution and a portion of the employer contribution (5 percent). A direct remittance is also required to SCRS for the remaining portion of the employer contribution and an incidental death benefit contribution, if applicable, which is retained by SCRS.

Note 8. Pension Plans (continued)

Membership (continued)

PORS – To be eligible for PORS membership, an employee must be required by the terms of his employment, by election or appointment, to preserve public order, protect life and property, and detect crimes in the state; to prevent and control property destruction by fire; or to serve as a peace officer employed by the Department of Corrections, the Department of Juvenile Justice, or the Department of Mental Health. Probate judges and coroners may elect membership in PORS. Magistrates are required to participate in PORS for service as a magistrate. PORS members, other than magistrates and probate judges, must also earn at least $2,000 per year and devote at least 1,600 hours to this work, unless exempted by statute. An employee member of the system with an effective date of membership prior to July 1, 2012, is a Class Two member. An employee member of the system with an effective date of membership on or after July 1, 2012, is a Class Three member.

Benefits

Benefit terms are prescribed in Title 9 of the South Carolina Code of Laws. PEBA does not have the authority to establish or amend benefit terms without a legislative change in the code of laws. Key elements of the benefit calculation include the benefit multiplier, years of service, and average final compensation. A brief summary of the benefit terms for each system is presented below.

SCRS - A Class Two member who has separated from service with at least five or more years of earned service is eligible for a monthly pension at age 65 or with 28 years credited service regardless of age. A member may elect early retirement with reduced pension benefits payable at age 55 with 25 years of service credit. A Class Three member who has separated from service with at least eight or more years of earned service is eligible for a monthly pension upon satisfying the Rule of 90 requirement that the total of the member's age and the member's creditable service equals at least 90 years. Both Class Two and Class Three members are eligible to receive a reduced deferred annuity at age 60 if they satisfy the five- or eight year earned service requirement, respectively. An incidental death benefit is also available to beneficiaries of active and retired members of employers who participate in the death benefit program. The annual retirement allowance of eligible retirees or their surviving annuitants is increased by the lesser of one percent or five hundred dollars every July 1. Only those annuitants in receipt of a benefit on July 1 of the preceding year are eligible to receive the increase. Members who retire under the early retirement provisions at age 55 with 25 years of service are not eligible for the benefit adjustment until the second July 1 after reaching age 60 or the second July 1 after the date they would have had 28 years of service credit had they not retired.

PORS - A Class Two member who has separated from service with at least five or more years of earned service is eligible for a monthly pension at age 55 or with 25 years of service regardless of age. A Class Three member who has separated from service with at least eight or more years of earned service is eligible for a monthly pension at age 55 or with 27 years of service regardless of age. Both Class Two and Class Three members are eligible to receive a deferred annuity at age 55 with five or eight years of earned service, respectively. An incidental death benefit is also available to beneficiaries of active and retired members of employers who participate in the death benefit program. Accidental death benefits are also provided upon the death of an active member working for a covered employer whose death was a natural and proximate result of an injury incurred while in the performance of duty. The retirement allowance of eligible retirees or their surviving annuitants is increased by the lesser of one percent or five hundred dollars every July 1. Only those annuitants in receipt of a benefit on July 1 of the preceding year are eligible to receive the increase.

Note 8. Pension Plans (continued)

Contributions

Contributions are prescribed in Title 9 of the South Carolina Code of Laws. The PEBA board may increase the percentage rate in SCRS and PORS employer and employee contribution rates on the basis of the actuarial valuations, but any such increase may not result in a differential between the employee and total employer contribution rate that exceeds 2.9 percent of earnable compensation for SCRS and 5 percent for PORS. An increase in the contribution rates adopted by the board may not provide for an increase of more than one-half of one percent in any one year. If the scheduled employee and employer contributions provided in statute or the rates last adopted by the board are insufficient to maintain a thirty-year amortization schedule of the unfunded liabilities of the plans, the board shall increase the contribution rates in equal percentage amounts for the employer and employee as necessary to maintain the thirty-year amortization period; this increase is not limited to one-half of one percent per year.

If the most recent annual actuarial valuation of the Systems for funding purposes shows a ratio of the actuarial value of system assets to the actuarial accrued liability of the system (the funded ratio) that is equal to or greater than ninety percent, then the board, effective on the following July first, may decrease the then current contribution rates upon making a finding that the decrease will not result in a funded ratio of less than ninety percent. Any decrease in contribution rates must maintain the 2.9 and 5 percent differentials between the SCRS and PORS employer and employee contribution rates respectively. If contribution rates are decreased pursuant to this provision, and the most recent annual actuarial valuation of the system shows a funded ratio of less than ninety percent, then effective on the following July first, and annually thereafter as necessary, the board shall increase the then current contribution rates until a subsequent annual actuarial valuation of the system shows a funded ratio that is equal to or greater than 90 percent.

The Retirement System Funding and Administration Act increases employer contribution rates to 13.56 percent for SCRS and 16.24 percent for PORS, effective July 1, 2017. It also removes the 2.9 percent and 5 percent differential and increases and establishes a ceiling on employee contribution rates at 9 percent and 9.75 percent for SCRS and PORS respectively. The employer contribution rates will continue to increase annually by 1 percent through July 1, 2022. The legislation's ultimate scheduled employer rate is 18.56 percent for SCRS and 21.24 percent for PORS. The amortization period is scheduled to be reduced one year for each of the next 10 years to a twenty year amortization schedule. The recent pension reform legislation also changes the long term funded ratio requirement from ninety to eighty-five.

Note 8. Pension Plans (continued)

Contributions (continued)

Required employee contribution rates[1] are as follows:

	Fiscal Year 2018	Fiscal Year 2017
SCRS		
Employee Class Two	9.00%	8.66%
Employee Class Three	9.00%	8.66%
State ORP		
Employee	9.00%	8.66%
PORS		
Employee Class Two	9.75%	9.24%
Employee Class Three	9.75%	9.24%

Required employer contribution rates[1] are as follows:

	Fiscal Year 2018	Fiscal Year 2017
SCRS		
Employee Class Two	13.41%	11.41%
Employee Class Three	13.41%	11.41%
Employer Incidental Death Benefit	0.15%	0.15%
State ORP		
Employer Contribution[2]	13.41%	11.41%
Employer Incidental Death Benefit	0.15%	0.15%
PORS		
Employee Class Two	15.84%	13.84%
Employee Class Three	15.84%	13.84%
Employer Incidental Death Benefit	0.20%	0.20%
Employer Accidental Death Program	0.20%	0.20%

[1] Calculated on earnable compensation as defined in Title 9 of the South Carolina Code of Laws.
[2] Of this employer contribution, 5% of earnable compensation must be remitted by the employer directly to the ORP vendor to be allocated to the member's account with the remainder of employer contributions remitted to the SCRS.

Note 8. Pension Plans (continued)

Actuarial Assumptions and Methods

Actuarial valuations of the ongoing plan 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 regarding the net pension liability 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. An experience report on the Systems was most recently issued as of July 1, 2015.

The June 30, 2017 total pension liability, net pension liability, and sensitivity information shown in this report were determined by the State's consulting actuary, Gabriel, Roeder, Smith and Company (GRS) and are based on an actuarial valuation performed as of July 1, 2016. The total pension liability was rolled forward from the valuation date to the plans' fiscal year end, June 30, 2017, using generally accepted actuarial principles. The Retirement System Funding and Administration Act of 2017 was signed into law April 25, 2017, and included a provision to reduce the assumed rate of return from 7.50% to 7.25% effective July 1, 2017. As a result of this legislation, GRS made an adjustment to the calculation of the total pension liability roll forward for this assumption change as of the measurement date of June 30, 2017.

The following table provides a summary of the actuarial assumptions and methods used to calculate the total pension liability as of June 30, 2017.

	SCRS	**PORS**
Actuarial cost method	Entry age normal	Entry age normal
Investment rate of return	7.25%	7.25%
Projected salary increases	3.0% to 12.5% (varies by service)[1]	3.5% to 9.5% (varies by service)[1]
Benefit adjustments	Lesser of 1% or $500 annually	Lesser of 1% or $500 annually
[1] Includes inflation at 2.25%		

The post-retiree mortality assumption is dependent upon the member's job category and gender. The base mortality assumptions, the 2016 Public Retirees of South Carolina Mortality table (2016 PRSC), was developed using the Systems' mortality experience. These base rates are adjusted for future improvement in mortality using published Scale AA projected from the year 2016.

Note 8. Pension Plans (continued)

Actuarial Assumptions and Methods (continued)

Assumptions used in the determination of the June 30, 2017 total pension liability are as follows.

Former Job Class	Males	Females
Educators	2016 PRSC Males multiplied by 92%	2016 PRSC Females multiplied by 98%
General Employees and Members of the General Assembly	2016 PRSC Males multiplied by 100%	2016 PRSC Females multiplied by 111%
Public Safety and Firefighters	2016 PRSC Males multiplied by 125%	2016 PRSC Females multiplied by 111%

The net pension liability is calculated separately for each system and represents that particular system's total pension liability determined in accordance with GASB No. 67 less that system's fiduciary net position. The net pension liability totals as of June 30, 2017 for SCRS and PORS are presented below.

System	Total Pension Liability	Plan Fiduciary Net Position	Employers' Net Pension Liability	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
SCRS	$ 48,244,437,494	$ 25,732,829,268	$ 22,511,608,226	53.3%
PORS	$ 7,013,684,001	$ 4,274,123,178	$ 2,739,560,823	60.9%

The total pension liability is calculated by the Systems' actuary, and each plan's fiduciary net position is reported in the Systems' financial statements. The net pension liability is disclosed in accordance with the requirements of GASB No. 67 in the Systems' notes to the financial statements and required supplementary information. Liability calculations performed by the Systems' actuary for the purpose of satisfying the requirements of GASB Nos. 67 and 68 are not applicable for other purposes, such as determining the plans' funding requirements. The Agency's proportionate share of the net pension liability for both SCRS and PORS is as follows for the years ended June 30, 2018 and 2017:

System	June 30, 2018	June 30, 2017	Change
SCRS	0.28362%	0.29161%	(0.00799%)
PORS	0.00217%	0.00222%	(0.00005%)

The Agency's change in the proportionate share of the net pension liability and related deferred outflows and inflows of resources will be amortized into pension expense over the respective average remaining service lives of each system.

Note 8. Pension Plans (continued)

Long-term Expected Rate of Return

The long-term expected rate of return on pension plan investments is based upon 30-year capital market assumptions. The long-term expected rate of return represents assumptions developed using an arithmetic building block approach primarily based on consensus expectations and market-based inputs. Expected returns are net of investment fees.

The expected returns, along with the expected inflation rate, form the basis for the target asset allocation adopted at the beginning of the 2017 fiscal year. The long-term expected rate of return is produced by weighting the expected future real rates of return by the target asset allocation percentage and adding expected inflation. For actuarial purposes, the 7.25 percent assumed annual investment rate of return used in the calculation of the total pension liability includes a 5.00 percent real rate of return and a 2.25 percent inflation component.

Asset Class	Target Asset Allocation	Expected Arithmetic Real Rate of Return	Long Term Expected Portfolio Real Rate of Return
Global Equity	**45.00%**		
Global Public Equity	31.00%	6.72%	2.08%
Private Equity	9.00%	9.60%	0.86%
Equity Options Strategies	5.00%	5.91%	0.30%
Real Assets	**8.00%**		
Real Estate (Private)	5.00%	4.32%	0.22%
Real Estate (REITs)	2.00%	6.33%	0.13%
Infrastructure	1.00%	6.26%	0.06%
Opportunistic	**17.00%**		
GTAA/Risk Parity	10.00%	4.16%	0.42%
Hedge Funds (Non-PA)	4.00%	3.82%	0.15%
Other Opportunistic Strategies	3.00%	4.16%	0.12%
Diversified Credit	**18.00%**		
Mixed Credit	6.00%	3.92%	0.24%
Emerging Markets Debt	5.00%	5.01%	0.25%
Private Debt	7.00%	4.37%	0.31%
Conservative Fixed Income	**12.00%**		
Core Fixed Income	10.00%	1.60%	0.16%
Cash and Short Duration (Net)	2.00%	0.92%	0.02%
Total Expected Real Return	100.00%		5.32%
Inflation for Actuarial Purposes			2.25%
Total Expected Nominal Return			7.57%

Note 8. Pension Plans (continued)

Discount Rate

The discount rate used to measure the total pension liability was 7.25 percent. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers in SCRS and PORS will be made based on the actuarially determined rates based on provisions in the South Carolina Code of Laws. Based on those assumptions, the Systems' fiduciary net position was projected to be available to make all the 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.

Sensitivity Analysis

The following table presents the Agency's proportionate share of the net pension liability of the respective plans calculated using the discount rate of 7.25 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 (6.25 percent) or 1.00 percent higher (8.25 percent) than the current rate.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate			
System	**1.00% Decrease (6.25%)**	**Discount Rate (7.25%)**	**1.00% Increase (8.25%)**
SCRS	$ 82,289,397	$ 63,846,523	$ 52,656,032
PORS	$ 80,193	$ 59,394	$ 43,011

Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources

For the year ended June 30, 2018, the Agency recognized pension expense of $4,470,504. At June 30, 2018, the Agency reported deferred outflows and 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	$ 284,628	$ 35,388
Net difference between projected and actual earnings on pension plan investments	1,782,295	—
Changes in assumptions	3,737,529	—
Changes in proportion and differences between employer contributions and proportionate share of contributions	—	4,154,493
Employer contributions subsequent to the measurement date	3,758,700	—
Total	$ 9,563,152	$ 4,189,881

Note 8. Pension Plans (continued)

Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources (continued)

	PORS	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 530	$ —
Net difference between projected and actual earnings on pension plan investments	2,116	—
Changes in assumptions	5,637	—
Changes in proportion and differences between employer contributions and proportionate share of contributions	—	126,813
Employer contributions subsequent to the measurement date	6,130	—
Total	$ 14,413	$ 126,813

The Agency reported $3,764,830 as deferred outflows of resources related to contributions subsequent to the measurement date and such contributions will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows and inflows of resources will be recognized in pension expense in future years. The following schedule reflects the amortization of the Agency's proportionate share of the net balance of remaining deferred outflows and inflows of resources at June 30, 2018. Average remaining services lives of all employees provided with pensions through the pension plans at June 30, 2018 was 4.073 years for SCRS and 4.553 years for PORS.

Year Ending June 30:	SCRS	PORS	Total
2019	$ (256,814)	$ (67,186)	$ (324,000)
2020	1,092,337	(52,403)	1,039,934
2021	1,300,212	1,030	1,301,242
2022	(521,164)	(29)	(521,135)
	$ 1,614,571	$ (118,530)	$ 1,496,041

Additional Financial and Actuarial Information

Detailed information regarding the fiduciary net position of the plans administered by PEBA is available in the Systems' audited financial statements for the year ended June 30, 2017 (including the unmodified audit opinion on the financial statements). Additional actuarial information is available in the accounting and financial reporting actuarial valuation as of June 30, 2017.

Note 9. Post-Employment Benefits Other Than Pensions

Description of the Entity and Summary of Significant Accounting Policies

PEBA is a state agency responsible for the administration and management of the State's employee insurance programs, other post-employment benefits trusts and retirement systems and is a part of the State of South Carolina primary government. By law, the SFFA, which consists of five elected officials, also reviews certain PEBA Board decisions in administering the State Health Plan and other post-employment benefits (OPEB). See Note 8 for more details on PEBA and the SFAA.

Note 9. Post-Employment Benefits Other Than Pensions (continued)

Description of the Entity and Summary of Significant Accounting Policies

PEBA, Insurance Benefits, issues audited financial statements and required supplementary information for the OPEB Trust Fund. This information is publicly available through the Insurance Benefits' link on PEBA's website at www.peba.sc.gov or a copy may be obtained by submitting a request to PEBA – Insurance Benefits, 202 Arbor Lake Drive, Columbia, SC 29223. PEBA is considered a division of the primary government of the State of South Carolina and therefore, OPEB Trust fund financial information is also included in the State of South Carolina's Comprehensive Annual Financial Report.

Plan Description

The Other Post-Employment Benefits Trust Fund (OPEB Trust), refers to the South Carolina Retiree Health Insurance Trust Fund (SCRHITF) established by the State of South Carolina as Act 195, which became effective on May 2008. The SCRHITF was created to fund and account for the employer costs of the State's retiree health and dental plans.

In accordance with Act 195, the OPEB Trust is administered by the PEBA, Insurance Benefits and the State Treasurer is the custodian of the funds held in trust. The Board of Directors of PEBA has been designated as the Trustee.

The OPEB Trust is a cost-sharing multiple-employer defined benefit plan. Article 5 of the State Code of Laws defines the plan and authorizes the Trustee to at any time adjust the plan, including its benefits and contributions, as necessary to insure the fiscal stability of the plan. In accordance with the South Carolina Code of Laws and the annual Appropriations Act, the State provides post-employment health and dental benefits to retired State and school district employees and their covered dependents.

Benefits

The SCRHITF is a healthcare plan that covers retired employees of the State of South Carolina, including all agencies, and public-school districts. The SCRHITF provides health and dental insurance benefits to eligible retirees. 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 15-24 years of service for 50% employer funding.

Note 9. Post-Employment Benefits Other Than Pensions (continued)

Contributions and 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 to be funded through annual appropriations by the General Assembly for active employees to the PEBA, Insurance Benefits and participating retirees to PEBA, except for the portion funded through the pension surcharge and provided from the other applicable sources of the PEBA, Insurance Benefits. For active employees who are not funded by State General Fund appropriations, participating employers are mandated by State statute to contribute at a rate assessed each year by the Department of Administration Executive Budget Office. The covered payroll surcharge for the year ended June 30, 2017 was 5.33 percent and for the year ended June 30, 2018 was 5.50 percent. The South Carolina Retirement System collects the monthly surcharge for all participating employers and remits it directly to the SCRHITF. Other sources of funding for the SCRHITF include mandatory transfers of accumulated PEBA, Insurance Benefits' reserves and income generated from investments. Employer contributions also include the implicit subsidy, or age-related subsidy inherent in the healthcare premiums structure. The implicit subsidy represents a portion of the health care expenditures paid on behalf of the employer's active employees. For purposes of GASB Statement No. 75, this expenditure on behalf of the active employee is reclassified as a retiree health care expenditure so that the employer's contributions towards the plan reflect the underlying age-adjusted, retiree benefit costs.

Actuarial Methods and Assumptions

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedules of funding progress, presented as required supplementary information following the notes to the financial statements, present multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plans (as understood by the employer and plan participants) and include the types of benefits provided at the time the valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Note 9. Post-Employment Benefits Other Than Pensions (continued)

Actuarial Methods and Assumptions (continued)

Additional information as of the latest actuarial valuation for SCRHITF:

Valuation Date:	June 30, 2016
Actuarial Cost Method:	Entry Age Normal
Inflation:	2.25%
Investment Rate of Return:	4.00%, net of OPEB Plan investment expense; including inflation
Single Discount Rate:	3.56% as of June 30, 2017
Demographic Assumptions:	Based on the experience study performed for the South Carolina Retirement Systems for the 5-year period ending June 30, 2015
Mortality:	For healthy retirees, the 2016 Public Retirees of South Carolina Mortality Table for Males and the 2016 Public Retirees of South Carolina Mortality Table for Females are used with fully generational mortality projections based on Scale AA from the year 2016. Multipliers are applied to the base tables based on gender and employment type.
Health Care Trend Rate:	Initial trend starting at 7.00% and gradually decreasing to an ultimate trend rate of 4.15% over a period of 15 years
Aging Factors:	Based on plan specific experience
Retiree Participation:	79% for retirees who are eligible for funded premiums
Notes:	There were no benefit changes during the year; the discount rate changed from 2.92% as of June 30, 2016 to 3.56% as of June 30, 2017

Net OPEB Liability

The net OPEB liability is calculated separately for each OPEB Trust Fund and represents that particular Trust's total OPEB liability determined in accordance with GASB No. 74 less that Trust's fiduciary net position. The allocation of each employer's proportionate share of the collective net OPEB liability and collective OPEB expense was determined using the employer's payroll-related contributions over the measurement period. This method is expected to be reflective of the employer's long-term contribution effort.

The following table represents the components of the net OPEB liability as of June 30, 2017:

OPEB Trust	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability	Plan Fiduciary Net Position as a % of Total OPEB Liability
SCRHITF	$ 14,659,610,970	$ 1,114,774,760	$ 13,544,836,210	7.60%

Note 9. Post-Employment Benefits Other Than Pensions (continued)

Net OPEB Liability (continued)

The total OPEB liability is calculated by the Trusts' actuary, and each Trust's fiduciary net position is reported in the Trust's financial statements. The net OPEB liability is disclosed in accordance with the requirements of GASB No. 74 in the Trusts' notes to the financial statements and required supplementary information. Liability calculations performed by the Trusts' actuary for the purpose of satisfying the requirements of GASB Nos. 74 and 75 and are not applicable for other purposes, such as determining the Trusts' funding requirements.

At June 30, 2018, the Agency reported a liability of $47,711,956 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2016 and rolled forward to June 30, 2017. The Agency's proportion of the net OPEB liability was based on a projection of the Agency's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2017, the Agency's proportion was 0.352252%.

Single Discount Rate

The single discount rate of 3.56% was used to measure the total OPEB liability for the SCRHITF. The accounting policy for this plan is to set the single discount rate equal to the prevailing municipal bond rate. Due to the plan's investment and funding policies, the difference between a blended discount rate and the municipal bond rate would be less than several basis points (several hundredths of one percent).

Long-term Expected Rate of Return

The long-term expected rate of return represents assumptions developed using an arithmetic building block approach primarily based on consensus expectations and market-based inputs. The expected returns, along with the expected inflation rate, form the basis for the target asset allocation adopted at the beginning of the 2017 fiscal year. The long-term expected rate of return is produced by weighting the expected future real rates of return by the target asset allocation percentage and adding expected inflation. For actuarial purposes, the 4.00 percent assumed annual investment rate of return includes a 1.75 percent real rate of return and a 2.25 percent inflation component. This information is summarized in the following table:

Asset Class	Target Asset Allocation	Expected Arithmetic Real Rate of Return	Allocation Weighted Long Term Expected Portfolio Real Rate of Return
US Domestic Fixed Income	80.00%	2.09%	1.67%
Cash	20.00%	0.84%	0.17%
Total Expected Real Return	100.0%		1.84%
Expected Inflation			2.25%
Total Return			4.09%
Investment Return Assumption			4.00%

Note 9. Post-Employment Benefits Other Than Pensions (continued)

Sensitivity Analysis

The following table represents the Agency's proportionate share of the SCRHITF's net OPEB liability calculated using a single discount rate of 3.56%, as well as what the Agency's proportionate share of the net OPEB liability would be if it were calculated using a single discount rate that is one percent lower or one percent higher:

Sensitivity of the Proportionate Share of the Net OPEB Liability to Changes in the Single Discount Rate			
OPEB Trust	**1.00% Decrease (2.56%)**	**Current Discount Rate (3.56%)**	**1.00% Increase (4.56%)**
SCRHITF	$ 56,191,199	$ 47,711,956	$ 40,875,611

Regarding the sensitivity of the Agency's proportionate share of SCRHITF's net OPEB liability to changes in the healthcare cost trend rates, the following table presents the Agency's proportionate share of the net OPEB liability, calculated using the assumed trend rates as well as what the Agency's proportionate share of the net OPEB liability would be if were calculated using a trend rate that is one percent lower or one percent higher:

Sensitivity of the Proportionate Share of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rate			
OPEB Trust	**1.00% Decrease**	**Current Healthcare Cost Trend Rate**	**1.00% Increase**
SCRHITF	$ 39,125,781	$ 47,711,956	$ 58,828,989

OPEB Expense and Deferred Outflows and Inflows of Resources

For the year ended June 30, 2018, the Agency recognized OPEB expense of $2,904,043. At June 30, 2018, the Agency reported deferred outflows and inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
OPEB contributions subsequent to measurement date	$ 1,646,102	$ —
Differences in actual and expected experience	—	20,708
Changes in assumptions	—	4,489,473
Net differences between projected and actual earnings on plan investments	81,983	—
	$ 1,728,085	$ 4,510,181

Contributions subsequent to the measurement date of $1,646,102 were reported as deferred outflows of resources related to OPEB and will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows and inflows of resources will be recognized in OPEB expense as follows. Average remaining services lives of all employees provided with OPEB through the June 30, 2017 was 7.246 years for SCRHITF:

Note 9. Post-Employment Benefits Other Than Pensions (continued)

OPEB Expense and Deferred Outflows and Inflows of Resources (continued)

Measurement Period Ending June 30,	Fiscal Year Ending June 30,	SCRHITF
2018	2019	$ (701,595)
2019	2020	(701,595)
2020	2021	(701,595)
2021	2022	(701,595)
2022	2023	(722,091)
Thereafter		(900,407)
		$ (4,428,878)

Other Employee Benefits

In accordance with the South Carolina Code of Laws and the annual Appropriations Act, the State provides certain health care, dental, and life insurance benefits to all permanent full-time and certain permanent part-time employees of the Agency. These benefits are provided on a reimbursement basis by the employer agency based on rates established at the beginning of the service period by the Insurance Benefits Division of PEBA.

Additional Financial and Actuarial Information

Detailed information regarding the fiduciary net position of the OPEB Trusts is available in their audited financial statements for the year ended June 30, 2017 (including the unmodified audit opinion on the financial statements). Additional actuarial information is available in the accounting and financial reporting actuarial valuation as of June 30, 2017. A copy of the separately issued financial statements for the trust funds may be obtained by writing to the South Carolina Public Employee Benefit Authority – Insurance Benefits Division, PO Box 11960, Columbia, SC 29211-1960.

Note 10. Deferred Compensation Plans

Several optional deferred compensation plans are available to State of South Carolina 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 of South Carolina's Comprehensive Annual Financial Report.

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

Note 11. Risk Management

The Agency is exposed to various risks of loss and maintains State of South Carolina 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 (3) 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 of South Carolina management believes it is more economical to manage certain risks internally and to set aside assets for claim settlement. Several State of South Carolina funds accumulate assets and the State of South Carolina itself assumes substantially all risks for the following:

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

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

The Agency and other entities pay premiums to the South Carolina Insurance Reserve Fund 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 South Carolina Insurance Reserve Fund 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 South Carolina Insurance Reserve Fund's rates are actuarially determined.

State agencies and other entities are the primary participants in the State of South Carolina's Retiree Health Insurance and Long-Term Disability Insurance Trust Funds and Insurance Reserve Fund. 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 or disclosed in these financial statements.

Note 12. Transactions with State Agencies

The Agency has significant transactions with the State of South Carolina and various state agencies. The Agency was required to remit $654,328 of indirect cost recoveries to the State of South Carolina's General Fund for payment of services received from state agencies including maintenance of certain accounting records and payroll and disbursement processing from the South Carolina Comptroller General, check preparation and banking from the South Carolina State Treasurer, legal services from the South Carolina Attorney General, records storage from the South Carolina Department of Archives and History, retirement plan administration from PEBA, insurance plan administration, procurement services, grant services, personnel management, assistance in the preparation of the State of South Carolina's budget, use and support of the State of South Carolina'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 current 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 South Carolina State Accident Fund for worker's compensation insurance.

The amounts of expenditures applicable to related party transactions with South Carolina state agencies reported in the Special Revenue Fund are as follows for the year ended June 30, 2018:

Public Employee Benefit Authority	$ 9,411,101
Technical & Comprehensive Education Board	621,249
Department of Administration	584,004
State Fiscal Accountability Authority	225,393
State Accident Fund	98,009
Law Enforcement Division	76,679
Clemson University	53,138
Department of Revenue	42,438
Department of Commerce	25,446
Coastal Carolina University	18,635
Francis Marion University	18,161
The Citadel	15,119
University of South Carolina	10,462
Comptroller General	6,886
Department of Labor, Licensing, and Regulation	3,210
Other	1,907
	$ 11,211,837

In the Unemployment Compensation Fund, the Agency recorded revenues of $2,544,736 for reimbursements of benefits paid to State of South Carolina employees and was due $613,589 for these benefits at year-end.

Note 13. Commitments and Contingencies

Federal Grants

The various programs administered by the Agency for the year ended June 30, 2018 and previous years 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.

Note 13. Commitments and Contingencies (continued)

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 or disclosed in these financial statements.

Note 14. Restatement for Change in Accounting Principle

The Agency adopted the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions* (GASB No. 75), during the year ended June 30, 2018.

The primary objective of GASB No. 75 is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (OPEB). It also improves information provided by state and local government employers about financial support for OPEB that are provided by other entities. In addition, state and local governments who participate in a cost sharing multiple employer plan are now required to recognize a liability for their proportionate share of the net OPEB liability of the plan.

In particular, GASB No. 75 requires the Agency to recognize a net OPEB liability (and related deferred outflows and inflows of resources, and OPEB expense) for its participation in the State's Retiree Health Care Plan on financial statements prepared on the economic resources measurement focus and accrual basis of accounting (i.e., the Statement of Net Position) and present more extensive note disclosures which can be found in Note 9. The implementation of GASB No. 75 required the restatement of net position for the Agency's share of the net OPEB liability and related deferred outflows of resources as of June 30, 2017 which resulted in a decrease in beginning net position as of July 1, 2017 of $49,516,261.

The Agency also implemented the provisions of GASB Statement No. 85, *Omnibus 2017* (GASB No. 85) during the fiscal year ended June 30, 2018. The primary objective of GASB No. 85 was to address a variety of topics, including the timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements using the current financial resources measurement focus and recognizing on-behalf payments for pension or OPEB in employer financial statements.

As a result of the implementation of GASB No. 85, the Agency recognized revenues and expenditures in the amount of $376,729 for on-behalf payments made to the State's Retiree Health Care Plan during the year ended June 30, 2018. No restatement of fund balance or net position was required as a result of the implementation of this standard.

Note 15. Prior Period Adjustment

During the preparation of its financial statements for the year ended June 30, 2018, the Agency discovered that its previously reported balances for its federal grants and assessments receivable in its Special Revenue Fund were overstated by $3,320,874 and $3,373,784, respectively. As a result, the Agency reduced its beginning net position (and fund balance), federal grants receivable, and assessments receivable by $6,694,658 as of July 1, 2017.

Note 16. Subsequent Events

In December 2019, a novel strain of coronavirus disease ("COVID-19") was first reported in Wuhan, China. Less than four months later, on March 11, 2020, the World Health Organization declared COVID-19 a pandemic. The extent of COVID-19's effect on the Agency will depend on future developments, including the duration, spread and intensity of the pandemic, all of which are uncertain and difficult to predict considering the rapidly evolving landscape. As a result, it is not currently possible to ascertain the overall impact of COVID-19 on the Agency's operations. While the impact is currently expected to be temporary, if the pandemic continues to evolve into a severe worldwide health crisis, the disease could have a material adverse effect on the Agency. For the period from March 15, 2020 through September 11, 2020, the Agency had processed approximately $3,968,000,000 of unemployment related benefits of which $2,683,000,000 were funded federally by the program for Federal Pandemic Unemployment Compensation ("FPUC"). The claims not funded by the FPUC were funded with the cash held by the Unemployment Compensation Fund. Additionally, in August 2020, the State of South Carolina awarded the Agency a Coronavirus Relief Fund Grant of $500,000,000 to supplement the Unemployment Compensation Fund cash balances.

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, 2018

	SCRS				
	2018	2017	2016	2015	2014
The Agency's proportion of the net pension liability	0.28362%	0.29161%	0.31711%	0.32790%	0.32790%
The Agency's proportionate share of the net pension liability	$63,846,523	$62,288,320	$60,140,832	$56,455,388	$58,813,742
The Agency's covered employee payroll during the measurement period	$30,645,088	$26,651,965	$30,544,918	$30,462,010	$38,735,226
The Agency's proportionate share of the net pension liability as percentage of covered payroll	208.34%	233.71%	196.89%	189.64%	151.84%
Plan fiduciary net position as a percentage of the total pension liability	53.30%	52.91%	56.99%	59.90%	56.40%

	PORS				
	2018	2017	2016	2015	2014
The Agency's proportion of the net pension liability	0.00217%	0.00222%	0.00256%	0.01816%	0.01816%
The Agency's proportionate share of the net pension liability	$ 59,394	$ 56,222	$ 55,817	$ 347,659	$ 376,493
The Agency's covered employee payroll during the measurement period	$ 29,260	$ 27,681	$ 31,521	$ 213,665	$ 222,891
The Agency's proportionate share of the net pension liability as percentage of covered payroll	202.99%	203.11%	177.08%	189.64%	200.14%
Plan fiduciary net position as a percentage of the total pension liability	60.90%	60.44%	64.57%	67.55%	62.98%

The amounts presented above were determined as of June 30th of the preceding year. This schedule is presented to illustrate the requirement to show information for ten (10) years. However, until a full ten (10) year trend is compiled, information presented is only for those years which is available.

South Carolina Department of Employment and Workforce
Schedule of the Employer's Pension Plan Contributions
Year Ended June 30, 2018

	SCRS				
	2018	2017	2016	2015	2014
Contractually required contribution	$ 3,758,700	$ 3,372,088	$ 2,907,729	$ 3,283,578	$ 3,183,280
Contributions in relation to the contractually required contribution	3,758,700	3,372,088	2,907,729	3,283,578	3,183,280
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
The Agency's covered payroll	$ 27,719,026	$ 30,645,088	$ 26,651,965	$ 30,544,918	$ 30,462,010
Contributions as a percentage of covered payroll	13.56000%	11.00332%	10.91000%	10.75000%	10.45000%

	PORS				
	2018	2017	2016	2015	2014
Contractually required contribution	$ 6,130	$ 4,167	$ 3,693	$ 4,101	$ 26,580
Contributions in relation to the contractually required contribution	6,130	4,167	3,693	4,101	26,580
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
The Agency's covered payroll	$ 37,746	$ 29,260	$ 27,681	$ 31,521	$ 213,665
Contributions as a percentage of covered payroll	16.24000%	14.24129%	13.34128%	13.01037%	12.44003%

This schedule is presented to illustrate the requirement to show information for ten (10) years. However, until a full ten (10) year trend is compiled, information presented is only for those years which is available.

South Carolina Department of Employment and Workforce
Schedule of the Employer's Proportionate Share of the Net OPEB Liability
Year Ended June 30, 2018

	2018	2017
The Agency's proportion of the net OPEB liability	0.352252%	0.352252%
The Agency's proportionate share of the net OPEB liability	$47,711,956	$50,966,042
The Agency's covered payroll during the measurement period	$29,704,898	$26,651,965
The Agency's proportionate share of the net OPEB liability as percentage of covered payroll	160.62%	233.71%
Plan fiduciary net position as a percentage of the total OPEB liability	7.60%	6.62%

The amounts presented above were determined as of June 30th of the preceding year. This schedule is presented to illustrate the requirement to show information for ten (10) years. However, until a full ten (10) year trend is compiled, information presented is only for those years which is available.

South Carolina Department of Employment and Workforce
Schedule of the Employer's OPEB Plan Contributions
Year Ended June 30, 2018

	2018	2017
Contractually required contribution	$ 1,646,102	$ 1,449,781
Contributions in relation to the contractually required contribution	1,646,102	1,449,781
Contribution deficiency (excess)	$ -	$ -
The Agency's covered payroll	$ 29,929,130	$ 29,704,898
Contributions as a percentage of covered payroll	5.50%	4.88%

This schedule is presented to illustrate the requirement to show information for ten (10) years. However, until a full ten (10) year trend is compiled, information presented is only for those years which is available.

COMPLIANCE SECTION

South Carolina Department of Employment and Workforce
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2018

Federal Grantor/Program or Cluster Title	Federal CFDA Number	Total Federal Expenditures	Subrecipient Expenditures
U.S. Department of Labor			
Labor Force Statistics	17.002	$ 871,360	$ -
Unemployment Insurance	17.225	37,140,320	-
Trade Adjustment Assistance - Workers	17.245	4,190,128	-
Work Opportunity Tax Credit	17.271	327,104	-
Labor Certification for Alien Workers	17.273	241,017	-
Workforce Innovation and Opportunity Act - National Emergency Grant	17.277	77,319	77,013
National Reserve Demonstration	17.280	17,962	17,962
WIOA Cluster:			
Workforce Innovation and Opportunity Act - Adult	17.258	13,554,033	11,465,331
Workforce Innovation and Opportunity Act - Youth	17.259	11,085,469	10,688,954
Workforce Innovation and Opportunity Act - Dislocated Workers	17.278	14,359,542	12,893,144
Total WIOA Cluster		38,999,044	35,047,429
Employment Services Cluster:			
Employment Services	17.207	9,414,083	-
Disabled Veterans Outreach Program	17.801	1,572,442	-
Local Veterans Employment Representative Program	17.804	1,050,116	-
Total Employment Services Cluster		12,036,641	-
Total U.S. Department of Labor		93,900,895	35,142,404
Appalachian Regional Commission			
Appalachian Area Development (SC JAG)	23.002	56,187	-
Total Appalachian Regional Commission		56,187	-
U.S. Department of Defense			
Economic Adjustment Assistance	12.617	1,265,131	-
Total U.S. Department of Defense		1,265,131	-
U.S. Social Security Administration			
Employment Network - Navigator Program	96.000	74,150	-
Total U.S. Social Security Administration		74,150	-
Total Expenditures of Federal Awards		$ 95,296,363	$ 35,142,404

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, 2018. 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. Summary of Significant Accounting Policies

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. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Agency has elected not to use the ten percent (10%) de minimis indirect cost rate as allowed under the Uniform Guidance.

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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, 2018, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements, and have issued our report thereon dated September 11, 2020.

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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and questioned costs, we did identify certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2018-001 and 2018-002 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2018-003 and 2018-004 to be significant deficiencies.

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*.

South Carolina Department of Employment and Workforce's Responses to Findings

The Agency's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Agency's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Agency's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Agency's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Elliott Davis, LLC

Columbia, South Carolina
September 11, 2020

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, 2018. 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 federal statutes, regulations, and the terms and conditions of its federal awards 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 the audit requirements of 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, 2018.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2018-005 and 2018-006. Our opinion on each major federal program is not modified with respect to these matters.

The Agency’s responses to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs and corrective action plan. The Agency's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

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 a 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2018-006 that we consider to be a material weakness.

The Agency's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs and corrective action plan. The Agency’s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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.

Elliott Davis, LLC

Columbia, South Carolina
September 11, 2020

South Carolina Department of Employment and Workforce
Schedule of Findings and Questioned Costs
Year Ended June 30, 2018

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?	X	Yes		No
• Significant deficiency(ies) identified?	X	Yes		None reported
Noncompliance material to financial statements noted?		Yes	X	No

Federal Awards

Internal control over major federal programs:				
• Material weakness(es) identified?	X	Yes		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?	X	Yes		No

Identification of major federal programs:

CFDA No.	Program / Cluster Name
17.225	Unemployment Insurance
17.258, 17.259 and 17.278	WIOA Program Cluster

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

Item 2018-001: Prior Period Adjustment for Assessments Receivable (Material Weakness)

Condition: As of June 30, 2017, the Agency's assessments receivable subsidiary ledger inadvertently included State unemployment insurance taxes due from reimbursable employers.

Criteria: The assessments receivable subsidiary ledger should only include State unemployment insurance taxes due from non-reimbursable employers. The Federal Unemployment Tax Act of 1972 allows 501(c)(3) non-profits to opt out of the State unemployment insurance system to become a "reimbursable employer." When an organization operates as a reimbursable employer, it reimburses the State for unemployment benefits actually paid to each employee, rather than paying unemployment taxes.

Cause: Internal controls are not in place to ensure that subsidiary ledgers are being accurately maintained and reconciled to the general ledger.

Effect: As a result of the condition described above, assessments receivable and beginning fund balance/net position as of July 1, 2017 were overstated by $3,373,784. A prior period adjustment was recorded in order to correct this error.

Recommendation: We recommend that management review monthly subsidiary ledgers for accuracy, including reconciling the balances and activity to the general ledger to ensure that all assessment receivables and related revenue are accurately reflected in the Agency's financial statements.

Views of Responsible Officials and Planned Corrective Actions: Management concurs with this recommendation. Management will work collaboratively with the Division of Information and Business Solutions and the Unemployment Insurance Division to ensure these detailed subsidiary ledgers are compiled, scheduled, distributed to the Unemployment Insurance Accounting Department and Finance Department, and reviewed timely throughout the year to further support the accuracy of the balances reported on the general ledger.

Item 2018-002: Prior Period Adjustment for Federal Grants Receivable (Material Weakness)

Condition: During the year ended June 30, 2017, federal grant receivables and revenues were overstated by a significant amount.

Criteria: Federal grant receivables and revenues should be recorded for an amount that represents estimated reimbursements from the federal grantor based on eligible federal grant expenditures.

Cause: Internal controls over the financial statement closing process were not in place to ensure that federal grant receivables recorded at June 30, 2017 were valid and collectible receivables.

Effect: As a result of the condition described above, federal grant receivables and beginning fund balance/net position as of July 1, 2017 were overstated by $3,320,874. A prior period audit adjustment was recorded in order to correct this error.

Recommendation: We recommend that management recognize all federal grant revenues as soon as the Agency incurs a federal grant expenditure and all eligibility requirements have been met, rather than using year-end accrual closing entries to record federal grant receivables and revenues.

Item 2018-002: Prior Period Adjustment for Federal Grants Receivable (Material Weakness), Continued

Views of Responsible Officials and Planned Corrective Actions: Management concurs with this recommendation. Management will review all federal grant transactions as part of its monthly financial closeout process. Furthermore, the Agency will recognize federal grant receivables and revenues as soon as it incurs federal grant expenditures and all eligibility requirements have been met.

Item 2018-003: Revenue Recognition (Significant Deficiency)

Condition: The Agency did not recognize State unemployment insurance taxes earned prior to June 30, 2018, but collected within sixty (60) days following June 30, 2018 as assessment receivables and assessment revenues as of and for the year ended June 30, 2018.

Criteria: In accordance with the provisions of GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, revenues should be recorded when earned on the government-wide financial statements, and recorded when they are both measurable and available on the governmental fund financial statements. 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 revenues to be available if they are collected within sixty (60) days of the end of the current year.

Cause: Internal controls are not in place to ensure that subsidiary ledgers are being accurately maintained and reconciled to the general ledger.

Effect: As a result of the condition described above, assessments receivable and assessments revenue for the year ended June 30, 2018 were understated by $1,334,594. A current period audit adjustment was recorded in order to correct this error.

Recommendation: We recommend that management review monthly subsidiary ledgers for accuracy, including reconciling the balances and activity to the general ledger to ensure that all assessment receivables and related revenue are accurately reflected in the Agency's financial statements.

Views of Responsible Officials and Planned Corrective Actions: Management concurs with this recommendation. Management will work collaboratively with the Division of Information and Business Solutions and the Unemployment Insurance Division to ensure these detailed subsidiary ledgers are compiled, scheduled, distributed to the Unemployment Insurance Accounting Department and Finance Department, and reviewed timely throughout the year to further support the accuracy of the balances reported on the general ledger.

Item 2018-004: Retainage Payable (Significant Deficiency)

Condition: The Agency's capital expenditures and retainage payable for the year ended June 30, 2018 were significantly overstated because a journal entry was inadvertently posted to the general ledger twice.

Criteria: Retainage should be paid upon the completion of a project and in accordance with the underlying contract with the vendor. Upon the payment of such payables, the subsidiary ledger and general ledger should be updated accordingly.

Cause: Internal controls are not in place to ensure that subsidiary ledgers are being accurately maintained and reconciled to the general ledger.

Item 2018-004: Retainage Payable (Significant Deficiency), Continued

Effect: As a result of the condition described above, capital expenditures and retainage payable for the year ended June 30, 2018 were overstated by $935,528.

Recommendation: We recommend that management prepare and review monthly subsidiary ledgers for accuracy, including reconciling the balances and activity to the general ledger to ensure that all retainage payables and related capital expenditures are accurately reflected in the Agency's financial statements.

Views of Responsible Officials and Planned Corrective Actions: Management concurs with this recommendation. Management will review projects in progress to determine if any retainage is eligible for accrual at year-end.

SECTION III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Item 2018-005: Report Submission to the Federal Audit Clearinghouse (Other Matter Required to be Reported Under the Uniform Guidance)

Condition: The Agency did not prepare and submit its Data Collection Form and Reporting Package for the year ended June 30, 2018 to the Federal Audit Clearinghouse by the March 31, 2019 due date.

Criteria: Per §200.512 of the Uniform Guidance, *Report Submission*, the audit shall be completed and the Data Collection Form and Reporting Package shall be electronically transmitted within the earlier of thirty (30) days after receipt of the auditor's reports, or nine (9) months after the end of the audit period. If the due date falls on a Saturday, Sunday, or federal holiday, the Data Collection Form and Reporting Package are due the next business day. The Uniform Guidance does not permit federal agencies or pass-through entities to extend the due date.

Cause: Management did not review subsidiary ledgers for accuracy and reconcile them to the general ledger on a timely basis. Accordingly, the Agency's general ledger for the year ended June 30, 2018 was not closed out in a timely manner.

Effect: The Agency's Data Collection Form and Reporting Package for the year ended June 30, 2018 was not prepared and submitted to the Federal Audit Clearinghouse by the due date.

Recommendation: We recommend that management implement monthly financial reporting and closeout processes so that the financial closeout process can be performed timely.

Views of Responsible Officials and Planned Corrective Actions: Management concurs that the Data Collection Form and Reporting Package for the year ended June 30, 2018 was not prepared and submitted to the Federal Audit Clearinghouse by the March 31, 2019 due date. The Agency will use a project management approach to completing the financial statements in the future. All deliverables will be prepared by the Finance Department and tracked by the Project Management Office. Updates will be provided based upon the initial client request list and additional requests received from the Agency's external auditors.

Item 2018-006: Reporting (Material Weakness over Reporting and Non-Material Noncompliance)

United States Department of Labor
Unemployment Insurance Program – CFDA No. 17.225
WIOA Program Cluster – CFDA Nos. 17.258, 17.259 and 17.278

Condition: The Agency did not submit certain quarterly and annual reports to the United States Department of Labor by the required due dates. Accordingly, the Agency did not comply with the *Reporting* compliance requirements related to the Unemployment Insurance and Workforce Innovation Opportunity Act ("WIOA") Programs.

Criteria: Per Part 4 of the *OMB Compliance Supplement*:

- The *ETA 191 Report* is required to be submitted on a quarterly basis to the National Office by the 25th of the month following the close of the quarter.
- The *ETA 227 Report* is required to be submitted on a quarterly basis to the National Office no later than the first day of the second month following the close of quarter.
- The *ETA 9130 Report* is required to be submitted on a quarterly basis to the National Office no later than forty-five (45) days following the close of the quarter.
- The *ETA 9173 Report* is required to be submitted on a quarterly basis to the National Office no later than forty-five (45) days following the close of the quarter.
- The *Statewide Performance Report* is required to be submitted on an annual basis to the National Office no later than October 1st.

Cause: Internal controls are not in place to ensure that all required reports are being submitted in accordance with the United States Department of Labor's timelines.
.
Effect: As a result, the Agency becomes more susceptible to having its level of federal award funding reduced by the United States Department of Labor when it violates its *Reporting* compliance requirements applicable to the Unemployment Insurance and WIOA Programs.

Context: We inspected a sample of one hundred two (102) quarterly reports and four (4) annual reports and noted the following number of exceptions:

- Unemployment Insurance Program - Five (5) of thirty-nine (39) quarterly reports
- WIOA Programs – Forty-seven (47) of sixty-three (63) quarterly reports
- WIOA Programs – Four (4) of four (4) annual reports

Recommendation: We recommend that management carefully review the terms and conditions included in the supporting grant agreements and the *Reporting* requirements included in the *OMB Compliance Supplement* applicable to the Unemployment Insurance Program.

Views of Responsible Officials and Planned Corrective Actions: Management concurs with this recommendation. Management will work with the Agency's Enterprise and Project Management Office ("EPMO") which is tasked with monitoring Agency-wide reporting deadlines. The EPMO developed a master reporting database that includes relevant identifying information including report name, Agency contact, reporting frequency and due dates which will assist the Agency in complying with reporting requirements under its grant agreements.

Item 2017-001: Allowance for Uncollectible Assessments Receivable (Material Weakness)

Condition: As of June 30, 2016, the Agency's allowance for uncollectible assessments receivable was not estimated in accordance with its policy. In addition, attempts to correct a portion of this prior period error included increasing assessments revenue during the year ended June 30, 2017 rather than restating beginning fund balance and beginning net position as of July 1, 2016.

The condition described above resulted in the overstatement (understatement) of the following financial statement amounts reported by opinion unit:

Financial Statement Line Item	Governmental Activities and Governmental Fund	Business-Type Activities and Proprietary Fund	Total
Understatement of assessments receivable and beginning net position/fund balance as of July 1, 2016	($2,627,679)	($25,695,476)	($28,323,155)
Overstatement (understatement) of assessments revenue for the year ended June 30, 2017	$2,627,679	($6,941,529)	($4,313,850)
Understatement of assessments receivable and ending net position as of June 30, 2017	$ -	($32,637,005)	($32,637,005)

Recommendation: We recommended that management evaluate the allowance for uncollectible assessments receivable at least annually to determine that it is being computed in accordance with the Agency's policy. This evaluation should include (1) reviewing the percentage being applied to all accounts up to two (2) years old to ensure that it is consistent with actual historical collection rates, and (2) ensuring that all balances greater than two (2) years old are written off against assessments receivable and the allowance for uncollectible assessments receivable.

Current Status: The recommendation was adopted on July 31, 2019. No similar findings were noted during the June 30, 2018 audit engagement.

Item 2017-002: Assessments Revenue and Receivables (Material Weakness)

Condition: Assessment receivable balances reflected on the Agency's subsidiary ledger as of June 30, 2016 were not recorded on the Agency's general ledger. In addition, attempts to correct this prior period error included increasing assessments revenue during the year ended June 30, 2017 rather than restating beginning fund balance and beginning net position as of July 1, 2016.

This condition resulted in the overstatement (understatement) of the following financial statement amounts reported in the governmental activities and governmental fund:

Understatement of assessments receivable and beginning fund balance/net position as of July 1, 2016	($2,522,732)
Overstatement of assessments revenue for the year ended June 30, 2017	$2,522,732

Recommendation: We recommended that management review monthly subsidiary ledgers for accuracy, including reconciling the balances and activity to the general ledger to ensure that all assessment receivables and related revenue are accurately reflected in the Agency's financial statements.

Current Status: The discussion for Finding Numbers 2018-001 and 2018-003 also apply to this Finding.

Item 2017-003: Federal Grant Revenues (Material Weakness)

Condition: During the year ended June 30, 2016, certain federal grant revenues were not recognized when the corresponding federal grant expenditures were incurred and when all eligibility requirements imposed by the federal grantors were met during the year then ended. In addition, attempts to correct this prior period error included increasing federal grant revenues during the year ended June 30, 2017 rather than restating beginning fund balance and beginning net position as of July 1, 2016.

In addition to the prior period error described above, certain federal grant revenues were not recognized during the year ended June 30, 2017 when the corresponding federal grant expenditures were incurred and when all eligibility requirements imposed by the federal grantors were met during the year then ended.

This condition resulted in the overstatement (understatement) of the following financial statement amounts reported in the governmental activities and governmental fund:

Item 2017-003: Federal Grant Revenues (Material Weakness), Continued

Understatement of federal grant receivables and beginning fund balance/net position as of July 1, 2016	($5,793,391)
Net overstatement of federal grant revenues for the year ended June 30, 2017	$ 317,182
Understatement of federal grant receivables and ending fund balance/net position as of June 30, 2017	($5,476,209)

Recommendation: We recommended that management recognize all federal grant revenues as soon as the Agency incurs a federal grant expenditure and all eligibility requirements have been met.

Current Status: The discussion for Finding Number 2018-002 also applies to this Finding.

Item 2017-004: Accounts Payable (Material Weakness)

Condition: The Agency's June 30, 2017 accounts payable balance improperly excluded $2,888,442 of expenditures that were incurred during the year ended June 30, 2017.

Recommendation: We recommended that management review monthly subsidiary ledgers for accuracy, including reconciling the balances and activity to the general ledger to ensure that all accounts payable and related expenditures are accurately reflected in the Agency's financial statements.

Current Status: The recommendation was adopted on July 31, 2019. No similar findings were noted during the June 30, 2018 audit engagement.

Item 2017-005: Schedule of Expenditures of Federal Awards (Material Weakness and Non-compliance Material to the Financial Statements)

Condition: The Agency's Schedule of Expenditures of Federal Awards excluded $5,274,857 of Unemployment Insurance Program expenditures incurred during the year ended June 30, 2017.

Recommendation: We recommended that management review all federal grant expenditures for indication of proper supporting documentation and general ledger account coding along with reconciling annual federal grant awards with the annual federal grant expenditures presented on the Schedule of Expenditures of Federal Awards.

Current Status: The recommendation was adopted on July 31, 2019. No similar findings were noted during the June 30, 2018 audit engagement.

Item 2017-006: Report Submission to the Federal Audit Clearinghouse (Other Matter to be Reported Under the Uniform Guidance)

Condition: The Agency did not prepare and submit its Data Collection Form and Reporting Package for the year ended June 30, 2017 to the Federal Audit Clearinghouse by the March 31, 2018 due date.

Recommendation: We recommended that management implement monthly financial reporting and closeout processes during the year so that the year-end financial closeout process can be performed timely.

Current Status: The discussion for Finding Number 2018-005 also applies to this Finding.

Item 2017-007: Bank Reconciliations (Significant Deficiency)

Condition: The Agency's June 30, 2017 bank reconciliation for its operating account was not prepared in a timely manner and did not reconcile to the general ledger by $353,345.

Recommendation: We recommended that the Agency reconcile all of its cash accounts with the corresponding bank accounts on a monthly basis and ensure that for each bank reconciliation, the adjusted bank balance agrees with the adjusted general ledger balance prior to having the bank reconciliation reviewed and finalized. We also recommended that each bank reconciliation is prepared and reviewed by separate authorized personnel and that evidence of this review is documented. This will help ensure the accuracy and existence of the cash balances reported on the Agency's general ledger and financial statements.

Current Status: The recommendation was adopted on July 31, 2019. No similar findings were noted during the June 30, 2018 audit engagement.

Item 2017-008: Timely Reconciliation and Review of Assessments Receivable Subsidiary Records (Significant Deficiency)

Condition: The Agency does not maintain accurate subsidiary ledgers for assessment receivables and revenues. In addition, the subsidiary ledgers that are generated are not reconciled to the general ledger.

Recommendation: We recommended that management prepare and review monthly subsidiary ledgers for accuracy, including reconciling the balances and activity to the general ledger to ensure that all assessment receivables and related revenue are accurately reflected in the Agency's financial statements.

Current Status: The discussion for Finding Numbers 2018-001 and 2018-003 also apply to this Finding.

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Columbia, SC 29202
dew.sc.gov

Henry McMaster
Governor

G. Daniel Ellzey
Executive Director

Corrective Action Plan in Response to Findings and Questioned Costs Contained in the "Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance in Accordance with the Uniform Guidance"

Item 2018-001 Report Submission to the Federal Audit Clearinghouse (Other Matter Required to be Reported Under the Uniform Guidance)

The South Carolina Department of Employment and Workforce (SCDEW) is reviewing staffing needs and workflows to improve operations so that timely financial reports can be generated to meet SCDEW's reporting requirements. During the fiscal year July 1, 2019 to June 30, 2020 SCDEW replaced two key management positions in the finance department and began a significant project to replace its financial reporting system and update the related workflows. Staffing will continued to be evaluated as the transition to the new financial reporting system progresses. The financial reporting system replacement project is scheduled to be completed by June 30, 2021.

Items 2018-002 to 2018-005 relate to the management of the data in the financial reporting system. See the comment in response to 2018-001.

Item 2018-006 Reporting (Material Weakness over Reporting and Non-Material Noncompliance)

SCDEW implemented a corrective action plan in response to this finding during the year ended June 30, 2020 a brief summary follows:

The SCDEW Enterprise and Project Management Office (EPMO) is tasked with monitoring agency wide reporting deadlines. The EPMO developed a master reporting database that includes relevant identifying information including report name, Agency, SCDEW contact, reporting frequency and due dates.

Individual reporters at SCDEW submit data to EPMO on the status of the required filings. EPMO routinely reports the status of filings to executive leadership. The finance department's plan is attached as Attachment 1.

South Carolina Department of Employment & Workforce
1550 Gadsden Street
Columbia, SC 29201

Attachment 1

CORRECTIVE ACTION PLAN

Agency Reports - Finance Department

The EPMO Office is currently tracking and monitoring all external reports that are submitted by the Finance Department. The reports currently tracked include:

- 120 Total Reports
  - 23 Annual Reports
  - 29 Quarterly Reports
  - 60 Monthly Reports
  - 8 semi-monthly reports

- There are five (5) individuals from the Finance Department who are responsible for the submission of these 120 reports.

Reporting Process:

1. A Master Reporting Database is used to track and manage the submission of all reports. This database includes:
   a. Name of Entity Requesting the Report
   b. Report Name
   c. Type of Entity Requesting Report (ex. Federal, State, local, etc.)
   d. Division Contact Person (person responsible for submitting the report)
   e. Reporting Frequency
   f. Due Date
   g. Report Submission Status
   h. Date Report Submitted
   i. Comments
   j. Etc.

2. The Master Reporting database automatically generates:
   a. Monthly Reports
   b. Individualized Reports (list of reports by each individual responsible for its submission)
   c. Custom Reports

3. The EPMO is responsible for keeping the database updated as often as necessary to maintain the integrity and accuracy of the data. Each time a new report is added, an existing report is changed, a report is submitted, an extension has been granted, added comments, etc., the EPMO will update the Master Reporting database.

Frequency of Updates:

YEARLY:

Prior to the beginning of each calendar year, the EPMO generates a new listing of monthly reports for the year. This report is also sorted by individuals. This spreadsheet is provided to each individual listed as the person responsible for submitting the report. Each report is listed separately, regardless of its frequency of submission for new the year. Individuals are asked to verify their list and provide any changes to the EPMO. The EPMO will update the Master Report list accordingly.

SEMI-MONTHLY

EPMO requests that individuals who are responsible for submitting any external reports (Ad Hoc, new submissions, etc.) report all updates to the EPMO. Once updates are received, the EPMO will update the master reporting database as well as the monthly reporting listing, which will provide a weekly update to the Executive team.

WEEKLY:

1. Each Week, the EPMO reviews monthly reports to update the submission statuses of reports. EPMO checks each individual spreadsheets for updates that have been made. For each individual spreadsheet that has not been updated with a submission status or a submission date, the EPMO will contact the individual(s) responsible for the report submission to obtain an updated status. Once a status is obtained, the master reporting database is updated.
2. A weekly report is then generated and provided to the Executive team for review. This up-to-date list includes the current month, the previous months, and the upcoming monthly reports, as appropriate.