South Carolina
Department of Employment and Workforce

Unemployment Compensation Fund
Basic Financial Statements
For the year ended June 30, 2026

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

October 1, 2026

Mr. William Floyd, 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 Unemployment Compensation Fund for the fiscal year ended June 30, 2026, was issued by Scott and Company, LLC, Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

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

Respectfully submitted,

Sue F. Moss

Sue F. Moss, CPA
Interim State Auditor

SCOTT COMPANY

Independent Auditor's Report

Sue F. Moss, CPA
Interim State Auditor
South Carolina Office of the State Auditor
Columbia, South Carolina

Opinion

We have audited the accompanying financial statements of the South Carolina Department of Employment and Workforce Unemployment Compensation Fund (the "Fund") as of and for the year ended June 30, 2026, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Fund as of June 30, 2026, and the respective changes in financial position and its cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Fund, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Fund's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Fund's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Reporting Entity

As described in Note 1, the financial statements of the Fund are intended to present the financial position, the changes in financial position and cash flows of only that portion of the funds of the State of South Carolina financial reporting entity that is attributable to the transactions of the Fund. They do not purport to, and do not, present fairly the financial position of the State of South Carolina as of June 30, 2026, the changes in its financial position, or its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. 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 the management's discussion and analysis, as listed in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 1, 2026, on our consideration of the Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Fund's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control over financial reporting and compliance.

Scott and Company LLC

Columbia, South Carolina
October 1, 2026

SOUTH CAROLINA DEPARTMENT OF EMPLOYEMENT AND WORKFORCE
MANAGEMENT'S DISCUSSION AND ANALYSIS

Introduction

Management of the South Carolina Department of Employment and Workforce (the "Agency") offers readers this narrative overview and analysis of the financial activities attributed to the Agency's Unemployment Compensation Fund for the year ended June 30, 2026. Please read this information in conjunction with the Unemployment Compensation Fund's financial statements and accompanying notes.

Financial Highlights for Fiscal Year 2026

The Agency's Unemployment Compensation Fund (the "UC Fund") paid $130 million in unemployment benefits with $155 million in operating revenue.

The UC Fund has reported a net Benefit Overpayments Receivable of $17.8 million as of June 30, 2026 compared to $30.1 million as of June 30, 2025. New overpayments determined in fiscal year 2026 of $8.7 million was a modest increase over the $8.1 million new overpayments determined in the prior fiscal year. This reflects the continued impact of early integrity work beginning in prior years by the Agency to identify and record claimant overpayments.

The UC Fund participates in the federal Treasury Offset Program ("TOP") to facilitate the collection of claimant unemployment benefit overpayments of both federal and state benefits, as well as collection of employer debt for South Carolina unemployment tax and fee assessments. The TOP program collects delinquent debts owed to the UC Fund by offsetting an individual's federal income tax refund. During fiscal year 2026, TOP collections were $4.4 million. The UC Fund also participates in the state Setoff Debt Collection Act ("SOD") program, which authorizes the South Carolina Department of Revenue to offset a potential South Carolina tax refund to collect an outstanding South Carolina unemployment tax debt. During fiscal year 2026, SOD collections were $1.7 million. Total overpayment collections during the fiscal year were $49.0 million.

Overview of the Financial Statements

The UC Fund was created per Section 41-33-10 of the South Carolina Employment Security Law. The Unemployment Compensation Fund is made up of four 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 (3) a benefit payment account which receives funds from the Federal Unemployment Trust Fund to pay unemployment benefit claims. An additional fund benefit payment account was established during fiscal year 2021 to account for and pay the Lost Wages Assistance benefits appropriated from the Federal Emergency Management Association.

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.

If the Unemployment Compensation Fund exhausts all of its reserves, it may borrow from the Federal Unemployment Compensation Fund via Title XII to continue paying benefits. Such federal borrowing carries interest charges and the interest charges may not be funded from regular employer tax contributions.

Administrative costs of the Unemployment Insurance Program are accounted for in the Agency's Special Revenue Fund and are not reported within the Unemployment Compensation Fund's financial statements. In addition, interest liabilities and payments on outstanding advances from the federal government are accounted for in the Agency's Special Revenue Fund and are not reported within these financial statements.

Per State law and regulation, and in accordance with United States Department of Labor best practices, a healthy unemployment insurance compensation 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. Due to the strong level of the UC Fund's balance as of fiscal year end 2025, South Carolina's UC Fund has an AHCM greater than 1.0 and there is no current statutory need for solvency surcharges.

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 UC Fund are considered business-type activities. When needed, this fund collects money through federal grant revenues, unemployment taxes paid by businesses, and federal loans.

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. The notes to the financial statements also present information about the accounting policies, significant account balances, and activities of the UC Fund.

Detailed Financial Analysis

Statement of Net Position

The table below represents the condensed Statement of Net Position (in thousands):

Table 1

Summary of Net Position

	Business-Type Activities	
	2026	2025
Assets		
Current and other assets		
Current and other assets	$ 2,162,904	$ 2,099,443
Total assets	2,162,904	2,099,443
Liabilities		
Current liabilities	178,328	194,842
Total liabilities	178,328	194,842
Net position		
Total restricted net position	$ 1,984,576	$ 1,904,601

Total current assets have increased from $2.099 billion to $2.163 billion, an increase of $64 million, driven by $58.7 million of investment earnings, primarily on deposits held with the US Treasury. Current liabilities have decreased from $194.8 million to $178.3 million, a decrease of $16.5 million. The decrease in current liabilities was primarily caused by repayments from the UC Fund to the Agency of approximately $17.1 million during the fiscal year ended June 30, 2026.

The table below shows a summary of the business-type activities for the Statement of Revenues, Expenses, and Changes in Net Position (in thousands):

Table 2

Summary of Changes in Net Position

	Business-Type Activities	
	2026	2025
Revenues		
Program revenues:		
Charges for services	$ 155,251	$ 204,491
Operating grants and contributions	-	110
General revenues:		
Unrestricted investment earnings	58,698	54,834
Total revenues	213,949	259,435
Expenses		
Unemployment compensation	133,974	163,388
Total expenses	133,974	163,388
Change in net position	79,975	96,047
Beginning net position	1,904,601	1,808,554
Ending net position	$ 1,984,576	$ 1,904,601

Table 2 Changes in Net Position depicts the effects of an increased interest rate on the UC Fund's deposits in the US Treasury resulting in increased unrestricted investment earnings from $54.8 million in 2025 to $58.7 million in 2026. Charges for services decreased by approximately $49.2 million due to a decline in related unemployment compensation benefits paid out, which was driven by improving economic conditions. Unemployment compensation expenses are below pre-pandemic levels and follow the overall low unemployment levels South Carolina is experiencing after the pandemic period.

Financial Outlook for the Fiscal Year Ending June 30, 2027

The financial outlook for the UC Fund in FY26-27 is strong. Effective May 2026, the legislature amended the UC Fund solvency target to align with historical benefit activity. As a result, management projects that the UC Fund must have approximately $1.46 billion as of June 30, 2027, to be considered solvent and avoid an additional surcharge tax on employers. Management projects that it will have approximately $1.85 billion in the Unemployment Compensation Fund as of June 30, 2027, comfortably more than the minimum amount required by statute.

Contacting Financial Management

This management's discussion and analysis is designed to provide a general overview of the South Carolina Department of Employment and Workforce's UC Fund 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
Unemployment Compensation Fund
June 30, 2026

	Unemployment Compensation Fund
Assets	
Current assets	
Cash and cash equivalents	$ 2,022,322,400
Benefit overpayments receivable, net	17,816,986
Employer assessments receivable, net	120,845,408
Due from other funds	1,380,251
Intergovernmental receivables, net	538,741
Total current assets	2,162,903,786
Total assets	2,162,903,786
Liabilities	
Current liabilities	
Benefits payable	831,723
Child support withholding payable	26,122
Due to employers	76,894,609
Intergovernmental payable	100,546,044
Other payables	29,522
Total current liabilities	178,328,020
Total liabilities	178,328,020
Net position	
Restricted	1,984,575,766
Total net position	$ 1,984,575,766

See accompanying notes to the financial statements.

South Carolina Department of Employment and Workforce
Statement of Revenues, Expenses, and Changes in Net Position
Unemployment Compensation Fund
For the Year Ended June 30, 2026

	Unemployment Compensation Fund
Operating Revenues:	
Contributory employer assessments	$ 148,758,478
State agencies	1,916,175
Local governments	2,701,828
Non-profit entities	1,875,273
Total operating revenues	155,251,754
Operating Expenses:	
Unemployment compensation benefits	130,033,487
Return of governmental benefits funding	3,941,209
Total operating expenses	133,974,696
Net operating income	21,277,058
Nonoperating Revenues:	
Interest revenue	58,698,047
Total nonoperating revenues	58,698,047
Change in net position	79,975,105
Net position, beginning of year	1,904,600,661
Net position, end of year	$ 1,984,575,766

See accompanying notes to the financial statements.

South Carolina Department of Employment and Workforce
Statement of Cash Flows
Unemployment Compensation Fund
For the Year Ended June 30, 2026

	Unemployment Compensation Fund
Cash flows from operating activities:	
Cash flow from assessments	$ 131,721,098
Cash flow from benefit overpayment recoveries	48,953,549
Cash flow from employer reimbursements, net	7,541,495
Cash flow to federal, state, and local agencies	(29,729,472)
Cash flow for benefit payments	(145,922,850)
Net cash provided by operating activities	12,563,820
Cash flows from investing activities:	
Interest earned on Federal Unemployment Trust Fund	58,698,047
Net cash provided by investing activities	58,698,047
Net increase in cash	71,261,867
Cash, beginning of year	1,951,060,533
Cash, end of year	$ 2,022,322,400
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	$ 21,277,058
Net change in operating assets and liabilities	
Benefit overpayments receivable, net	33,727,757
Employer assessments receivable, net	(3,539,624)
Intergovernmental receivables, net	466,039
Benefits payable	(426,406)
Child support withholding payable	(237,165)
Due to employers	4,659,254
Due to other funds	(17,108,791)
Intergovernmental payable	(26,254,302)
Net cash flows provided by operating activities	$ 12,563,820

See accompanying notes to the financial statements.

South Carolina Department of Employment and Workforce
Unemployment Compensation Fund
Notes to the Financial Statements
For the Year Ended June 30, 2026

Note 1. Summary of Significant Accounting Policies

a. 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 must be managed and operated by an Executive Director nominated by the State Department of Employment and Workforce Review Committee and appointed by the Governor. The Governor must transmit the name of his appointee to the Senate for advice and consent. The term of the Executive Director is coterminous with that of the Governor and until a successor is appointed. The Executive Director is subject to removal by the Governor. The South Carolina General Assembly elects the three members of the appellate panel for four-year terms.

The Agency's Unemployment Compensation Fund (the "UC 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 Trust Fund for the payment of unemployment compensation benefits as long as the Trust Fund is not indebted to the federal government for Federal Unemployment Compensation Fund advances.

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.

Note 1. Summary of Significant Accounting Policies (continued)

a. Reporting Entity (continued)

The Agency applied the provisions of GASB Statement No. 61, *The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14 and No. 34*, in evaluating the nature of the financial reporting entity. This Statement modifies certain requirements for inclusion of component units in the financial reporting entity. An organization other than the primary government may serve as a nucleus for a reporting entity when it issues separate financial statements. That organization is identified herein as the primary entity. The financial reporting entity includes the UC Fund (a primary entity) and the UC Fund has determined that it has no component units.

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's UC Fund. The UC Fund is a major enterprise fund of the State of South Carolina.

b. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Unemployment Compensation Fund Benefits 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 Trust 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.

Note 1. Summary of Significant Accounting Policies (continued)

b. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)

Basis of Accounting

The Agency uses the accrual basis of accounting in reporting its proprietary fund financial statements. Revenues are recorded when earned and reasonably measurable and expenses are recorded when liabilities are incurred, regardless of the timing of cash flows. On the accrual basis, the Agency recognizes unemployment taxes in the period when the underlying wages were paid net of estimated overpayments and refunds. Grants and similar items are recognized as soon as all eligibility requirements imposed by the provider have been met.

The UC Fund is reported as a business-type activity. 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.

c. Cash and Cash Equivalents

The amounts shown in the financial statements as "cash and cash equivalents" represent 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 UC Fund records and reports its deposits in the general deposit account at cost.

d. Receivables

Receivables consist primarily of the following:

Employer 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.

Note 1. Summary of Significant Accounting Policies (continued)

d. Receivables (continued)

Employer Assessments Receivable (continued)

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.

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.

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.

e. Benefits and Child Support Withholding Payable

Benefits payable represents unemployment compensation benefits paid after year-end for benefit weeks ending prior to June 30th. The child support withholding payable represents child support withholding on benefits paid at the end of the fiscal year and payable to the South Carolina Department of Social Services.

Note 1. Summary of Significant Accounting Policies (continued)

f. Due to Employers and Intergovernmental Payable

Employer credits payable include amounts received from employers in excess of actual unemployment tax liabilities. The Agency maintains these amounts as credits on the employer's account to cover future tax liabilities. Intergovernmental payable consist of amounts due to other governments for unemployment benefits paid to recipients by those governments for South Carolina claimants.

g. 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.

h. Net Position

Net position is categorized as follows:

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." There was no unrestricted net position at June 30, 2026.

At June 30, 2026, the UC Fund's restricted net position consisted of the following:

Unemployment Compensation Funds – The principal source of revenue for the UC Fund is quarterly 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 only be used to pay unemployment compensation benefits.

i. 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 estimate is the allowance for uncollectible accounts.

Note 2. Assets and Liabilities

a. Deposits and Investments

By law, all deposits and investments are under the control of the South Carolina State Treasurer, except for those that, by specific authority, are under the control of other agencies or component units. The Agency has statutory authority to maintain separate depository accounts for the purpose of processing unemployment benefit payments. The State's deposit policy, by law, requires all banks or savings and loan associates that receive State funds deposited by the State Treasurer, to secure the deposits by deposit insurance, surety bonds, collateral securities, or letters of credit to protect the State against any loss. Agencies, with specific authority to manage their deposits outside of the State Treasurer, may have custodial risk policies that differ from that of the State Treasurer. The Agency requires its authorized depositories to follow the State Treasurer's deposit policy.

Custodial credit risk for deposits is the risk that, in the event of a depository financial institution's failure, the State will not be able to recover the value of the deposits with the collateral securities that are in the possession of an outside party. Deposits include cash and cash equivalents on deposit with banks and non-negotiable certificates of deposit. All Agency deposits under the control of the State Treasurer are fully insured or collateralized. Deposits under the control of external banks are collateralized by pledged securities. The reported amount of the UC Fund's deposits with the State Treasurer as of June 30, 2026 was $175 thousand. As of June 30, 2026, the UC Fund's deposits outside the State Treasurer were $2.022 billion of which $1.872 billion was on deposit with the US Treasury and the bank balance was $150.4 million.

b. Receivables

The receivable balances at June 30, 2026 and the related amounts for allowances for uncollectible accounts are as follows:

	UI Benefits Programs	UI Tax and Reimbursements
Benefit overpayment receivable	$ 96,296,429	$ —
Employer assessments	—	269,048,238
Reimbursable state agency charges	—	—
Reimbursable local government charges	—	240,480
Reimbursable non-profit entity charges	—	194,674
Total	$ 96,296,429	$ 269,483,392
Allowance for uncollectible benefit overpayment receivable	$ (78,479,443)	$ —
Allowance for uncollectible employer assessments	—	(148,637,984)
Net receivables	$ 17,816,986	$ 120,845,408

Note 2. Assets and Liabilities (continued)

c. Due from Other Funds

The amounts reported in the Statement of Net Position as due from other funds represents the amounts which were collected for penalties, interest, and contingency assessments via remittances from employers. Those are payable from the Agency's Special Revenue Fund as the UC Fund had transferred amounts in excess of actual amounts due to the Agency's Special Revenue Fund. At June 30, 2026, $1,380,251 was due to the UC Fund from the Agency.

Note 3. Information on Business-Type Activities

The following information is provided for incorporation into the State of South Carolina's Annual Comprehensive Financial Report for the year ended June 30, 2026:

Charges for services	$ 155,251,754
Expenses	(133,974,696)
Net program revenue	21,277,058
General revenues:	
Interest earnings	58,698,047
Change in net position	79,975,105
Beginning net position	1,904,600,661
Ending net position	$ 1,984,575,766

Note 4. Other Information

a. Commitments and Contingencies

Federal Grants

The various programs administered by the UC Fund for the year ended June 30, 2026 and previous years are subject to audit by the federal grantor agencies. At the present time, amounts 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 UC Fund.

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 UC Fund. Therefore, an estimated liability has not been recorded or disclosed in these financial statements.

Note 5. Implementation of New Accounting Pronouncements

The UC Fund implemented GASB Statements 103, *Financial Reporting Model Improvements*, and 104, *Disclosure of Certain Capital Assets*, during the year ended June 30, 2026. The primary impact of GASB 103 on the UC Fund relates to enhancements in the Management's Discussion and Analysis section of the financial statements. GASB 104 did not have a material impact to the UC Fund as it does not report capital assets.

Note 6. Subsequent Events

In preparing these financial statements, management has evaluated events and transactions for potential recognition or disclosure through October 1, 2026, the date these financial statements were available to be issued.

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*

SCOTT COMPANY

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*

Sue F. Moss, CPA
Interim State Auditor
South Carolina Office of the State Auditor
Columbia, South Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the South Carolina Department of Employment and Workforce Unemployment Compensation Fund (the "Unemployment Compensation Fund") as of and for the year ended June 30, 2026, and the related notes to the financial statements, which collectively comprise the Unemployment Compensation Fund's basic financial statements and have issued our report thereon dated October 1, 2026.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Unemployment Compensation Fund's internal control over financial reporting (internal control) as a basis for designing 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 Unemployment Compensation Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Unemployment Compensation Fund's internal control.

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

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

Report on Compliance and Other Matters

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

Purpose of This Report

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

Scott and Company LLC

Columbia, South Carolina
October 1, 2026

South Carolina Department of Employment and Workforce
Unemployment Compensation Fund
Schedule of Findings and Responses
For the Year Ended June 30, 2026

Section I. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unmodified			
Internal control over financial reporting:				
• Material weaknesses identified?	____	Yes	X	No
• Significant deficiencies identified?	____	Yes	X	No
Noncompliance material to financial statements noted?	____	Yes	X	No

South Carolina Department of Employment and Workforce
Unemployment Compensation Fund
Schedule of Findings and Responses
For the Year Ended June 30, 2026

Section II. Financial Statement Findings

None reported.

Section III. Summary Schedule of Prior Audit Finding:

2025-001 – Year-end Close Process

Condition:

Numerous adjustments, some significant, to the trial balance and financial statements were required after the initial trial balance was provided for the audit as of and for the year ended June 30, 2025.

Recommendation:

The Unemployment Compensation Fund should ensure that an effective year-end close process is implemented and that the initial trial balance agrees to the financial statements and to the detail for each account.

Current Status:

The year-end close process was improved in 2026, and this finding has been resolved.