South Carolina Department of Employment and Workforce

Unemployment Compensation Fund

Report on the

Financial Statements

for the years ended June 30, 2015 and 2014

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elliott davis decosimo

State of South Carolina

Office of the State Auditor

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September 30, 2015

The Honorable Nikki R. Haley, Governor
and
Ms. Cheryl M. Stanton, Executive Director
South Carolina Department of Employment and Workforce
Columbia, South Carolina

This report on the audit of the basic financial statements of the South Carolina Department of Employment and Workforce Unemployment Compensation Fund for the fiscal year ended June 30, 2015 was issued by Elliott Davis Decosimo, LLP, Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

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

Respectfully submitted,

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

RHGjr/trb

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Independent Auditor's Report

Mr. Richard H. Gilbert, Jr. CPA
Deputy State Auditor
South Carolina Office of the State Auditor
Columbia, South Carolina

Report on the Financial Statements

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, 2015, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express 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 Fund's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the South Carolina Department of Employment and Workforce Unemployment Compensation Fund as of June 30, 2015, and the respective changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

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, 2015 and 2014, the changes in its financial position, or its cash flows for the years 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.

Change in Accounting Estimate

As described in Note 6, the Fund changed its methodology for determining its allowance for uncollectible accounts associated with the Fund's benefit overpayments receivable. Our opinion is not modified with respect to this matter.

Other Matters

Prior Period Financial Statements

The financial statements of the Fund as of June 30, 2014 were audited by other auditors whose report dated October 28, 2014 expressed an unmodified opinion on those statements.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3–8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2015, on our consideration of the Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control over financial reporting and compliance.

Elliott Davis Decosimo, LLC

Columbia, South Carolina
September 30, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management of the South Carolina Department of Employment and Workforce (the "Department") offers readers this narrative overview and analysis of the financial activities attributed to the Department's Unemployment Compensation Fund (the "Fund") for the fiscal years ended June 30, 2015 and 2014. Please read this information in conjunction with the Fund's financial statements and accompanying notes.

Overview of the Fund

- The Fund was created per Section 41-33-10 of the South Carolina Employment Security Law. The Fund is made up of three separate accounts: (1) a clearing account which is used for the deposit of contributions, interest surcharges, penalties and interest, contingency funds, service charges, recording fees, and payments in lieu of contributions received from employers in the State; (2) an unemployment trust fund account consisting of funds transferred from the clearing account and funds received from other states to be held to withdraw for unemployment benefit claims and to make required principal payments on federal unemployment account advances; this account also contains money received from the federal government as reimbursements pursuant to Section 204 of the Federal-State Extended Compensation Act of 1970; and (3) a benefit payment account which receives funds from the Fund to pay unemployment benefit claims.

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

- Federal special administrative allocations, which are special distributions to each state, may be used to pay costs associated with implementing and administering the provisions of state law that qualify it for incentive payments made under the February 2009 Assistance for Unemployed Workers and Struggling Families Act, and certain other administrative costs.

- If the Fund exhausts all of its reserves, it may borrow from the Federal Unemployment Account (FUA) via Title XII advances to continue paying benefits. With the exception of some short-term cash flow situation and the period of federal interest forgiveness between February 2009 and December 2010, any federal borrowing carries interest charges. The interest charges may not be funded from regular employer tax contributions.

- Administrative costs of the Unemployment Insurance (UI) program are accounted for in the Department's Administration Fund and are not reported within the Unemployment Compensation Fund's financial statements. In addition, interest liabilities and payments on outstanding advances from the federal government are accounted for in the Department's Interest Assessment Fund, and are not reported within these financial statements.

- Legislative reforms to the State's Unemployment Insurance (UI) tax structure in 2011 continue to facilitate the Fund's return to solvency. As of June 30, 2015, all Title XII advances have been repaid. Since 2011, State unemployment tax rates have been structured to raise revenues that adequately address the demands of the State's UI system and the changing economic environment in which the system operates. During the time that the State had outstanding federal loans, unemployment insurance tax rates were set to raise sufficient revenue to pay projected benefits for the subsequent year, an amount to repay all loans by 2015, and an additional surcharge designated to pay accrued interest on outstanding advances. As the expected level of State UI benefit payments decreased, a greater proportion of the State UI tax revenues were available to repay the advanced funds. Improving economic conditions resulted in lower than anticipated benefit payments which allowed the State to make early payments on federal advances. The State's voluntary, early payments on the federal loans resulted in approximately $12.5 million in interest savings.

- The Fund made its final payment of approximately $120.5 million on outstanding Title XII advances on June 11, 2015, and the Department made its final payment of accrued interest totaling approximately $3.16 million subsequent to the 2015 fiscal year-end. As of the date of this report, all outstanding Title XII balances and accrued interest liabilities have been paid. As a result of this final interest payment, and pursuant to South Carolina budget proviso 83.6 of the fiscal year 2015-2016 Appropriations Act, approximately $27.3 million in residual interest assessment funds were transferred to the Fund during August 2015.

- In January 2013, the Fund began receiving federal tax refunds intercepted by the United States Treasury, which were initially due to claimants that received unemployment compensation payments to which they were not entitled. The Department's successful implementation of the Treasury Offset Program (TOP) allowed the Fund to recover overpayments of $9.3 million and $11.2 million in fiscal years 2015 and 2014, respectively.

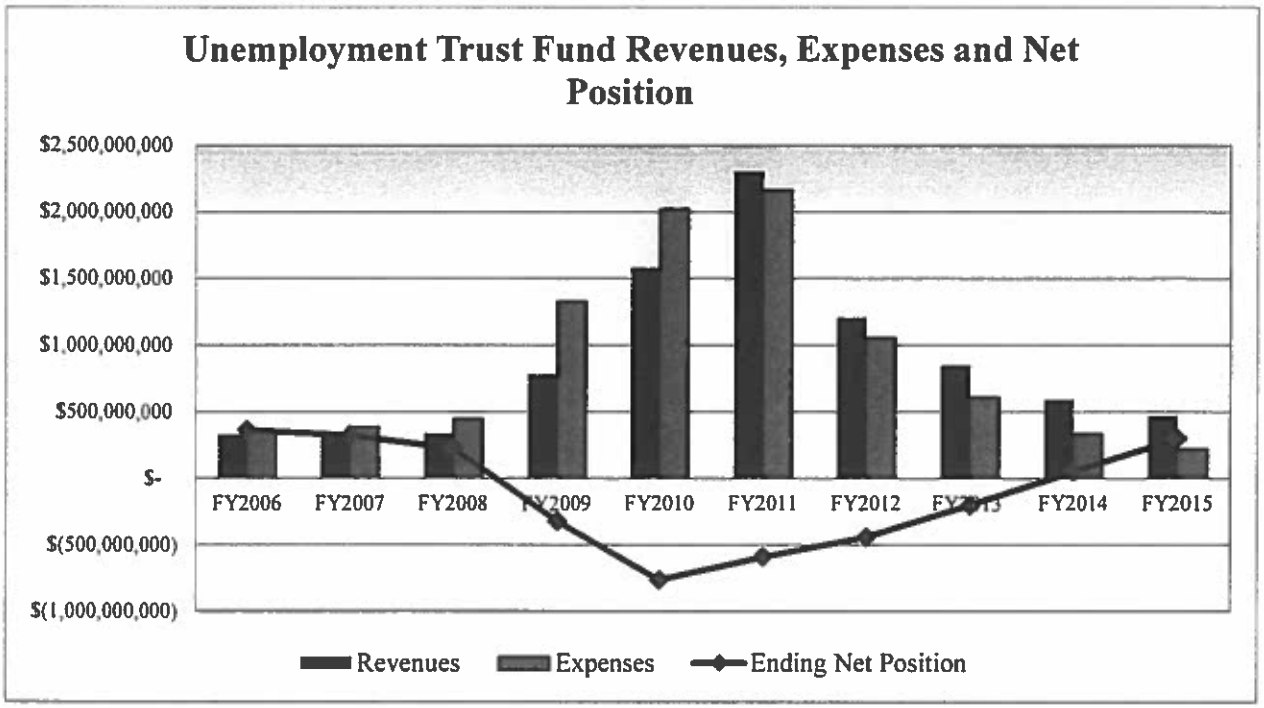
- The Department may recover overpaid unemployment benefits through involuntary wage withholdings. The Department's emphasis on this collection method during 2015 resulted in a $2.1 million increase in wage withholding recoveries over the previous year, with a total of $4.2 million collected in FY 2015 versus $2.1 million recovered in FY 2014.

Financial Highlights

- Assets of the Fund exceeded its liabilities as of June 30, 2015 by approximately $302.1 million, which is shown as net position. The net position as of June 30, 2014 was approximately $54.9 million, representing the first positive net position reported since the 2008 fiscal year-end. The Fund has continued to steadily improve its net position since 2011, and has not borrowed from the FUA to make benefit payments since May 2011. Tax revenues have been sufficient to allow the State to repay outstanding federal advances, continue making benefit payments to unemployed individuals, and continue restoring the Fund's solvency level.

- The Fund's net position has increased by approximately $1.1 billion during the five-year period from July 1, 2010, through June 30, 2015, largely due to the legislative tax reforms effective in 2011, and the continued decline of unemployment compensation benefit payments.

- Total unemployment compensation benefit payments were approximately $216.5 million and $328.4 million during the years ended June 30, 2015 and 2014, respectively.



Overview/Discussion of the Financial Statements

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

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

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

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

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

Condensed Financial Data

Statements of Net Position

	2015	2014	Change
Assets – all current	**$ 326,990,142**	$ 476,325,603	$ (149,335,461)
Liabilities – all current	**$ 24,909,971**	$ 421,466,965	$ (396,556,994)
Net position, restricted	**302,080,171**	54,858,638	247,221,533
Total net position	**$ 302,080,171**	$ 54,858,638	$ 247,221,533

Statements of Revenues, Expenses, and Changes in Net Position

	2015	2014	Change
Operating Revenues			
Assessments	**$ 428,886,783**	$ 473,525,681	$ (44,638,898)
Federal grants	**13,234,627**	88,790,190	(75,555,563)
Benefit overpayment recoveries	**14,293,188**	14,579,162	(285,974)
Other intergovernmental	**11,541,687**	13,235,025	(1,693,338)
Other	**2,446,231**	2,467,415	(21,184)
Total operating revenues	**470,402,516**	592,597,473	(122,194,957)
Operating Expenses			
Payments returned to Federal Government	**7,516,175**	10,795,650	(3,279,475)
Unemployment compensation benefits	**216,457,413**	328,372,168	(111,914,755)
Total operating expenses	**223,973,588**	339,167,818	
			(115,194,230)
Operating income	**246,428,928**	253,429,655	(7,000,727)
Non-operating revenues			
FUTA Credit Adjustment	**18,535**	(84,898)	103,433
Reed Act Proceeds	**28,688**	-	28,688
Interest Income	**745,382**	-	745,382
Changes in net position	**247,221,533**	253,344,757	(6,123,224)
Total net position – beginning	**54,858,638**	(198,486,119)	253,344,757
Total net position – ending	**$ 302,080,171**	$ 54,858,638	$ 247,221,533

Financial Analysis

Statements of Net Position:

Total assets decreased by approximately $149.3 million primarily due to a decrease in cash and assessments receivable. The Fund paid its final federal advances during June 2015. Due to final loan payments totaling $396.5 million being made during fiscal year 2015, there was a decrease in cash. The Fund reported positive cash flow for fiscal year 2015.

Current liabilities decreased by approximately $396.5 million, primarily due to the decrease of advances due to the federal government. During fiscal year 2015, the Fund made payments of approximately $396.5 million to repay the federal government for all remaining Title XII advances.

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

Ending net position increased by approximately $247.2 million and $253.3 million during the fiscal year ended June 30, 2015 and 2014, respectively, which is the result of the significant decrease in unemployment compensation benefits payments as the economy continues to recover from the national recession.

Revenues, Expenses, and Changes in Net Position:

Assessments decreased by approximately $44.6 million compared to last year due to a decrease in taxes assessed on businesses. Unemployment insurance tax rates are set each year to raise sufficient revenue to pay projected benefit payments as well as to repay all Title XII advances by 2015. In calendar year 2014, the tax rates were set to raise approximately $460 million ($290 million for benefits and $170 million for loan payments). In calendar year 2015, tax rates were lowered due to improving economic conditions and lower projected benefit payments. The tax rates for calendar year 2015 were set to raise only $403 million ($223 million for benefits and $180 million for loan payments).

Total operating revenue decreased by approximately $122.2 million during fiscal year 2015 primarily due to a reduction in assessment collections, and a reduction in federal funds received to fund Emergency Unemployment Compensation (EUC) benefits.

Unemployment compensation benefits decreased by approximately $111.9 million in fiscal year 2015 due to a number of factors, including the expiration of the EUC program, and a reduction in the unemployment rate. EUC benefits decreased by $75.1 million and State benefits paid decreased by $36.4 million in fiscal year 2015 compared to fiscal year 2014. 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 year ended June 30,

	2015	2014	Change
Other Federal Benefits	$ 5.8	$ 6.2	$ (0.4)
EUC Benefits	7.5	82.6	(75.1)
State Benefits	203.2	239.6	(36.4)
Total	$ 216.5	$ 328.4	$ (111.9)

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

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

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

	2015	2014
Assets:		
Current assets:		
Cash and cash equivalents	$ 196,086,837	$ 329,782,441
Assessments receivable, net	112,882,833	125,044,224
Benefit overpayments receivable, net	14,428,736	17,530,130
Due from reimbursable employers	256,429	350,393
Intergovernmental receivables, net		
Local governments	628,097	1,018,977
State agencies	1,470,805	1,000,416
Other states	1,236,405	1,260,278
Federal	-	338,744
Total assets	$ 326,990,142	$ 476,325,603
Liabilities:		
Current liabilities:		
Benefits payable	$ 1,010,750	$ 1,563,998
Income tax withholdings payable	26,302	187,101
Contributions payable	17,884,990	16,620,046
Intergovernmental payables:		
Amounts due to federal government	1,183,632	253,546
Amounts due to other states	2,031,494	2,336,824
Amounts due to state agencies	-	250,000
Due to Department	2,772,803	3,754,607
Advances from federal government	-	396,500,843
Total liabilities	$ 24,909,971	$ 421,466,965
Net Position:		
Restricted	302,080,171	54,858,638
Total net position	$ 302,080,171	$ 54,858,638

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

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

	2015	2014
Operating Revenues:		
Assessments	$ 428,886,783	$ 473,525,681
Reimbursement of unemployment compensation benefits from employers	2,446,231	2,467,415
Benefit overpayment recoveries	14,293,188	14,579,162
Intergovernmental:		
Federal	13,234,627	88,790,190
State agencies	2,517,674	3,609,323
Other states	5,498,237	5,151,595
Local governments	3,525,776	4,474,107
Total operating revenues	470,402,516	592,597,473
Operating Expenses:		
Payments returned to federal government	7,516,175	10,795,650
Unemployment compensation benefits	216,457,413	328,372,168
Total operating expenses	223,973,588	339,167,818
Operating income	246,428,928	253,429,655
Non-operating revenue:		
FUTA credit adjustment	18,535	(84,898)
Reed Act Proceeds	28,688	-
Interest income	745,382	-
Total non-operating revenues	792,605	(84,898)
Changes in net position	247,221,533	253,344,757
Total net position – beginning	54,858,638	(198,486,119)
Total net position – ending	$ 302,080,171	$ 54,858,638

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

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

	2015	2014
Cash flows from operating activities:		
Cash received from assessments	$ 444,038,456	$ 455,463,171
Cash received from employer reimbursements	2,540,195	2,537,684
Cash received from benefit overpayment recoveries	17,394,582	18,194,333
Cash received from federal, state and local agencies	25,059,422	106,113,946
Cash paid for benefits	(223,047,935)	(361,674,709)
Cash paid for refunds of overpaid assessments	(3,972,086)	(3,063,018)
Net cash flow provided by operating activities	262,012,634	217,571,407
Cash flows from capital related financing activities:		
Cash received from sale of land (Reed Act)	28,688	-
Net cash flow provided by capital related financing activities	28,688	-
Cash flows from non-capital related financing activities:		
Payments to federal government net of FUTA credits	(396,482,308)	(135,141,468)
Net cash flow used for non-capital related financing activities	(396,482,308)	(135,141,468)
Cash flows from investing activities:		
Cash received from interest earned on trust fund	745,382	-
Net cash flow provided by investing activities	745,382	-
Net increase (decrease) in cash and cash equivalents	(133,695,604)	82,429,939
Cash and cash equivalents – beginning	329,782,441	247,352,502
Cash and cash equivalents – ending	$ 196,086,837	$ 329,782,441
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 246,428,928	$ 253,429,655
Net changes in assets and liabilities:		
Assessments receivable	12,161,391	(11,037,118)
Benefit overpayments receivable	3,101,394	3,615,170
Due from reimbursable employers	93,964	70,268
Intergovernmental receivables:		
Local governments	390,880	147,282
State agencies	(470,389)	258,411
Other states	23,873	(154,592)
Federal	338,744	3,837,629
Benefits payable	(553,248)	(5,248,159)
Income tax withholdings payable	(160,799)	(172,626)
Contributions payable	1,264,944	(915,740)
Due to Department	(981,804)	(10,088,408)
Intergovernmental payable:		
Federal	930,086	(13,420,759)
Other states	(305,330)	(2,999,606)
State agencies	(250,000)	250,000
Net cash provided by operating activities	$ 262,012,634	$ 217,571,407

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

Note 1. Summary of Significant Accounting Policies

Reporting Entity

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

An organization other than a primary government may serve as a nucleus for a reporting entity when it issues separate financial statements. That organization is identified herein as a primary entity. The financial entity includes the Fund (a primary entity). The Fund has determined that it has no component units. A primary government or entity is financially accountable if it appoints a voting majority of the organization's governing body, including situations in which the voting majority consists of the primary entity's officials serving as required by law (e.g., employees who serve in an ex officio capacity on the component unit's board are considered appointments by the primary entity) and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary entity. The primary entity is financially accountable if an organization is fiscally dependent on and there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government regardless of whether the organization has (1) a separately elected governing board, (2) a governing board appointed by a higher level of government, or (3) a jointly appointed board.

An organization can provide a financial benefit to, or impose a financial burden on, a primary government in a variety of ways. The benefit or burden may result from legal entitlements or obligations, or it may be less formalized and exist because of decisions made by the primary government or agreements between the primary government and a component unit. If a primary government appoints a voting majority of an organization's officials, or if the organization is fiscally dependent on the primary government, and there is a potential for those organizations either to provide specific financial benefits to, or to impose specific financial burdens on, the primary government, the primary government is financially accountable for those organizations. An organization has a financial benefit or burden relationship with the primary government if, for example, any one of these conditions exists:

(1) The primary government is legally entitled to or can otherwise access the organization's resources.
(2) The primary government is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide financial support to, the organization.
(3) The primary government is obligated in some manner for the debt of the organization.

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

The reporting entity is part of the State of South Carolina primary government unit and is included in the Comprehensive Annual Financial Report of the State of South Carolina.

Note 1. Summary of Significant Accounting Policies (continued)

Reporting Entity (continued)

The accompanying financial statements present the financial position and the results of operations of only the portions of the funds of the State of South Carolina that are attributable to the transactions of the Fund and do not include any other funds, agencies, divisions, instrumentalities or component units of the State of South Carolina.

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

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

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

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

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

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

Note 1. Summary of Significant Accounting Policies (continued)

Reporting Entity (continued)

The Fund includes the following:

Basic Unemployment Compensation ("UC") – This fund accounts for regular unemployment benefits paid to individuals. It is funded by quarterly tax remittances from employers within the State, reimbursements from various state and local government and non-profit entities, as well as reimbursement from other states, recoupment on overpayments, and interest received on Fund balances, when applicable.

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

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

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

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

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

Extended Benefits ("EB") - This is a permanent program to pay benefits to unemployed workers who are no longer eligible for other types of unemployment claims during times of high unemployment. This program is available when the state insured unemployment rate reaches a predetermined level and stops when the level drops below this predetermined level. The minimum time period for these benefits is a thirteen week period. In general, EB provides benefits to individuals who have exhausted regular state benefits and Emergency Unemployment Compensation (EUC). This program is typically 50% federally funded and 50% state funded, and the American Recovery and Reinvestment Act of 2009 began temporary 100% federal funding of EB. The American Taxpayer Relief Act of 2012 (P.L. 112-240) extended 100% federal funding of EB to December 31, 2013. To date, Congress has not passed any further extensions. South Carolina triggered off EB as of the week ended April 7, 2012.

Emergency Unemployment Compensation - The Emergency Unemployment Compensation ("EUC") programs were created in June 2008 as a transitory program to provide additional weeks of benefits to jobless workers after the recession. These programs were funded by the federal government and concluded at the beginning of 2015.

Note 1. Summary of Significant Accounting Policies (continued)

Reporting Entity (continued)

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

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

Restricted net position – This component of net position consists of constraints placed on net position used through external constraints imposed by creditors (such as through debt covenants), contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation. Since the Fund's assets are restricted by state and federal law its net position has been classified as restricted net position as of June 30, 2015.

Unrestricted net position – This component of net position consists of net positions that do not meet the definition of "restricted net position" or "net investments in capital assets." Since the Fund had a deficit reported as of the prior fiscal year, this deficit is included in unrestricted net position as of June 30, 2014.

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

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

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

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

Note 1. Summary of Significant Accounting Policies (continued)

Cash and Cash Equivalents (continued)

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

Receivables - Receivables consist of the following:

Assessments Receivable - Unemployment tax contributions are assessed each quarter based on covered wages during the quarter. Taxes for a quarter are due on or before the end of the month following the close of the quarter. Amounts not paid by such date are considered delinquent and the Department is required to notify employers of such tax delinquencies. If the delinquent amount is not paid within ten days thereafter, the Department is directed to issue a warrant of execution upon real and personal property of the employer. Historical collection information is used to estimate and establish an allowance for uncollectible accounts. The allowance for uncollectibles is computed based upon collections activity over the past five years with all receivables over 24 months old being allowed for as uncollectible accounts. All receivables under ten years old, although allowed for as uncollectible accounts, are left on the books as a receivable, and the Agency continues to pursue collection of them.

Benefit Overpayments Receivable - Overpayments of unemployment compensation benefits occur due to changes in facts or estimates upon which benefits were originally paid or due to claimant fraud. Overpayments are due upon detection or discovery and are recovered by cash recoupments, intercepting of state and federal income tax refunds, wage withholdings from claimant's pay checks or withholdings from subsequent benefits due the claimants. Benefit overpayment recoupments attributable to reimbursable employers or federal programs are due to such employers or the federal government and are classified as intergovernmental payables. Refunds are made only when there are no current benefit obligations. 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 uncollectibles represents receivables over 451 days old.

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

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

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

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

Note 1. Summary of Significant Accounting Policies (continued)

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

Payables – Payables consist of the following:

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

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

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

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

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

Reclassifications - Certain prior year amounts have been reclassified to conform to the current year presentation. There was no effect on net position as a result of these reclassifications.

Subsequent Events - In preparing these financial statements, management has evaluated events and transactions for potential recognition or disclosure through September 30, 2015, the date these financial statements were available to be issued.

Note 2. Deposits

The amounts shown as cash and cash equivalents on the statements of net position are composed of the following at June 30,

	2015	2014
Deposits held by State Treasurer	$ 6,006,245	$ 6,046,086
Deposits held by U.S. Treasury	174,629,615	310,119,088
Other deposits	15,450,977	13,617,267
Total	$ 196,086,837	$ 329,782,441

Note 2. Deposits (continued)

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

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

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

More information pertaining to carrying amounts, fair value, credit and other risks as required by GASB Statement No. 40, *Deposits and Investments – Risk Disclosures*, of the State Treasurer's investments is disclosed in the Comprehensive Annual Financial Report of the State of South Carolina.

Deposits held by U.S. Treasury – Amounts are regularly transferred from the Fund's clearing account to the State's account in the Federal Unemployment Trust Fund. Under the provisions of Section 904(e) of the Social Security Act, the Secretary of the Treasury is authorized to credit to the account of each state agency, on a quarterly basis, a proportionate part of the earnings of the Fund. States are not due any interest while carrying federal unemployment advances on their books.

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

Note 3. Due to Department

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

Note 3. Due to Department (continued)

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

	2015	2014
Contingency assessments	$ 111,130	$ 78,403
Penalty, interest, service charge and fees	304,395	337,465
Special administration funds	2,063,840	3,012,134
Interest surcharge	53,390	295,383
Reed Act	214,294	25,733
FUTA Penalty-Integrity Fund	25,754	5,489
Total	$ 2,772,803	$ 3,754,607

Note 4. Reed Act

The Reed Act, P.L. 83-567, establishes statutory ceilings in the federal unemployment trust fund accounts that, from time to time, may trigger funds to be distributed to state accounts. Federal law restricts states to using Reed Act distributions only to cover the cost of state benefits, employment services (ES), labor market information, and administration of state UC and ES programs. Suggested uses by the U.S. Department of Labor included establishing revolving funds for automation costs, performance improvement, costs related to reducing UI fraud and abuse, and other UI program improvements. An appropriation by the State's legislature is necessary before the State's share of this distribution may be used for UC and ES administrative expenses.

The Fund has not received a Reed Act distribution since 2002; however, when certain properties owned by the State are sold, and contain Reed Act equity, the portion of proceeds attributable to original Reed Act equity must be deposited into the Fund and credited as Reed Act funds, up to the original amount of Reed Act participation in the property that has been sold. Any additional proceeds that represent appreciation over the original Reed Act amount of participation can only be used to pay UI benefits.

During fiscal year 2015 the Department sold real property containing Reed Act equity, of which $188,561 was credited to the Fund's Reed Act subaccount, representing the amount of original Reed Act participation in the purchase of the property. This amount is shown as Due to the Department, as it will be drawn upon for administrative purposes. $28,688, which represented appreciation on the property, is shown as Non-Operating Revenue, and has been used to pay UI benefits.

Note 5. Receivables

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

	2015		
	Receivables at June 30, 2015	**Allowance for Uncollectibles**	**Net Receivables**
Assessments receivable (UI)	$ 162,233,383	$ 49,350,550	$ 112,882,833
Benefit overpayments receivable:			
Basic unemployment compensation (UI)	35,289,837	25,782,480	9,507,357
Federal employees (UCFE)	128,177	86,869	41,308
Ex-servicemen (UCX)	359,520	240,712	118,808
Trade readjustment (TRA)	29,411	18,381	11,030
Emergency Unemployment Compensation (EUC)	26,308,040	21,557,807	4,750,233
Totals	$ 62,114,985	$ 47,686,249	$ 14,428,736
Due from reimbursable employers (UI)	$ 256,429	$ -	$ 256,429
Intergovernmental receivables (UI):			
Local governments	$ 628,097	$ -	$ 628,097
State agencies	$ 1,470,805	$ -	$ 1,470,805
Other states	$ 1,236,405	$ -	$ 1,236,405
Federal	$ -	$ -	$ -

	2014		
	Receivables at June 30, 2014	Allowance for Uncollectibles	Net Receivables
Assessments receivable (UI)	$ 161,999,288	$ 36,955,064	$ 125,044,224
Benefit overpayments receivable:			
Basic unemployment compensation (UI)	36,293,629	26,486,058	9,807,571
Federal employees (UCFE)	168,647	131,428	37,219
Ex-servicemen (UCX)	341644	252,856	88,788
Trade readjustment (TRA)	48,981	43,048	5,933
Emergency Unemployment Compensation (EUC)	35,814,763	28,224,144	7,590,619
Totals	$ 72,667,664	$ 55,137,534	$ 17,530,130
Due from reimbursable employers (UI)	$ 350,393	$ -	$ 350,393
Intergovernmental receivables (UI):			
Local governments	$ 1,018,977	$ -	$ 1,018,977
State agencies	$ 1,000,416	$ -	$ 1,000,416
Other states	$ 1,260,278	$ -	$ 1,260,278
Federal	$ 338,744	$ -	$ 338,744

Note 6. Change in Accounting Estimate

For the fiscal years ended June 30, 2014 and prior, management estimated collectible and uncollectible benefit overpayments receivable based on historical collection information. The collectible percentage was calculated by comparing current fiscal year collections to the previous fiscal year's total balance for benefit overpayments receivable. The uncollectible percentage was calculated by comparing current year benefit overpayments receivable balances older than four hundred fifty-one (451) days to the previous fiscal year's total balance for benefit overpayments receivable. The uncollectible percentage was then applied to the current fiscal year's total balance for benefit overpayments receivable to determine the Fund's allowance for uncollectible accounts.

During the fiscal year ended June 30, 2015, management changed its methodology for determining its allowance for uncollectible accounts associated with the Fund's benefit overpayments receivable. Management began reserving for all benefit overpayment receivable balances older than four hundred fifty-one (451) days as uncollectible. Management began applying this methodology because it was recommended by the U.S. Department of Labor and management believed it to be a more accurate approach for determining the allowance for uncollectible accounts.

This change in accounting estimate increased the allowance for uncollectible accounts by $1,799,738 as of June 30, 2015.

Note 7. Information on Business -Type Activities

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

	2015	2014
Charges for services	**$ 457,167,889**	$ 503,807,283
Operating grants and contributions	**13,234,627**	88,790,190
Non-operating revenue	**792,605**	(84,898)
Less: expenses	**(223,973,588)**	(339,167,818)
Net program revenue	**247,221,533**	253,344,757
Change in net position	**247,221,533**	253,344,757
Net position-beginning of year	**54,858,638**	(198,486,119)
Net position-end of year	**$ 302,080,171**	$ 54,858,638

Note 8. Advances from Federal Government

On December 26, 2008, the Fund began to obtain advances from the federal government in order to pay unemployment benefits due to the exhaustion of all other funds to pay benefits. These advances were obtained due to tax revenues historically being insufficient to pay unemployment insurance compensation benefits. This trend was accelerated during the national recession beginning in 2007, eventually causing complete liquidation of Fund reserves.

Revised tax legislation, effective January 1, 2011, significantly increased tax assessment revenues for the Fund, which has reported positive net operating cash flows for the 2011, 2012, 2013, 2014 and 2015 fiscal years.

Note 8. Advances from Federal Government (continued)

Section 1201 of Title XII of the Social Security Act provides that an advance from the Federal Unemployment Fund to the account of a state's unemployment trust fund is allowed if the governor of a state applies for payment for any 3-month period. Only amounts actually drawn down for benefit payments must be repaid. At June 30, 2015, all Title XII advances have been paid by the State.

Under Section 1201 of Title XII of the Social Security Act, if a balance of advances to a state is outstanding on January 1, in two consecutive years and not fully repaid prior to November 10 of the second year, employers subject to contributions under such state's unemployment compensation law will be subject to additional federal unemployment taxes determined by a formula of reductions in credit against the tax. Such credit reduction will apply beginning with the second consecutive January 1 as of the beginning of which there is a balance of such advances. The credit reductions, pursuant to Section 3302(c) (2) of FUTA, increase employers' federal tax liability each year. The amount equal to the reduced credits, excluding penalty and interest, is applied to reduce the state's balance of advances.

When subsequent amended returns are filed and the resulting credits offset the amount applied to the state's balance, the offset is deducted from the state's unemployment trust fund. For the fiscal year ended June 30, 2015, there was a total of $18,535 FUTA tax adjustments which were added to the Fund's balance. For the fiscal year ended June 30, 2014, $84,898 was applied to reduce the balance of FUA advances payable to the federal government.

As mentioned in Note 1, comprehensive changes to the State's UI tax structure have been implemented and specifically designed to assist in putting the Fund back on the path to solvency. State unemployment tax rates are now structured to raise revenues that more accurately address the demands on the Fund and the changing economic environment in which the Fund operates. Required annual tax revenues consist of estimated benefit payouts for the subsequent year, and an additional solvency surcharge to return the Fund to an acceptable reserve level. An additional interest surcharge was assessed prior to January 2015, with all assessments used to pay accrued interest on outstanding Title XII advances.

Increased tax collections coupled with decreases in the number of individuals eligible for claiming and receiving State UI benefits have enabled the Fund to operate without obtaining additional advances from the federal government since May 2011. The Fund may be required to borrow from the federal government, if needed, to fund UI benefit payments in the future.

A summary of changes in liabilities associated with Title XII advances for the year ended June 30, 2015 is as follows:

	Balance, June 30, 2014	Additions	Reductions	Balance, June 30, 2015
Advances from federal government	$396,500,843	$ -	$396,500,843	$ -

Note 9. Contingencies

Federal Grants - The various programs administered by the Fund for fiscal years June 30, 2015 and years prior to that are subject to audit by the federal grantor agencies. At the present time, amounts, if any, which may be due to federal grantors have not been determined, but the Fund believes that any such amounts in the aggregate would not have a material adverse effect on the financial position of the Fund. Furthermore, there is no evidence to indicate that a liability should be recorded at year-end. The Fund is administered by the Department, and the Department is considered the grantee for single audit purposes. The single audit is performed for federal grants at the grantee level, and the schedule of expenditures of the federal awards is therefore included in the Department's financial statements.

Note 10. Interest Income

For the first time since the fiscal year ended June 30, 2008, the Fund earned $745,382 of interest revenue from the United States Treasury. Due to the State reporting outstanding Title XII advances in prior years, the Fund was not eligible to earn interest on its Trust Fund cash account. The US Treasury Unemployment Trust Funds quarterly yield for the 2015 fiscal year ranged from approximately 2.35% for the July-September 2014 quarter, to 2.34% for the April-June 2015 quarter. The Fund began earning partial interest on trust fund balances during the quarter ending December 2014, when the Fund cash balance began to exceed it's remaining Title XII advance balances, and began to retain full interest earnings as of the date of the final Title XII advance repayment, which occurred on June 11, 2015.

Note 11. FUTA Penalty

Effective October 21, 2013, pursuant to the Federal Trade Adjustment Assistance Extension Act of 2011 (TAAEA), and SC code section 41-41-45, the Department begin assessing a monetary penalty of 25% on fraudulent overpayments.

Of the 25% total, 15% is a federally mandated penalty to be returned to the Fund upon collection, and 10% represents a state mandated penalty to be transferred to the Department's Integrity Fund, to be used for the purpose of promoting unemployment insurance integrity efforts by the Department.

Effective June 8, 2015, the FUTA penalty rate changed to 33% from 25%. As a result, the federal mandated penalty increased by 8% to 23%, while the State mandated penalty remained at 10%.

Note 12. New Accounting Pronouncements

During the year ended June 30, 2014, the Fund implemented the requirements of GASB Statement No. 65, "Items Previously Reported as Assets and Liabilities." This Statement provides new guidelines on changes to the accounting treatment for certain items previously reported as assets and liabilities. This Statement affects entities with reporting periods beginning after December 15, 2012. The requirements of GASB Statement No. 65 did not have an effect on the Fund's financial statements for the years ended June 30, 2015 and 2014.

During June 2012, the GASB approved GASB Statement No. 68, *Accounting and Financial Reporting for Pensions (an amendment of GASB Statement No. 27)*. The objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

Note 12. New Accounting Pronouncements (continued)

This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statement Nos. 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement. The provisions of this Statement are effective for financial statements for fiscal years beginning after June 15, 2014 with earlier adoption encouraged.

The Fund's operations are supported by Department employees. All administrative functions, including payroll, are handled at the Department level and are reported in the Department's financial statements. Therefore, the provisions of GASB Statement No. 68 had no impact on the Fund's financial statements as of and for the year ended June 30, 2015.

Note 13. Liquidity

Prior to fiscal year 2011, the Fund generated substantial operating losses due to tax revenues consistently being outpaced by unemployment insurance compensation payments. This trend was accelerated during the national recession, beginning in 2007, eventually causing the liquidation of fund reserves, and requiring the State to begin to obtain Title XII advances from the Federal Unemployment Account (FUA) in December 2008. Revised tax legislation, effective January 1, 2011, significantly increased tax assessment revenues for the Fund, which has reported positive net operating cash flows for the 2011, 2012, 2013, 2014 and 2015 fiscal years.

Cash balances at June 30, 2015 consist primarily of State unemployment tax amounts received from employers, which are deposited in the State of South Carolina's account in the Federal Unemployment Trust Fund for purposes of paying State unemployment insurance benefits and repaying principal on advances from the FUA.

Although the federal government has not established a maximum amount that the Fund can borrow, increased tax collections, coupled with decreases in the number of individuals who are eligible for and claiming State unemployment insurance benefits have enabled the Fund to operate without obtaining additional advances from the federal government since May 2011.

Note 14. Subsequent Events

Subsequent to year-end, the Department made its final payment of $3.16 million of accrued interest on Title XII advances. As a result of this final interest payment, and pursuant to South Carolina budget proviso 83.6 of the fiscal year 2015-2016 Appropriations Act, approximately $27.3 million in residual interest assessment funds were transferred to the Fund during August 2015.

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*

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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. Richard H. Gilbert, Jr., CPA
Deputy State Auditor
The Office of the State Auditor
Columbia, South Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the South Carolina Department of Employment and Workforce Unemployment Compensation Fund (the "Fund") as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements and have issued our report thereon dated September 30, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Fund's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weakness and significant deficiency may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings as item 2015-1, that we consider to be a significant deficiency.

Compliance and Other Matters

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

South Carolina Department of Employment and Workforce Unemployment Compensation Fund's Response to Findings

The Fund's response to the finding identified in our audit is described in the accompanying schedule of findings. The Fund's response was not subjected to the auditing procedures applied in the audit of financial statements and, accordingly, we express no opinion on it.

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.

Elliott Davis Decosimo, LLC

Columbia, South Carolina
September 30, 2015

South Carolina Department of Employment and Workforce
Unemployment Compensation Fund
Schedule of Findings
for the year ended June 30, 2015

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued on financial statements:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	Yes
Noncompliance material to financial statements noted?	No

Section II - Financial Statement Findings

Item 2015-1: Timely Reconciliations and Review of Subsidiary Records

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

Criteria: Balances reflected on the general ledger should be supported by balances reflected on the subsidiary records. Subsidiary records should be compiled, distributed and reviewed timely throughout the year to further support the accuracy of the balances reported on the general ledger.

Cause: The UI Accounting Department utilizes UI benefit system-created summary reports to record various entries to the general ledger. These production reports do not typically contain subsidiary records by claimant or by detailed transaction, making it unfeasible for the UI Accounting staff to reconcile all general ledger balances to subsidiary records. The Fund's Accounting Department must therefore rely in many cases on summary information technology-generated reports for the accuracy of the balances reflected on the summary level reports at year-end.

Effect: Balances reflected on the general ledger have a greater chance of being misstated without reviewing and reconciling balances reflected on the subsidiary records to the general ledger.

Recommendation: We recommend that the Division of Information and Business Solutions provide the UI Accounting Department with all requested monthly subsidiary records to be used for reviewing and recording transactions to the general ledger. We also recommend that the UI Accounting Department utilize these detailed reports to review and reconcile the subsidiary records to the general ledger. This will help ensure the accuracy of the balances reported on the general ledger and financial statements.

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