

Financial Statements of
South Carolina Employment Security Commission
Unemployment Compensation Fund
for the years ended June 30, 2009 and 2008

State of South Carolina



Office of the State Auditor

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December 4, 2009

The Honorable Mark Sanford, Governor
and
Members of the South Carolina Employment Security Commission
Columbia, South Carolina

This report on the audit of the financial statements of the South Carolina Employment Security Commission – Unemployment Compensation Fund for the fiscal year ended June 30, 2009 was issued by Scott McElveen, L.L.P., Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

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

Respectfully submitted,

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

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

RHGjr/trb

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Independent Auditors' Report

The Office of the State Auditor and Board of Commissioners
South Carolina Employment Security Commission Unemployment Compensation Fund
Columbia, South Carolina

We have audited the accompanying financial statements of the South Carolina Employment Security Commission Unemployment Compensation Fund (the "Fund") as of and for the years ended June 30, 2009 and 2008, as listed in the table of contents. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

As described in Note 1, the financial statements of the Fund are intended to present the financial position and results of operations of only that portion of the funds of the State of South Carolina financial reporting entity that is attributable to the transactions of the Fund. They do not purport to and do not present the financial position of the State of South Carolina as of June 30, 2009 and 2008, and changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America, and do not include any other agencies, divisions or component units of the State of South Carolina.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Fund as of June 30, 2009 and 2008, and the changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 2, 2009, on our consideration of the Fund's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

The management's discussion and analysis on pages 3 through 6 is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Scott McElveen, L.L.P.

Columbia, South Carolina
December 2, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management of the South Carolina Employment Security Commission offers readers of this narrative overview and analysis of the financial activities only attributed to the South Carolina Employment Security Commission's Unemployment Compensation Trust Fund for the fiscal years ended June 30, 2009 and 2008. Please read this information in conjunction with the South Carolina Employment Security Commission Unemployment Compensation Fund's financial statements and accompanying notes.

Financial Highlights

- To date, the Fund has generated substantial operating losses and has been required to use all of its cash resources to fund its operations. Due to the increasing unemployment rate and the resulting increased amount of unemployment benefits, and the increased length of time over which the benefits are paid, the Fund has been required to obtain advances from the Federal Unemployment Fund of \$344,881,505 during the year ended June 30, 2009. Management plans to continue to borrow from the Federal government to fund its deficits for the foreseeable future. The Federal government has not established a maximum amount that the Fund can borrow. At this time, the means of repayment of these advances has not been determined.
- The Unemployment Compensation Fund was created per Section 41-33-10 of the South Carolina Employment Security Law. The Unemployment Compensation Trust Fund is made up of three separate accounts: (1) a clearing account which is used for the deposit of contributions, interest, penalties, contingency, service charges, recording fees and payments in lieu of contributions received from employers in the State; (2) an unemployment trust fund account which funds are transferred from the clearing account to this account to be held to withdraw for unemployment benefit claims. This account also contains money received from the Federal government as reimbursements pursuant to Section 204 of the Federal-State Extended Compensation Act of 1970 and Reed Act funds received from the Federal government; and (3) a benefit account which receives funds from the Unemployment Compensation Trust Fund to pay unemployment benefit claims.
- Liabilities exceeded net assets at June 30, 2009 with a balance of \$(317,266,975) which is shown as "net (deficit) assets". Net assets at June 30, 2008 were \$229,006,482.
- Total Unemployment Compensation benefits paid were \$1,332,327,180 and \$449,511,155 during the years ended June 30, 2009 and 2008, respectively.

Overview/discussion of the Financial Statements

Management's Discussion and Analysis serves as an introduction to the basic financial statements. These financial statements consist of (1) statements of net assets; (2) statements of revenues, expenses and changes to net assets; (3) statements of cash flows; and (4) notes to financial statements. The Management Discussion and Analysis represents management's analysis of the Employment Security Commission's Unemployment Compensation Trust Funds' financial condition.

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

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

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

The notes to the financial statement 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 Assets	2009	2008	Change
Assets	\$ 83,368,278	\$ 246,349,027	\$ (162,980,749)
Current Liabilities	\$ 55,753,748	\$ 17,342,545	\$ (38,411,203)
Loan from Federal Government	344,881,505	—	344,881,505
Total Liabilities	400,635,253	17,342,545	383,292,708
Net assets, restricted	—	229,006,482	(229,006,482)
Net deficit, unrestricted	(317,266,975)	—	(317,266,975)
Total liabilities and net deficit	\$ 83,368,278	\$ 246,349,027	\$ (162,980,749)

Statements of Revenues, Expenses and Changes in Fund Net Assets

Operating Revenues	2009	2008	Change
Assessments	\$ 238,176,573	\$ 271,258,639	\$ (33,082,066)
Federal Grants	496,578,757	40,883,338	455,695,419
Other	48,585,003	29,556,194	19,028,809
Total Revenues	783,340,333	341,698,171	441,642,162
Operating Expenses			
Unemployment Compensation Benefits	1,332,327,180	449,511,155	882,816,025
Operating loss	(548,986,847)	(107,812,984)	(441,173,863)
Non-Operating Revenues (Expenses)			
Interest Income	2,326,473	10,040,353	(7,713,880)
Intergovernmental Revenues - Commission	386,917	—	386,917
Changes in Net Assets	(546,273,457)	(97,772,631)	(448,500,826)
Total Net Assets – Beginning	229,006,482	326,779,113	(97,772,631)
Total Net Assets – Ending	\$ (317,266,975)	\$ 229,006,482	\$ (546,273,457)

Financial Analysis

Statements of Net Assets:

Total assets declined by approximately \$163 million due primarily to the decline in the cash balance, as a result of the increase in unemployment benefit claims paid. Unemployment significantly increased and claimants are filing for a longer period of time, as required by the Federal government.

Net assets declined by approximately \$546 million, which is the result of the significant increase in benefits paid.

Revenues, Expenses and Changes in Net Assets:

Assessments decreased by approximately \$33 million as compared to last year due to the current recession, increased unemployment, and rate adjustments on employer accounts.

Total revenue increased by approximately \$442 million primarily due to an increase in Federal grants relating to Federally funded unemployment programs.

Unemployment Compensation Benefits increased by approximately \$883 million due to increased unemployment and increases in the period of time over which benefits are paid as mandated by the Federal government.

Operating loss for 2009 was approximately \$549 million as compared to \$108 million loss for the prior year, which was due to the increase in total benefits paid, as discussed above.

Interest income went down approximately \$8 million due to a lower amount of cash and cash equivalents.

Ending Net Assets for 2009 decreased by approximately \$546 million as compared to a \$98 million decrease for the prior year, as a result of expenditures exceeding revenues.

South Carolina Employment Security Commission
Unemployment Compensation Fund
Statements of Net Assets
as of June 30,

	2009	2008
Assets:		
Current assets:		
Cash and cash equivalents	\$ 7,532,195	\$ 185,079,383
Assessments receivable, net	41,754,037	50,037,804
Benefit overpayments receivable, net	7,640,290	5,259,362
Due from reimbursable employers, net	1,824,889	819,791
Intergovernmental receivables, net		
Local governments	3,709,385	1,592,415
State agencies	2,710,676	2,362,573
Other states	4,463,377	1,065,109
Federal	13,733,429	132,590
Total assets	\$ 83,368,278	\$ 246,349,027
Liabilities:		
Current liabilities:		
Benefits payable	\$ 7,796,013	\$ 2,674,828
Tax withholdings payable	22,822,761	1,592,546
Contributions payable	8,806,606	7,815,220
Intergovernmental payables:		
Other states	6,859,420	3,553,601
Interfund payable – Commission	9,468,948	1,706,350
Total current liabilities	55,753,748	17,342,545
Advances from Federal government	344,881,505	—
Total liabilities	400,635,253	17,342,545
Net (Deficit) Assets:		
Restricted for unemployment benefits	—	229,006,482
Unrestricted	(317,266,975)	—
Total liabilities and net assets	\$ 83,368,278	\$ 246,349,027

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

South Carolina Employment Security Commission
 Unemployment Compensation Fund
 Statements of Revenues, Expenses and Changes in Fund Net Assets
 for the years ended June 30,

	2009	2008
Operating Revenues:		
Assessments	\$ 238,176,573	\$ 271,258,639
Reimbursement of unemployment compensation benefits from employers	5,088,872	3,534,486
Benefit overpayment recoveries	6,648,623	5,750,893
Intergovernmental:		
Federal	496,578,757	40,883,338
State agencies	7,269,078	4,285,778
Other states	15,925,297	8,531,963
Local governments	13,653,133	7,453,074
Total operating revenues	783,340,333	341,698,171
Operating Expenses:		
Unemployment compensation benefits	1,332,327,180	449,511,155
Total operating expenses	1,332,327,180	449,511,155
Operating loss	(548,986,847)	(107,812,984)
Non-operating Revenues (Expenses):		
Interest income	2,326,473	10,040,353
Intergovernmental revenues – Commission	386,917	—
Total non-operating revenues	2,713,390	10,040,353
Changes in net assets	(546,273,457)	(97,772,631)
Total net assets – beginning	229,006,482	326,779,113
Total net assets (deficit) – ending	\$ (317,266,975)	\$ 229,006,482

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

South Carolina Employment Security Commission
Unemployment Compensation Fund
Statements of Cash Flows
for the years ended June 30,

	2009	2008
Cash flows used by operating activities:		
Cash received from assessments	\$ 249,274,102	\$274,050,466
Cash received from employers	4,083,774	3,347,686
Cash received from benefit overpayment recoveries	4,267,695	4,358,270
Cash received from Federal, state and local agencies	520,923,478	59,909,962
Benefits paid	(1,301,678,576)	(452,328,110)
Refund overpayment of assessments	(2,012,556)	(2,627,171)
Net cash used by operating activities	(525,142,083)	(113,288,897)
Cash flows provided (used) by non-capital financing activities:		
Proceeds from advances from Federal government	344,881,505	—
Cash received from Commission	2,125,900	—
Cash paid to Commission	(1,738,983)	(2,091,981)
Net cash provided (used) by non-capital financing activities	345,268,422	(2,091,981)
Cash flows provided by investing activities:		
Interest received	2,326,473	10,040,353
Net cash provided by investing activities	2,326,473	10,040,353
Net decrease in cash	(177,547,188)	(105,340,525)
Cash and cash equivalents – beginning	185,079,383	290,419,908
Cash and cash equivalents – ending	\$ 7,532,195	\$185,079,383
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	\$ (548,986,847)	\$(107,812,984)
Net changes in assets and liabilities:		
Assessments receivable	8,283,767	164,656
Benefit overpayments receivable	(2,380,928)	(1,392,623)
Due from reimbursable employers	(1,005,098)	(186,800)
Intergovernmental receivables:		
Local governments	(2,116,970)	(106,719)
State agencies	(348,103)	(849,734)
Other states	(3,398,268)	(66,836)
Federal	(13,600,839)	(220,902)
Benefits payable	5,121,185	(5,743,098)
Tax withholdings payable	21,230,215	498,601
Contributions payable	991,386	1,646,279
Interfund payable – Commission	7,762,598	—
Intergovernmental payable:		
Other states	3,305,819	781,263
Net cash used by operating activities	\$ (525,142,083)	\$(113,288,897)

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

South Carolina Employment Security Commission
Unemployment Compensation Fund
Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies

Liquidity

To date, the Fund has generated substantial operating losses and has been required to use all of its cash resources to fund its operations. Due to the increasing unemployment rate and the resulting increased amount of unemployment benefits, and the increased length of time over which the benefits are paid, the Fund has been required to obtain advances from the Federal Unemployment Fund of \$344,881,505 during the year ended June 30, 2009.

Management plans to continue to borrow from the Federal government to fund its deficits for the foreseeable future. The Federal government has not established a maximum amount that the Fund can borrow. At this time, the means of repayment of these advances has not been determined. See note 7 for further information about the advances.

Reporting Entity

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

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

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

The primary government or entity is financially accountable if it appoints a voting majority of the organization's governing body, including situations in which the voting majority consists of the primary entity's officials serving as required by law (e.g., employees who serve in an ex-officio capacity on the component unit's board are considered appointments by the primary entity) and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary entity. The primary entity also may be financially accountable if an organization is fiscally dependent on it even if it does not appoint a voting majority of the board. An organization is fiscally independent if it holds all three of the following powers:

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

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

South Carolina Employment Security Commission
Unemployment Compensation Fund
Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (continued)

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 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.

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

The Commission, a primary entity, is an Agency and is part of the primary government of the State of South Carolina. The funds of the Commission, including the Fund, are included in the Comprehensive Annual Financial Report of the State of South Carolina. The South Carolina General Assembly elects the three-member commission for four-year terms.

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 are attributable to the Commission'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. The Fund includes the following:

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

Unemployment Compensation for Federal Employees (UCFE) – This accounts for unemployment paid to ex-Federal employees. It is funded by the Federal government.

Unemployment Compensation for Ex-Servicemen (UCX) – This accounts for unemployment paid to ex-servicemen. It is funded by the Federal government through stimulus funds under the American Recovery and Reinvestment Act of 2009 (“ARRA”).

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.

Emergency Unemployment Compensation Tier I (EUC) – This provides unemployment benefits to individuals who had no rights to the regular, extended, or additional benefits under State law.

South Carolina Employment Security Commission
Unemployment Compensation Fund
Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (continued)

Emergency Unemployment Compensation Tier II (EUC) – This is an expansion of the Emergency Unemployment Compensation Tier I for individuals who had no rights to regular, extended, or additional benefits under State law. The extension for new EUC claims is through December 31, 2009, with payments on those claims ending on May 31, 2010. It is funded by the Federal government through stimulus funds under ARRA.

Alternative Trade Adjustment Assistance Program (ATAA) - This account 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 by funds other than ARRA.

Disaster Unemployment Assistance (DUA) – This account provides unemployment benefits to individuals who have lost their jobs due to a disaster, such as, hurricane or flood. It is funded by the Federal government by funds other than ARRA.

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 level. The minimum time period for these benefits is a thirteen week period. This program is funded by the Federal government through stimulus funds under ARRA.

Federal Additional Compensation (FAC) – This provides a \$25 weekly supplement to the unemployment compensation of eligible claimants. It is funded by the Federal government through stimulus funds under ARRA.

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

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

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

Unrestricted net assets – This component of net assets consists of net assets or deficits that do not meet the definition of “restricted net assets” or “invested in capital assets, net of related debt.” Since the Fund has a net deficit, this deficit is included in unrestricted net deficit at June 30, 2009.

South Carolina Employment Security Commission
Unemployment Compensation Fund
Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (continued)

The financial statements of the Fund are prepared as an enterprise fund using the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred. The Fund applies all applicable GASB pronouncements and has elected to apply only those standards issued by the Financial Accounting Standards Board ("FASB") on or before November 30, 1989 unless those pronouncements conflict or contradict GASB pronouncements.

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

Most State agencies, including the Commission, 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.

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 Commission records and reports its deposits in the general deposit account at cost.

Some State Treasurer accounts are not included in the State's internal cash management pool because of restrictions on the use of the funds. For those accounts, cash equivalents include investments in short-term highly liquid securities having an initial maturity of three months or less.

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 Commission is required to notify employers of such tax delinquencies. If the delinquent amount is not paid within ten days thereafter, the Commission is directed to issue a warrant of execution upon real and personal property of the employer.

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

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

South Carolina Employment Security Commission
 Unemployment Compensation Fund
 Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (continued)

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

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

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

Payables – Payables consist of the following:

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

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

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

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.

Reclassifications: Certain financial data from the year ending June 30, 2008 has been reclassified in order to be comparative with June 30, 2009 data. These reclassifications had no effect on net assets.

Note 2. Cash and Cash Equivalents

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

	2009	2008
Deposits held by State Treasurer	\$ 3,612,840	\$ 8,354,318
Deposits held by U.S. Treasury	27,168,948	182,892,907
(Bank overdraft) other deposits	(23,249,593)	(6,167,842)
Total	\$ 7,532,195	\$ 185,079,383

Deposits held by State Treasurer - State law requires full collateralization of all State Treasurer bank balances. The State Treasurer must correct any deficiencies in collateral within seven days.

South Carolina Employment Security Commission
 Unemployment Compensation Fund
 Notes to Financial Statements

Note 2. Cash and Cash Equivalents (continued)

With respect to investments in the State's internal cash management pool, all of the State Treasurer's investments are required to be insured or registered or are investments for which the securities are held by the State or its agent in the State's name. Information pertaining to the reported amounts, fair values, and credit risk 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 - 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 Unemployment Trust Fund. These funds also include Federal loan and stimulus funds.

Other Deposits - Custodial credit risk for deposits is the risk that in the event of a bank failure, the Fund's deposits may not be returned or the Fund will not be able to recover collateral securities in the possession of an outside party. Section 11-13-60 of the South Carolina Code of Laws requires these funds be fully insured or collateralized. All deposits of the Fund met these requirements and are either covered by federal depository insurance or collateralized with securities held by the depository financial institution's trust department or agent in the Fund's name. At June 30, 2009 and 2008, the cash balances are in a bank overdraft position. Funds are transferred on a regular basis from the deposits held by U.S. Treasury to cover all benefit payments from this account. Subsequent to year-end, funds were transferred to put this account back in a positive cash position.

Note 3. Payable to Commission

The amount shown on the financial statements as being payable to Commission represents amounts which were collected for penalties and interest and contingency assessments in tax remittances from employers and special administration funds. Special administration funds are funds received from the Federal government that are payable to the Commission to support its administration of the Fund. Amounts due to the Commission as of June 30, 2009 and 2008 are as follows:

	2009	2008
Reed Act Funds	\$ —	\$ 507,388
Contingency assessments	2,347,206	1,060,492
Penalty and interest	160,350	138,470
Special administration funds	6,961,392	—
Total	\$ 9,468,948	\$ 1,706,350

South Carolina Employment Security Commission
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Note 4. Reed Act Funds

The Commission has funds totaling \$0 and \$98,499,446 available under the Reed Act as of June 30, 2009 and 2008, respectively. During 2009, due to the Fund becoming insolvent, all funds remaining were used to pay benefits. These funds are granted to the Fund from the Federal government from Federal unemployment tax collections to be used for unemployment benefits if they are needed. Upon appropriation by the State legislature and after approval of the Governor, these funds can be used for other purposes. Of these funds \$13,827,461 were appropriated by the General Assembly in prior fiscal years to partially fund the purchase of new software and information technology equipment, land acquisition, and office expansion. The \$13,827,461 was shown as a transfer from the Unemployment Compensation Fund to the Commission upon Legislative appropriation prior to the fiscal year ended June 30, 2008. As of June 30, 2008, \$13,320,073 of the appropriated amount under this appropriation had been transferred. Of the funds appropriated, \$0 and \$507,388 had not been transferred to the Commission as of June 30, 2009 and 2008, respectively and are included in interfund payable – Commission on the Statements of Net Assets.

Note 5. Receivables

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

	2009		
	Receivables at June 30, 2009	Allowance for Uncollectibles	Net Receivables
Assessments receivable (UI)	\$ 49,582,635	\$ 7,828,598	\$ 41,754,037
Benefit overpayments receivable:			
Basic unemployment compensation (UI)	11,284,470	4,401,681	6,882,789
Federal employees (UCFE)	34,464	4,396	30,068
Ex-servicemen (UCX)	83,746	24,046	59,700
Trade readjustment (TRA)	175,704	46,934	128,770
Emergency Unemployment Compensation (EUC)	2,213,258	1,674,295	538,963
Totals	\$ 13,791,642	\$ 6,151,352	\$ 7,640,290
Due from reimbursable employers (UI)	\$ 1,866,372	\$ 41,483	\$ 1,824,889
Intergovernmental receivables (UI):			
Local governments	\$ 3,746,766	\$ 37,381	\$ 3,709,385
Other states	\$ 4,463,377	\$ —	\$ 4,463,377
State agencies	\$ 2,710,676	\$ —	\$ 2,710,676
Federal	\$ 13,733,429	\$ —	\$ 13,733,429

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Notes to Financial Statements

Note 5. Receivables (continued)

	2008		
	Receivables at June 30, 2008	Allowance for Uncollectibles	Net Receivables
Assessments receivable (UI)	\$ 56,937,530	\$ 6,899,726	\$ 50,037,804
Benefit overpayments receivable:			
Basic unemployment compensation (UI)	9,408,643	4,357,668	5,050,975
Federal employees (UCFE)	45,447	24,309	21,138
Ex-servicemen (UCX)	100,849	49,415	51,434
Trade readjustment (TRA)	172,809	91,110	81,699
Emergency Unemployment Compensation (EUC)	247,690	193,574	54,116
Totals	<u>\$ 9,975,438</u>	<u>\$ 4,716,076</u>	<u>\$ 5,259,362</u>
Due from reimbursable employers (UI)	<u>\$ 852,497</u>	<u>\$ 32,706</u>	<u>\$ 819,791</u>
Intergovernmental receivables (UI):			
Local governments	<u>\$ 1,629,796</u>	<u>\$ 37,381</u>	<u>\$ 1,592,415</u>
Other states	<u>\$ 2,362,573</u>	<u>\$ —</u>	<u>\$ 2,362,573</u>
State agencies	<u>\$ 1,065,109</u>	<u>\$ —</u>	<u>\$ 1,065,109</u>
Federal	<u>\$ 132,590</u>	<u>\$ —</u>	<u>\$ 132,590</u>

Note 6. Information on Business-Type Activities

The following information is provided for incorporation in the State of South Carolina Comprehensive Annual Financial Report for the year ended June 30, 2009 and 2008:

	2009	2008
Charges for services	\$ 783,340,333	\$ 341,698,171
Interest income	2,326,473	10,040,353
Less: expenses	<u>(1,332,327,180)</u>	<u>(449,511,155)</u>
Net program expense	<u>(546,660,374)</u>	<u>(97,772,631)</u>
Transfers:		
Net Transfers from Commission	<u>386,917</u>	<u>—</u>
Total transfers	<u>386,917</u>	<u>—</u>
Change in net assets	<u>(546,273,457)</u>	<u>(97,772,631)</u>
Net assets-beginning of year	<u>229,006,482</u>	<u>326,779,113</u>
Net (deficit) assets-end of year	<u>\$ (317,266,975)</u>	<u>\$ 229,006,482</u>

Note 7. Advances from Federal Government

On December 26, 2008, the Fund began to obtain advances from the Federal government in order to pay unemployment benefits due the exhaustion of all other funds to pay benefits. These advances were obtained due to the significant increase in unemployment benefits resulting from a significant increase in the unemployment rate in the State of South Carolina and the extension of the period by the Federal government that benefits are paid to claimants. Section 1201 of Title XII of the Social Security Act provides that an advance from the Federal Unemployment Fund to the account of a state's

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Note 7. Advances from Federal Government (continued)

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, 2009 the outstanding balance of these advances was approximately \$345 million. Principal payments are required to begin on September 30, 2011 with interest accruing at the interest rate of 4.6375% beginning on January 1, 2011. The loan is considered noncurrent since the first principal payment is due one or more years after June 30, 2009. At this time, the means of repayment of the loan has not been determined. However, under Section 1201 of Title XII of the Social Security Act, if a balance of advances to a State is outstanding on January 1, in two consecutive years and not fully repaid prior to November 10 of the second year, employers subject to contributions under such State's unemployment compensation law will be subject to additional Federal unemployment taxes determined by a formula of reductions in credit against the tax. Such credit reduction will apply beginning with the second consecutive January 1 as of the beginning of which there is a balance of such advances. The credit reductions, pursuant to Section 3302(c) (2) of FUTA, increase employers' Federal tax liability each year. The amount equal to the reduced credits, excluding penalty and interest, will be applied to reduce the State's balance of advances.

Note 8. Contingencies

Federal Grants – The various programs administered by the Fund for fiscal years June 30, 2009 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 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.

Tax Withholdings – During fiscal year 2009 the Fund remitted late certain Federal and State of South Carolina tax withholdings, and did not remit certain withholding taxes until after June 30, 2009. The amounts paid after June 30, 2009 are included in tax withholdings payable in the accompanying statement of net assets. The amount of penalties and interest payable to the State of South Carolina are considered immaterial and are not reflected in these financial statements. The amount of penalties and interest due to the IRS for Federal tax withholdings is unknown and management is unable to estimate this amount with any accuracy. However it is management's opinion that this amount would be immaterial to these financial statements.

Note 9. Subsequent Events

The balance of Advances from Federal Government is \$629,403,445 at December 2, 2009.

Subsequent to year end, the extended benefits program increased the weeks of eligible unemployment compensation to ninety-nine weeks. This increase will be funded by the Federal government.