

**SOUTH CAROLINA EMPLOYMENT
SECURITY COMMISSION
UNEMPLOYMENT COMPENSATION FUND**

COLUMBIA, SOUTH CAROLINA

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2004

State of South Carolina



Office of the State Auditor

1401 MAIN STREET, SUITE 1200
COLUMBIA, S.C. 29201

THOMAS L. WAGNER, JR., CPA
STATE AUDITOR

(803) 253-4160
FAX (803) 343-0723

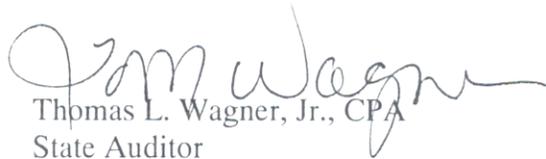
October 13, 2004

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

This report on the audit of the financial statements of the South Carolina Employment Security Commission for the fiscal year ended June 30, 2004, was issued by Rogers & Laban, PA, 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,


Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/sag

SOUTH CAROLINA UNEMPLOYMENT COMPENSATION FUND

**TABLE OF CONTENTS
YEAR ENDED JUNE 30, 2004**

	Page
INDEPENDENT AUDITOR'S REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	2 - 4
FINANCIAL STATEMENTS:	
Statement of net assets	5
Statement of revenues, expenses and changes in net assets	6
Statement of cash flows	7
Notes to financial statements	8 - 15

INDEPENDENT AUDITOR'S REPORT

Mr. Thomas L. Wagner, Jr., CPA
State Auditor
State of South Carolina
Columbia, South Carolina

We have audited the statement of net assets of the South Carolina Employment Security Commission Unemployment Compensation Fund (the Fund) as of June 30, 2004 and the related statements of revenues, expenses and changes in net assets and cash flows for the year then ended. 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 audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit 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 audit provides 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 South Carolina Employment Security Commission Unemployment Compensation Fund. They do not purport to and do not present the financial position of the State of South Carolina as of June 30, 2004 and changes in its financial position for the year 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 respective financial position of the Fund as of June 30, 2004, and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis on pages 2 to 4 is not a required part of the basic financial statements but as supplementary information required by accounting principles generally accepted in the United States of America and by the Government Accounting Standards Board. 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.

Management of the Fund discovered an error in the classification of accrued interest receivable in the prior year as detailed in Note 7 to the financial statements.

Rogers & Laban, PA

October 4, 2004



SCACPA

1919 BULL STREET • COLUMBIA, SC 29201 • (803) 779-5870 • FAX (803) 765-0072 • Email: cpa@rogerslaban.com

*Investment Advisory Services Offered
Through 1st Global Advisors, Inc.*

*Securities Offered Through 1st Global
Capital Corp Member NASD, SIPC*

*Insurance Services Offered Through
1st Global Insurance Services, Inc.*

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 year ended June 30, 2004. Please read this information in conjunction with the South Carolina Employment Security Commission's financial statements and accompanying notes.

Financial Highlights

- 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, penalty, contingency, service charge, 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.
- Assets exceeded its liability at fiscal year ending June 30, 2004 by \$420,680,629 (shown as "total net assets"). The total amount of these funds is restricted and will be used to meet the South Carolina Employment Security Commission's on-going obligations to the citizens of South Carolina for unemployment benefits.
- Total Unemployment Compensation benefits paid were \$493,549,031.

Overview/discussion of the Financial Statements

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

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

The statement of revenues, expense and changes in net assets presents 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 statement of cash flows presents changes in cash and cash equivalent resulting from operational, financing and investing activities. This statement presents cash receipts and cash disbursement information.

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

Condensed Financial Data

Statement of Net Assets	2004	2003	Change
Assets	<u>\$ 442,385,185</u>	<u>\$554,228,846</u>	<u><\$111,843,661></u>
Liabilities	\$ 21,704,556	\$ 30,081,010	\$ 8,376,454
Net Assets	<u>420,680,629</u>	<u>524,147,836</u>	<u><103,467,207></u>
Total liabilities and net assets	<u>\$ 442,385,185</u>	<u>\$554,228,846</u>	<u><\$111,843,661></u>

Statement of Revenues, Expenses and Changes in Fund Net Assets

Operating Revenues			
Assessments	\$ 251,560,700	\$216,882,123	\$ 34,678,577
From Federal Agencies	87,329,386	128,726,791	< 41,397,405>
Other	<u>27,739,901</u>	<u>25,439,406</u>	<u>2,300,495</u>
Total Revenues	<u>\$ 366,629,987</u>	<u>\$371,048,320</u>	<u><\$ 4,418,333></u>
Operating Expenses			
Unemployment Compensation Benefits	<u>\$ 493,549,031</u>	<u>\$546,319,189</u>	<u>\$ 52,770,158</u>
Operating Income (Loss)	<\$ 126,919,044>	<\$175,270,869>	<\$ 48,351,825>
Non-Operating Revenues (Expenses)			
Interest Income	\$ 23,411,433	\$ 33,361,075	<\$ 9,949,642>
Transfers	<u>40,404</u>	<u>30,302</u>	<u>10,102</u>
Changes in Net Assets	\$<103,467,207 >	<\$141,879,492>	\$38,412,285
Total Net Assets – Beginning	<u>524,147,836</u>	<u>666,027,328</u>	<u><141,879,492></u>
Total Net Assets – Ending	<u>\$ 420,680,629</u>	<u>\$524,147,836</u>	<u><\$103,467,207></u>

Financial Analysis

Statement of Net Assets:

Total assets declined by \$112 million due primarily to the decline in the cash balance, as a result of the high unemployment rate.

Net assets declined by \$103 million due to the loss for the year.

Revenue, Expenses and Changes in Net Assets:

Assessments increased \$35 million over last year due to adding a .7% surcharge to base rates for employer contributions.

Federal revenues and benefit payments decreased approximately \$41 million primarily to the ending of the Emergency Unemployment Compensation program.

Operating loss for 2004 was \$127 million as compared to \$175 million loss for the prior year.

Interest income went down almost \$10 million due to a lower Trust Fund balance and lower interest rates being paid.

Ending Net Assets for 2004 decreased by \$103 million as compared to \$142 million decrease for the prior year.

**SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION
UNEMPLOYMENT COMPENSATION FUND**

**STATEMENT OF NET ASSETS
JUNE 30, 2004**

ASSETS

Current assets:

Cash and cash equivalents	\$ 380,306,305
Assessments receivable	51,941,055
Benefit overpayments receivable	4,388,058
Due from reimbursable employers	1,089,705
Intergovernmental receivables:	
State of South Carolina	1,107,575
Local governments	1,883,753
Other states	1,337,182
Federal	<u>331,552</u>

Total assets \$ 442,385,185

LIABILITIES:

Current liabilities:

Cash overdraft	\$ 49,449
Benefits payable	5,082,487
Accounts payable	771,177
Contributions payable	3,609,692
Intergovernmental payables:	
Federal	723,236
Other states	3,265,671
Interfund payable - general fund	<u>8,202,844</u>

Total liabilities 21,704,556

NET ASSETS:

Restricted for unemployment benefits	<u>420,680,629</u>
Total liabilities and net assets	<u><u>\$ 442,385,185</u></u>

See accompanying Notes to Financial Statements.

**SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION
UNEMPLOYMENT COMPENSATION FUND**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2004**

OPERATING REVENUES:	
Assessments	\$ 251,560,700
Reimbursement of unemployment compensation benefits from employers	3,523,410
Benefit overpayment recoveries	4,178,524
From federal agencies	87,329,386
From state agencies	5,702,490
From other states	6,175,098
From local agencies	<u>8,160,379</u>
Total revenue	<u>366,629,987</u>
 OPERATING EXPENSES:	
Unemployment compensation benefits	<u>493,549,031</u>
Total operating expenses	<u>493,549,031</u>
Operating income (loss)	<u>(126,919,044)</u>
 NONOPERATING REVENUES (EXPENSES):	
Interest income	<u>23,411,433</u>
Total nonoperating revenues	<u>23,411,433</u>
Income (loss) before transfers	(103,507,611)
Transfers from general fund	<u>40,404</u>
Changes in net assets	(103,467,207)
TOTAL NET ASSETS - BEGINNING	<u>524,147,836</u>
TOTAL NET ASSETS - ENDING	<u><u>\$ 420,680,629</u></u>

See accompanying Notes to Financial Statements.

**SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION
UNEMPLOYMENT COMPENSATION FUND**

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2004**

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from assessments	\$	246,017,264
Cash received from employers		3,670,308
Cash received from benefit overpayment recoveries		3,514,112
Cash received from federal, state and local agencies		111,335,986
Benefits paid		(494,564,362)
Refund overpayment of assessments		(1,540,011)
Net cash provided (used) by operating activities		<u>(131,566,703)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:

Funding of cash overdraft		49,449
Repayment of cash overdraft		(5,370,086)
Repay due to general fund		22,429
Transfers from General Fund		40,404
Transfers to General Fund		(2,746,743)
Net cash provided (used) by noncapital financing activities		<u>(8,004,547)</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Interest received		<u>23,411,434</u>
Net cash provided by investing activities		<u>23,411,434</u>
Net increase (decrease) in cash		(116,159,816)

CASH AND CASH EQUIVALENTS - BEGINNING

496,466,121

CASH AND CASH EQUIVALENTS - ENDING

\$ 380,306,305

**Reconciliation of operating income to net cash
provided (used) by operating activities:**

Operating income (loss)		\$ (126,919,044)
Net changes in assets and liabilities:		
Assessments receivable		(7,083,446)
Benefit overpayments receivable		(664,411)
Due from reimbursable employers		146,898
Intergovernmental receivable:		
State		78,535
Local governments		6,829
Other states		244,277
Federal		3,014,771
Benefits payable		(176,383)
Accounts payable		(743,487)
Contributions payable		(375,280)
Intergovernmental payable:		
Federal		629,025
Other states		275,013
Net cash provided (used) by operating activities		<u><u>\$ (131,566,703)</u></u>

See accompanying Notes to Financial Statements.

**SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION
UNEMPLOYMENT COMPENSATION FUND**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of the South Carolina Employment Security Commission 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.

Reporting Entity

The core of the financial reporting entity is the primary government, which has a separately elected governing body. As required by generally accepted accounting principles, 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 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 set rates or charges without approval by another government; or,
- (3) Issues bonded debt without approval by another government.

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

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

**SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION
UNEMPLOYMENT COMPENSATION FUND**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

The South Carolina Employment Security Commission (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 Unemployment Compensation Fund. All administrative cost 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 Unemployment Compensation Fund, are included in the Comprehensive Annual Financial Report of the State of South Carolina. The three-member commission is elected by the South Carolina General Assembly 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 Unemployment Compensation Fund accounts for all financial transactions related to employer tax contributions, employer reimbursements in lieu of tax contributions, and federal and other funds used for the payment of unemployment compensation benefits. Interest income earned on excess funds on deposit with the U.S. Treasury is retained in the fund for the payment of unemployment compensation benefits. The Unemployment Compensation 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.

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 EB have been exhausted. It is funded by the Federal Government.

Emergency Unemployment Compensation (EUC) – This provides unemployment benefits to individuals who had no rights to the regular, extended, or additional benefits under State law. It is funded 100% by the Federal Government.

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.

**SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION
UNEMPLOYMENT COMPENSATION FUND**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

Basis of Presentation

On July 1, 2001 the Fund adopted the provisions of Statement No. 34 ("Statement 34") of the Governmental Accounting Standards Board 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; and unrestricted. 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, costs to be recovered from future revenues, and unamortized debt expense reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of 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.

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

Unrestricted net assets – This component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

All of the Fund's net assets are restricted.

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 Governmental Accounting Standards Board ("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 pool operates as a demand deposit. For credit risk information pertaining to the cash management pool, see the deposit disclosure in Note 2.

**SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION
UNEMPLOYMENT COMPENSATION FUND**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

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.

Due from Reimbursable Employers

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

Intergovernmental Receivables

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.

The amounts due from the State represent unemployment benefit reimbursements due from other South Carolina state agencies. The benefit reimbursement receivable from other states and local governments is based on the prorata share of wages earned by the employees to which benefits are being paid by South Carolina in those states and localities.

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 overpayments 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.

**SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION
UNEMPLOYMENT COMPENSATION FUND**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

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.

NOTE 2. CASH AND CASH EQUIVALENTS:

The amounts shown as cash and cash equivalents on the balance sheet at June 30, 2004 are composed of the following:

Deposits held by State Treasurer	\$ 3,423,063
Deposits held by U.S. Treasury	370,328,744
Other deposits	<u>6,554,498</u>
Totals	<u><u>\$ 380,306,305</u></u>

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.

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.

**SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION
UNEMPLOYMENT COMPENSATION FUND**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

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.

Other Deposits

The Commission's other deposits are categorized to give an indication of the level of risk assumed by the entity at year-end. The credit risk categories are concerned with custodial credit risk, which is the risk that a government will not be able to recover deposits if the depository financial institution fails or to recover the value of collateral securities that are in the possession of an outside party if the counterparty to the deposit transaction fails. There are three categories of deposit credit risk as follows:

- 1) Insured or collateralized with securities held by the entity or by its agent in the entity's name.
- 2) Collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name.
- 3) Uninsured or uncollateralized, including any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent, but not in the entity's name.

In addition to the other deposits of \$6,554,498 for which the bank balance was \$13,519,413, the Commission had one bank account with an overdraft balance of \$49,449 and a bank balance of \$262,122 as of June 30, 2004. The combined bank balances of \$13,781,535 at year-end were categorized by risk category as follows:

Insured (FDIC)	\$ 100,000
Uninsured:	
Collateral held by the Funds agent in the Funds name	10,142,112
Uncollateralized	<u>3,539,423</u>
Total bank balance	<u><u>\$ 13,781,535</u></u>

**SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION
UNEMPLOYMENT COMPENSATION FUND**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 3. INTERFUND/INTRAFUND RECEIVABLES/PAYABLES:

The amount shown on the financial statements as being interfund receivables represents amounts which were collected for penalties and interest and contingency assessments in tax remittances from employers. In addition, the Commission has not transferred all of the Reed Act Funds which were appropriated to the General Fund as of June 30, 2004. Amounts due to the General Fund as of June 30, 2004 are as follows:

Reed Act Funds	\$ 8,101,675
Contingency assessments	28,573
Penalty and interest	<u>72,596</u>
 Total	 <u><u>\$ 8,202,844</u></u>

NOTE 4. RECEIVABLES:

The receivable balances at June 30, 2004 and the related amounts for the allowances for uncollectibles are as follows:

<u>Type</u>	<u>Receivables at June 30, 2004</u>	<u>Allowance for Uncollectibles</u>	<u>Net Receivables</u>
Assessments receivable (UI)	<u>\$ 57,199,857</u>	<u>\$ 5,258,802</u>	<u>\$ 51,941,055</u>
Due from reimburseable employers (UI)	<u>\$ 1,089,705</u>	<u>\$ -</u>	<u>\$ 1,089,705</u>
Intergovernmental Receivables (UI)			
State agencies	<u>\$ 1,107,575</u>	<u>\$ -</u>	<u>\$ 1,107,575</u>
Local governments	<u>\$ 1,883,753</u>	<u>\$ -</u>	<u>\$ 1,883,753</u>
Other states	<u>\$ 1,337,182</u>	<u>\$ -</u>	<u>\$ 1,337,182</u>
Intergovernmental Receivables- federal (EUC)	<u>\$ 331,552</u>	<u>\$ -</u>	<u>\$ 331,552</u>
Benefit Overpayments Receivable -			
Basic Unemployment Compensation (UI)	\$ 4,985,844	\$ 1,229,012	\$ 3,756,832
Federal Employees (UCFE)	18,586	3,503	15,083
Ex-Servicemen (UCX)	29,220	8,356	20,864
Trade Readjustment (TRA)	33,008	11,704	21,304
Emergency Unemployment Compensation (EUC)	<u>891,570</u>	<u>317,595</u>	<u>573,975</u>
Totals	<u><u>\$ 5,958,228</u></u>	<u><u>\$ 1,570,170</u></u>	<u><u>\$ 4,388,058</u></u>

**SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION
UNEMPLOYMENT COMPENSATION FUND**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 5. REED ACT FUNDS

The Commission has funds totaling \$98,888,334 available under the Reed Act. 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. \$13,327,461 of these funds 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 \$13,327,461 is shown as a transfer from the Unemployment Compensation Fund to the General Fund upon Legislative appropriation. \$2,479,041 was transferred in prior years and \$2,746,745 was transferred during the current year. As of June 30, 2004 \$8,101,675 of the funds appropriated in prior years had not been transferred to the General Fund.

NOTE 6. INFORMATION ON BUSINESS-TYPE ACTIVITIES

The following information is provided for incorporation in the State of South Carolina Comprehensive Annual Financial Report.

Charges for services	\$ 366,629,987
Operating grants and contributions	23,411,433
Less: expenses	<u>(493,549,031)</u>
Net program revenue (expense)	<u>(103,507,611)</u>
Transfers:	
Transfer from general fund	<u>40,404</u>
Total general revenue and transfers	<u>40,404</u>
Change in net assets	(103,467,207)
Net assets-beginning of year	<u>524,147,836</u>
Net assets-end of year	<u><u>\$ 420,680,629</u></u>

NOTE 7. ERROR IN CLASSIFICATION

The prior year's statement of net assets reflected \$7,298,365 as accrued interest receivable which should have been reported as cash and cash equivalents for deposits held by the U.S. Treasury. The beginning cash and cash equivalents on the statement of cash flows has been changed to reflect this error.