

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

COLUMBIA, SOUTH CAROLINA

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2005

State of South Carolina



Office of the State Auditor

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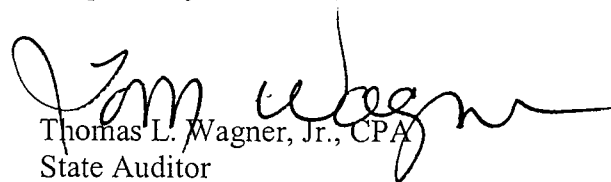
September 19, 2005

The Honorable Mark Sanford, Governor
and
Members of the South Carolina Employment Security Commission
Unemployment Compensation Fund
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, 2005 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/trb

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

**TABLE OF CONTENTS
YEAR ENDED JUNE 30, 2005**

| | 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 - 14 |

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, 2005 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, 2005 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, 2005, 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 is 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.

Rogers & Laban, PA

September 6, 2005



SCACPA

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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, 2005. 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, 2005 by \$380,743,147 (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 \$366,581,162.

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 | 2005 | 2004 | Change |
|----------------------------------|----------------------|----------------------|-----------------|
| Assets | \$402,178,020 | <u>\$442,385,185</u> | <\$ 40,207,165> |
| Liabilities | \$ 21,434,873 | \$ 21,704,556 | \$ 269,683 |
| Net Assets | <u>380,743,147</u> | <u>420,680,629</u> | < 39,937,482> |
| Total liabilities and net assets | <u>\$402,178,020</u> | <u>\$442,385,185</u> | <\$ 40,207,165> |

Statement of Revenues, Expenses and Changes in Fund Net Assets

| | | | |
|-----------------------------------|----------------------|----------------------|----------------------|
| Operating Revenues | | | |
| Assessments | \$266,910,593 | \$251,560,700 | \$ 15,349,893 |
| From Federal Agencies | 23,435,493 | 87,329,386 | < 63,893,893> |
| Other | <u>22,801,432</u> | <u>27,739,901</u> | < 4,938,469> |
| Total Revenues | \$313,147,518 | \$366,629,987 | <\$ 53,482,469> |
| Operating Expenses | | | |
| Unemployment Compensation | | | |
| Benefits | <u>\$366,581,162</u> | <u>\$493,549,031</u> | <u>\$126,967,869</u> |
| Operating Income (Loss) | <\$ 53,433,644> | <\$126,919,044> | \$ 73,485,400 |
| Non-Operating Revenues (Expenses) | | | |
| Interest Income | \$ 13,465,859 | \$ 23,411,433 | <\$ 9,945,574> |
| Transfers | <u>30,303</u> | <u>40,404</u> | < 10,101> |
| Changes in Net Assets | <\$ 39,937,482> | <\$103,467,207> | \$ 63,529,725 |
| Total Net Assets – Beginning | <u>\$420,680,629</u> | <u>\$524,147,836</u> | <\$103,467,207> |
| Total Net Assets – Ending | <u>\$380,743,147</u> | <u>\$420,680,629</u> | <\$ 39,937,482> |

Financial Analysis

Statement of Net Assets:

Total assets declined by \$40 million due primarily to the decline in the cash balance, as a result of the high unemployment rate.

Net assets declined by \$40 million due to the loss for the year.

Revenue, Expenses and Changes in Net Assets:

Assessments increased \$15 million over last year.

Total revenue declined by \$53 million primarily due to the ending of the federal Emergency Unemployment Compensation Program in the prior fiscal year.

Unemployment Compensation benefits decreased due to economic growth resulting in lower unemployment.

Operating loss for 2005 was \$53 million as compared to \$127 million loss for the prior year.

Interest income went down almost \$10 million due to a lower Trust Fund balance.

Ending Net Assets for 2005 decreased by \$40 million as compared to \$103 million decrease for the prior year.

Due to higher employment, the taxable wage base increased resulting in higher assessments.

As a result of increased employment, there were fewer claimants and a decrease in Unemployment Compensation Benefits paid.

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

**STATEMENT OF NET ASSETS
JUNE 30, 2005**

ASSETS

Current assets:

| | |
|---------------------------------|------------------|
| Cash and cash equivalents | \$ 339,721,858 |
| Assessments receivable | 52,265,921 |
| Benefit overpayments receivable | 3,738,448 |
| Due from reimbursable employers | 1,166,670 |
| Intergovernmental receivables: | |
| Local governments | 2,043,968 |
| Other states | 1,154,539 |
| State agencies | 967,949 |
| Federal | <u>1,118,667</u> |

| | |
|--------------|------------------------------|
| Total assets | <u><u>\$ 402,178,020</u></u> |
|--------------|------------------------------|

LIABILITIES:

Current liabilities:

| | |
|----------------------------------|------------------|
| Cash Overdraft | \$ 549,529 |
| Benefits payable | 6,554,394 |
| Accounts payable | 1,141,484 |
| Contributions payable | 4,017,503 |
| Intergovernmental payables: | |
| Federal | 934,034 |
| Other states | 3,098,364 |
| Interfund payable - general fund | <u>5,139,565</u> |

| | |
|-------------------|------------|
| Total liabilities | 21,434,873 |
|-------------------|------------|

NET ASSETS:

| | |
|--------------------------------------|------------------------------|
| Restricted for unemployment benefits | <u>380,743,147</u> |
| Total liabilities and net assets | <u><u>\$ 402,178,020</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, 2005**

OPERATING REVENUES:

| | |
|---|--------------------|
| Assessments | \$266,910,593 |
| Reimbursement of unemployment compensation benefits from employers | 3,276,834 |
| Benefit overpayment recoveries | 3,155,892 |
| Intergovernmental: | |
| Federal | 23,435,493 |
| State agencies | 4,001,791 |
| Other states | 5,119,030 |
| Local governments | 7,247,885 |
| Total revenues | <u>313,147,518</u> |

OPERATING EXPENSES:

| | |
|------------------------------------|-------------------------|
| Unemployment compensation benefits | <u>366,581,162</u> |
| Total operating expenses | <u>366,581,162</u> |
| Operating income (loss) | <u>(53,433,644)</u> |

NONOPERATING REVENUES:

| | |
|-----------------------------------|-------------------|
| Interest income | <u>13,465,859</u> |
| Total nonoperating revenues | <u>13,465,859</u> |
| Income (loss) before transfer | (39,967,785) |
| Transfers from general fund | <u>30,303</u> |
| Changes in net assets | (39,937,482) |

TOTAL NET ASSETS - BEGINNING 420,680,629

TOTAL NET ASSETS - ENDING \$380,743,147

See accompanying Notes to Financial Statements.

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

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2005**

CASH FLOWS FROM OPERATING ACTIVITIES:

| | |
|---|---------------------|
| Cash received from assessments | \$ 268,300,822 |
| Cash received from employers | 3,199,869 |
| Cash received from benefit overpayment recoveries | 3,805,500 |
| Cash received from federal, state and local agencies | 39,389,935 |
| Benefits paid | (364,498,441) |
| Refund overpayment of assessments | (1,715,096) |
| Net cash provided (used) by operating activities | <u>(51,517,411)</u> |

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:

| | |
|--|--------------------|
| Funding of cash overdraft | 549,529 |
| Repayment of cash overdraft | (49,449) |
| Repay due to general fund | 40,241 |
| Transfers from General Fund | 30,303 |
| Transfers to General Fund | (3,103,519) |
| Net cash provided (used) by noncapital financing activities | <u>(2,532,895)</u> |

CASH FLOWS FROM INVESTING ACTIVITIES:

| | |
|---|-------------------|
| Interest received | <u>13,465,859</u> |
| Net cash provided by investing activities | <u>13,465,859</u> |
| Net increase (decrease) in cash | (40,584,447) |

CASH AND CASH EQUIVALENTS - BEGINNING

380,306,305

CASH AND CASH EQUIVALENTS - ENDING

\$ 339,721,858

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

| | |
|--|-------------------------------|
| Operating income (loss) | \$ (53,433,644) |
| Net changes in assets and liabilities: | |
| Assessments receivable | (324,867) |
| Benefit overpayments receivable | 649,609 |
| Due from reimbursable employers | (76,965) |
| Intergovernmental receivable: | |
| State | 139,626 |
| Local governments | (160,215) |
| Other states | 182,643 |
| Federal | (787,116) |
| Benefits payable | 1,471,909 |
| Accounts payable | 370,307 |
| Contributions payable | 407,811 |
| Intergovernmental payable: | |
| Federal | 210,798 |
| Other states | (167,307) |
| Net cash provided (used) by operating activities | <u><u>\$ (51,517,411)</u></u> |

See accompanying Notes to Financial Statements.

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

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

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, 2005**

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. This program ended in the prior fiscal year and the activity now consists of collecting overpayment benefits.

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

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

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.

Basis of Presentation

The Fund reports under 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.

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

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

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.

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.

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

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

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.

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, 2005 are composed of the following:

| | |
|----------------------------------|-----------------------|
| Deposits held by State Treasurer | \$ 2,683,434 |
| Deposits held by U.S. Treasury | 328,401,863 |
| Other deposits | <u>8,636,561</u> |
| Totals | <u>\$ 339,721,858</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.

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

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

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.

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.

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, 2005. Amounts due to the General Fund as of June 30, 2005 are as follows:

| | |
|-------------------------|--------------------|
| Reed Act Funds | \$4,998,156 |
| Contingency assessments | 29,034 |
| Penalty and interest | <u>112,375</u> |
| Total | <u>\$5,139,565</u> |

NOTE 4. REED ACT FUNDS

The Commission has funds totaling \$98,999,445 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. \$5,225,786 was transferred in prior years and \$3,103,519 was transferred during the current year. As of June 30, 2005 \$4,998,156 of the funds appropriated in prior years had not been transferred to the General Fund.

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

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

NOTE 5. RECEIVABLES:

The receivable balances at June 30, 2005 and the related amounts for the allowances for uncollectibles are as follows:

| <u>Type</u> | <u>Receivables at June 30, 2005</u> | <u>Allowance for Uncollectibles</u> | <u>Net Receivables</u> |
|--|---|---|----------------------------|
| Assessments receivable (UI) | <u>\$ 57,880,166</u> | <u>\$ 5,614,245</u> | <u>\$ 52,265,921</u> |
| Due from reimburseable employers (UI) | <u>\$ 1,186,996</u> | <u>\$ 20,326</u> | <u>\$ 1,166,670</u> |
| Intergovernmental Receivables (UI) | | | |
| State agencies | <u>\$ 967,949</u> | <u>\$ -</u> | <u>\$ 967,949</u> |
| Local governments | <u>\$ 2,063,613</u> | <u>\$ 19,645</u> | <u>\$ 2,043,968</u> |
| Other states | <u>\$ 1,154,539</u> | <u>\$ -</u> | <u>\$ 1,154,539</u> |
| Intergovernmental Receivables- federal | <u>\$ 1,118,667</u> | <u>\$ -</u> | <u>\$ 1,118,667</u> |
| Benefit Overpayments Receivable - | | | |
| Basic Unemployment Compensation (UI) | <u>\$ 5,652,223</u> | <u>\$ 2,364,528</u> | <u>\$ 3,287,695</u> |
| Federal Employees (UCFE) | <u>25,462</u> | <u>13,452</u> | <u>12,010</u> |
| Ex-Servicemen (UCX) | <u>73,012</u> | <u>45,549</u> | <u>27,463</u> |
| Trade Readjustment (TRA) | <u>39,010</u> | <u>7,393</u> | <u>31,617</u> |
| Emergency Unemployment Compensation (EUC) | <u>504,226</u> | <u>124,563</u> | <u>379,663</u> |
| Totals | <u>\$ 6,293,933</u> | <u>\$ 2,555,485</u> | <u>\$ 3,738,448</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.

| | |
|-------------------------------------|-----------------------|
| Charges for services | <u>\$ 313,147,518</u> |
| Operating grants and contributions | <u>13,465,859</u> |
| Less: expenses | <u>(366,581,162)</u> |
| Net program revenue (expense) | <u>(39,967,785)</u> |
| Transfers: | |
| Transfer from general fund | <u>30,303</u> |
| Total general revenue and transfers | <u>30,303</u> |
| Change in net assets | <u>(39,937,482)</u> |
| Net assets-beginning of year | <u>420,680,629</u> |
| Net assets-end of year | <u>\$ 380,743,147</u> |