

South Carolina Department of Employment and Workforce

Unemployment Compensation Fund

Report on the

Financial Statements

For the Years Ended June 30, 2021 and 2020



October 22, 2021

Mr. Dan Ellzey, Executive Director
South Carolina Department of Employment and Workforce
Columbia, South Carolina

This report on the audit of the financial statements of the South Carolina Department of Employment and Workforce Unemployment Compensation Fund for the fiscal year ended June 30, 2021, was issued by Scott and Company, LLC, Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

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

Respectfully submitted,

George L. Kennedy, III, CPA
State Auditor

GLKIII/sag

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Independent Auditor's Report

Mr. George L. Kennedy, III, CPA
State Auditor
South Carolina Office of the State Auditor
Columbia, South Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of the South Carolina Department of Employment and Workforce Unemployment Compensation Fund (the "Unemployment Compensation Fund") as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Unemployment Compensation Fund's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Unemployment Compensation Fund as of June 30, 2021, and the changes in financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 1 to the financial statements, the financial statements of the Unemployment Compensation Fund are intended to present the financial position, the changes in financial position and cash flows of only that portion of the funds of the State of South Carolina reporting entity that is attributable to the transactions of the Unemployment Compensation Fund. They do not purport to and do not present fairly the financial position of the State of South Carolina as of June 30, 2021, the changes in its financial position or its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 22, 2021, on our consideration of the Unemployment Compensation Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Unemployment Compensation Fund's internal control over financial reporting and compliance.

Prior Period Financial Statements

The financial statements of the Unemployment Compensation Fund as of June 30, 2020 were audited by other auditors whose report dated November 24, 2020 expressed an unmodified opinion on those financial statements. Our opinion is not modified with respect to this matter.

Scott and Company LLC

Columbia, South Carolina
October 22, 2021

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management of the South Carolina Department of Employment and Workforce (the "Agency") offers readers this narrative overview and analysis of the financial activities attributed to the Agency's Unemployment Compensation Fund for the years ended June 30, 2021 and 2020. Please read this information in conjunction with the Unemployment Compensation Fund's financial statements and accompanying notes.

Overview of the Unemployment Compensation Fund

- The Unemployment Compensation Fund was created per Section 41-33-10 of the South Carolina Employment Security Law. The Unemployment Compensation Fund is made up of three separate accounts: (1) a clearing account which is used for the deposit of contributions, interest surcharges, penalties and interest, contingency funds, service charges, recording fees, and payments in lieu of contributions received from employers in the State of South Carolina; (2) an unemployment Compensation Fund account consisting of funds transferred from the clearing account and funds received from other states to be held to withdraw for unemployment benefit claims and to make required principal payments on federal unemployment account advances; this account also contains money received from the federal government as reimbursements pursuant to Section 204 of the Federal-State Extended Compensation Act of 1970; (3) a benefit payment account which receives cash from the Federal Unemployment Compensation Fund to pay unemployment benefit claims, and (4) an additional fund benefit payment account established during fiscal 2021 to account for and pay the Lost Wages Assistance benefits appropriated from the Federal Emergency Management Association.
- Generally, the principal source of revenues for the Unemployment Compensation Fund are quarterly unemployment tax assessment contributions paid by employers. However, the Unemployment Compensation Fund also receives federal reimbursements for federal emergency and extended unemployment benefits, as well as full benefit coverage for benefits paid to former employees of the federal government and former military employees. Federal law requires the Unemployment Compensation Fund to hold all reserves in the Federal Unemployment Compensation Fund, which invests in obligations guaranteed by the United States. Earnings on the Federal Unemployment Compensation Fund may be used only to pay benefits. With the exception of certain federal allocations, the Unemployment Compensation Fund's reserves may be used only to pay unemployment benefits and, in certain circumstances, to refund excess overpayment recoveries to employers, claimants or the federal government.
- Federal special administrative allocations, which are special distributions to each state, may be used to pay costs associated with implementing and administering the provisions of state law that qualify it for incentive payments made under the February 2009 Assistance for Unemployed Workers and Struggling Families Act, and certain other administrative costs.
- If the Unemployment Compensation Fund exhausts all of its reserves, it may borrow from the Federal Unemployment Compensation Fund via Title XII advances to continue paying benefits. With the exception of some short-term cash flow situations and the period of federal interest forgiveness between February 2009 and December 2010, any federal borrowing carries interest charges. The interest charges may not be funded from regular employer tax contributions.
- Administrative costs of the Unemployment Insurance Program are accounted for in the Agency's Special Revenue Fund and are not reported within the Unemployment Compensation Fund's financial statements. In addition, interest liabilities and payments on outstanding advances from the federal

government are accounted for in the Agency's Special Revenue Fund, and are not reported within these financial statements.

- Per State law and regulation, and in accordance with United States Department of Labor best practices, a healthy unemployment insurance Compensation fund has a sufficient balance to pay one year of benefits (at historically high cost rates) with no additional contributions. This is referred to as having an Average High Cost Multiple ("AHCM") of 1.0 or greater. The South Carolina General Assembly has directed the Agency to rebuild the Unemployment Compensation Fund to a level that is equal to having an AHCM of 1.0. Tax year 2020 was the final year of a five-year rebuilding period that could include an assessment going towards rebuilding the Unemployment Compensation Fund. Since the Unemployment Compensation Fund balance as of June 30, 2019 met the requirement of having an AHCM of 1.0, no additional solvency surcharges were levied for tax year 2020. State regulations provide for a suspension of the rebuilding process if the State enters into a future recession. As a result of the various new Federal unemployment benefits enabled by the Federal Government in response to COVID-19, and despite an unprecedented level of benefit payments, South Carolina's Unemployment Compensation Fund will not likely require the need for a future period of rebuilding with additional solvency surcharges.
- During January 2013, the Unemployment Compensation Fund began receiving federal tax refunds intercepted by the United States Department of the Treasury, which were initially due from claimants that received unemployment compensation payments to which they were not entitled. Due to the Agency's successful utilization of the Treasury Offset Program, the Unemployment Compensation Fund was able to recover additional overpayments of approximately \$3.9 million and \$2.9 million during the years ended June 30, 2021 and 2020, respectively.
- The Agency may recover overpaid unemployment compensation benefits through involuntary wage withholdings. The wage withholding recoveries were approximately \$1.2 million and \$2.6 million during the years ended June 30, 2021 and 2020, respectively.

Financial Highlights

- Assets of the Unemployment Compensation Fund exceeded its liabilities as of June 30, 2021 by approximately \$1.27 billion, which is shown as net position. The June 2020 net position was approximately \$1.30 billion. As of the end of June 2020, the Unemployment Compensation Fund cash balance had declined to a balance of just over \$700 million as a result of COVID-19 Pandemic benefits paid out. A South Carolina legislative appropriation of Cares Act funding during fiscal 2021 allowed the Unemployment Compensation Fund to return to the pre-Pandemic level of approximately \$1 billion.

The Unemployment Compensation Fund's ending net position decreased by approximately \$27 million during the year ended June 30, 2021 primarily due to additional unemployment benefits paid during the pandemic.

- Total unemployment compensation benefit payments were approximately \$3.61 billion and \$3.05 billion during the years ended June 30, 2021 and 2020, respectively.

Overview of the Financial Statements

The Management's Discussion and Analysis serves as an introduction to the basic financial statements. These financial statements consist of (1) Statements of Net Position; (2) Statements of Revenues, Expenses, and Changes in Net Position; (3) Statements of Cash Flows; and (4) Notes to Financial Statements. The Management's Discussion and Analysis represents management's own analysis of the Unemployment Compensation Fund's financial condition.

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

The Statements of Revenues, Expenses, and Changes in Net Position present the results of the business activities over the course of the year and information as to how the net position changed during the year.

The Statements of Cash Flows present changes in cash resulting from operating, financing, and investing activities. This statement presents cash receipts and cash disbursements information.

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

Condensed Financial Data

Statements of Net Position

	<u>2021</u>	<u>2020</u>	<u>Change</u>
Assets - all current	\$ 1,380,043,919	\$ 1,574,216,010	\$ (194,172,091)
Liabilities - all current	<u>106,403,276</u>	<u>273,533,729</u>	<u>(167,130,453)</u>
Total net position - all restricted	<u>\$ 1,273,640,643</u>	<u>\$ 1,300,682,281</u>	<u>\$ (27,041,638)</u>

Statements of Revenues, Expenses, and Changes in Net Position

Operating revenues			
Assessments	\$ 229,325,132	\$ 235,314,742	\$ (5,989,610)
Federal grants	2,969,706,840	2,377,010,050	592,696,790
Intergovernmental	22,144,843	32,495,004	(10,350,161)
Reimbursements of unemployment compensation benefit charges from employers	5,002,002	11,973,612	(6,971,610)
State government funding	<u>336,397,251</u>	<u>500,000,000</u>	<u>(163,602,749)</u>
Total operating revenues	<u>3,562,576,068</u>	<u>3,156,793,408</u>	<u>405,782,660</u>
Operating expenses			
Unemployment compensation benefits	3,613,712,801	3,047,514,382	566,198,419
Payments returned to the federal government	-	543,038	(543,038)
Interest expense	-	3,122	(3,122)
Total operating expenses	<u>3,613,712,801</u>	<u>3,048,060,542</u>	<u>565,652,259</u>
Operating (loss) income	(51,136,733)	108,732,866	(159,869,599)
Non-operating revenues			
Interest income	23,473,578	25,511,764	(2,038,186)
Reed Act	621,517	-	621,517
FUTA credit adjustment	-	588	(588)
Total non-operating revenues	<u>24,095,095</u>	<u>25,512,352</u>	<u>(1,417,257)</u>
Change in net position	(27,041,638)	134,245,218	(161,286,856)
Beginning net position	<u>1,300,682,281</u>	<u>1,166,437,063</u>	<u>134,245,218</u>
Ending net position	<u>\$ 1,273,640,643</u>	<u>\$ 1,300,682,281</u>	<u>\$ (27,041,638)</u>

Statement of Net Position:

Total assets decreased by approximately \$ 194 million, due to lower accounts receivables from the federal and state governments. For the year ended June 30, 2021, tax rates were set to raise less money as the Unemployment Compensation Fund balance approached statutorily mandated levels. The tax rates for year ended June 30, 2021 did not anticipate the significant negative impacts COVID-19 would have on the State's benefit payment levels. During the year ended June 30, 2021, there were no payments for federal advances since the Unemployment Compensation Fund paid its final federal advances in full during June 2015. For the year ended June 30, 2021, the Unemployment Compensation Fund reported positive cash flows, while total liabilities decreased by approximately \$167.1 million, primarily due to decreases in benefits payable.

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

Ending net position decreased by approximately \$27 million during the year ended June 30, 2021, due to higher benefit payments caused by the pandemic. Ending net position increased by \$134.2 million during the year ended June 30, 2020, due to the receipt of funds appropriated by the SC state government for fiscal year 2020.

Revenues, Expenses, and Changes in Net Position:

Assessments decreased by approximately \$5.9 million compared to last year. Per South Carolina State law, unemployment insurance tax rates are set each year to raise sufficient revenues to pay projected benefits as well as to either repay outstanding federal loans or begin rebuilding the Unemployment Compensation Fund to an adequate level as defined in State law. For the year ended June 30, 2020, taxes were set to raise approximately \$229.0 million (\$200.0 million for benefit payments and \$29.0 million for South Carolina Unemployment Compensation Rebuilding). For the year ended June 30, 2021, tax rates were set to maintain a consistent level of funding from South Carolina employers as the state emerged from the pandemic.

Operating income decreased by approximately \$159.9 million during the year ended June 30, 2021 due to an increase in unemployment benefits due to the COVID-19 pandemic.

Unemployment compensation benefits increased by approximately \$566 million during the year ended June 30, 2021 due to the unprecedented level of benefit payments that have occurred as a result of the COVID-19 pandemic. State benefits paid decreased by approximately \$27.0 million while federal benefits increased by approximately \$593 million during the year ended June 30, 2021 compared to the year ended June 30, 2020.

The following is a summary of the benefits paid (in millions) for the year ended June 30,

	<u>2021</u>	<u>2020</u>	<u>Change</u>
State benefits	\$ 644	\$ 671	\$ (27)
Federal benefits	2,970	2,377	593
Total benefits expense	<u>\$ 3,614</u>	<u>\$ 3,048</u>	<u>\$ 566</u>

Economic Outlook:

The COVID-19 pandemic has resulted in an unprecedented impact on the economy of the State as well as on the unemployment insurance system. While the tax rates for 2021 were set to remain constant with year 2020, the state benefit claims continue to decline.

Many of the federal pandemic benefits were scheduled to terminate for benefit weeks ending as of September 5, 2021. However, the Governor of South Carolina elected to withdraw from the federal pandemic benefit programs effective for week ended June 26, 2021, just before the end of the fiscal year.

South Carolina is open for business and employers are actively hiring, both of which, along with the available COVID-19 vaccines, bode well for continued economic improvements to South Carolina’s economy. However, the upcoming fall/winter season and the current Delta variant of COVID-19 may cause a delay in new employment and lingering unemployment.

Based on current forecasts by Department of Employment and Workforce economists, the Unemployment Compensation Fund will not require a “rebuilding period” coming out of the pandemic.

There were several sources of additional revenue, outside the normal tax system, that resulted from the pandemic. During fiscal year 2021, the State of South Carolina appropriated \$836 million in CARES Act funding to the Unemployment Compensation Fund to offset some of the negative impact of the pandemic. The Unemployment Compensation Fund also received federal funding as a result of waiving the normally required one week waiting period for individuals to qualify for unemployment benefits. The federal government reimbursed states for the costs associated with waiving that waiting week through the end of calendar year 2021. Additionally, the federal government agreed to pay 50 percent of the Covid-related benefit charges that reimbursable employers incurred as a result of the pandemic. These two additional federal reimbursements helped keep the Unemployment Compensation Fund balance higher than it would otherwise have been during this period and will help to avoid rebuilding costs in the near future.

Request for information:

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

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

South Carolina Department of Employment and Workforce
Unemployment Compensation Fund
Statements of Net Position
For the Years Ended June 30,

	2021	2020
Assets		
Current Assets:		
Cash	\$ 1,231,651,043	\$ 715,881,893
Assessments receivable, net	104,188,146	103,732,489
Benefit overpayment receivables, net	17,041,700	17,061,442
Due from reimbursable employers	237,504	11,059,678
Intergovernmental receivables:		-
Federal government	25,296,864	200,397,252
Due from state government	-	500,000,000
State agencies	-	6,939,036
Other states	1,300,930	3,488,194
Local governments	327,732	15,656,026
Total assets	1,380,043,919	1,574,216,010
Liabilities		
Current Liabilities:		
Benefits payable	31,373,032	212,546,327
Income tax withholdings payable	13,197,163	1,126,770
Contributions payable	56,235,004	36,728,711
Other payables	29,522	20,897
Due to Agency	4,375,610	19,969,555
Intergovernmental payables:		
Federal government	-	29,910
Other states	1,192,945	3,111,559
Total liabilities	106,403,276	273,533,729
Total restricted net position	\$ 1,273,640,643	\$ 1,300,682,281

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

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

	<u>2021</u>	<u>2020</u>
Operating revenues		
Assessments	\$ 229,325,132	\$ 235,314,742
Reimbursements of unemployment compensation benefits from employers	5,002,002	11,973,612
Intergovernmental:		
Federal government funding	2,969,706,840	2,377,010,050
State agencies	4,724,735	8,047,881
Local governments	11,183,312	18,545,265
State government funding	336,397,251	500,000,000
Other states	6,236,796	5,901,858
Total operating revenues	<u>3,562,576,068</u>	<u>3,156,793,408</u>
Operating expenses		
Unemployment compensation benefits	3,613,712,801	3,047,514,382
Payments returned to the federal government	-	543,038
Interest expense	-	3,122
Total operating expenses	<u>3,613,712,801</u>	<u>3,048,060,542</u>
Operating income (loss)	<u>(51,136,733)</u>	<u>108,732,866</u>
Non-operating revenues		
Interest income	23,473,578	25,511,764
Reed Act	621,517	-
FUTA credit adjustment	-	588
Total non-operating revenues	<u>24,095,095</u>	<u>25,512,352</u>
Change in net position	(27,041,638)	134,245,218
Beginning net position	<u>1,300,682,281</u>	<u>1,166,437,063</u>
Ending net position	<u>\$ 1,273,640,643</u>	<u>\$ 1,300,682,281</u>

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

South Carolina Department of Employment and Workforce
Unemployment Compensation Fund
Statements of Cash Flows
For the Years Ended June 30,

	2021	2020
Cash flows from operating activities:		
Cash received from assessments	\$ 213,275,531	\$ 273,610,606
Cash received from employer reimbursements, net	5,002,002	9,893,026
Cash received from benefit overpayment recoveries	19,742	3,891,610
Cash received from federal, state and local agencies	4,038,626,091	2,176,658,437
Cash paid for benefits	(3,765,249,311)	(2,830,851,794)
Cash paid for refunds of overpaid assessments	-	(7,561,250)
Net cash flows provided by (used in) operating activities	491,674,055	(374,359,365)
Cash flows from non-capital related financing activities:		
Reed Act	621,517	-
Proceeds from federal government, net of FUTA credits	-	588
Net cash flows provided by non-capital related financing activities	621,517	588
Cash flows from investing activities:		
Proceeds from interest earned on Federal Unemployment Trust Fund	23,473,578	25,511,764
Net cash flows provided by investing activities	23,473,578	25,511,764
Net increase (decrease) in cash	515,769,150	(348,847,013)
Cash – beginning	715,881,893	1,064,728,906
Cash – ending	\$ 1,231,651,043	\$ 715,881,893
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:		
Operating income (loss)	\$ (51,136,733)	\$ 108,732,866
Net changes in operating assets and liabilities:		
Assessments receivable, net	(455,658)	13,290,258
Due from reimbursable employers	10,822,174	(11,059,678)
Benefit overpayment receivables, net	19,742	(10,268,829)
Accounts receivable	-	2,669,893
Intergovernmental receivables:		
Federal government	175,100,388	(199,619,204)
State government	500,000,000	(500,000,000)
State agencies	6,939,036	(6,427,565)
Other states	2,187,265	(2,555,799)
Local governments	15,328,294	(13,184,371)
Benefits payable	(181,173,295)	211,033,660
Income tax withholdings payable	12,070,393	1,001,036
Contributions payable	19,506,293	16,381,492
Other payables	8,625	20,897
Interfund payables	(15,593,945)	17,444,356
Due to reimbursable employers	-	(2,080,586)
Federal government	(29,910)	(1,303,442)
Other states	(1,918,614)	1,565,651
Net cash flows provided by (used in) operating activities	\$ 491,674,055	\$ (374,359,365)

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

South Carolina Department of Employment and Workforce
Unemployment Compensation Fund
Notes to Financial Statements
For the Years Ended June 30, 2021 and 2020

Note 1. Summary of Significant Accounting Policies

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

The Employment Security Commission (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. Section 41-29-10 was amended by the South Carolina General Assembly during 2011 through Act 146 to replace the Commissioners with an Executive Director. The act also renamed the Commission the Department of Employment and Workforce (the "Agency"), moved it to the Governor's cabinet, moved the Workforce Investment Act ("WIA") and Trade Assistance Act ("TAA") programs back to the Agency from a different State agency, and established an appellate panel charged with hearing higher level appeals for unemployment benefits.

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

The Agency's 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 United States Treasury is retained in the Unemployment Compensation Fund for the payment of unemployment compensation benefits as long as the Unemployment Compensation Fund is not indebted to the federal government for Federal Unemployment Compensation Fund advances.

The accounting policies of the Unemployment Compensation 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 Unemployment Compensation Fund's accounting principles are described below.

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

South Carolina Department of Employment and Workforce
Unemployment Compensation Fund
Notes to Financial Statements
For the Years Ended June 30, 2021 and 2020

A primary government or entity is financially accountable if it appoints a voting majority of the organization's governing body, including situations in which the voting majority consists of the primary entity's officials serving as required by law (e.g., employees who serve in an ex-officio capacity on the component unit's board are considered appointments by the primary entity) and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary entity.

The primary entity is financially accountable if an organization is fiscally dependent on and there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government regardless of whether the organization has (1) a separately elected governing board, (2) a governing board appointed by a higher level of government, or (3) a jointly appointed board.

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

An organization has a financial benefit or burden relationship with the primary government if, for example, any one of these conditions exists:

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

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

The Unemployment Compensation Fund includes the following:

Normal Unemployment Compensation Components

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

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

South Carolina Department of Employment and Workforce
Unemployment Compensation Fund
Notes to Financial Statements
For the Years Ended June 30, 2021 and 2020

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

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

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

Reemployment Trade Adjustment Assistance ("RTAA") - This program was implemented during the year ended June 30, 2009 as a wage option available to older workers under the Trade Adjustment Assistance ("TAA") program to eventually replace ATAA. This program consists of monies paid to individuals who are at least fifty years old and who have lost their jobs due to imports but are now working again at a lower salary. They are paid fifty percent of the difference between their old and new salary. It is funded by the federal government.

Disaster Unemployment Assistance ("DUA") – This program provides temporary benefits to people whose jobs or self-employment have been lost or interrupted due to a major disaster.

Temporary Federal Cares Act Components in response to COVID-19 Pandemic

On March 27, 2020, the President signed into law the CARES Act, which includes the Relief for Workers Affected by Coronavirus Act set out in Title II, Subtitle A. Section 2102 of the CARES Act creates a new temporary federal program called Pandemic Unemployment Assistance ("PUA") that in general provides up to 39 weeks of unemployment benefits and provides funding to states for the administration of the program.

Pandemic Unemployment Assistance ("PUA") – This program accounts for temporary benefits to individuals who have exhausted their entitlement to regular unemployment compensation ("UC") or who are not eligible for regular UC, such as individuals who are self-employed or have limited recent work history.

Federal Pandemic Unemployment Compensation ("FPUC") – This temporary program initially provided eligible individuals with \$600 per week in addition to the weekly benefit amount they receive from certain other UC programs for the benefit periods March 27, 2020 through July 31, 2020.

A later reinstatement of this temporary program provided eligible individuals with \$300 per week in addition to the weekly benefit amount they receive from certain other UC programs for the benefit periods beginning in January 2021 through South Carolina's end of federal benefits on June 26, 2021.

Pandemic Emergency Unemployment Compensation ("PEUC") – This program accounts for temporary benefits to individuals who have exhausted their entitlement to regular unemployment compensation ("UC") or who are not eligible for regular UC, such as individuals who are self-employed or have limited recent work history.

Extended Benefits ("EB") - There are temporary changes to the Federal-State Extended Benefits ("EB") Program in Response to the Economic Impacts of the Coronavirus Disease 2019 ("COVID-19") Pandemic Emergency. EB is payable only after exhaustion of PEUC and other UC as described above. During the period that PEUC is available, an individual must have exhausted PEUC entitlement before commencing receipt of EB.

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Temporary Full Funding - On March 27, 2020, the President signed into law the CARES Act, which includes the Relief for Workers Affected by Coronavirus Act set out in Title II, Subtitle A. Section 2105 of the CARES Act provides for full federal funding of the first week of regular UC for states with no waiting week.

Lost Wages Assistance ("LWA") - This temporary program provided eligible individuals with \$300 per week in addition to the weekly benefit amount they receive from certain other UC programs for the benefit periods August 1, 2020 through September 5, 2020.

Mixed Earner Unemployment Compensation ("MEUC") - This temporary program provided eligible individuals with \$100 per week in addition to the weekly benefit amount they receive from certain other UC programs.

Termination of Federal Covid Benefits - Effective June 26, 2021, the Governor of South Carolina terminated the State's participation in the additional COVID-19 federal benefits. Any benefits for claim weeks prior to June 26, 2021 will continue to be paid, but no additional federal benefits will be paid for claim weeks beginning after June 26, 2021.

Basis of Accounting - The Unemployment Compensation Fund's financial statements are prepared using the accrual basis of accounting. Under the accrual basis of accounting, revenue is recognized when earned, and expenses are recorded when incurred. In accordance with Governmental Accounting Standards Board ("GASB") Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, the Unemployment Compensation Fund applies all GASB pronouncements and all Financial Accounting Standards Board ("FASB") pronouncements issued on or before November 30, 1989, when not in conflict with GASB pronouncements.

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

These classifications are defined as follows:

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

Restricted Net Position - This component of net position consists of restrictions through external constraints imposed by creditors (such as through debt covenants), contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation. Since the entirety of the Unemployment Compensation Fund's assets are restricted for unemployment compensation

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through state and federal law, its total net position has been classified as restricted net position as of June 30, 2021 and 2020.

Unrestricted Net Position - This component of net position consists of net positions that do not meet the definition of "restricted net position" or "net investments in capital assets." The Unemployment Compensation Fund had no unrestricted net position as of June 30, 2021 and 2020.

Cash - The amounts shown in the financial statements as cash represents cash on hand with the State Treasurer as part of the State's cash management pool and cash on deposit with the United States Treasury and in various banks.

The Agency participates in the State's cash management pool. Because the cash management pool operates as a demand deposit account, amounts deposited in the pool are classified as cash. The State Treasurer administers the cash management pool.

The State's 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 Unemployment Compensation Fund records and reports its deposits in the general deposit account at cost.

Receivables - Receivables consist of the following:

Benefit Overpayments Receivables - Overpayments of unemployment compensation benefits occur due to changes in facts or estimates originally used to determine benefit eligibility or amounts due to claimants. Overpayments are due upon detection or discovery and are recovered by cash recoupments, intercepting of state and federal income tax refunds, wage withholdings from claimants' pay checks, or withholdings from subsequent benefits due to the claimants.

Overpayments established for improper benefits have been netted against Unemployment compensation benefits expense. These amounts were shown as Benefit overpayment recoveries revenue in fiscal 2020 but have been reclassified against Unemployment compensation benefits expense in line with 2021 presentation.

Benefit overpayment recoupments attributable to reimbursable employers or federal programs are due to such employers or the federal government and are classified as intergovernmental payables. Refunds are made only when there are no current benefit obligations. Historical collection information, along with United States Department of Labor recommended best-practices, are used to estimate and establish an allowance for uncollectible accounts. The allowance for uncollectible accounts represents amounts estimated to be uncollectible.

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

Intergovernmental Receivables, Federal Government - The amounts due from the federal government represent reimbursements due under various federal grant programs under which the Agency pays unemployment benefits. Revenues and related receivables are recognized at the time and to the extent that allowable expenses are incurred under such programs.

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

Intergovernmental Receivables, Other States and Local Governments - The benefit reimbursement receivable due from other states and local governments is based on the pro-rata share of wages earned by the employees in those states and localities for which benefits are being paid by the Agency.

Accounts Receivable – Accounts Receivable represents those amounts due from claimants who are determined to have received benefit overpayments. Claimants assessed a FUTA (and/or SUTA) overpayment penalty for a benefit overpayment were deemed fraudulent by the Agency as further described in Note 9.

Payables - Payables consist of the following:

Benefits Payable – Benefits payable represents unemployment compensation amounts paid after year-end for benefit weeks ending on or before June 30th.

Contributions Payable – Contributions payable includes amounts received from employers in excess of actual unemployment tax liabilities. The Agency maintains these amounts as credits on the employers’ account to cover future tax liabilities.

Intergovernmental Payables, Other States – Intergovernmental payables due to other states represent amounts due to other states as reimbursement for benefits paid by those states to South Carolina claimants.

Intergovernmental Payables, Federal Government – Intergovernmental payables due to the federal government represent overpayments of unemployment compensation benefits that occur due to changes in facts or estimates upon which benefits were originally paid or due to claimant fraud. Such overpayments that were funded by the federal government are due back to the federal government and are included as intergovernmental payables.

Income Tax Withholdings Payable – Income tax withholdings payable represents those amounts withheld from unemployment compensation benefits attributed to claimants. Tax withholdings are withheld and remitted to the State and federal government on their behalf.

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

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

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

Reclassifications – Certain amounts for the year ended June 30, 2020 have been reclassified to conform to current year presentation. Benefit overpayments established have been netted against Unemployment compensation benefits for both years.

Note 2. Cash

The amounts reported as cash on the Statements of Net Position as of June 30 are composed of the following:

	2021	2020
Deposits held by the State Treasurer	\$ 8,051,730	\$ 3,902,180
Deposits held by the U.S. Treasury	1,180,440,996	704,699,832
Other deposits	43,158,317	7,279,881
Total	\$ 1,231,651,043	\$ 715,881,893

Deposits Held by the State Treasurer - State unemployment taxes received from businesses are initially deposited in the Unemployment Compensation Fund’s clearing bank account, held by the State Treasurer. The deposits of the Unemployment Compensation Fund held by the State Treasurer are under the control of the 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.

Deposits Held by the United States Treasury - Amounts are regularly transferred from the Unemployment Compensation Fund’s clearing account to the State’s account in the Federal Unemployment Compensation Fund. Under the provisions of Section 904(e) of the Social Security Act, the Secretary of the United States Treasury is authorized to credit to the account of each state agency, on a quarterly basis, a proportionate share of the earnings of the Federal Unemployment Compensation Fund.

Other Deposits - Amounts needed to cover federal and state unemployment compensation expenses and related tax withholdings are drawn from the State’s account in the Federal Unemployment Compensation Fund into the Unemployment Compensation Fund’s benefit payment account on a regular basis. This account is not controlled by the State Treasurer nor is it in the custody of the federal government. Custodial credit risk for deposits is the risk that in the event of a bank failure, the Unemployment Compensation Fund’s deposits may not be returned by the bank or the Unemployment Compensation 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 to be fully insured or collateralized. All deposits of the Unemployment Compensation Fund met these requirements and are either covered by federal depository insurance or collateralized with securities held by the depository financial institution’s Compensation

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department or agent in the Unemployment Compensation Fund's name. Funds are transferred on a regular basis from the deposits held by the United States Treasury to cover all benefit payments from this account.

Note 3. Due to Agency

The amounts reported on the Statements of Net Position as Due to Agency represent amounts which were collected for penalties, interest, contingency assessments, and interest surcharges via remittances from employers, as well as special administration funds received from the federal government. Those are payable to the Agency's Special Revenue fund to support its administration of the Unemployment Compensation Fund.

Amounts due to the Agency as of June 30 are as follows:

	<u>2021</u>	<u>2020</u>
Contingency assessments	\$ 1,162,471	\$ 453,123
Penalties, interest, service charges and fees	798,862	120,847
Special administration funds	1,551	1,551
Reed Act	2,230,756	1,753,556
CARES Act Administration	-	12,991,114
Reimbursable employers	-	3,793,100
SUTA penalty to Integrity Fund	181,970	856,264
	<u>\$ 4,375,610</u>	<u>\$ 19,969,555</u>
Total		

Note 4. Reed Act

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

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

During the year ended June 30, 2021, the Agency sold real property containing Reed Act equity of \$477,201 and \$144,316. Of these sales, \$621,517 was transferred during the year ended June 30, 2021 with no remaining amount still to be transferred. The full amount of \$621,517 was credited to the Unemployment Compensation Fund's Reed Act sub-account, representing the amount of original Reed Act participation in the purchase of the property and is included in the balance Due to the Agency on the Statements of Net Position as these amounts will be drawn upon for administrative purposes.

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Note 5. Receivables

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

	2021		
	Gross Receivables	Uncollectible Accounts Allowance	Net Receivables
Assessments receivable	\$ 141,095,291	\$ 36,907,145	\$ 104,188,146
Benefit overpayment receivables:			
Basic unemployment compensation	48,401,091	43,560,981	4,840,110
Pandemic - PUA - Pandemic Unemployment Assistance	10,848,929	9,764,039	1,084,890
Pandemic - FPUC - Federal Pandemic Unemployment Compensation	84,604,453	76,144,003	8,460,450
Pandemic - PEUC - Pandemic Emergency Unemployment Compensation	10,593,321	9,533,991	1,059,330
Pandemic - LWA - Lost Wages Assistance	8,519,198	7,667,278	851,920
Pandemic - MEUC - Mixed Earner Unemployment Compensation	2,725	2,455	270
Trade readjustment	173,902	156,512	17,390
FUTA Penalties	4,970,464	4,473,414	497,050
SUTA Penalties	2,302,752	2,072,462	230,290
Total benefit overpayment receivables	<u>170,416,835</u>	<u>153,375,135</u>	<u>17,041,700</u>
Due from reimbursable employers	<u>359,394</u>	<u>121,890</u>	<u>237,504</u>
Intergovernmental receivables:			
Federal government	25,296,864	-	25,296,864
Other states	1,300,930	-	1,300,930
Local governments	449,622	121,890	327,732
Total intergovernmental receivables	<u>27,047,416</u>	<u>121,890</u>	<u>26,925,526</u>
Total receivables	<u>\$ 338,918,936</u>	<u>\$ 190,526,060</u>	<u>\$ 148,392,876</u>
	2020		
	Gross Receivables	Uncollectible Accounts Allowance	Net Receivables
Assessments receivable	\$ 159,906,244	\$ 56,173,755	\$ 103,732,489
Benefit overpayment receivables:			
Basic unemployment compensation	14,167,481	5,786,646	8,380,835
Federal employees	12,218	8,322	3,896
Ex-servicemen	22,886	11,901	10,985
Disaster unemployment assistance	40,565	25,436	15,129
Pandemic - PUA - Pandemic Unemployment Assistance	235,988	-	235,988
Pandemic - FPUC - Federal Pandemic Unemployment Compensation	8,340,421	-	8,340,421
Trade readjustment	129,923	55,735	74,188
Emergency unemployment compensation	416,340	416,340	-
Total benefit overpayment receivables	<u>23,365,822</u>	<u>6,304,380</u>	<u>17,061,442</u>
Due from reimbursable employers	<u>11,059,678</u>	<u>-</u>	<u>11,059,678</u>
Intergovernmental receivables:			
Federal government	200,397,252	-	200,397,252
State agencies	6,939,036	-	6,939,036
Other states	3,488,194	-	3,488,194
Local governments	15,990,346	334,320	15,656,026
Total intergovernmental receivables	<u>226,814,828</u>	<u>334,320</u>	<u>226,480,508</u>
Total receivables	<u>\$ 421,146,572</u>	<u>\$ 62,812,455</u>	<u>\$ 358,334,117</u>

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Note 6. Information on Business -Type Activities

The following information is provided for incorporation into the State of South Carolina’s Annual Comprehensive Financial Report for the years ended June 30,

	2021	2020
Charges for services	\$ 592,869,228	\$ 279,783,358
Operating grants and contributions	2,969,706,840	2,877,010,050
Less:		
Expenses	(3,613,712,801)	(3,048,060,542)
Net program revenues (expenses)	(51,136,733)	108,732,866
Non-operating revenues	24,095,095	25,512,352
Change in Net position	(27,041,638)	134,245,218
Beginning net position	1,300,682,281	1,166,437,063
Ending Net position	\$ 1,273,640,643	\$ 1,300,682,281

Note 7. Contingencies

Federal Grants - The various programs administered by the Unemployment Compensation Fund for the year ended June 30, 2021 and previous years are subject to audit by the federal grantor agencies. At the present time, amounts, if any, which may be due to federal grantors have not been determined, but the Unemployment Compensation Fund believes that any such amounts in the aggregate would not have a material adverse effect on the financial position of the Unemployment Compensation Fund. However, a liability for federal benefits paid following fiscal year-end June 30 for weeks related prior to the Governor’s June 26 federal benefit termination, has been recorded. However, there is no evidence to indicate that any further liability should be recorded as of June 30, 2021.

The Unemployment Compensation Fund is administered by the Agency, and the Agency is considered the grantee for Single Audit purposes. The Single Audit is performed for federal grants at the grantee level, and the Schedule of Expenditures of Federal Awards is therefore included in the Agency’s government-wide financial statements.

Coronavirus – In December 2019, a novel strain of coronavirus disease (“COVID-19”) was first reported in Wuhan, China. Less than four months later, on March 11, 2020, the World Health Organization declared COVID-19 a pandemic. The extent of COVID-19’s effect on the Agency has been an unprecedented level of benefit claims with new federal program benefits funded by the Federal Government, as well as legislative appropriation of Cares Act Funds awarded by the State of South Carolina to the Unemployment Compensation Fund.

In August 2020, the State of South Carolina awarded the Agency a Corona Relief Fund Grant of \$500,000,000 to supplement the Unemployment Compensation Fund cash balances. A second appropriation of \$309,457,854 of Corona Relief Fund Grant was awarded by the State of South Carolina in December of 2020 with an additional

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\$26,939,397 to cover 50% of SC Covid benefit charges incurred 2020 quarter 2 through quarter 4 for reimbursable employers. These amounts are recorded as program revenue for fiscal 2021 and 2020.

COVID-19 has adversely affected, and may continue to adversely affect economic activity globally, nationally and locally. The availability of various COVID-19 vaccinations should help move the economic recovery of the State forward.

Note 8. Interest Income

The Federal Unemployment Compensation Fund's quarterly yield averaged 2.31% and 2.42% for the years ended June 30, 2021 and 2020. The Unemployment Compensation Fund began earning full interest on Federal Unemployment Compensation Fund balances during the year ended June 30, 2016. For the years ended June 30, 2021 and 2020, the Unemployment Compensation Fund earned interest income of \$23,473,578 and \$25,511,764, respectively on Federal Unemployment Compensation Fund balances.

Note 9. FUTA Penalty

Effective October 21, 2013, pursuant to the Federal Trade Adjustment Assistance Extension Act of 2011, and section 41-41-45 of the South Carolina Code of Laws, the Agency began assessing a monetary penalty of 25% on fraudulent overpayments.

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

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

Note 10. Subsequent Events

In preparing these financial statements, management has evaluated events and transactions for potential recognition or disclosure through October 22, 2021, the date these financial statements were available to be issued.

Subsequent to fiscal year end June 30, all additional federal benefits previously provided in response to the COVID-19 pandemic expired on September 5, 2021. As of October 22, 2021, the date these financial statements were available to be issued, no additional federal unemployment benefits related to COVID-19 have been announced.