

South Carolina Department of Disabilities and Special Needs

Financial Statements

*For the Year Ended June 30, 2015*

*(with Independent Auditor's Report thereon)*





**South Carolina  
Office of the State Auditor**

**George L. Kennedy, III, CPA  
State Auditor**

June 8, 2016

The Honorable Nikki R. Haley, Governor  
and  
Members of the Disabilities and Special Needs Commission  
South Carolina Department of Disabilities and Special Needs  
Columbia, South Carolina

This report on the audit of the basic financial statements of the South Carolina Department of Disabilities and Special Needs for the fiscal year ended June 30, 2015, was issued by Greene, Finney & Horton, LLP, Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

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

Respectfully submitted,

A handwritten signature in blue ink that reads "George L. Kennedy, III".

George L. Kennedy, III, CPA  
State Auditor

GLKIII/trb



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**INDEPENDENT AUDITOR'S REPORT**

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

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the South Carolina Department of Disabilities and Special Needs (the "Department"), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Department'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 opinions.

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the South Carolina Department of Disabilities and Special Needs, as of June 30, 2015, and the respective changes in financial position 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, the accompanying financial statements of the South Carolina Department of Disabilities and Special Needs reporting entity are intended to present the financial position and the results of operations of only that portion of the financial reporting entity of the State of South Carolina that is attributable to the transactions of those divisions of the State that comprise the South Carolina Department of Disabilities and Special Needs reporting entity. They do not purport to, and do not, present fairly the financial position of the State of South Carolina as of June 30, 2015 and the changes in its financial position 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.

### ***Change in Accounting Principle***

As discussed in Note 1 to the financial statements, in the year ended June 30, 2015 the South Carolina Department of Disabilities and Special Needs adopted the provisions of Governmental Accounting Standards Board Statement No. 68 *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and Governmental Accounting Standards Board Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. Our opinion is not modified with respect to these matters.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the budgetary comparison schedules, and the pension schedules, 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.

#### ***Supplementary Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Department's basic financial statements. The supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated June 8, 2016 on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control over financial reporting and compliance.



Greene, Finney & Horton, LLP  
Mauldin, South Carolina  
June 8, 2016



SOUTH CAROLINA DEPARTMENT OF DISABILITIES AND SPECIAL NEEDS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2015

Management's Discussion and Analysis ("MD&A") of the South Carolina Department of Disabilities and Special Needs (the "Department") provides an overview of the Department's financial activities for the fiscal year ended June 30, 2015.

### **FINANCIAL HIGHLIGHTS**

The Department prepared its financial statements on the Generally Accepted Accounting Principles ("GAAP") basis and follows pronouncements from the Governmental Accounting Standards Board ("GASB").

Additionally, this is the first year of implementation of GASB Statement 34 – *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* ("GASB Statement 34") for the Department. GASB Statement 34 provides that in the first year of implementation, only one year of government-wide data is required to be presented, however, since there is no previous fund level information for the Department, only one year of both government-wide and fund level information is presented in this MD&A.

As of and for the fiscal year ended June 30, 2015:

- The Department's total net position decreased by \$2,358,840 and its liabilities and deferred inflows of resources exceeded its assets and deferred outflows of resources (net position) by \$70,357,217. This includes \$109,496,400 in Net Pension Liability that is required to be reported according to GASB Statement 68.
- The Department's total net position decreased by \$2,358,840 and its liabilities and deferred inflows of resources exceeded its assets and deferred outflows of resources (net position) by \$70,357,217.
- The Department received \$217,602,751 in appropriations from the State and received \$371,135,227 in Medicaid reimbursements and patient fees.
- The Department held \$2,446,087 of cash and cash equivalents in an agency capacity for its clients.

### **USING THESE AUDITED FINANCIAL STATEMENTS**

The audited basic financial statements presented in this document include both government-wide and fund financial statements.

#### **Government-wide Statements:**

Government-wide statements include a Statement of Net Position and a Statement of Activities. These statements display information about the Department as a whole. The government-wide financial statements of the Department are presented on the accrual basis of accounting and provide short-term and long-term information about the Department. The Department has adopted the provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources and Deferred Inflows of Resources and Net Position*. The statement incorporated deferred inflows and outflows as required components of the residual measure of the government and renaming that measure as net position, rather than net assets.

SOUTH CAROLINA DEPARTMENT OF DISABILITIES AND SPECIAL NEEDS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2015

**Fund Statements:**

The fund financial statements include the Governmental Funds Balance Sheet, Statement of Revenues, Expenditures, and Changes in Fund Balances, and a Statement of Fiduciary Net Position – Agency Funds. The governmental fund financial statements are presented on the modified accrual basis of accounting which focuses on the near term inflows and outflows of resources available for expenditure for the current fiscal year. The Statement of Fiduciary Net Position – Agency Funds is presented on the accrual basis of accounting. These amounts are excluded from the Department's government-wide financial statements because the Department is not to use these assets to benefit its operations.

**Notes to the Financial Statements:**

Immediately following the financial statements are notes that provide additional and pertinent information to the financial statement amounts. The notes are necessary to fully understand the financial statements.

**Required Supplementary Information:**

This section addresses budgetary matters and provides certain required reporting information that supplements the basic financial statements. Included in this section is a schedule that compares the Department's legally adopted General Fund and Other Budgeted Funds budgets with actual expenditures paid for the year on the budgetary basis of accounting. Additionally, the required supplementary information section includes information on the Department's pension programs: The South Carolina Retirement System and the Police Officers Retirement System

**Supplementary Information:**

Combining schedules for the nonmajor governmental funds are presented immediately following the required supplementary information.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

**Statement of Net Position and Statement of Activities** – The Statement of Net Position provides a summary of the Department's financial condition at the end of the 2015 fiscal year; and reports all assets and deferred outflows of resources and liabilities and deferred inflows of resources using the accrual basis of accounting. The Statement of Activities reports the revenues and expenses during the time period indicated.

SOUTH CAROLINA DEPARTMENT OF DISABILITIES AND SPECIALS NEEDS  
STATEMENT OF NET POSITION

|                                | <u>2015</u>        |
|--------------------------------|--------------------|
| Assets:                        |                    |
| Current and Other Assets       | \$ 71,468,460      |
| Capital Assets, Net            | <u>20,185,003</u>  |
| Total Assets                   | <u>91,653,463</u>  |
| Deferred Outflows of Resources | <u>9,565,619</u>   |
| Liabilities:                   |                    |
| Current liabilities            | 48,301,696         |
| Noncurrent Liabilities         | <u>114,042,204</u> |
| Total Liabilities              | <u>162,343,900</u> |
| Deferred Inflows of Resources  | <u>9,232,399</u>   |

SOUTH CAROLINA DEPARTMENT OF DISABILITIES AND SPECIAL NEEDS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2015

**Statement of Net Position and Statement of Activities (continued)**

SOUTH CAROLINA DEPARTMENT OF DISABILITIES AND SPECIALS NEEDS  
STATEMENT OF NET POSITION (CONTINUED)

|                                  |                        |
|----------------------------------|------------------------|
| Net Position:                    |                        |
| Net Investment in Capital Assets | \$ 20,185,003          |
| Restricted                       | 15,828,671             |
| Unrestricted                     | <u>(106,370,891)</u>   |
| Total Net Position               | <u>\$ (70,357,217)</u> |

SOUTH CAROLINA DEPARTMENT OF DISABILITIES AND SPECIALS NEEDS  
STATEMENT OF ACTIVITIES

|                                    | <u>2015</u>            |
|------------------------------------|------------------------|
| Program Expenses                   |                        |
| Administration                     | \$ 10,578,826          |
| Prevention                         | 9,866,376              |
| Intellectual Disabilities          | 428,613,197            |
| Autism                             | 39,536,842             |
| Head and Spinal Cord               | 17,497,483             |
| Regional Centers - Residential     | <u>85,993,992</u>      |
| Total Expenses                     | <u>592,086,716</u>     |
| Program Revenues                   |                        |
| Charges for Services               | 370,567,964            |
| Operating Grants and Contributions | 151,375                |
| Capital Grants and Contributions   | <u>127,000</u>         |
| Total Program Revenues             | <u>370,846,339</u>     |
| General Revenues                   |                        |
| State Appropriations               | 217,602,751            |
| Education Improvement Act Funds    | 359,937                |
| Donations                          | 238,183                |
| Investment Income                  | 217,731                |
| Fines                              | 82,061                 |
| Other Revenues                     | <u>380,874</u>         |
| Total General Revenues             | <u>218,881,537</u>     |
| Change in Net Position             | (2,358,840)            |
| Net Position, July 1               | <u>(67,998,377)</u>    |
| Net Position, June 30              | <u>\$ (70,357,217)</u> |

SOUTH CAROLINA DEPARTMENT OF DISABILITIES AND SPECIAL NEEDS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2015

**Statement of Net Position and Statement of Activities (continued)**

Program revenues of the Department are largely dependent upon billable services provided to our consumers and reported by our Provider Network. State dollars are leveraged to earn Medicaid revenue based on these reported services.

The Department received \$217,602,751 in appropriations from the State legislature. These appropriations were expended for employee salaries, related fringe benefits, and other operating expenditures to include services to consumers.

**GOVERNMENTAL FUNDS FINANCIAL ANALYSIS:**

The focus of the Department's governmental funds is to provide information regarding actual inflows and outflows of spendable resources.

**General Fund**

The General Fund is the chief operating fund of the Department. The General Fund's operating revenues are provided through appropriations from the State legislature as well as Medicaid reimbursements and fees for services. Revenues are not budgeted by the Department; therefore, expenditures are typically matched with appropriations so long as expenditures do not exceed budgeted appropriations. This resulted in revenues exceeding expenditures by \$1,182,132 for the fiscal year ended June 30, 2015, which resulted in an ending fund balance of \$7,286,653 for the General Fund.

**Capital Projects Fund**

The Capital Projects Fund accounts for revenues earmarked for the purchase of, improvements to or repairs and maintenance to real property, including the equipment in buildings. Expenditures for these assets are recorded in this fund and subsequently capitalized at cost in the government-wide financial statements if capitalization criteria are met. The Capital Projects Fund expended and capitalized \$2,837,557 on capital outlay out of total expenditures of \$3,289,962. The balance of expenditures was spent on repairs and maintenance. Total revenues received by the Capital Projects Fund were \$2,274,997 which resulted in a decrease in fund balance of \$1,014,965 to \$13,443,787 as of June 30, 2015.

**Non-major Governmental Funds**

The non-major governmental funds include special revenue funds to account for financial activity for grants received from various Federal agencies and work activity programs in which clients perform work for various companies which contract with the Department. Revenues are typically matched to expenditures based on the grant agreements. Total revenues were \$638,312 and total expenditures were \$637,126 resulting in an increase in fund balance of \$1,186.

**Budget Highlights:**

The State's Annual Appropriations Act, its legally adopted budget, does not present budgets by GAAP fund. Instead, it presents program-level budgets for the following two funds:

*General Funds* – These funds are general operating funds. The resources in the funds are primarily taxes. The State expends General Funds to provide traditional State government services.

SOUTH CAROLINA DEPARTMENT OF DISABILITIES AND SPECIAL NEEDS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2015

**GOVERNMENTAL FUNDS FINANCIAL ANALYSIS (continued):**

**Budget Highlights (continued):**

*Total Funds* – The Total Funds column in the Appropriations Act includes all budgeted resources. Amounts in this column include General Funds as well as most, but not all, federal and department-generated resources. Total Funds include portions of certain proprietary and capital project fund activities as well as most special revenue activities, but exclude the pension trust funds and some other fiduciary fund activities.

Amounts obtained by subtracting the General Funds column in the Appropriations Act from the Total Funds column in the Appropriations Act are referred as to *Other Budgeted Funds*.

The Department's budget for J16 General Funds was originally \$202,751,437 for the fiscal year ended June 30, 2015. This compares to a final budgeted amount of \$216,572,272. The primary increase was due to increased appropriations for other operating expenses and services to include General Assembly appropriated pay increases and matching employee benefits, an increase in employer health insurance costs, the Lander Equestrian Center, Savannah's Playground Autism project, and the Charles Lea Adult Day Program Initiative. Actual expenditures, on the budgetary basis, totaled \$216,572,272 (\$1,030,479 was carried forward to FY 2016). These actual expenditures in addition to the carry forward amount were in line with the final budgeted amount.

The Department's budget for J16 Other Budgetary Funds was originally \$429,935,617 for the fiscal year ended June 30, 2015. This compares to a final budgeted amount of \$429,935,617. Actual expenditures, on the budgetary basis, totaled \$371,245,070. The final budgeted amount exceeded actual expenditures by \$58,690,547. This amount is excess authority that has to be earned through leveraging State dollars with Medicaid through services rendered.

**Current Conditions that are Expected to have a Significant Effect on the Department's Financial Position:**

Currently, there are no known conditions that are expected to have a significant effect on the Department's financial position.

This MD&A is designed to provide a general overview of the Department's finances for all of the State's citizens, taxpayers, customers, investors and creditors. This financial report seeks to demonstrate the Department's accountability for the funds it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

South Carolina Department of Disabilities and Special Needs  
3440 Harden Street Extension  
Columbia, South Carolina 29203

**South Carolina Department of Disabilities and Special Needs**  
**Statement of Net Position**  
**June 30, 2015**

|   | <b>Primary Government</b>          |
|---|------------------------------------|
|   | <b>Governmental<br/>Activities</b> |
| <b>CURRENT ASSETS</b>   |                                    |
| Cash and Cash Equivalents   | \$ 60,706,184                      |
| Investments   | 408,336                            |
| Receivables, net  | 10,136,463                         |
| Inventories   | 217,477                            |
| Total Current Assets  | 71,468,460                         |
| <b>NONCURRENT ASSETS</b>  |                                    |
| Non-Depreciable Capital Assets                                    | 1,857,813                          |
| Depreciable Capital Assets, Net                                   | 18,327,190                         |
| Total Noncurrent Assets   | 20,185,003                         |
| <b>DEFERRED OUTFLOWS OF RESOURCES</b>                             |                                    |
| Contributions to Retirement Plan after Measurement Date           | 6,463,007                          |
| Difference Between Expected and Actual Retirement Plan Experience | 3,102,612                          |
| Total Deferred Outflows of Resources                              | 9,565,619                          |
| Total Assets and Deferred Outflows of Resources                   | 101,219,082                        |
| <b>CURRENT LIABILITIES</b>  |                                    |
| Accounts Payable  | 34,806,574                         |
| Accrued Payroll and Employee Benefits                             | 6,786,173                          |
| Due to General Fund of the State                                  | 3,658,370                          |
| Settlements Payable   | 1,964,191                          |
| Compensated Absences, Current                                     | 1,086,388                          |
| Total Current Liabilities   | 48,301,696                         |
| <b>NONCURRENT LIABILITIES</b>                                     |                                    |
| Compensated Absences  | 4,345,553                          |
| Settlements Payable   | 200,251                            |
| Net Pension Liability   | 109,496,400                        |
| Total Noncurrent Liabilities                                      | 114,042,204                        |
| <b>DEFERRED INFLOW OF RESOURCES</b>                               |                                    |
| Difference Between Projected and Actual Investment Earnings       | 9,232,399                          |
| Total Deferred Inflows of Resources                               | 9,232,399                          |
| Total Liabilities and Deferred inflows of Resources               | 171,576,299                        |
| <b>NET POSITION</b>   |                                    |
| Net Investment in Capital Assets                                  | 20,185,003                         |
| Restricted  | 15,828,671                         |
| Unrestricted  | (106,370,891)                      |
| Total Net Position  | \$ (70,357,217)                    |

*The notes to the financial statements are an integral part of these financial statements. See accompanying independent auditor's report.*

**South Carolina Department of Disabilities and Special Needs**  
**Statement of Activities**  
**June 30, 2015**

|                                    | <b>Primary Government</b> |
|------------------------------------|---------------------------|
|                                    | <b>Governmental</b>       |
|                                    | <b>Activities</b>         |
| <b>PROGRAM EXPENSES</b>            |                           |
| Administration                     | \$ 10,578,826             |
| Prevention                         | 9,866,376                 |
| Intellectual Disabilities          | 428,613,197               |
| Autism                             | 39,536,842                |
| Head and Spinal Cord               | 17,497,483                |
| Regional Centers - Residential     | 85,993,992                |
| Total Program Expenses             | <u>592,086,716</u>        |
| <b>PROGRAM REVENUES</b>            |                           |
| Charges for Services               | 370,567,964               |
| Operating Grants and Contributions | 151,375                   |
| Capital Grants and Contributions   | 127,000                   |
| Total Program Revenues             | <u>370,846,339</u>        |
| Net (Expenses)                     | <u>(221,240,377)</u>      |
| <b>GENERAL REVENUES</b>            |                           |
| State Appropriations               | 217,602,751               |
| Education Improvement Act Funds    | 359,937                   |
| Donations                          | 238,183                   |
| Investment Income                  | 217,731                   |
| Fines                              | 82,061                    |
| Other Revenues                     | 380,874                   |
| Total General Revenues             | <u>218,881,537</u>        |
| Change in Net Position             | (2,358,840)               |
| Net Position - Beginning of year   | (67,998,377)              |
| Net Position - End of Year         | <u>\$ (70,357,217)</u>    |

*The notes to the financial statements are an integral part of these financial statements. See accompanying independent auditor's report.*

**South Carolina Department of Disabilities and Special Needs**

**Balance Sheet**

**Governmental Funds**

**June 30, 2015**

|  | General Fund         | Capital Projects<br>Fund | Nonmajor<br>Governmental<br>Funds | Total Governmental   |
|--|----------------------|--------------------------|-----------------------------------|----------------------|
| <b>ASSETS</b>  |                      |                          |                                   |                      |
| Cash and Cash Equivalents  | \$ 49,465,967        | \$ 11,226,159            | \$ 14,058                         | \$ 60,706,184        |
| Investments  | 408,336              | -                        | -                                 | 408,336              |
| Receivables, net   | 9,720,523            | 112,828                  | 303,112                           | 10,136,463           |
| Due from Other Funds   | -                    | 2,200,000                | -                                 | 2,200,000            |
| Inventories  | 217,477              | -                        | -                                 | 217,477              |
| <b>Total Assets</b>  | <b>\$ 59,812,303</b> | <b>\$ 13,538,987</b>     | <b>\$ 317,170</b>                 | <b>\$ 73,668,460</b> |
| <b>LIABILITIES, DEFERRED INFLOWS OF<br/>RESOURCES, AND FUND BALANCES</b>       |                      |                          |                                   |                      |
| Liabilities:   |                      |                          |                                   |                      |
| Accounts Payable   | \$ 34,436,583        | \$ 95,200                | \$ 274,791                        | \$ 34,806,574        |
| Accrued Payroll and Employee Benefits  | 6,744,980            | -                        | 41,193                            | 6,786,173            |
| Due to General Fund of the State   | 3,658,370            | -                        | -                                 | 3,658,370            |
| Due to Other Funds   | 2,200,000            | -                        | -                                 | 2,200,000            |
| Settlements Payable  | 1,964,191            | -                        | -                                 | 1,964,191            |
| <b>Total liabilities</b>   | <b>49,004,124</b>    | <b>95,200</b>            | <b>315,984</b>                    | <b>49,415,308</b>    |
| Deferred Inflows of Resources:   |                      |                          |                                   |                      |
| Unavailable Revenue  | 3,521,526            | -                        | -                                 | 3,521,526            |
| Fund balance:  |                      |                          |                                   |                      |
| Nonspendable   | 217,477              | -                        | -                                 | 217,477              |
| Restricted   | 2,383,698            | 13,443,787               | 1,186                             | 15,828,671           |
| Assigned   | 3,862,510            | -                        | -                                 | 3,862,510            |
| Unassigned   | 822,968              | -                        | -                                 | 822,968              |
| <b>Total fund balances</b>   | <b>7,286,653</b>     | <b>13,443,787</b>        | <b>1,186</b>                      | <b>20,731,626</b>    |
| <b>Total Liabilities, Deferred inflows of<br/>Resources, and Fund Balances</b> | <b>\$ 59,812,303</b> | <b>\$ 13,538,987</b>     | <b>\$ 317,170</b>                 | <b>\$ 73,668,460</b> |

*The notes to the financial statements are an integral part of these financial statements. See accompanying independent auditor's report.*

**South Carolina Department of Disabilities and Special Needs**  
**Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position**  
**June 30, 2015**

Amounts reported for governmental activities in the statement of net position are different because:

|  |    |                            |
|--|----|----------------------------|
| Ending fund balance - governmental funds   | \$ | 20,731,626                 |
| Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the funds.  |    | 20,185,003                 |
| Accounts receivable expected to be received after one year following year end, are not considered available resources are are therefore not recorded in the governmental funds.  |    | 3,521,526                  |
| Differences between expected and actual retirement plan experience are not a current financial resource, therefore the changes are not reported in the governmental funds.   |    | 3,102,612                  |
| Contributions to the retirement plan after the measurement date are deferred outflows on the statement of net position, however this represents a use of current financial resources.  |    | 6,463,007                  |
| Long-term liabilities, including compensated absences and the long-term portion of settlements payable, and net pension liability are not due and payable in the current period and, therefore, are not reported in the funds. |    | (115,128,592)              |
| Deferred inflows from the retirement plan are not a use of current financial resources.  |    | <u>(9,232,399)</u>         |
| Net position of governmental activities  | \$ | <u><u>(70,357,217)</u></u> |

*The notes to the financial statements are an integral part of these financial statements. See accompanying independent auditor's report.*

**South Carolina Department of Disabilities and Special Needs**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended June 30, 2015**

|  | General Fund        | Capital Projects<br>Fund | Nonmajor<br>Governmental<br>Funds | Total<br>Governmental |
|--|---------------------|--------------------------|-----------------------------------|-----------------------|
| <b>REVENUES</b>  |                     |                          |                                   |                       |
| Patient Service Fees                                     | \$ 2,818,578        | \$ 2,200,000             | \$ -                              | \$ 5,018,578          |
| State Appropriations                                     | 217,602,751         | -                        | -                                 | 217,602,751           |
| Medicaid Reimbursements                                  | 367,925,990         | -                        | -                                 | 367,925,990           |
| Investment Income  | 142,734             | 74,997                   | -                                 | 217,731               |
| Federal Grant Revenue                                    | -                   | -                        | 278,375                           | 278,375               |
| Education Improvement Act                                | -                   | -                        | 359,937                           | 359,937               |
| Other Revenues   | 701,118             | -                        | -                                 | 701,118               |
| Total revenues   | <u>589,191,171</u>  | <u>2,274,997</u>         | <u>638,312</u>                    | <u>592,104,480</u>    |
| <b>EXPENDITURES</b>                                      |                     |                          |                                   |                       |
| Current:   |                     |                          |                                   |                       |
| Personnel Services                                       | 84,930,442          | -                        | 359,937                           | 85,290,379            |
| Communication and Other Services                         | 2,136,980           | -                        | -                                 | 2,136,980             |
| Medical and Health Services                              | 483,888,819         | -                        | 133,733                           | 484,022,552           |
| Leases and Rent  | 571,301             | -                        | -                                 | 571,301               |
| Travel   | 97,428              | -                        | -                                 | 97,428                |
| Utilities  | 2,172,422           | -                        | -                                 | 2,172,422             |
| Fees and Fines   | 127,372             | -                        | -                                 | 127,372               |
| Insurance  | 436,086             | -                        | -                                 | 436,086               |
| Contractual Services                                     | 2,563,945           | -                        | -                                 | 2,563,945             |
| Repairs and Maintenance                                  | 1,787,323           | 452,405                  | -                                 | 2,239,728             |
| Supplies   | 5,294,872           | -                        | 16,456                            | 5,311,328             |
| Capital Outlay   | 136,052             | 2,837,557                | 127,000                           | 3,100,609             |
| Other Expenditures                                       | 207,627             | -                        | -                                 | 207,627               |
| Total Expenditures                                       | <u>584,350,669</u>  | <u>3,289,962</u>         | <u>637,126</u>                    | <u>588,277,757</u>    |
| <b>Excess (Deficiency) of Revenues Over Expenditures</b> | <u>4,840,502</u>    | <u>(1,014,965)</u>       | <u>1,186</u>                      | <u>3,826,723</u>      |
| <b>OTHER FINANCING SOURCES (USES)</b>                    |                     |                          |                                   |                       |
| Intermediate Care Fees Remitted to the State             | <u>(3,658,370)</u>  | <u>-</u>                 | <u>-</u>                          | <u>(3,658,370)</u>    |
| Total Other Financing Sources (Uses)                     | <u>(3,658,370)</u>  | <u>-</u>                 | <u>-</u>                          | <u>(3,658,370)</u>    |
| Net Change in Fund Balance                               | 1,182,132           | (1,014,965)              | 1,186                             | 168,353               |
| Fund Balance -- Beginning                                | <u>6,104,521</u>    | <u>14,458,752</u>        | <u>-</u>                          | <u>20,563,273</u>     |
| Fund Balances -- Ending                                  | <u>\$ 7,286,653</u> | <u>\$ 13,443,787</u>     | <u>\$ 1,186</u>                   | <u>\$ 20,731,626</u>  |

*The notes to the financial statements are an integral part of these financial statements. See accompanying independent auditor's report.*

**South Carolina Department of Disabilities and Special Needs**  
**Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance to the Statement of Activities**  
**For the Year Ended June 30, 2015**

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Amounts reported for governmental activities in the statement of activities are different because:

|  |           |                    |
|--|-----------|--------------------|
| Net change in fund balances - total governmental funds   | \$        | 168,353            |
| <p>Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.</p>        |           |                    |
| Expenditures for capital assets  |           | 3,100,609          |
| Less current year depreciation   |           | <u>(2,314,819)</u> |
|  |           | 785,790            |
| Revenues that were recognized in the statement of activities in a prior year were available in the governmental funds in the current year and recognized as revenue.   |           | (2,176,353)        |
| Costs of capital assets, less accumulated depreciation, that are disposed of are reported as expenses in the statement of activities.  |           | (14,139)           |
| Adjustments to compensated absences reported in the statement of activities does not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.                    |           | 289,649            |
| Amortization of the pension plan actuarial deferred inflows does not require the use of current financial resources and, therefore, is not reported as an expenditure in the governmental funds.                               |           | 2,307,128          |
| Amortization of the pension plan actuarial deferred outflows does not require the use of current financial resources and, therefore, is not reported as an expenditure in the governmental funds.                              |           | (959,392)          |
| Pension plan contributions after the measurement date is a use of current resources for the governmental funds. However this is classified as a deferred outflow and therefore is not included in the statement of activities. |           | 6,463,007          |
| The difference between the actuarial deferred outflow and inflows of resources is not a use of current resources, however it is presented as an expense in the statement of activities.  |           | (9,022,632)        |
| Accrual of the long-term portion of settlements payable does not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.  |           | <u>(200,251)</u>   |
| Change in net position of governmental activities  | <u>\$</u> | <u>(2,358,840)</u> |

*The notes to the financial statements are an integral part of these financial statements. See accompanying independent auditor's report.*

**South Carolina Department of Disabilities and Special Needs**  
**Statement of Fiduciary Net Position**  
**Fiduciary Fund**  
**June 30, 2015**

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|                           | <u>Agency</u>       |
|---------------------------|---------------------|
| <b>ASSETS</b>             |                     |
| Cash and Cash Equivalents | \$ 2,446,087        |
| Total Assets              | <u>\$ 2,446,087</u> |
| <br>                      |                     |
| <b>LIABILITIES</b>        |                     |
| Due to Clients            | \$ 2,446,087        |
| Total Liabilities         | <u>\$ 2,446,087</u> |

*The notes to the financial statements are an integral part of these financial statements. See accompanying independent auditor's report.*

South Carolina Department of Disabilities and Special Needs  
Notes to the Financial Statements  
June 30, 2015

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of all funds of the South Carolina Department of Disabilities and Special Needs (the "Department") were prepared in conformity with generally accepted accounting principles ("GAAP") as applied to governmental entities. The Governmental Accounting Standards Board ("GASB") is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. A summary of significant accounting policies follows.

**A. 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 primary government is the State of South Carolina. The State has determined that the Department is a part of the primary government, but is not legally separate.

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 funds and account groups of the Department are included in the Comprehensive Annual Financial Report of the State of South Carolina.

The primary 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 appointment 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. Determine its budget without another government's having the authority to approve and modify that budget.
2. Levy taxes or set rates or charges without approval by another government.
3. Issue 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.

The Department of Disabilities and Special Needs is an agency of the State of South Carolina established pursuant to Section 44-20-10 et seq. of the 1976 Code of Laws of the State of South Carolina, as Amended. The laws of the State and the policies and procedures specified by the State for State agencies are applicable to the activities of the Department.

South Carolina Department of Disabilities and Special Needs  
Notes to the Financial Statements  
June 30, 2015

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**A. Reporting Entity (continued)**

The mission of the Department of Disabilities and Special Needs is to improve services for citizens with mental retardation, autism, head and spinal cord injuries, and related disabilities. The Department advocates for people with mental retardation, autism, head and spinal cord injuries or related disabilities both as groups and as individuals to achieve access to appropriate services from all public agencies in South Carolina. When needed services cannot be achieved through such public agencies, the Department seeks resources to provide such services. The Department coordinates through local service coordination those services provided by other agencies with those provided directly by the Department and county disabilities and special needs boards.

The Commission of the Department of Disabilities and Special Needs, whose seven members are appointed by the Governor with the advice and consent of the Senate, is the governing body of the South Carolina Department of Disabilities and Special Needs. The Commission administers the programs of the Department by setting policy, which is implemented and carried out by the State Director and staff. The accompanying financial statements present the financial position and revenues, expenditures and changes in fund balances solely of the Department of Disabilities and Special Needs and do not include any other agencies, funds or account groups or units of the primary government of the State of South Carolina.

**B. Basis of Presentation**

*Government – Wide Financial Statements*

The government-wide financial statements are prepared on the accrual basis of accounting and include a “Statement of Net Position” which discloses the financial position of the Department; and a “Statement of Activities” which demonstrates the degree to which the direct expenses by function of the Department’s programs are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items not properly included among program revenues are reported instead as general revenues. The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the non-fiduciary activities of the primary government.

*Fund Financial Statements*

The Department uses funds to report its financial position and results of operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

South Carolina Department of Disabilities and Special Needs  
Notes to the Financial Statements  
June 30, 2015

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**B. Basis of Presentation (continued)**

**Governmental Funds**

Governmental funds are those through which most governmental functions typically are financed and are used to account for all or most of a government's general activities, including the collection and disbursement of earmarked monies. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used; current liabilities are assigned to the fund from which they are to be paid; and, the difference between the assets and liabilities is fund balance. Governmental funds include the general, capital projects and nonmajor governmental funds.

The General Fund accounts for State appropriations which are approved by the General Assembly to fund operations of the Department, Medicaid reimbursements, other revenues designated for Departmental operations, and discretionary contributions, as well as expenditures for carrying out the related objectives. Additionally, revenues which arise from collection of Intermediate Care Facilities for the Intellectually Disabled patient day fee, rental property, sale of surplus supplies and equipment and other miscellaneous transactions which are remitted to the General Fund of the State as required by statute are accounted for in the General Fund.

The Capital Projects Fund accounts for revenues earmarked for the purchase of, improvements to or repairs and maintenance to real property, including the initial equipment in new buildings. Expenditures for these assets are recorded in this fund and subsequently capitalized at cost in the government-wide financial statements if capitalization criteria are met.

The nonmajor governmental funds include special revenue funds to account for financial activity for grants received from various Federal agencies and work activity programs in which clients perform work for various companies which contract with the Department.

**Fiduciary Funds**

Fiduciary funds account for resources the Department holds as trustee or agent for individuals. Fiduciary funds include both trust and agency funds. Currently, the Department has only an agency fund.

The Agency Fund is custodial in nature and does not involve measurement of results of operations. Funds received by clients for their care and benefit are recorded in the Agency Fund. Each residential center serves in a fiduciary capacity with respect to receiving and disbursing these funds on behalf of the clients. The fund does not have any revenues or expenditures and therefore, does not have a fund balance. Transactions consist solely of receiving and disbursing funds belonging to clients. The Department is at all times liable to clients for the cash balances held as custodian.

South Carolina Department of Disabilities and Special Needs  
Notes to the Financial Statements  
June 30, 2015

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**C. Basis of Accounting**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Department considers revenues to be available if they are collected within one year of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

**D. Budget Policy**

The Department is granted an annual appropriation for operating purposes by the South Carolina General Assembly. The appropriation as enacted becomes the legal operating budget for the Department. The Appropriation Act authorizes expenditures from funds appropriated from the General Fund of the state and authorizes expenditures of total funds. The "Total Funds" column in the Appropriation Act for each individual budgetary unit authorizes expenditures from all budgeted resources. A revenue budget is not adopted for individual budgetary units. The General Assembly enacts the budget through passage of line-item appropriations by program within budgetary unit within budgetary fund category, state General Fund or other budgeted funds. Budgetary control is maintained at the line-item level of the budgetary entity. Agencies may process disbursement vouchers in the state's budgetary accounting system only if enough cash and appropriation authorization exist.

Transfers of funds may be approved by the State Budget and Control Board under its authority or by the agency as set forth in Appropriation Act Proviso 117.9 as follows: Agencies and institutions shall be authorized to transfer appropriations within programs and within the agency with notification to the Executive Budget Office and Comptroller General. No such transfer may exceed twenty percent of the program budget. Upon request, details of such transfers may be provided to members of the General Assembly on an agency by agency basis.

Transfers of appropriations from personal service accounts to other operating accounts or from other operating accounts to personal service accounts may be restricted to any established standard level set by the Budget and Control Board upon formal approval by a majority of the members of the Budget and Control Board. During the fiscal year-end closeout period in July, agencies may continue to charge vendor, interagency, and interfund payments for the fiscal year to that fiscal year's appropriations. Any unexpended State General Fund monies as of June 30 automatically lapse to the General Fund of the State on July 1 unless authorization is received from the General Assembly to carry over the funds to the ensuing fiscal year.

South Carolina Department of Disabilities and Special Needs  
Notes to the Financial Statements  
June 30, 2015

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**E. Cash and Cash Equivalents**

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

Most State agencies, including the Department, participate in the State's internal cash management pool. Because the cash management pool operates as a demand deposit account, amounts invested in the pool are classified as cash and cash equivalents. The State Treasurer administers the cash management pool. The pool includes some long-term investments such as obligations of the United States and certain agencies of the United States, obligations of the State of South Carolina and certain of its political subdivisions, certificates of deposit, collateralized repurchase agreements, and certain corporate bonds.

The State's internal cash management pool consists of a general deposit account and several special deposit accounts. The State records each fund's equity interest in the general deposit account; however, all earnings on that account are credited to the General Fund of the State. The Department records and reports its deposits in the general deposit account at cost, but it reports its monies in the special deposit accounts at fair value. Investments held by the pool are recorded at fair value. Interest earned by the Department's special deposit accounts is posted to the Department's account at the end of each month and is retained by the Department.

Interest/investment earnings are allocated based on the percentage of the Department's accumulated daily interest receivable to the income receivable of the pool. Realized gains and losses are allocated daily. Unrealized gains and losses are allocated at year-end based on the percentage ownership in the pool. Investment income includes interest and dividend earnings, realized gains/losses, and unrealized gains/losses arising from changes in the fair value of investments.

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.

**F. Investments**

The Department accounts for its investments at fair value in accordance with GASB Codification Section 150, *Investments*. Changes in unrealized gain (loss) on the carrying value of investments are reported as a component of investment income in the statement of activities.

**G. Inventories**

Inventories of food, medical supplies and drugs, and maintenance materials and parts are accounted for using the "purchase" method whereby inventories are recorded as expenditures on acquisition and inventories on hand at year end are reflected at the lower of cost or market value in the assets section of the statement of net position and governmental funds balance sheet.

South Carolina Department of Disabilities and Special Needs  
Notes to the Financial Statements  
June 30, 2015

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**H. Capital Assets**

Capital assets are recorded at cost on the date of acquisition. The Department follows capitalization guidelines established by the State. All land is capitalized, regardless of cost. The Department capitalizes movable personal property with a unit value in excess of \$5,000 and a useful life in excess of two years. Routine repairs and maintenance are charged to operating expenses in the year in which the expense was incurred. Depreciation is computed using the straight-line method over the estimated useful lives of the assets as summarized below:

| Asset Category                      | Capitalization              | Useful Life |
|-------------------------------------|-----------------------------|-------------|
| Land                                | All, regardless of cost     | Indefinite  |
| Non-depreciable land improvements   | All, regardless of cost     | Indefinite  |
| Depreciable land improvements       | Cost greater than \$100,000 | 30          |
| Buildings and building improvements | Cost greater than \$100,000 | 30          |
| Vehicles, equipment, and furniture  | Cost greater than \$5,000   | 5-12        |

**I. Compensated Absences**

Generally, all permanent full-time employees and certain part-time employees scheduled to work at least one-half of the agency's work week are entitled to accrue and carry forward at calendar year-end maximums of 180 days sick leave and 45 days annual vacation leave. Upon termination of State employment, employees are entitled to be paid for accumulated unused annual vacation leave up to the maximum, but are not entitled to any payment for unused sick leave. The compensated absences liability includes accrued annual leave earned for which the employees are entitled to paid time off or payment at termination. The Department calculates the gross compensated absences liability based on recorded balances of unused leave. The entire unpaid liability for which the employer expects to compensate employees through paid time off or cash payments, inventoried at fiscal year-end current salary costs and the cost of the salary-related benefit payments, is recorded as a liability.

**J. Deferred Inflows and Outflows of Resources**

A deferred outflow or inflow of resources is a consumption or acquisition of net position that is applicable to a future reporting period. The Department has recorded deferred outflows of resources for retirement plan experience and contributions subsequent to net pension liability measurement date related to its retirement plans. The Department has recorded deferred inflows of resources for investment experience related to its retirement plans. See the "Implementation of Recently Issued Accounting Pronouncements" section of this note for more information on the net pension liability.

The Department has also recorded deferred inflows of resources in its governmental funds balance sheets for revenue that is not considered available under the terms of its revenue recognition policy discussed previously in this note.

South Carolina Department of Disabilities and Special Needs  
Notes to the Financial Statements  
June 30, 2015

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**K. Net Position**

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* was effective for the Department for the year ended June 30, 2013. However, the Department implemented the standard in the year ended June 30, 2015, the first year it was required to do so as the Department had not previously issued financial statements. The statement incorporated deferred inflows and outflows as required components of the residual measure of the government and renaming that measure as net position, rather than net assets.

The following categories of net position are now being used in the Statement of Net Position:

*Net investment in capital assets*

The net investment in capital assets component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

*Restricted net position*

Restricted net position consists of assets with constraints placed on the use either by external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or law through constitutional provisions or enabling legislation. As of June 30, 2015, approximately \$15.8 million of restricted net position was restricted by legislation. In all cases, if individual restricted net position categories are negative, the negative balance is eliminated and reclassified against unrestricted net position.

*Unrestricted net position*

The unrestricted component of net position is the net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

The Department's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

**L. Fund Balance**

The following categories of fund balance are used in the fund level financial statements of the governmental funds:

*Nonspendable fund balance*

The nonspendable fund balance classification includes amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash, for example, inventories and prepaid amounts.

South Carolina Department of Disabilities and Special Needs  
Notes to the Financial Statements  
June 30, 2015

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**L. Fund Balance (continued)**

*Restricted fund balance*

The restricted fund balance classification includes amounts that are either restricted externally by creditors, grantors, contributors, or laws or regulations of other governments or restricted by law through constitutional provisions or enabling legislation.

*Committed fund balance*

The committed fund balance classification includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Department's highest level of decision-making authority, which is the Department's Board of Commissioners. The Board of Commissioners would have to pass a formal resolution to commit fund balance. Those committed amounts cannot be used for any other purpose unless the Department removes or changes the specified use by taking the same type of action it employed to previously commit those amounts. Committed fund balances also incorporate contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements. The Department recognizes committed fund balances that have been approved for specific purposes by the Department's Board of Commissioners before the fiscal year end. The Department did not have any committed fund balance at June 30, 2015.

*Assigned fund balance*

The assigned fund balance classification includes amounts that are constrained by the Department's intent to be used for specific purposes but are not restricted or committed. The authority for making an assignment is not required to be the Department's highest level of decision-making authority and as such, the nature of the actions necessary to remove or modify an assignment does not require the Department's highest level of authority. The Department's Director can choose to assign fund balance for a specific purpose. Assigned fund balance amounts in the Department's financial statements represent amounts approved by the Department's Director to be transferred and spent after year end.

*Unassigned fund balance*

The unassigned fund balance classification includes amounts that have not been assigned to other funds and has not been restricted, committed, or assigned for specific purposes within the general fund.

Based on the Department's policies regarding fund balance classifications as noted above, the Department considers amounts that are restricted, committed, or assigned to be spent when the corresponding expenditure that has been designated by the Department's Board of Commissioners or donors has been made. After these fund balances have been depleted, unassigned fund balance will be considered to have been spent.

South Carolina Department of Disabilities and Special Needs  
Notes to the Financial Statements  
June 30, 2015

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**M. Indirect Costs Recoveries**

The Department's indirect cost recoveries are calculated based on fixed rates negotiated annually. The Department records indirect cost recoveries paid under federal grants as revenues in the appropriate special revenue fund. The Department records indirect cost recoveries paid under non-federal grants and through Medicaid fees as revenues in the General Fund. Indirect cost recoveries must be remitted to the State General Fund except those received under research grants which may be retained by the Department. Federal grants and contracts whose annual award is two hundred thousand dollars or less are exempted from the requirement to remit recoveries to the State General Fund.

**N. Pensions**

In government-wide financial statements, pensions are required to be recognized and disclosed using the accrual basis of accounting (see note 9 and the required supplementary information immediately following the notes to the financial statements for more information), regardless of the amount recognized as pension expenditures on the modified accrual basis of accounting. The Department recognizes a net pension liability for each qualified pension plan in which it participates, which represents the Department's proportionate share of the excess of the total pension liability over the fiduciary net position of the qualified pension plan, measured as of the Department's fiscal year-end. Changes in the net pension liability during the period are recorded as pension expense, or as deferred outflows or inflows of resources depending on the nature of the change, in the period incurred. Those changes in net pension liability that are recorded as deferred outflows or inflows of resources that arise from changes in actuarial assumptions or other inputs and differences between expected or actual experience are amortized over the weighted average remaining service life of all participants in the respective qualified pension plan and recorded as a component of pension expense beginning with the period in which they are incurred. Projected earnings on qualified pension plan investments are recognized as a component of pension expense. Differences between projected and actual investment earnings are reported as deferred outflows or inflows of resources and amortized as a component of pension expense on a closed basis over a five-year period beginning with the period in which the difference occurred.

**O. Other Postemployment Benefits**

Other Postemployment Benefits ("OPEB") cost for retiree healthcare and similar, non-pension retiree benefits, is required to be measured and disclosed using the accrual basis of accounting, regardless of the amount recognized as OPEB expense on the modified accrual basis of accounting. Annual OPEB cost is equal to the annual required contributions to the OPEB Plan, calculated in accordance with GAAP.

**P. Interfund Receivables and Payables**

The Department's General Fund recorded amounts payable to the Capital Projects Fund in the amount of \$2,200,000 as of June 30, 2015. These amounts relate to revenues earned by the Department but are required to be deposited for future use on capital related projects.

South Carolina Department of Disabilities and Special Needs  
Notes to the Financial Statements  
June 30, 2015

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Q. Implementation of Recently Issued Accounting Pronouncements**

The Department implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27* (“GASB No. 68”) and GASB Statement No. 71, *Pension Transition for Contributions made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68* (“GASB No. 71”) in the year ended June 30, 2015 and has adjusted its beginning net position for its implementation accordingly.

The primary objective of GASB No. 68 is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. GASB No. 68 establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit pensions, it identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

The objective of GASB No. 71 is to address an issue regarding application of the transition provisions of GASB No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government’s beginning net pension liability. GASB No. 71 requires that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. The provisions of GASB No. 71 are required to be applied simultaneously with the provisions of GASB No. 68.

**R. Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenditures and affect disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

**NOTE 2. STATE APPROPRIATIONS**

The Department is granted an annual appropriation for operating purposes as authorized by the General Assembly of the State of South Carolina. State appropriations are recognized as revenue when received and available. Amounts that are not expended by fiscal year-end are required to be returned to the General Fund of the State unless the Department receives authorization from the General Assembly to carry the funds over to the next year.

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**NOTE 3. DEPOSITS AND INVESTMENTS**

Substantially all deposits and investments of the Department are under control of the State Treasurer who, by law, has sole authority for investing State funds.

*DEPOSITS:*

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.

*OTHER DEPOSITS:*

Funds not on deposit with the State Treasurer as of June 30, 2015 are Agency Funds with a carrying amount of \$289,927 and a bank balance of \$292,961. These funds are fully insured or collateralized with securities held by the Department's agent in the Department's name.

*INVESTMENTS:*

The accounts classified as "Investments" in the General Fund are comprised of donated corporate stocks held by the State Treasurer in the Department's name and mutual funds, which are held by the State Treasurer. Investments are carried at fair value.

Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty, the Pool will not be able to recover the value of the investments or collateral securities that are in the possession of an outside party. At June 30, 2015, all of the Department's investments were insured and registered.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. This risk is managed within the portfolio using effective duration. Effective duration is a measure of the price sensitivity of a bond or a portfolio of bonds to interest rate movements given a 50 basis point change in interest rates. It takes into account that expected cash flows will fluctuate as interest rates change and provides a measure of risk that changes proportionately with market rates. None of the Departments investments are exposed to interest rate risk as there is not a maturity on the stocks and mutual funds.

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the Pool. The investment policy for credit quality of debt securities states that securities must bear an investment grade rating from at least two of the national rating agencies. Credit quality of cash reserves must carry a rating of A1/P1/F1 or D1 from at least one nationally recognized rating services. In the event that the rating of a security falls below investment grade, that security may continue to be held contingent upon an evaluation of the longer term investment merits of the security. Credit risk ratings are not required for obligations of the U.S. government or those obligations explicitly guaranteed by the U.S. government.

Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. At June 30, 2015, the Department did not have any investments denominated in foreign currencies.

South Carolina Department of Disabilities and Special Needs  
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**NOTE 3. DEPOSITS AND INVESTMENTS (continued)**

*INVESTMENTS (continued):*

The Department's investments other than mutual funds are categorized to give an indication of the level of risk assumed by the entity at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the entity or its agent in the Department's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the Department's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer or by its trust department or agent but not in the Department's name. The Department has investments in Category 1.

| <u>Investment Type</u>              | <u>Fair Value</u>        | <u>Credit Rating</u> |
|-------------------------------------|--------------------------|----------------------|
| <b>Stocks:</b>                      |                          |                      |
| Louisiana - Pacific Corporation     | \$ 6,982                 | Ba2                  |
| Bank of America Corporation         | 49,562                   | Baa1                 |
| Plum Creek Timber Company           | <u>11,116</u>            | Baa2                 |
| Total Stocks                        | <u>67,660</u>            |                      |
| <b>Mutual Funds:</b>                |                          |                      |
| Franklin U.S. Government Securities | 109,016                  | A1                   |
| Massachusetts Investor Trust        | <u>231,660</u>           | Aa2                  |
| Total Mutual Funds                  | <u>340,676</u>           |                      |
| <b>Total Investments</b>            | <u><u>\$ 408,336</u></u> |                      |

**NOTE 4. RECEIVABLES**

An analysis of significant receivables is as follows:

|  |                             |
|--|-----------------------------|
| Patient Receivables                      | \$ 5,163,162                |
| Other State Agencies                     | 10,691,834                  |
| Payments from County Disabilities Boards | 274,246                     |
| Other Receivables                        | 370,383                     |
| Allowance for Doubtful Accounts          | <u>(6,363,162)</u>          |
|  | <u><u>\$ 10,136,463</u></u> |

The Department's significant amount of receivables from other State agencies is due primarily from the Department of Health and Human Services ("DHHS") under various memorandums of agreement and fee reimbursement agreements. The allowance for doubtful accounts is primarily related to receivables from patients and other State Agencies the Department has determined that will likely not be collected.

South Carolina Department of Disabilities and Special Needs  
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June 30, 2015

**NOTE 4. RECEIVABLES (continued)**

In accordance with the Department's revenue recognition policy as outlined in Note 1, the receivables presented on the governmental funds balance sheet are available to meet the current financial obligations which assume collection in less than one year. Of the amounts presented above, \$3,521,526 of receivables from DHHS are estimated to not be collected in one year and therefore considered unavailable revenue in the governmental funds balance sheet. Allowances for doubtful accounts are based on historical analysis. See further details on receivables from other State agencies at Note 16.

**NOTE 5. INVENTORIES**

Inventories at June 30, 2015 consist of the following:

|                         |                   |
|-------------------------|-------------------|
| Food Inventories        | \$ 53,776         |
| Medical Inventories     | 55,477            |
| Maintenance Inventories | <u>108,224</u>    |
|                         | <u>\$ 217,477</u> |

**NOTE 6. CAPITAL ASSETS**

|   | Beginning<br>Balance<br>July 1, 2014 | Additions          | Disposals          | Transfers        | Ending<br>Balance<br>June 30, 2015 |
|---|--------------------------------------|--------------------|--------------------|------------------|------------------------------------|
| <b>Governmental activities:</b>                 |                                      |                    |                    |                  |                                    |
| Capital assets not being depreciated:           |                                      |                    |                    |                  |                                    |
| Land  | \$ 1,557,040                         | \$ -               | \$ -               | \$ -             | \$ 1,557,040                       |
| Construction in progress                        | <u>1,144,518</u>                     | <u>127,423</u>     | <u>-</u>           | <u>(971,168)</u> | <u>300,773</u>                     |
| Total capital assets not being depreciated:     | <u>2,701,558</u>                     | <u>127,423</u>     | <u>-</u>           | <u>(971,168)</u> | <u>1,857,813</u>                   |
| Capital assets being depreciated:               |                                      |                    |                    |                  |                                    |
| Land and building improvements                  | 100,574,299                          | 2,589,042          | (260,051)          | 971,168          | 103,874,458                        |
| Vehicles  | 2,753,093                            | 232,291            | (154,644)          | -                | 2,830,740                          |
| Equipment                                       | <u>7,235,389</u>                     | <u>151,853</u>     | <u>(139,140)</u>   | <u>-</u>         | <u>7,248,102</u>                   |
| Total capital assets being depreciated          | <u>110,562,781</u>                   | <u>2,973,186</u>   | <u>(553,835)</u>   | <u>971,168</u>   | <u>113,953,300</u>                 |
| Less accumulated depreciation for:              |                                      |                    |                    |                  |                                    |
| Land and building improvements                  | (85,202,399)                         | (1,994,135)        | 249,954            | -                | (86,946,580)                       |
| Vehicles  | (2,670,924)                          | (32,059)           | 154,644            | -                | (2,548,339)                        |
| Equipment                                       | <u>(5,977,664)</u>                   | <u>(288,625)</u>   | <u>135,098</u>     | <u>-</u>         | <u>(6,131,191)</u>                 |
| Total accumulated depreciation                  | <u>(93,850,987)</u>                  | <u>(2,314,819)</u> | <u>539,696</u>     | <u>-</u>         | <u>(95,626,110)</u>                |
| Total capital assets being depreciated, net     | <u>16,711,794</u>                    | <u>658,367</u>     | <u>(14,139)</u>    | <u>971,168</u>   | <u>18,327,190</u>                  |
| Capital assets for governmental activities, net | <u>\$ 19,413,352</u>                 | <u>\$ 785,790</u>  | <u>\$ (14,139)</u> | <u>\$ -</u>      | <u>\$ 20,185,003</u>               |

South Carolina Department of Disabilities and Special Needs  
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**NOTE 6. CAPITAL ASSETS (continued)**

Depreciation expense for the year ended June 30, 2015, was \$2,314,819. Depreciation expense was allocated among the program expenses as follows:

|                           |    |           |
|---------------------------|----|-----------|
| Administration            | \$ | 74,221    |
| Intellectual Disabilities |    | 2,162,342 |
| Autism                    |    | 11,516    |
| Regional Centers          |    | 66,740    |
| Total                     | \$ | 2,314,819 |

As of June 30, 2015 the Department has commitments of approximately \$125,000 with certain property owners, engineering firms, construction contractors, and vendors.

**NOTE 7. ACCOUNTS PAYABLE**

An analysis of significant accounts payables is as follows:

|   |    |            |
|---|----|------------|
| Payables to County Disabilities Boards and Other<br>Nonprofit Organizations | \$ | 26,500,819 |
| Medical and Health Services Payables  |    | 7,352,039  |
| Vendor Payables for Nonmedical Products and Services                        |    | 628,294    |
| Other State Agencies  |    | 325,422    |
|   | \$ | 34,806,574 |

**NOTE 8. AMOUNTS DUE TO GENERAL FUND OF THE STATE**

The amount due to the General Fund of the State from the General Fund at June 30, 2015 of \$3,658,370 represents primarily nursing home bed fees required to be remitted by Code of Laws Section 40-20-355. The nursing home bed fees were remitted in August 2015.

**NOTE 9. PENSION PLANS**

The South Carolina Public Employee Benefit Authority (“PEBA”), which was created July 1, 2012, administers the various retirement systems and retirement programs managed by its Retirement Division. PEBA has an 11-member Board of Directors, appointed by the Governor and General Assembly leadership, which serves as co-trustee and co-fiduciary of the systems and the trust funds. By law, the Budget and Control Board (restructured into the Department of Administration on July 1, 2015), which consists of five elected officials, also reviews certain PEBA Board decisions regarding the funding of the South Carolina Retirement Systems (“Systems”) and serves as a co-trustee of the Systems in conducting that review.

PEBA issues a Comprehensive Annual Financial Report (“CAFR”) containing financial statements and required supplementary information for the Systems' Pension Trust Funds. The CAFR is publicly available through the Retirement Benefits' link on PEBA's website at [www.peba.sc.gov](http://www.peba.sc.gov), or a copy may be obtained by submitting a request to PEBA, PO Box 11960, Columbia, SC 29211-1960. PEBA is considered a division of the primary government of the state of South Carolina and therefore, retirement trust fund financial information is also included in the comprehensive annual financial report of the state.

South Carolina Department of Disabilities and Special Needs  
Notes to the Financial Statements  
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**NOTE 9. PENSION PLANS (continued)**

**Plan Descriptions**

- The South Carolina Retirement System (“SCRS”), a cost-sharing multiple-employer defined benefit pension plan, was established effective July 1, 1945, pursuant to the provisions of Section 9-1-20 of the South Carolina Code of Laws for the purpose of providing retirement allowances and other benefits for employees of the state, its public school districts, and political subdivisions.
- The State Optional Retirement Program (“State ORP”) is a defined contribution plan that is offered as an alternative to certain newly hired state, public school, and higher education employees. State ORP participants direct the investment of their funds into a plan administered by one of four investment providers.
- The South Carolina Police Officers Retirement System (“PORS”), a cost-sharing multiple-employer defined benefit pension plan, was established effective July 1, 1962, pursuant to the provisions of Section 9-11-20 of the South Carolina Code of Laws for the purpose of providing retirement allowances and other benefits for police officers and firemen of the state and its political subdivisions.

*Membership*

Membership requirements are prescribed in Title 9 of the South Carolina Code of Laws. A brief summary of the requirements under each system is presented below.

- SCRS - Generally, all employees of covered employers are required to participate in and contribute to the system as a condition of employment. This plan covers general employees and teachers and individuals newly elected to the South Carolina General Assembly beginning with the November 2012 general election. An employee member of the system with an effective date of membership prior to July 1, 2012, is a Class Two member. An employee member of the system with an effective date of membership on or after July 1, 2012, is a Class Three member.
- State ORP - As an alternative to membership in SCRS, newly hired state, public school, and higher education employees and individuals newly elected to the S.C. General Assembly beginning with the November 2012 general election have the option to participate in the State ORP, which is a defined contribution plan. State ORP participants direct the investment of their funds into a plan administered by one of four investment providers. PEBA assumes no liability for State ORP benefits. Rather, the benefits are the liability of the investment providers. For this reason, State ORP programs are not considered part of the retirement systems for financial statement purposes. Employee and Employer contributions to the State ORP are at the same rates as SCRS. A direct remittance is required from the employers to the member's account with investment providers for the employee contribution (8 percent) and a portion of the employer contribution (5 percent). A direct remittance is also required by SCRS for the remaining portion of the employer contribution (5.75 percent) and an incidental death benefit contribution (.15 percent), if applicable, which is retained by SCRS.

South Carolina Department of Disabilities and Special Needs  
Notes to the Financial Statements  
June 30, 2015

**NOTE 9. PENSION PLANS (continued)**

**Plan Descriptions (continued)**

*Membership (continued)*

- PORS - To be eligible for PORS membership, an employee must be required by the terms of his employment, by election or appointment, to preserve public order, protect life and property, and detect crimes in the state; to prevent and control property destruction by fire; or to serve as a peace officer employed by the Department of Corrections, the Department of Juvenile Justice, or the Department of Mental Health. Probate judges and coroners may elect membership in PORS. Magistrates are required to participate in PORS for service as a magistrate. PORS members, other than magistrates and probate judges, must also earn at least \$2,000 per year and devote at least 1,600 hours per year to this work, unless exempted by statute. An employee member of the system with an effective date of membership prior to July 1, 2012, is a Class Two member. An employee member of the system with an effective date of membership on or after July 1, 2012, is a Class Three member.

*Benefits*

Benefit terms are prescribed in Title 9 of the South Carolina Code of Laws. PEBA does not have the authority to establish or amend benefit terms without a legislative change in the code of laws. Key elements of the benefit calculation include the benefit multiplier, years of service, and average final compensation. A brief summary of the benefit terms for each system is presented below.

- SCRS - A Class Two member who has separated from service with at least five or more years of earned service is eligible for a monthly pension at age 65 or with 28 years credited service regardless of age. A member may elect early retirement with reduced pension benefits payable at age 55 with 25 years of service credit. A Class Three member who has separated from service with at least eight or more years of earned service is eligible for a monthly pension upon satisfying the Rule of 90 requirement that the total of the member's age and the member's creditable service equals at least 90 years. Both Class Two and Class Three members are eligible to receive a reduced deferred annuity at age 60 if they satisfy the five- or eight-year earned service requirement, respectively. An incidental death benefit is also available to beneficiaries of active and retired members of employers who participate in the death benefit program.

The annual retirement allowance of eligible retirees or their surviving annuitants is increased by the lesser of one percent or five hundred dollars every July 1. Only those annuitants in receipt of a benefit on July 1 of the preceding year are eligible to receive the increase. Members who retire under the early retirement provisions at age 55 with 25 years of service are not eligible for the benefit adjustment until the second July 1 after reaching age 60 or the second July 1 after the date they would have had 28 years of service credit had they not retired.

- PORS - A Class Two member who has separated from service with at least five or more years of earned service is eligible for a monthly pension at age 55 or with 25 years of service regardless of age. A Class Three member who has separated from service with at least eight or more years of earned service is eligible for a monthly pension at age 55 or with 27 years of service regardless of age. Both Class Two and Class Three members are eligible to receive a deferred annuity at age 55 with five or eight years of earned service, respectively. An incidental death benefit is also available to beneficiaries of active and retired members of employers who participate in the death benefit program. Accidental death benefits are also provided upon the death of an active member working for a covered employer whose death was a natural and proximate result of an injury incurred while in the performance of duty.

South Carolina Department of Disabilities and Special Needs  
Notes to the Financial Statements  
June 30, 2015

**NOTE 9. PENSION PLANS (continued)**

**Plan Descriptions (continued)**

*Benefits (continued)*

The retirement allowance of eligible retirees or their surviving annuitants is increased by the lesser of one percent or five hundred dollars every July 1. Only those annuitants in receipt of a benefit on July 1 of the preceding year are eligible to receive the increase.

*Contributions*

Contributions are prescribed in Title 9 of the South Carolina Code of Laws. The PEBA Board may increase the SCRS and PORS employer and employee contribution rates on the basis of the actuarial valuations, but any such increase may not result in a differential between the employee and employer contribution rate that exceeds 2.9 percent of earnable compensation for SCRS and 5 percent for PORS. An increase in the contribution rates adopted by the board may not provide for an increase of more than one-half of one percent in any one year. If the scheduled employee and employer contributions provided in statute or the rates last adopted by the board are insufficient to maintain a thirty year amortization schedule of the unfunded liabilities of the plans, the board shall increase the contribution rates in equal percentage amounts for the employer and employee as necessary to maintain the thirty-year amortization period; and, this increase is not limited to one-half of one percent per year.

Required employee contribution rates for fiscal year 2014-2015 are as follows:

**SCRS**

|                      |                                |
|----------------------|--------------------------------|
| Employee Class Two   | 8.00% of earnable compensation |
| Employee Class Three | 8.00% of earnable compensation |

**State ORP Employee**

8.00% of earnable compensation

**PORS**

|                      |                                |
|----------------------|--------------------------------|
| Employee Class Two   | 8.41% of earnable compensation |
| Employee Class Three | 8.41% of earnable compensation |

Required employer contribution rates for fiscal year 2014-2015 are as follows:

**SCRS**

|                                   |                                 |
|-----------------------------------|---------------------------------|
| Employer Class Two                | 10.75% of earnable compensation |
| Employer Class Three              | 10.75% of earnable compensation |
| Employer Incidental Death Benefit | 0.15% of earnable compensation  |

**State ORP Employee**

|                                   |  |
|-----------------------------------|--|
| Employer Contribution             | 10.75% of earnable compensation <sup>1</sup> |
| Employer Incidental Death Benefit | 0.15% of earnable compensation               |

South Carolina Department of Disabilities and Special Needs  
Notes to the Financial Statements  
June 30, 2015

**NOTE 9. PENSION PLANS (continued)**

**Plan Descriptions (continued)**

*Contributions (continued)*

|   |                                 |
|---|---------------------------------|
| <b>PORS</b>   |                                 |
| Employer Class Two  | 13.01% of earnable compensation |
| Employer Class Three  | 13.01% of earnable compensation |
| Employer Incidental Death Benefit   | 0.20% of earnable compensation  |
| Employer Accidental Death Program   | 0.20% of earnable compensation  |
| <p><sup>1</sup> Of this employer contribution of 10.75% of earnable compensation, 5% of earnable compensation must be remitted by the employer directly to the ORP vendor to be allocated to the member's account with the remainder of the employer contribution remitted to SCRS.</p> |                                 |

**Actuarial Assumptions and Methods**

Actuarial valuations involve estimates of the reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and future salary increases. Amounts determined during the valuation process are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. South Carolina state statute requires that an actuarial experience study be completed at least once in each five-year period. The last experience study was performed on data through June 30, 2010, and the next experience study is scheduled to be conducted after the June 30, 2015 annual valuation is complete.

The most recent annual actuarial valuation reports adopted by the PEBA Board are as of July 1, 2013. The net pension liability of each defined benefit pension plan was therefore determined by the consulting actuary, Gabriel, Roeder, Smith and Company ("GRS"), based on the July 1, 2013 actuarial valuations, using membership data as of July 1, 2013, projected forward to the end of the fiscal year, and financial information of the pension trust funds as of June 30, 2014, using generally accepted actuarial procedures. Information included in the following schedules is based on the certification provided by GRS.

The following provides a summary of the actuarial assumptions and methods used in the July 1, 2013, valuations for SCRS and PORS.

|                            | <u>SCRS</u>           | <u>PORS</u>           |
|----------------------------|-----------------------|-----------------------|
| Actuarial cost method      | Entry age             | Entry age             |
| Actuarial assumptions:     |                       |                       |
| Investment rate of return  | 7.5%                  | 7.5%                  |
| Projected salary increases | levels off at 3.5%    | levels off at 4.0%    |
| Includes inflation at      | 2.75%                 | 2.75%                 |
| Benefit adjustments        | lesser of 1% or \$500 | lesser of 1% or \$500 |

The post-retiree mortality assumption is dependent upon the member's job category and gender. This assumption includes base rates which are automatically adjusted for future improvement in mortality using published Scale AA projected from the year 2000.

South Carolina Department of Disabilities and Special Needs  
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**NOTE 9. PENSION PLANS (continued)**

**Actuarial Assumptions and Methods (continued)**

| Former Job Class   | Males   | Females  |
|--|---|--|
| Educators and Judges   | RP-2000 Males (with White Collar adjustment) multiplied by 110% | RP-2000 Females (with White Collar adjustment) multiplied by 95% |
| General Employees and Members of the General Assembly                        | RP-2000 Males multiplied by 100%                                | RP-2000 Females multiplied by 90%                                |
| Public Safety, Firefighters and members of the South Carolina National Guard | RP-2000 Males (with Blue Collar adjustment) multiplied by 115%  | RP-2000 Females (with Blue Collar adjustment) multiplied by 115% |

**Net Pension Liability**

The net pension liability (NPL) is calculated separately for each system and represents that particular system's total pension liability determined in accordance with GASB Statement No. 67 less that System's fiduciary net position. As of June 30, 2014, the Department's proportional share of the NPL amounts for SCRS and PORS are presented below:

| System | Proportional Share of Net<br>Pension Liability |
|--------|--|
| SCRS   | \$ 109,462,821                                 |
| PORS   | \$ 33,579                                      |

The total pension liability is calculated by the Systems' actuary, and each plan's fiduciary net position is reported in the Systems' financial statements. The Department's proportionate share of the net pension liability was calculated on the basis of historical employer contributions. Although GASB 68 encourages the use of the employer's projected long-term contribution effort to the retirement plan, allocating on the basis of historical employer contributions is considered acceptable. For the year ending June 30, 2014, the Department's percentage of the SCRS and PORS net pension liability were 0.635795% and 0.00175%, respectively.

*Discount Rate*

The discount rate used to measure the total pension liability was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers in SCRS and PORS will be made based on the actuarially determined rates based on provisions in the South Carolina State Code of Laws. Based on those assumptions, each System's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

South Carolina Department of Disabilities and Special Needs  
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**NOTE 9. PENSION PLANS (continued)**

**Net Pension Liability (continued)**

*Long-term Expected Rate of Return*

The long-term expected rate of return on pension plan investments for actuarial purposes is based upon the 30 year capital market outlook at the end of the third quarter 2012. The actuarial long-term expected rates of return represent best estimates of arithmetic real rates of return for each major asset class and were developed in coordination with the investment consultant for the Retirement System Investment Commission (“RSIC”) using a building block approach, reflecting observable inflation and interest rate information available in the fixed income markets as well as Consensus Economic forecasts. The actuarial long-term assumptions for other asset classes are based on historical results, current market characteristics and professional judgment.

The RSIC has exclusive authority to invest and manage the retirement trust funds' assets. As co-fiduciary of the Systems, statutory provisions and governance policies allow the RSIC to operate in a manner consistent with a long-term investment time horizon. The expected real rates of investment return, along with the expected inflation rate, form the basis for the target asset allocation adopted annually by the RSIC. For actuarial purposes, the long-term expected rate of return is calculated by weighting the expected future real rates of return by the target allocation percentage and then adding the actuarial expected inflation which is summarized in the table on the following page. For actuarial purposes, the 7.50 percent assumed annual investment rate of return used in the calculation of the total pension liability includes a 4.75 percent real rate of return and a 2.75 percent inflation component.

| Asset Class                             | Target Asset Allocation | Expected Arithmetic Real Rate of Return | Long Term Expected Portfolio Real Rate of Return |
|---|-------------------------|---|--|
| <b>Short Term</b>                       | <b>5.0%</b>             |   |  |
| Cash                                    | 2.0                     | 0.3%                                    | 0.01%  |
| Short Duration                          | 3.0                     | 0.6                                     | 0.02   |
| <b>Domestic Fixed Income</b>            | <b>13.0</b>             |   |  |
| Core Fixed Income                       | 7.0                     | 1.1                                     | 0.08   |
| High Yield                              | 2.0                     | 3.5                                     | 0.07   |
| Bank Loans                              | 4.0                     | 2.8                                     | 0.11   |
| <b>Global Fixed Income</b>              | <b>9.0</b>              |   |  |
| Global Fixed Income                     | 3.0                     | 0.8                                     | 0.02   |
| Emerging Markets Debt                   | 6.0                     | 4.1                                     | 0.25   |
| <b>Global Public Equity</b>             | <b>31.0</b>             | <b>7.8</b>                              | <b>2.42</b>                                      |
| <b>Global Tactical Asset Allocation</b> | <b>10.0</b>             | <b>5.1</b>                              | <b>0.51</b>                                      |
| <b>Alternatives</b>                     | <b>32.0</b>             |   |  |
| Hedge Funds (Low Beta)                  | 8.0                     | 4.0                                     | 0.32   |
| Private Debt                            | 7.0                     | 10.2                                    | 0.71   |
| Private Equity                          | 9.0                     | 10.2                                    | 0.92   |
| Real Estate (Broad Market)              | 5.0                     | 5.9                                     | 0.29   |
| Commodities                             | 3.0                     | 5.1                                     | 0.15   |
| Total Expected Real Return              | 100.0%                  |   | 5.88   |
| Inflation for Actuarial Purposes        |                         |   | 2.75   |
| Total Expected Nominal Return           |                         |   | 8.63%  |

South Carolina Department of Disabilities and Special Needs  
Notes to the Financial Statements  
June 30, 2015

**NOTE 9. PENSION PLANS (continued)**

**Net Pension Liability (continued)**

*Sensitivity Analysis*

The following table presents the collective net pension liability of the participating employers calculated using the discount rate of 7.50 percent, as well as what the employers' net pension liability would be if it were calculated using a discount rate that is 1.00 percent lower (6.50 percent) or 1.00 percent higher (8.50 percent) than the current rate.

| <b>Sensitivity of the Proportional Share of Net Pension Liability to Changes in the Discount Rate</b> |                               |                                      |                               |
|---|-------------------------------|--------------------------------------|-------------------------------|
| <b>System</b>   | <b>1.00% Decrease (6.50%)</b> | <b>Current Discount Rate (7.50%)</b> | <b>1.00% Increase (8.50%)</b> |
| SCRS  | \$ 141,651,663                | \$ 109,462,821                       | \$ 82,608,093                 |
| PORS  | 46,926                        | 33,579                               | 22,536                        |

*Deferred Outflows (Inflows) of Resources*

For the year ended June 30, 2015, the Department recognized pension expense of approximately \$7,675,000. At June 30, 2015, the Department reported deferred outflows (inflows) of resources related to pensions from the following sources:

|   | SCRS                                 |                                     | PORS                                 |                                     |
|---|--------------------------------------|-------------------------------------|--------------------------------------|-------------------------------------|
|   | Deferred<br>Outflows of<br>Resources | Deferred<br>Inflows of<br>Resources | Deferred<br>Outflows of<br>Resources | Deferred<br>Inflows of<br>Resources |
| Pension contributions subsequent to measurement date                      | \$6,460,093                          | \$ -                                | \$ 2,914                             | \$ -                                |
| Differences in actual and expected experience                             | 3,101,716                            | -                                   | 896                                  | -                                   |
| Net differences between projected and actual earnings on plan investments | -                                    | 9,228,514                           | -                                    | 3,885                               |
|   | \$9,561,809                          | \$ 9,228,514                        | \$ 3,810                             | \$ 3,885                            |

The Department reported \$6,463,007 as deferred outflows of resources related to contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows (inflows) of resources will be recognized in pension expense in future years. The following schedule reflects the amortization of the Department's proportional share of the net balance of remaining deferred outflows (inflows) of resources at June 30, 2015. Average remaining service lives of all employees provided with pensions through the pension plans at June 30, 2014 was 4.233 years for SCRS and 4.856 years for PORS.

| Measurement Period                           | Fiscal Year Ending | SCRS |             | PORS |         |
|--|--------------------|------|-------------|------|---------|
| Ending June 30,                              | June 30,           |      |             |      |         |
| 2015   | 2016               | \$   | (1,347,736) | \$   | (739)   |
| 2016   | 2017               |      | (1,347,736) |      | (739)   |
| 2017   | 2018               |      | (1,347,736) |      | (739)   |
| 2018   | 2019               |      | (2,083,590) |      | (772)   |
| Net Balance of Deferred Inflows of Resources |                    | \$   | (6,126,798) | \$   | (2,989) |

**NOTE 10. POST RETIREMENT AND OTHER EMPLOYEE BENEFITS**

*Plan Description*

In accordance with the South Carolina Code of Laws and the annual Appropriations Act, the State provides post-employment health and dental and long-term disability benefits to retired State and school district employees and their covered dependents. The Department contributes to the South Carolina Retiree Health Insurance Trust Fund (“SCRHITF”) and the South Carolina Long-Term Disability Insurance Trust Fund (“SCLTDITF”), cost-sharing multiple employer defined benefit postemployment healthcare and long-term disability plans administered by the Insurance Benefits Division of PEBA.

Generally, retirees are eligible for the health and dental benefits if they have established at least ten years of retirement service credit. For new hires beginning employment May 2, 2008 and after, retirees are eligible for benefits if they have established 25 years of service for 100% employer funding and 15 through 24 years of service for 50% employer funding. Benefits become effective when the former employee retires under a State retirement system. Basic Long-Term Disability (“BLTD”) benefits are provided to active state, public school district, and participating local government employees approved for disability.

*Funding Policies*

Section 1-11-710 of the South Carolina Code of Laws of 1976, as amended, requires these postemployment and long-term disability benefits be funded through annual appropriations by the General Assembly for active employees to the Insurance Benefits Division and participating retirees to the PEBA, except for the portion funded through the pension surcharge and provided from the other applicable sources of the Insurance Benefits Division, for its active employees who are not funded by State General Fund appropriations. Employers are mandated by State statute to contribute at a rate assessed each year by the Office of the State Budget, 5.00% of annual covered payroll for 2015 and 4.92% of annual covered payroll for 2014. The Insurance Benefits Division sets the employer contribution rate based on a pay-as-you-go basis. The Department paid approximately \$2,935,000 and \$2,799,000 to the trust fund for the fiscal years ended June 30, 2015 and 2014, respectively. BLTD benefits are funded through a person’s premium charged to State agencies, public school districts, and other participating local governments. The monthly premium per active employee paid to Insurance Benefits Division was \$3.22 for the fiscal years ended June 30, 2015 and 2014.

Effective May 1, 2008 the State established two trust funds through Act 195 for the purpose of funding and accounting for the employer costs of retiree health and dental insurance benefits and long-term disability insurance benefits. The SCRHITF is primarily funded through the payroll surcharge. Other sources of funding include additional State appropriated dollars, accumulated IB reserves, and income generated from investments. The SCLTDITF is primarily funded through investment income and employer contributions.

A copy of the separately issued financial statements for the benefit plans and the trust funds may be obtained by writing to the South Carolina Public Employee Benefit Authority – Insurance Benefits Division, P.O. Box 11960, Columbia, South Carolina 29211-1960.

South Carolina Department of Disabilities and Special Needs  
Notes to the Financial Statements  
June 30, 2015

**NOTE 11. CHANGES IN GENERAL LONG-TERM OBLIGATIONS**

Long-term liabilities consist of compensated absences and settlements payable. Compensated absence and settlements payable activity for the fiscal year ended June 30, 2015, was as follows:

|                      | Beginning<br>Balance<br>June 30, 2014 | Increases           | Decreases             | Ending<br>Balance<br>June 30, 2015 | Current<br>Portion  |
|----------------------|---------------------------------------|---------------------|-----------------------|------------------------------------|---------------------|
| Compensated absences | \$ 5,721,590                          | \$ 5,431,941        | \$ (5,721,590)        | \$ 5,431,941                       | \$ 1,086,388        |
| Settlements payable  | -                                     | 2,164,442           | -                     | 2,164,442                          | 1,964,191           |
| Total                | <u>\$ 5,721,590</u>                   | <u>\$ 7,596,383</u> | <u>\$ (5,721,590)</u> | <u>\$ 7,596,383</u>                | <u>\$ 3,050,579</u> |

See Note 14 for further details on the settlements payable.

**NOTE 12. DEFERRED COMPENSATION PLANS**

Several optional deferred compensation plans are available to State employees. The multiple-employer plans, created under Internal Revenue Code Sections 457, 401(k), and 403(b), are administered by third parties and are not included in the Department's financial statements. Compensation deferred under the plans is placed in trust for the contributing employee. The Department has no liability for losses under the plans. Employees may withdraw the current value of their contributions when they terminate State employment. Employees may also withdraw contributions prior to termination if they meet requirements specified by the applicable plan. The Department made no contributions for the fiscal year ended June 30, 2015.

**NOTE 13. OPERATING LEASES**

Lease payments for real property during the year ended June 30, 2015 were approximately \$32,000. Lease payments for equipment, including contingent rental payments, were approximately \$259,000. The Department also leases State owned vehicles and incurred approximately \$311,000 of expense related to vehicle use. There are no future obligations with a remaining term in excess of one year.

**NOTE 14. CONTINGENCIES AND SETTLEMENTS PAYABLE**

The Department is involved in a number of legal proceedings and claims with various parties arising in the normal course of business. These proceedings and claims cover a wide range of matters including personal injury, medical malpractice, and negligence. In some of these cases, the remedies that may be sought or damages claimed are substantial. Because, in the opinion of management and counsel, the risk of material loss in excess of insurance coverage for these events is remote, the outcome of the legal proceedings and claims is not expected to have a material adverse effect on the financial position of the Department. Therefore, an estimated liability has not been recorded. The outcome of any litigation has an element of uncertainty.

During the year ended June 30, 2015 two settlements were reached by the Department. The first related to miscalculations in establishing room and board charges to consumers residing in HUD financed properties. Providers were instructed to repay consumers for overcharges related to fiscal years 2013 and 2014 and the Department's Commission agreed to share in these reimbursements at a rate up to 50%. The Department's 50% share amounted to \$764,914. This amount will be paid over fiscal years 2016, 2017, and 2018 in the amount of \$564,663, \$147,797, and \$52,454, respectively.

South Carolina Department of Disabilities and Special Needs  
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June 30, 2015

**NOTE 14. CONTINGENCIES AND SETTLEMENTS PAYABLE (continued)**

The second settlement was the result of an audit performed during fiscal year 2015 by the Office of Inspector General of the United States Department of Health and Human Services over the Department's fiscal year 2010 Medicaid waiver cost report. The audit was performed as a follow-up to the 2007 through 2009 fiscal year audit that covered the allocation of administrative cost to unallowable room and board cost. The 2015 audit disallowed \$1,599,525 claimed in the Department's costs reports. The Department's share of the disallowed costs is \$1,399,528. The Department expects to pay this amount during fiscal year 2016.

**NOTE 15. FUND BALANCE CLASSIFICATIONS**

|                             | Nonspendable      | Restricted           | Assigned            | Total                |
|-----------------------------|-------------------|----------------------|---------------------|----------------------|
| General Fund                | \$ 217,477        | \$ 2,383,698         | \$ 3,862,510        | \$ 6,463,685         |
| Capital Projects Fund       | —                 | 13,443,787           | —                   | 13,443,787           |
| Nonmajor Governmental Funds | —                 | 1,186                | —                   | 1,186                |
| Total                       | <u>\$ 217,477</u> | <u>\$ 15,828,671</u> | <u>\$ 3,862,510</u> | <u>\$ 19,908,658</u> |

**Nonspendable**

This portion of fund balance is not available for expenditure because it is either in a form that cannot be spent, such as inventories, or is legally or contractually required to be maintained intact.

**Restricted**

*General Fund*

The General Fund receives contributions for its Regional Centers. These contributions are restricted to use at the Regional Center that received the donation.

Additionally, the Department holds fund balances related to donations restricted to support the operations, maintenance, and facilities of the Whitten Center. These amounts are restricted due to the terms of the donation.

*Capital Projects Fund*

Proviso 36.2 of the 2014-2015 Appropriations Act authorizes the Department to retain proceeds from the sale of excess real property in the capital projects fund and to use the funds for the purchase of land and the construction of community residences.

The Department receives approval at various intervals to use excess debt service funds from client fees revenues for capital projects. The funds when collected remain in the debt service fund until they are transferred by the State Treasurer to excess debt service reserve account when capital projects are approved. Funds are transferred by the State Treasurer from the excess debt service reserve account to specific capital project accounts when needed to meet expenditures incurred. The amount of excess debt service funds transferred from the debt service fund to excess debt service reserve in the capital projects fund during the year ended June 30, 2015 was approximately \$3,344,000.

*Nonmajor Governmental Funds*

The Department receives funds from various Federal and State sources that are restricted as to use of those funds as provided for under the grant or funding agreement.

South Carolina Department of Disabilities and Special Needs  
Notes to the Financial Statements  
June 30, 2015

**NOTE 15. FUND BALANCE CLASSIFICATIONS (continued)**

**Assigned**

*General Fund*

The amount of assigned fund balance in the general fund is assigned by the Department primarily for the acquisition and construction of capital assets. These amounts have not been formally restricted or committed for this purpose; however, the Department's director has assigned the funds future use.

**NOTE 16. TRANSACTIONS WITH STATE ENTITIES**

The Department has significant transactions with the State of South Carolina and various State agencies. As required by Section 44-20-355 of the 1976 Code of Laws of South Carolina, as Amended, the Department collected a \$8.50 per day Patient Day Fee from all State Intermediate Care Facilities for the Mentally Retarded and remitted the fees to the General Fund of the State. The amount collected and remitted in the fiscal year end June 30, 2015 was \$3,658,370.

The Department also has significant transactions with the South Carolina Department of Health and Human Services ("HHS"). Under various memorandums of agreement ("MOA"), HHS reimburses the Department for services provided by the Department or to reimburse administrative costs incurred during the year. At June 30, 2015, \$9,739,252 was due from HHS under the MOAs and approximately \$3.5 million of the amount due related to current year transactions with HHS.

The Department had an additional approximate \$1,352,000 of accounts receivable due from other State agencies. These receivables were related to services provided by the Department, Department expenditures that were reimbursable from other State agencies, or insurance related claims.

Services received at no cost from State agencies include maintenance of certain accounting records and payroll and disbursement processing from the Comptroller General; check preparation, banking, and investment functions from the State Treasurer; legal services from the Attorney General; and records storage from the Department of Archives and History. Other services received at no cost from the various divisions of the South Carolina State Public Employee Benefit Authority include retirement plan administration and insurance plans administration.

The Department had financial transactions with various other State agencies during the fiscal year. Significant payments were made to divisions of the South Carolina State Public Employee Benefit Authority for retirement and insurance plans contributions. Payments were made to the South Carolina Budget and Control Board for telephone services, interagency mail and supplies. Significant payments were also made for unemployment and worker's compensation coverage for employees. The amounts of 2015 expenditures applicable to related party transactions were approximately \$67,500,000.

The Department provided no significant services to any other State agencies during the fiscal year ended June 30, 2015.

South Carolina Department of Disabilities and Special Needs  
Notes to the Financial Statements  
June 30, 2015

**NOTE 17. RISK MANAGEMENT**

The Department is exposed to various risks of loss and maintains State or commercial insurance coverage for certain of those risks. Management believes such coverage is sufficient to preclude any significant uninsured losses for the covered risks. There were no significant reductions in insurance coverage from coverage in the prior year.

Settled claims have not exceeded this coverage in any of the past three years. The Department pays insurance premiums to certain other State agencies and commercial insurers to cover risks that may occur in normal operations.

The insurers promise to pay to or on behalf of the insured for covered economic losses sustained during the policy period in accord with insurance policy and benefit program limits except for the deductibles.

State management believes it is more economical to manage certain risks internally and to set aside assets for claim settlement. Several State funds accumulate assets and the State itself assumes substantially all risks for the following:

1. Claims of State employees for unemployment compensation benefits (Department of Employment and Workforce);
2. Claims of covered employees for workers' compensation benefits for job-related illnesses or injuries (State Accident Fund);
3. Claims of covered public employees for health and dental insurance benefits (Public Employee Benefit Authority); and
4. Claims of covered public employees for long-term disability and group-life insurance benefits (Public Employee Benefit Authority).

Employees elect health coverage through either a health maintenance organization or through the State's self-insured plan. All of the other coverages listed above are through the applicable State self-insurance plan except dependent and optional life premiums which are remitted to commercial carriers.

The Department and other entities pay premiums to the State's Insurance Reserve Fund ("IRF") which issues policies, accumulates assets to cover the risks of loss, and pays claims incurred for covered losses related to the following assets, activities, and/or events:

1. Theft of, damage to, or destruction of assets;
2. Real property, its contents, and other equipment;
3. Motor vehicles;
4. Torts;
5. Natural disasters; and
6. Medical malpractice claims against covered hospitals and employees.

The IRF is a self-insurer and purchases reinsurance to obtain certain services and specialized coverage and to limit losses in the areas of property, boiler and machinery, automobile liability, and medical professional liability insurance. The IRF's rates are determined actuarially.

The Department self-insures for collision damage to Department owned vehicles because it estimates the cost of repairs will be less than the cost of insurance. No material payments for collision damage to Department owned vehicles were made in the fiscal year ended June 30, 2015.

South Carolina Department of Disabilities and Special Needs  
Notes to the Financial Statements  
June 30, 2015

**NOTE 17. RISK MANAGEMENT (continued)**

The Department obtains up to \$200,000 per occurrence coverage through a commercial insurer for employee fidelity bond insurance for all employees for losses arising from theft or misappropriation. The Department self-insures above this amount because it feels the likelihood of loss is remote. No payments for uninsured losses were made during the fiscal year ended June 30, 2015.

The Department has recorded insurance premium expenditures in the applicable programmatic expenditure.

**SOUTH CAROLINA DEPARTMENT OF DISABILITIES AND SPECIAL NEEDS  
REQUIRED SUPPLEMENTARY INFORMATION -  
BUDGETARY COMPARISON SCHEDULE – BUDGETARY GENERAL FUNDS  
(NON-GAAP BUDGETARY BASIS – UNAUDITED)  
FOR THE YEAR ENDED JUNE 30, 2015**

|   | Budgeted Amounts |              | Actual     | Variance            |
|---|------------------|--------------|------------|---------------------|
|   | Original Budget  | Final Budget |            | Positive (Negative) |
| <b>Administration</b>                             |                  |              |            |                     |
| Commissioner                                      | \$ 155,000       | \$ 155,000   | \$ 155,000 | \$ -                |
| Classified Positions                              | 3,679,729        | 3,712,989    | 3,712,989  | -                   |
| Other Personal Services                           | 20,000           | 198,435      | 198,435    | -                   |
| Special Item - Waiting List                       | 13,293,825       | -            | -          | -                   |
| <b>Program and Services</b>                       |                  |              |            |                     |
| <b>Prevention Program</b>                         |                  |              |            |                     |
| Special Item - Greenwood Genetic Center           | 2,934,300        | 2,934,300    | 2,934,300  | -                   |
| <b>Intellectual Disabilities - Family Support</b> |                  |              |            |                     |
| <b>Children's Services</b>                        |                  |              |            |                     |
| Classified Positions                              | 116,542          | 119,546      | 119,546    | -                   |
| Other Operating Expenses                          | 2,935,037        | 3,204,454    | 3,204,454  | -                   |
| Special Item - BabyNet                            | 3,725,000        | 3,725,000    | 3,725,000  | -                   |
| <b>In-Home Family Support</b>                     |                  |              |            |                     |
| Classified Positions                              | 128,120          | 199,246      | 199,246    | -                   |
| Other Operating Expenses                          | 24,882,226       | 20,687,190   | 20,687,190 | -                   |
| <b>Adult Development and Support</b>              |                  |              |            |                     |
| Classified Positions                              | 40,286           | 44,632       | 44,632     | -                   |
| Other Operating Expenses                          | 15,139,344       | 22,445,237   | 22,445,237 | -                   |
| <b>Service Coordination</b>                       |                  |              |            |                     |
| Classified Positions                              | 325,749          | 218,713      | 218,713    | -                   |
| Other Operating Expenses                          | 6,239,098        | 5,180,626    | 5,180,626  | -                   |
| Case Services                                     | 2,000            | -            | -          | -                   |
| <b>Autism Family Support</b>                      |                  |              |            |                     |
| <b>Autism Family Support Services</b>             |                  |              |            |                     |
| Classified Positions                              | 509,706          | 522,616      | 522,616    | -                   |
| Other Personal Services                           | 200              | 10,522       | 10,522     | -                   |
| Other Operating Expenses                          | 3,272,233        | 2,812,997    | 2,812,997  | -                   |
| <b>Pervasive Development Disorder</b>             |                  |              |            |                     |
| Classified Positions                              | 90,000           | 84,494       | 84,494     | -                   |
| Other Operating Expenses                          | 6,885,000        | 7,099,785    | 7,099,785  | -                   |
| <b>Head and Spinal Cord Injury</b>                |                  |              |            |                     |
| Classified Positions                              | 158,990          | 164,577      | 164,577    | -                   |
| Other Operating Expenses                          | 5,784,000        | 6,691,275    | 6,691,275  | -                   |
| Other Personal Services                           | -                | 2,617        | 2,617      | -                   |
| Case Services                                     | 12,000           | -            | -          | -                   |
| <b>Intellectual Disabilities Residential</b>      |                  |              |            |                     |
| Classified Positions                              | 1,829,977        | 2,176,612    | 2,176,612  | -                   |
| Other Personal Services                           | 50,000           | 140,027      | 140,027    | -                   |
| Other Operating Expenses                          | 46,507,981       | 69,100,559   | 69,100,559 | -                   |
| Case Services                                     | 900,800          | 549,200      | 549,200    | -                   |

**SOUTH CAROLINA DEPARTMENT OF DISABILITIES AND SPECIAL NEEDS  
REQUIRED SUPPLEMENTARY INFORMATION -  
BUDGETARY COMPARISON SCHEDULE – BUDGETARY GENERAL FUNDS (CONTINUED)  
(NON-GAAP BUDGETARY BASIS – UNAUDITED)  
FOR THE YEAR ENDED JUNE 30, 2015**

|   |                       |                       |                       |             |
|---|-----------------------|-----------------------|-----------------------|-------------|
| Autism Community Residential Program    |                       |                       |                       |             |
| Classified Positions                    | 1,209,713             | 1,148,749             | 1,148,749             | -           |
| Other Personal Services                 | 166,312               | 277,714               | 277,714               | -           |
| Other Operating Expenses                | 3,927,592             | 3,479,918             | 3,479,918             | -           |
| Head and Spinal Cord Injury Residential |                       |                       |                       |             |
| Other Operating Expenses                | 958,763               | 940,024               | 940,024               | -           |
| Regional Center Residential Program     |                       |                       |                       |             |
| Classified Positions                    | 34,109,291            | 31,594,399            | 31,594,399            | -           |
| Other Personal Services                 | 1,836,989             | 6,308,560             | 6,308,560             | -           |
| Lander University - Autism Services     |                       |                       |                       |             |
| Other Operating Services                | -                     | 300,000               | 300,000               | -           |
| Autism Services                         | -                     | 1,150,000             | 1,150,000             | -           |
| Special Needs Park                      | -                     | 200,000               | 200,000               | -           |
| Charles Lea Center                      | -                     | 100,000               | 100,000               | -           |
| Employee Benefits                       |                       |                       |                       |             |
| Employer Contributions                  | 20,925,634            | 18,892,259            | 18,892,259            | -           |
| Total Expenditures                      | <u>\$ 202,751,437</u> | <u>\$ 216,572,272</u> | <u>\$ 216,572,272</u> | <u>\$ -</u> |

**SOUTH CAROLINA DEPARTMENT OF DISABILITIES AND SPECIAL NEEDS  
REQUIRED SUPPLEMENTARY INFORMATION -  
BUDGETARY COMPARISON SCHEDULE – OTHER BUDGETED FUNDS  
(NON-GAAP BUDGETARY BASIS – UNAUDITED)  
FOR THE YEAR ENDED JUNE 30, 2015**

|  | Budgeted Amounts |              | Actual      | Variance            |
|--|------------------|--------------|-------------|---------------------|
|  | Original Budget  | Final Budget |             | Positive (Negative) |
| Administration                             |                  |              |             |                     |
| Classified Positions                       | \$ 166,137       | \$ 271,961   | \$ 271,961  | \$ -                |
| Other Personal Services                    | 137,637          | 137,637      | 66,927      | 70,710              |
| Other Operating Expenses                   | 2,781,871        | 2,677,157    | 1,802,885   | 874,272             |
| Program and Services                       |                  |              |             |                     |
| Prevention Program                         |                  |              |             |                     |
| Other Operating Expenses                   | 257,098          | 257,098      | 198,000     | 59,098              |
| Special Item - Greenwood Genetic Center    | 6,534,076        | 6,534,076    | 6,534,076   | -                   |
| Intellectual Disabilities - Family Support |                  |              |             |                     |
| Children's Services                        |                  |              |             |                     |
| Other Operating Expenses                   | 11,805,226       | 11,550,142   | 8,768,787   | 2,781,355           |
| Special Item - BabyNet                     | 5,587,500        | 5,587,500    | 5,587,500   | -                   |
| In-Home Family Support                     |                  |              |             |                     |
| Classified Positions                       | -                | 41,603       | 41,603      | -                   |
| Other Operating Expenses                   | 32,843,261       | 18,311,342   | 17,410,293  | 901,049             |
| Case Services                              | 10,000           | 10,000       | -           | 10,000              |
| Adult Development and Support              |                  |              |             |                     |
| Other Operating Expenses                   | 49,215,777       | 65,543,484   | 53,600,430  | 11,943,054          |
| Service Coordination                       |                  |              |             |                     |
| Classified Positions                       | -                | 27,417       | 27,417      | -                   |
| Other Operating Expenses                   | 16,090,763       | 17,090,916   | 11,304,998  | 5,785,918           |
| Case Services                              | 50,000           | 50,000       | 8,100       | 41,900              |
| Autism Family Support                      |                  |              |             |                     |
| Autism Family Support Services             |                  |              |             |                     |
| Other Operating Expenses                   | 8,921,170        | 8,304,070    | 4,438,001   | 3,866,069           |
| Case Services                              | 17,000           | 17,000       | -           | 17,000              |
| Pervasive Development Disorder             |                  |              |             |                     |
| Other Operating Expenses                   | 3,300,000        | 3,300,000    | 1,394,191   | 1,905,809           |
| Head and Spinal Cord Injury                |                  |              |             |                     |
| Classified Positions                       | -                | 79,467       | 72,605      | 6,862               |
| Other Operating Expenses                   | 15,799,720       | 16,804,016   | 7,675,690   | 9,128,326           |
| Intellectual Disabilities Residential      |                  |              |             |                     |
| Classified Positions                       | 184,516          | 180,475      | 162,018     | 18,457              |
| Other Personal Services                    | 160,000          | 160,000      | 72,487      | 87,513              |
| Other Operating Expenses                   | 200,076,532      | 193,867,176  | 184,224,312 | 9,642,864           |
| Case Services                              | 13,962,263       | 16,399,830   | 16,338,908  | 60,922              |
| Autism Community Residential Program       |                  |              |             |                     |
| Classified Positions                       | 174,611          | 174,611      | 144,214     | 30,397              |
| Other Personal Services                    | 133,384          | 133,384      | 11,650      | 121,734             |
| Other Operating Expenses                   | 17,892,592       | 18,199,198   | 16,124,790  | 2,074,408           |
| Case Services                              | 33,025           | 28,624       | 22,188      | 6,436               |

**SOUTH CAROLINA DEPARTMENT OF DISABILITIES AND SPECIAL NEEDS  
REQUIRED SUPPLEMENTARY INFORMATION -  
BUDGETARY COMPARISON SCHEDULE – OTHER BUDGETED FUNDS (CONTINUED)  
(NON-GAAP BUDGETARY BASIS – UNAUDITED)  
FOR THE YEAR ENDED JUNE 30, 2015**

|   |                       |                       |                       |                      |
|---|-----------------------|-----------------------|-----------------------|----------------------|
| Head and Spinal Cord Injury Residential |                       |                       |                       |                      |
| Other Operating Expenses                | 2,081,769             | 2,706,769             | 1,878,137             | 828,632              |
| Regional Center Residential Program     |                       |                       |                       |                      |
| Classified Positions                    | 13,973,747            | 13,723,477            | 11,344,118            | 2,379,359            |
| Other Personal Services                 | 2,621,784             | 2,621,784             | 1,058,358             | 1,563,426            |
| Other Operating Expenses                | 17,873,449            | 17,909,801            | 14,429,168            | 3,480,633            |
| Case Services                           | 441,222               | 426,115               | 360,561               | 65,554               |
| Employee Benefits                       |                       |                       |                       |                      |
| Employer Contributions                  | 6,809,487             | 6,809,487             | 5,870,697             | 938,790              |
| Total Expenditures                      | <u>\$ 429,935,617</u> | <u>\$ 429,935,617</u> | <u>\$ 371,245,070</u> | <u>\$ 58,690,547</u> |

**SOUTH CAROLINA DEPARTMENT OF DISABILITIES AND SPECIAL NEEDS  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION -  
BUDGETARY COMPARISON SCHEDULES  
FOR THE YEAR ENDED JUNE 30, 2015**

**1. Budgetary Funds**

South Carolina's Annual Appropriation Act, the State's legally adopted budget, does not present budgets by GAAP fund. Instead, it presents program-level budgets for the following two funds:

*General Funds* – These funds are general operating funds. The resources in the funds are primarily taxes. The State expends General Funds to provide traditional State government services.

*Total Funds* – The Total Funds column in the Appropriations Act includes all budgeted resources. Amounts in this column include General Funds as well as most, but not all, federal and department-generated resources. Total funds include portions of certain proprietary and capital project fund activities as well as most special revenue activities but exclude the pension trust funds and some other fiduciary fund activities.

Amounts presented as *Other Budgeted Funds* are obtained by subtracting the General Funds column in the Appropriations Act from the Total Funds columns. Revenue is not presented in the budgetary schedule because it is budgeted at the Statewide level.

As operating conditions change, the Department may transfer appropriations between programs and classifications within programs. However, limits are placed on increasing/decreasing authorizations for personal services without Budget and Control Board approval. Also, a revision of budgeted amounts over and above the total revenues appropriated requires approval of the Budget and Control Board.

Substantially all the funds appropriated by the State and other budgeted funds are included within the General Fund for financial statement presentation under GAAP.

**2. Original and Final Budgeted Amounts; Basis of Presentation**

The original appropriations presented in the accompanying schedule for the General Funds include amounts in the Appropriations Act as well as any appropriation reductions specifically authorized by law to prevent duplicate appropriations. The terminology, classification, and format of the appropriations section of the accompanying schedules are substantively the same as the legally adopted budget. The State allows the Department to transfer its appropriated funds to restricted accounts to allow for the opportunity for interest to be earned on these appropriated amounts. However, expenditures have been presented in accordance with the classifications provided for in the legally adopted budget.

The State's General Assembly does not approve estimated revenue or fund balance amounts for Other Budgeted Funds which include the Department's General Fund. However, Section 115 (*Recapitulations*) of the Appropriation Act includes net source of funds amounts (i.e. estimated cash brought forward from the previous fiscal year plus estimated revenue for the current fiscal year minus estimated cash to be carried forward to the following fiscal year) for three categories of Other Budgeted Funds: Federal, Earmarked, and Restricted. A budget versus actual comparison for the Department's General Funds and Other Budgeted Funds are presented as supplementary information.

**SOUTH CAROLINA DEPARTMENT OF DISABILITIES AND SPECIAL NEEDS  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION -  
BUDGETARY COMPARISON SCHEDULES  
FOR THE YEAR ENDED JUNE 30, 2015**

**3. Legal Level of Budgetary Control**

The Department maintains budgetary control at the level of summary objective category of expenditure within each program of each department or agency which is the level of detail presented in the accompanying schedules.

**4. Basis of Budgeting**

Current legislation states that the General Assembly intends to appropriate all monies to operate State government for the current fiscal year. Unexpended appropriations lapse on July 31 unless the department or agency is given specific authorization to carry them forward to the next fiscal year. Cash-basis accounting for payroll expenditures is used, while the accrual basis is used for other expenditures.

State law does not precisely define the State's budgetary basis of budgeting. In practice, however, it is the cash basis with the following exceptions:

- Departments and agencies shall charge certain vendor and interfund payments against the preceding fiscal year's appropriations through July 13.
- All revenues are recorded only when the State receives the related cash with the exception of certain tax amounts, such as motor fuel taxes and gas taxes, which are not received by the Department's General Fund.

**5. Budget to GAAP Reporting Differences**

Budgetary accounting principles differ significantly from GAAP accounting principles. Basis differences arise because the basis of budgeting differs from the GAAP basis used to prepare the statement of revenues, expenditures, and changes in fund balance. The differences between the budgetary comparison schedules for the General Funds and Other Budgeted Funds as compared to the Statement of Revenues, Expenditures, and Changes in Fund Balance are related to the modified accrual basis of accounting which include accounts receivable and accounts payable as revenues and expenditures in the current year while the budgetary basis would include those amounts in the year that payments were actually received or paid. A reconciliation of the budgetary basis expenditures to the GAAP basis expenditures is below.

**SOUTH CAROLINA DEPARTMENT OF DISABILITIES AND SPECIAL NEEDS  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION -  
BUDGETARY COMPARISON SCHEDULES  
FOR THE YEAR ENDED JUNE 30, 2015**

**5. Budget to GAAP Reporting Differences (continued)**

Reconciliation of Budget Basis to GAAP Basis Expenditures  
For the Year Ended June 30, 2015

|   | General Fund          | Other Budgeted<br>Funds | Total                 |
|---|-----------------------|-------------------------|-----------------------|
| Total expenditures, budgetary basis   | \$ 216,572,272        | \$ 371,245,070          | \$ 587,817,342        |
| Perspective difference:   |                       |                         |                       |
| Other budgeted funds attributable<br>to the General Fund for GAAP                                       | 371,245,070           | (371,245,070)           | —                     |
| Basis of accounting differences:  |                       |                         |                       |
| Change in accrued salaries  | (185,326)             | —                       | (185,326)             |
| Change in accounts payable  | 62,339                | —                       | 62,339                |
| Administrative fees on<br>reimbursement are considered<br>an expenditure for GAAP but<br>not for budget | 560,000               |                         | 560,000               |
| Intermediate care fees remitted not<br>considered an expenditure for<br>GAAP                            | (3,658,370)           | —                       | (3,658,370)           |
| Other basis differences   | (245,316)             | —                       | (245,316)             |
| Total expenditures, GAAP basis  | <u>\$ 584,350,669</u> | <u>\$ —</u>             | <u>\$ 584,350,669</u> |

**SOUTH CAROLINA DEPARTMENT OF DISABILITIES AND SPECIAL NEEDS  
 REQUIRED SUPPLEMENTARY INFORMATION -  
 SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET  
 PENSION LIABILITY – SOUTH CAROLINA RETIREMENT SYSTEM  
 AS OF JUNE 30, 2015  
 LAST TWO FISCAL YEARS**

|   | <u>2015</u>    | <u>2014</u>    |
|---|----------------|----------------|
| Department's proportion of the net pension liability  | 0.635795%      | 0.635795%      |
| Department's proportionate share of the net pension liability   | \$ 109,462,821 | \$ 114,038,943 |
| Department's covered – employee payroll   | \$ 58,036,747  | \$ 57,944,213  |
| <br>  |                |                |
| Department's proportionate share of the net pension liability as percentage of covered-employee payroll | 188.6%         | 196.8%         |
| <br>  |                |                |
| Plan fiduciary net position as a percentage of the total pension liability                              | 59.9%          | 56.4%          |

Note: The amounts presented above were determined as of June 30<sup>th</sup> of the preceding year. The Department implemented GASB #68 and GASB #71 during the year ended June 30, 2015. Information prior to 2014 is not available.

**SOUTH CAROLINA DEPARTMENT OF DISABILITIES AND SPECIAL NEEDS  
REQUIRED SUPPLEMENTARY INFORMATION -  
SCHEDULE OF CONTRIBUTIONS – SOUTH CAROLINA RETIREMENT SYSTEM  
AS OF JUNE 30, 2015  
LAST THREE FISCAL YEARS**

|   | <u>2015</u>       | <u>2014</u>       | <u>2013</u>       |
|---|-------------------|-------------------|-------------------|
| Contractually required contribution                                     | \$ 6,460,093      | \$ 6,118,522      | \$ 6,142,087      |
| Contributions in relation to the<br>contractually required contribution | <u>6,460,093</u>  | <u>6,118,522</u>  | <u>6,142,087</u>  |
| Contribution deficiency (excess)  | <u>\$ -</u>       | <u>\$ -</u>       | <u>\$ -</u>       |
| <br>Department covered-employee payroll                                 | <br>\$ 59,266,908 | <br>\$ 57,721,905 | <br>\$ 57,944,213 |
| Contributions as a percentage of<br>covered-employee payroll            | 10.90%            | 10.60%            | 10.60%            |

**SOUTH CAROLINA DEPARTMENT OF DISABILITIES AND SPECIAL NEEDS  
 REQUIRED SUPPLEMENTARY INFORMATION -  
 SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET  
 PENSION LIABILITY – POLICE OFFICERS RETIREMENT SYSTEM  
 AS OF JUNE 30, 2015  
 LAST TWO FISCAL YEARS**

|   | 2015      | 2014      |
|---|-----------|-----------|
| Department’s proportion of the net pension liability  | 0.00175%  | 0.00175%  |
| Department’s proportionate share of the net pension liability   | \$ 33,579 | \$ 36,360 |
| Department’s covered – employee payroll   | \$ 21,105 | \$ 21,105 |
| <br>  |           |           |
| Department’s proportionate share of the net pension liability as percentage of covered-employee payroll | 159.1%    | 172.3%    |
| <br>  |           |           |
| Plan fiduciary net position as a percentage of the total pension liability                              | 67.5%     | 63.0%     |

Note: The amounts presented above were determined as of June 30<sup>th</sup> of the preceding year. The Department implemented GASB #68 and GASB #71 during the year ended June 30, 2015. Information prior to 2014 is not available.

**SOUTH CAROLINA DEPARTMENT OF DISABILITIES AND SPECIAL NEEDS  
REQUIRED SUPPLEMENTARY INFORMATION -  
SCHEDULE OF CONTRIBUTIONS – POLICE OFFICERS RETIREMENT SYSTEM  
AS OF JUNE 30, 2015  
LAST THREE FISCAL YEARS**

|   | <u>2015</u>   | <u>2014</u>   | <u>2013</u>   |
|---|---------------|---------------|---------------|
| Contractually required contribution                                     | \$ 2,914      | \$ 2,710      | \$ 2,596      |
| Contributions in relation to the<br>contractually required contribution | <u>2,914</u>  | <u>2,710</u>  | <u>2,596</u>  |
| Contribution deficiency (excess)  | <u>\$ -</u>   | <u>\$ -</u>   | <u>\$ -</u>   |
| <br>Department covered-employee payroll                                 | <br>\$ 21,100 | <br>\$ 21,105 | <br>\$ 21,105 |
| Contributions as a percentage of<br>covered-employee payroll            | 13.81%        | 12.84%        | 12.3%         |

**South Carolina Department of Disabilities and Special Needs**  
**Combining Balance Sheet**  
**Nonmajor Governmental Funds**  
**June 30, 2015**

|   | Federal Grant Fund | Education<br>Improvement Act<br>Fund | Total<br>Governmental |
|---|--------------------|--------------------------------------|-----------------------|
| <b>ASSETS</b>                             |                    |                                      |                       |
| Cash and Cash Equivalents                 | \$ -               | \$ 268,788                           | \$ 268,788            |
| Receivables, net                          | 261,919            | 41,193                               | 303,112               |
| Total Assets                              | <u>\$ 261,919</u>  | <u>\$ 309,981</u>                    | <u>\$ 571,900</u>     |
| <b>LIABILITIES AND FUND BALANCES</b>      |                    |                                      |                       |
| Liabilities:                              |                    |                                      |                       |
| Accounts Payable                          | \$ 6,003           | \$ 268,788                           | \$ 274,791            |
| Checks Written in Excess of Cash Balances | 254,730            | -                                    | 254,730               |
| Accrued Payroll and Employee Benefits     | -                  | 41,193                               | 41,193                |
| Total Liabilities                         | <u>260,733</u>     | <u>309,981</u>                       | <u>570,714</u>        |
| Fund balance:                             |                    |                                      |                       |
| Restricted                                | <u>1,186</u>       | <u>-</u>                             | <u>1,186</u>          |
| Total Fund Balances                       | <u>1,186</u>       | <u>-</u>                             | <u>1,186</u>          |
| Total Liabilities and Fund Balances       | <u>\$ 261,919</u>  | <u>\$ 309,981</u>                    | <u>\$ 571,900</u>     |

**South Carolina Department of Disabilities and Special Needs**  
**Combining Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Nonmajor Governmental Funds**  
**For the Year Ended June 30, 2015**

|   | Federal Grant Fund | Education<br>Improvement Act<br>Fund | Total<br>Governmental |
|---|--------------------|--------------------------------------|-----------------------|
| <b>REVENUES</b>   |                    |                                      |                       |
| Federal Grant Revenue                                     | \$ 278,375         | \$ -                                 | \$ 278,375            |
| Education Improvement Act                                 | -                  | 359,937                              | 359,937               |
| Total Revenues  | <u>278,375</u>     | <u>359,937</u>                       | <u>638,312</u>        |
| <b>EXPENDITURES</b>                                       |                    |                                      |                       |
| Current:  |                    |                                      |                       |
| Personnel Services  | -                  | 359,937                              | 359,937               |
| Medical and Health Services                               | 133,733            | -                                    | 133,733               |
| Supplies  | 16,456             | -                                    | 16,456                |
| Capital Outlay  | 127,000            | -                                    | 127,000               |
| Total Expenditures  | <u>277,189</u>     | <u>359,937</u>                       | <u>637,126</u>        |
| <b>Exceeds (Deficiency) of Revenues Over Expenditures</b> | <u>1,186</u>       | -                                    | <u>1,186</u>          |
| Net Change in Fund Balance                                | 1,186              | -                                    | 1,186                 |
| Fund Balance -- Beginning                                 | -                  | -                                    | -                     |
| Fund Balances -- Ending                                   | <u>\$ 1,186</u>    | <u>-</u>                             | <u>\$ 1,186</u>       |

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE  
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

**INDEPENDENT AUDITOR'S REPORT**

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the South Carolina Department of Disabilities and Special Needs (the "Department"), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements, and have issued our report thereon dated June 8, 2016.

**Internal Control Over Financial Reporting**

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a deficiency in internal control that we consider to be a material weakness.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2015-001 to be a material weakness.

**Compliance and Other Matters**

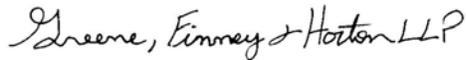
As part of obtaining reasonable assurance about whether the Department's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material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

### **Department's Response to Finding**

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

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Greene, Finney & Horton, LLP  
Mauldin, South Carolina  
June 8, 2016

**SOUTH CAROLINA DEPARTMENT OF DISABILITIES AND SPECIAL NEEDS**

**SCHEDULE OF FINDINGS AND RESPONSES**

**YEAR ENDED JUNE 30, 2015**

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**2015-001: VALUATION OF RECEIVABLES AND REVENUE RECOGNITION**

**Condition & Effect:** The Department recorded approximately \$5.1 million in patient receivables and \$1.2 million due from another state entity that were ultimately determined to be uncollectible. In addition, the Department did not record at the fund level approximately \$3.4 million in unavailable revenues that were not collected within the availability period. Correcting adjustments were recorded by the Department once the information was brought to their attention. Due to a portion of the adjustments impacting prior years, revenues for the year ended June 30, 2015 were ultimately reduced by approximately \$3.7 million.

Repayments of the Department’s unexpended Education Improvement Act (“EIA”) funds to the South Carolina Department of Education were not recorded in the correct year. The repayment of approximately \$356,000 in unexpended funds related to the prior fiscal year’s funding was incorrectly recorded in the current fiscal year as a reduction in EIA revenues, and the repayment of approximately \$269,000 related to current fiscal year’s funding was not recorded in the current year, but was instead recorded in the following fiscal year when the repayment was made. Correcting adjustments were recorded by the Department once the information was brought to their attention. The impact of the adjustments increased EIA revenues by approximately \$87,000 for the year ended June 30, 2015.

**Criteria:** The Department should record revenues only when they are both measureable and available.

**Cause:** In estimating the reserves for the patient receivables, the Department applied a collection rate to patient receivables based on historical collection rates; however, patient receivables outstanding as of June 30, 2015 were comprised of unpaid balances that had accumulated over a number of years and thus, the collection rate on those receivables was much lower than the overall historical collection rate. It was estimated that most of the receivables were uncollectible.

The amount due from another state entity was written off when no written documentation was available to substantiate the amount due. Negotiations surrounding this amount were held, but ultimately the other state agency declined to pay due to the lack of written documentation. Ultimately, the Department decided that this receivable was uncollectible.

The EIA revenues were initially recorded on a cash basis rather than a modified accrual basis due to historical treatment (i.e., the repayments of unexpended funds were recorded in the fiscal year in which the repayments were made).

**Recommendation:** The Department has a process for reviewing patient receivables that includes evaluating those receivables for collectability; however, we recommend that the Department consider modifying its calculation of the allowance for doubtful accounts in order to apply a collection rate that is appropriate for the uncollected balances instead of one based on the overall collection rate for all billings.

We recommend that the Department have written contracts or agreements with other state agencies to ensure collection of payments for services rendered. In addition, we recommend that the Department investigate any amounts due from other state agencies that are over 90 days old and determine if those balances will be collected.

We recommend that the Department record the repayment of unexpended EIA funds as a payable and reduction in EIA revenues in the year of allocation or include the repayment on the payables closing package remitted to the Office of the Comptroller General.

**SOUTH CAROLINA DEPARTMENT OF DISABILITIES AND SPECIAL NEEDS**

**SCHEDULE OF FINDINGS AND RESPONSES**

**YEAR ENDED JUNE 30, 2015**

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**2015-001: VALUATION OF RECEIVABLES AND REVENUE RECOGNITION (CONTINUED)**

**Response:** The Department of Disabilities and Special Needs has reviewed and concurs with the findings and recommendations as stated in item “2015-001: Valuation of Receivables and Revenue Recognition.” Accordingly, the Department will implement the following corrective actions effective immediately:

1. The Department will modify its current methodology of calculating the allowance for doubtful accounts for patient receivables from one based on the aggregate collection rate for all accounts to a method based on an analysis of pertinent historical data for collection of each age category or class of accounts receivable. The Department will continue to pursue patient receivables that are outstanding.
  2. The Department will implement the necessary procedures and safeguards prior to the provision of services for other state entities in order to enhance collection of payment for services rendered.
  3. The Department will analyze all unexpended EIA fund balances at each fiscal year-end and make all necessary accounting entries to record unused balances as deferred revenue in the book of record.
-