

# **SC Department of Disabilities and Special Needs Ways and Means Healthcare Budget Subcommittee**

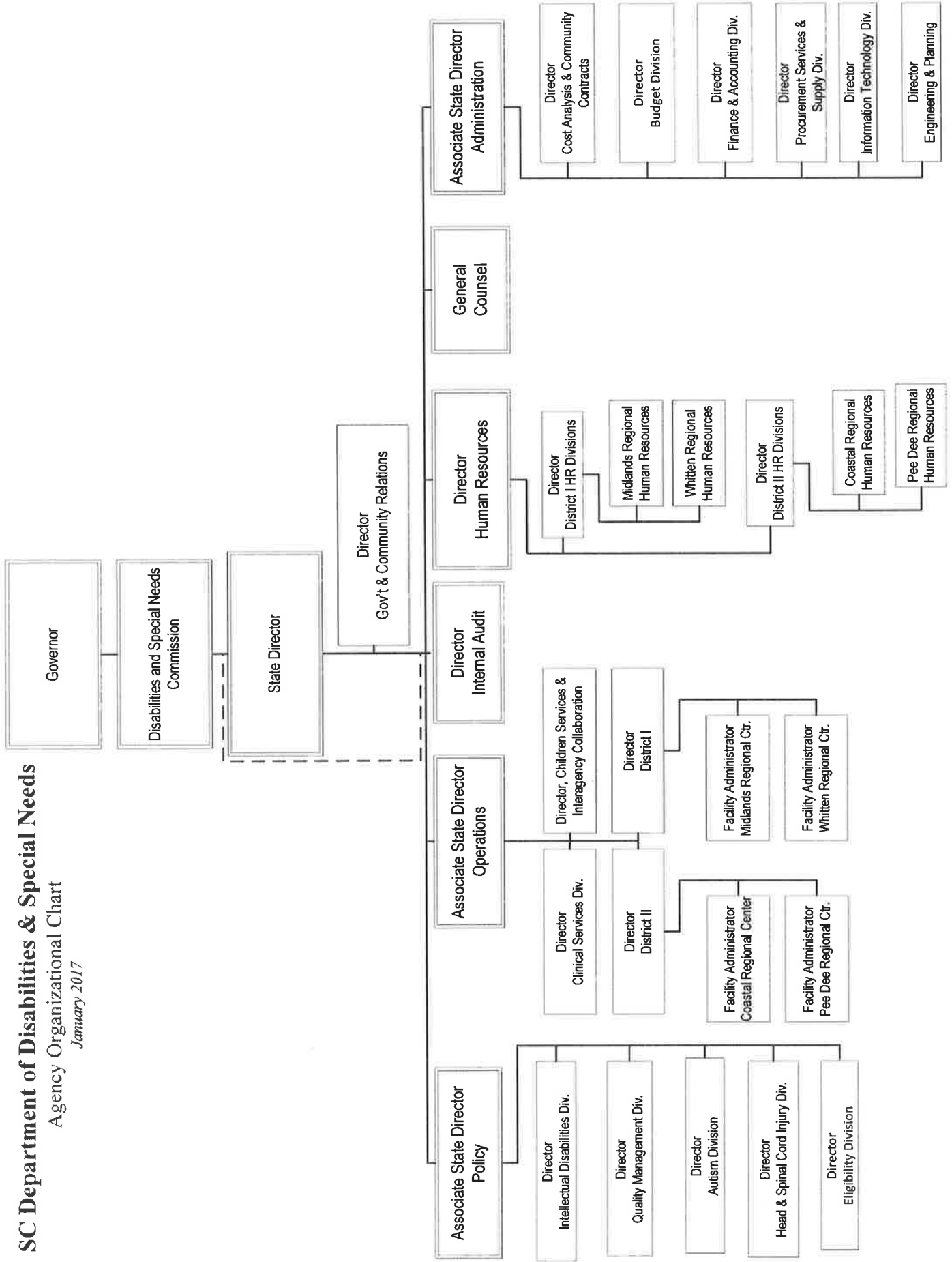
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# SC Department of Disabilities & Special Needs

Agency Organizational Chart

January 2017



**South Carolina Department of Disabilities and Special Needs  
 FY 2017 – 2018 Budget Request In Priority Order  
 Approved by the Commission on 9/15/2016**

Program Need	Budget Request for FY 2017-2018	New Services By Individual Based on FY 2018 Request
<p><b>1</b> <b>Safety and Quality of Care/Workforce Needs.</b> Workforce issues must be addressed in order to recruit and retain quality staff who provide essential 24/7 nursing and supervisory care of consumers. This request has three components:</p> <p>(1) Increase the hiring wage for direct care staff and immediate supervisors. Direct care wages are no longer competitive. An increased hiring wage of \$12.00 to \$13.00 per hour is needed to be highly competitive. This request supports moving toward that goal by increasing the hiring wages to \$11.00 per hour, an 8.8 percent increase from \$10.11 an hour. Potential candidates will not apply if the starting pay is not reasonable. They are looking for a professional career ladder and the potential for wage increases. In the last year, large private companies, like Walmart and McDonald's, have raised their hiring pay rate to remain competitive.</p> <p>(2) Retain essential 24/7 nursing and direct care staff to maintain service quality. Service quality cannot be reduced and staffing ratios must meet compliance standards and be maintained. Wage compression exists where longtime quality employees make the same wage as new hires. Loss of longtime quality employees due to wage levels not keeping up with industry benchmarks increases turnover, affects the quality of consumer care, results in higher contract cost and increases the cost of training new staff to perform these vital services.</p> <p><b>NOTE: Staff Recommendation for Commission Approval on 01/19/17 to remove DOL portion of the request. This is no longer needed as the new DOL requirements are now under a court ordered injunction. Commission approval would reduce priority # 1 request and DDSN's total budget request by \$1.5 M.</b></p> <p>(3) Comply with new overtime regulations imposed by the federal Department of Labor. The federal Department of Labor has imposed a new regulation scheduled to become effective during FY 2017. This regulation dramatically changes the overtime exception raising it from employees earning \$23,660 or less to employees earning \$47,476 or less. All DDSN regional centers and community providers will be required to change which staff are exempt and which staff must be paid overtime. This new requirement will result in a significant increase in workforce costs. New recurring funds are necessary to cover the increased personnel cost.</p>	<p align="center"><u>\$11,500,000</u></p> <p><b>Increase Hiring Wage</b> \$9M</p> <p><b>Compression &amp; Retention</b> \$1M</p> <p><b>Dept. Of Labor</b> \$1.5M</p>	<p align="center"><u>Statewide</u></p>

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 FY 2017 – 2018 Budget Request in Priority Order  
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	Program Need	Budget Request for FY 2017-2018	New Services By Individual Based on FY 2018 Request
<p><b>2</b> <b>Increase and Improve Access to In-Home Individual and Family Supports and Residential Supports by Moving Waiting Lists.</b> This request has two components:            (1) The first will provide approximately 950 individuals with severe disabilities on waiting lists with in-home supports and services necessary to maximize their development, keep them at home with family and prevent unnecessary and expensive out-of-home placements. The Department has an unduplicated count of over 6,400 individuals waiting for in-home support services. The number of individuals requesting services grows each year. This program represents DDSN's ongoing effort to promote individual and family independence and responsibility by supporting families who are providing 87% of the informal caregiving rather than replacing families. Supports strengthen the family and allow family caregivers to remain employed. Supports also allow people with disabilities to maximize their abilities, to earn money and often persons with physical disabilities can live independently or with limited assistance.            (2) The second component of this request will provide necessary residential supports and services for approximately 100 individuals who are living at home with caregivers aged 72 and over. Providing services now prevents waiting until the family is in crisis resulting in situations that place health and safety in jeopardy. In South Carolina there are over 1,200 individuals with severe disabilities being cared for by parents aged 72 and over. Over 500 of these caregivers are 80 years old or older. This request represents the state's need to respond to aging caregivers who have provided care in the home for their sons and daughters for 50 plus years. While this request would be an expansion of DDSN's current community residential programs, it only addresses the priority to be proactive for these families instead of waiting and then reacting to them once in crisis. These funds will be used to purchase and develop homes and day supports in the community, including one-time capital and startup costs associated with the new services, and provide necessary residential and day supports and services for individuals.</p>	<p><b>\$6,400,000</b></p> <hr/> <p><b>In-Home Supports \$4.3M</b></p> <p><b>Targeted Residential/Aging Caregivers \$2.1M</b></p>	<p align="center"><b>Statewide</b></p> <hr/> <p align="center"><b>950</b></p> <p align="center"><b>100 Beds</b></p>	
<p><b>3</b> <b>Crisis Intervention and Stabilization for Individuals.</b>            (1) This request would begin building regionalized crisis intervention capacity for one of five regions within the state. The crisis intervention and stabilization would provide intensive supports to individuals in a crisis to preserve and maintain their living situation. Intensive supports would be provided in their current living environment. The regionalized crisis system would also include four beds to provide time limited intensive supports by highly trained staff in temporary residential services. Individuals would receive this intensive service and ultimately return home or to a less restrictive setting in the community. Building capacity to address the intense, short-term needs of individuals in crisis would prevent emergency hospitalizations and expensive long-term residential placements. Timely crisis intervention relieves family caregivers and supports individuals in their family home or less restrictive community settings.            (2) Funds requested would also meet the identified needs of 3 – 4 individuals with a traumatic brain injury requiring time-limited inpatient specialized neuro-behavioral treatment. This request also includes increased access to psychiatric support for individuals receiving community services and support.            (3) Funds are requested to develop approximately 50 high management/forensic residential beds. New funds are necessary to increase the provider rate to cover the actual cost of providing a very high level of supports required for individuals with aggressive and extremely challenging behaviors. This population can be very difficult to serve as they often are a threat to themselves and/or others. The number of providers willing to serve them is extremely limited. If provider rates are not adequate to cover the actual cost of high management services, the state cannot increase the service capacity necessary to meet the needs. Each year DDSN receives more court ordered residential placements for individuals with challenging behaviors and the agency must comply with judges' orders.</p>	<p><b>\$3,800,000</b></p> <hr/> <p><b>Regional Team \$750K</b></p> <p><b>Temporary Residential \$400K</b></p> <p><b>TBI Inpatient \$500K</b></p> <p><b>Psychiatric Support \$150K</b></p> <p><b>Residential \$2M</b></p>	<p align="center"><b>Statewide</b></p> <hr/> <p align="center"><b>1 Team</b></p> <p align="center"><b>4 Beds</b></p> <p align="center"><b>3 to 4</b></p> <p align="center"><b>Statewide</b></p> <p align="center"><b>50 Beds</b></p>	

South Carolina Department of Disabilities and Special Needs  
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<p><b>4 Boost the Continued Transition of Individuals with Very Complex Needs from Institutional (ICF/IID) Settings to Less Restrictive Community Settings, while Maintaining Quality Care.</b> The U.S. Supreme Court Olmstead decision, state statute and best practice all drive services for individuals with disabilities to be provided in the least restrictive environment. Movement from large state operated institutions to community settings based on individual/family choice is consistent with these requirements. The new Final Rule issued by Centers for Medicare &amp; Medicaid Services requires states to provide services in less restrictive, more inclusive, community settings. This request represents the state's need to boost the continued transition of individuals with very complex needs from institutional (ICF/IID) settings to less restrictive community settings while maintaining quality care. These funds will allow approximately 28 individuals with the most complex medical and behaviorally challenging needs to move without jeopardizing their health and safety. This request also maintains the provision of quality care at the regional centers as required by Medicaid regulations. Funds will be used to purchase and develop community residential settings, day services and provide necessary supports.</p>	<p><b>\$1,200,000</b></p>	<p><b>28</b></p>
<p><b>5 Community ICF/IID Provider Rate Increase.</b> These funds will be used to cover the increased cost of providing consumer care in Community ICF/IID settings. Service funding rates must be sufficient to cover the cost of care or the local community providers will not be able to continue to provide the service. Services include nursing, supervision, medical specialists, medications, food, heating and air, and transportation costs. The individuals residing in this type of residential care need these more intensive supports. Funding for this request will ensure that the number of consumers served in ICF/IID community settings and the quality of those services are maintained. Funding this request will ensure compliance with current federal regulations. This request will provide sufficient funding as a maintenance of effort to the providers of community ICF/IID residential services so that the actual cost of care can be covered. If the state's reimbursement rates do not cover the actual cost of care, the providers will have to serve fewer people.</p>	<p><b>\$1,500,000</b></p>	<p><b>Statewide</b></p>
<p><b>6 Strengthen Provider Support, Oversight and System Changes.</b>          (1) This request will support the decentralization of the intake function so local DDSN qualified providers can complete this service. Decentralization will offer individuals and families more choice of providers that can complete this service for them. It is anticipated that one result will be increased customer satisfaction.          (2) This request will enable the department to offer increased training opportunities for providers and families. A three-pronged approach would be used whereby some training would be provided directly by DDSN staff, national subject matter experts would be brought in and provider peer training would be facilitated and supported. Additional resources are required to provide substantially more training.          (3) The third component of this request is to strengthen the oversight system to focus on quality outcome measures separate from contract compliance review. Clinical positions to focus on outcome measures would be established. A recent review by the State Inspector General made recommendations for the agency to improve its ability to track and report on outcome-driven performance.</p>	<p><b>\$1,650,000</b></p> <hr/> <p><b>Intake \$1.2M</b>  <b>Training \$200K</b>  <b>Provider Oversight \$250K</b></p>	<p><b>Statewide</b></p>

**South Carolina Department of Disabilities and Special Needs  
 FY 2017 – 2018 Budget Request In Priority Order  
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	<b>Program Need</b>	<b>Budget Request for FY 2017-2018</b>	<b>New Services By Individual Based on FY 2018 Request</b>
<b>7</b>	<p><b>Assure Statewide Access to Genetic Services.</b> Maintain and expand statewide access to genetic services provided by Greenwood Genetic Center. This request will assure that all babies identified to have a genetic metabolic disease through newborn screening will receive prompt curative treatment. Both the number of infants referred for treatment and the number of infants underserved has increased which has resulted in the need for increased resources to meet the needs of these babies. This request will support maintenance and expansion of both diagnosis and monitoring of patients. This request will also increase access to services to patients with disabilities and genetic disorders in remote areas of South Carolina through tele-genetics implemented in partnership with MUSC and the Palmetto Telehealth Alliance.</p>	<b>\$500,000</b>	<b>Statewide</b>
<b>8</b>	<p><b>Increase Access to Post-acute Rehabilitation that is Specialized for Traumatic Brain or Spinal Cord Injuries.</b> DDSN has a recurring appropriation of \$3.1 million to provide a post-acute rehabilitation program for individuals who experience a traumatic brain or spinal cord injury. The estimated annual cost of fully funding this program is \$11,504,000. This request for additional permanent funding of \$500,000 would serve an additional 8 to 10 individuals and help bridge the gap. For best outcomes, specialized rehabilitation should begin as soon as possible following medical stabilization or discharge from acute care. Without appropriate rehabilitative treatment and therapies in the first weeks or months after injury, people are not able to achieve optimal neurological recovery and maximum functional improvement. Research shows this results in more substantial levels of permanent disability and limits the ability to work. As a consequence, there are greater needs for long-term care, and other health, mental health and social services. Lack of rehabilitation options causes extended acute care hospital stays following injury for many people. There are also higher rates of subsequent hospitalizations for people who do not receive rehabilitation.</p>	<b>\$500,000</b>	<b>8-10</b>
<b>9</b>	<p><b>Ensure Compliance with Federal Regulations.</b>            (1) New federal requirements defined by the Centers for Medicare &amp; Medicaid Services Home and Community Based Services (HCBS) new Final Rule necessitate an increased emphasis on supporting people with disabilities in more individualized ways, especially in day and employment services and in all residential settings. This request would provide funding to develop new models for individualized day supports and employment opportunities to be compliant with the CMS HCBS new Final Rule. Job coach and employment services enable individuals with intellectual disabilities, autism, traumatic brain injury and spinal cord injury to be more independent, earn money and actively participate in their community. These funds would be used to establish job recruitment, job coach and job retention services to increase the number of individuals in integrated, community based employment.            (2) The new Final Rule also requires the State to provide Conflict Free Case Management (CFCM) and to serve individuals in less restrictive, more community inclusive settings. The expectation of this new rule applies to all populations served by DDSN. This request would support community providers in transitioning to a system where case management is not performed by the same entity that provides direct services to the individual. The State must change its infrastructure and system to facilitate compliance with this new federal requirement.            (3) New state funds are necessary to increase the state's participation in Medicaid funding. CMS is requiring some services previously funded at 70 percent Federal/30 percent State to 50 percent Federal/50 percent State. These funds will offset the loss of federal earned revenue.</p>	<p style="text-align: center;"><b>\$6,700,000</b></p> <hr/> <p><b>Individualized Employment/Day Supports \$5.1M</b></p> <p><b>Conflict Free Case Management \$1.1M</b></p> <p><b>CMS Requirements \$500K</b></p>	<b>625</b>  <b>Statewide</b>
<b>TOTAL</b>		<b>\$33,750,000</b>	<b>Statewide</b>

## **SC Department of Disabilities and Special Needs Budget Actions Requested for FY 2017-2018**

- Reduce \$20 million of authorization in Other Funds.
- Realign FY 2016-2017 base funds in the amount of \$2,432,455 state funds within existing programs.
- Allocate Statewide Employee Benefits contained in the FY 2016-2017 Appropriations Act.

## **Proviso 36.7 (DDSN: Unlicensed Medication Providers)**

### **Explanation of Requested Change**

- DDSN is requesting amending proviso 36.7. The new language clarifies and strengthens current practice.
- The proposed language makes it clear which activities may or may not be performed. DDSN staff worked with DHEC licensing staff to understand the specifics of DHEC's practice.
- The activities included in the proviso are consistent with the manner in which DHEC operationalizes licensure of Community Residential Care Facilities.
- Proposed language also expands categories of licensed professionals who may conduct the training. This will help DDSN providers identify professional licensed trainers.



# General Appropriations Act for Fiscal Year 2016-2017

## PART IB OPERATION OF STATE GOVERNMENT

### SECTION 36 - J160 - DEPARTMENT OF DISABILITIES AND SPECIAL NEEDS

**36.7.** (DDSN: Unlicensed Medication Providers) The provision of selected prescribed medications may be performed by designated ~~selected~~ unlicensed persons in community-based programs sponsored, licensed or certified by the South Carolina Department of Disabilities and Special Needs, provided the such ~~selected~~ unlicensed persons have documented successful completion of medication training and ~~skill~~ competency evaluation. Licensed nurses, licensed pharmacists and licensed medical doctors may train and supervise designated ~~selected~~ unlicensed persons to provide medications and, after reviewing competency evaluations, may approve designated ~~selected~~ unlicensed persons for the provision of medications. The provision of medications by designated ~~selected~~ unlicensed persons is limited to oral, sublingual, buccal, ~~and topical,~~ inhalation, and transdermal medications; ear drops; eye drops; nasal sprays; injections of ~~and to~~ regularly scheduled insulin and injections of prescribed anaphylactic treatments. The provision of medications by designated unlicensed persons does not include rectal and vaginal medications, ~~under established medical protocol and does not include sliding scale insulin or other injectable medications.~~ A written or electronic record regarding each medication provided, including time and amount administered, is required as part of the provision of medication. Provision of medication does not include judgement, evaluation or assessment by the designated unlicensed persons. ~~The~~ designated ~~selected~~ unlicensed persons and the nurses, pharmacists and medical doctors that train, approve, and supervise these staff shall be protected against tort liability provided their actions are within the scope of their job duties and the established medical protocol. The Department of Disabilities and Special Needs shall establish curriculum and standards for training and oversight. This provision shall not apply to a facility licensed as an intermediate care facility for individuals with intellectual and/or related disability.

**SECTION 36 - J160 - DEPARTMENT OF DISABILITIES  
AND SPECIAL NEEDS**

**36.1.** (DDSN: Work Activity Programs) All revenues derived from production contracts earned by individuals served by the department in Work Activity Programs be retained by the South Carolina Department of Disabilities and Special Needs and carried forward as necessary into the following fiscal year to be used for other operating expenses and/or permanent improvements of these Work Activity Programs.

**36.2.** (DDSN: Sale of Excess Real Property) The department is authorized to retain revenues associated with the sale of excess real property owned by, under the control of, or assigned to the department and may expend these funds as grants to purchase or build community residences and day program facilities for the individuals DDSN serves. The department shall follow all the policies and procedures of the Department of Administration or State Fiscal Accountability Authority and the Joint Bond Review Committee.

**36.3.** (DDSN: Prenatal Diagnosis) Revenues not to exceed \$126,000 from client fees, credited to the debt service fund and not required to meet the department's debt service requirement, may be expended only in the current fiscal year to promote expanded prenatal diagnosis of intellectual and/or other related disabilities by the Greenwood Genetic Center.

**36.4.** (DDSN: Medicaid-Funded Contract Settlements) The department is authorized to carry forward and retain settlements under Medicaid-funded contracts.

**36.5.** (DDSN: Departmental Generated Revenue) The department is authorized to continue to expend departmental generated revenues that are authorized in the budget.

**36.6.** (DDSN: Transfer of Capital/Property) The department may transfer capital to include property and buildings to local DSN providers with State Fiscal Accountability Authority approval.

**36.7.** (DDSN: Unlicensed Medication Providers) The provision of selected prescribed medications may be performed by selected unlicensed persons in community-based programs sponsored, licensed or certified by the South Carolina Department of Disabilities and Special Needs, provided such selected unlicensed persons have documented medication training and skill competency evaluation. Licensed nurses may train and supervise selected unlicensed persons to provide medications and, after reviewing competency evaluations, may approve selected unlicensed persons for the provision of medications. The provision of medications by selected unlicensed persons is limited to oral and topical medications and to regularly scheduled insulin and prescribed anaphylactic treatments under established medical protocol and does not include sliding scale insulin or other injectable medications. The selected unlicensed persons shall be protected against tort liability provided their actions are within the scope of their job duties and the established medical protocol.

The Department of Disabilities and Special Needs shall establish curriculum and standards for training and oversight.

This provision shall not apply to a facility licensed as an intermediate care facility for individuals with intellectual and/or related disability.

**36.8.** (DDSN: Pervasive Developmental Disorder) The Department of Disabilities and Special Needs, as the agency authorized to treat autistic disorder, is designated for a Medicaid project to treat children who have been diagnosed by eight years of age with a pervasive developmental disorder. The project must target the youngest ages feasible for treatment

effectiveness, treatment for each individual child shall not exceed three years without a special exception as defined in the waiver, and reimbursement for each individual participant may not exceed \$50,000 per year. The Department of Disabilities and Special Needs and the Department of Health and Human Services will determine the areas of the State with the greatest need and availability of providers. Children participating in the project will be selected based upon an application system developed in compliance with the Medicaid waiver. Treatment will be provided as authorized and prescribed by the department according to the degree of the developmental disability. In authorizing and prescribing treatment the department may award grants or negotiate and contract with public or private entities to implement intervention programs, which must comply with Medicaid reimbursement methodologies, for children who have been diagnosed with a pervasive developmental disorder. "Pervasive developmental disorder" means a neurological condition, including autistic disorder and Asperger's syndrome, as defined in the most recent edition of the Diagnostic and Statistical Manual of Mental Disorders of the American Psychiatric Association. The department shall report semi-annually to the General Assembly and the Governor on the developmental progress of the children participating in the project and the fiscal status of the project, to include expenditure data and appropriation balances. This provision does not establish or authorize creation of an entitlement program or benefit.

The Department of Disabilities and Special Needs and the Department of Health and Human Services shall develop a plan to transition children in the Pervasive Developmental Disorder Program (PDD) to Medicaid State Plan services in a manner that minimizes any break in service. Private insurance benefits which include Autism Spectrum Disorder services shall be sought prior to the expenditure of Medicaid or State funds for these services. For children not Medicaid eligible, the Department of Disabilities and Special Needs shall develop a sliding fee scale based on a means test for determining payment by a family for PDD services.

**36.9.** (DDSN: Child Daycare Centers) Of the funds appropriated to the department, the department shall provide reimbursement for services provided to department eligible children at daycare centers previously under contract prior to December 31, 2008. The reimbursement shall not be less than eighty percent of the amount reimbursed in the previous fiscal year. By September fifteenth, the department must transfer \$100,000 to the Anderson County Disabilities Board for the provision of these services.

**36.10.** (DDSN: Debt Service Account) The department shall utilize the uncommitted dollars in their debt service account, account E164660, for operations and services that are not funded in the appropriations bill. By August first, the department must report to the Governor, the Chairman of the Senate Finance Committee, and the Chairman of the House Ways and Means Committee on the remaining balance in this account and on the amounts and purposes for which the account was used in the prior fiscal year.

**36.11.** (DDSN: Traumatic Brain Injury) Funds appropriated to the agency for Traumatic Brain Injury/Spinal Cord Injury Post-Acute Rehabilitation shall be used for that purpose only. In the event the department receives a general fund reduction in the current fiscal year, any reductions to the post-acute rehabilitation funding shall not exceed reductions in proportion to the agency as a whole.

**36.12.** (DDSN: Greenwood Genetic Center Autism Research) The department is authorized to transfer up to \$500,000 of unencumbered funds from the PDD autism waiver to the Greenwood Genetic Center for autism research.

**36.13.** (DDSN: Medicaid Direct Billing) The department shall facilitate Medicaid direct

billing for all providers, including local disabilities and special needs boards, who choose to initiate the direct billing process regardless of the receipt of capital grant funds from the department for the specific facility involved. All entities receiving capital grant funds must use the funds as originally specified in the award. If the purpose or use of a facility constructed or purchased with departmental grant funds is altered without the department's approval, the entity must repay the department the amount of the funds awarded. The use of direct billing shall not be construed as a change in the purpose or use of a facility.

**36.14.** (DDSN: Carry Forward Authorization) For the current fiscal year, the department is authorized to carry forward any balance of General Funds appropriated for the reduction of the department's waiting lists in the prior fiscal year and must utilize these funds for the same purpose in the current fiscal year. Within thirty days after the close of the fiscal year, the department shall report the balance carried forward to the Chairman of the Senate Finance Committee and the Chairman of the House Ways and Means Committee.

**36.15.** (DDSN: Service Providers Expenditure Requirement) For the current fiscal year, in order to accommodate service provider infrastructure needs resulting from the reductions in the department's waiting lists, service providers including local disabilities and special needs boards are authorized to carry forward from the prior fiscal year unexpended funds based on a ninety percent expenditure requirement for capitated services. Service providers shall not withhold services in order to generate funds to be carried forward. The expenditure requirement shall not affect the department's three month reserve limitation policy. If the department's Medicaid allowable costs, in the aggregate, do not meet the level of certified public expenditures (CPEs) reported to the Department of Health and Human Services, the department is allowed to recoup funds necessary to remain in compliance with federal Medicaid CPE rules.

**36.16.** DELETED

DDSN is not requesting new FTEs for  
FY 2017-2018.

**SC Department of Disabilities and Special Needs**  
**FY 2017 Monthly Financial Summary - Operating Funds**  
**Month Ended: July 31, 2016**

	General Fund (Appropriations)	Medicaid Fund	Other Operating Funds	Federal and Restricted Funds	Total
<b>FY 2016 Unreserved Cash</b>	<b>\$ 939,561</b>	<b>\$ 527,877</b>	<b>\$ 877,569</b>	<b>\$ 16,190</b>	<b>\$ 2,361,197<sup>1</sup></b>
<b>FY 2017 YTD Activity</b>					
<b>Receipts/Transfers</b>					
Revenue	231,643,470	29,925,271	798,247	-	262,366,988
Interfund Transfers	(25,000,000)	25,000,000	-	-	-
<b>Total Receipts/Transfers</b>	<b>206,643,470</b>	<b>54,925,271</b>	<b>798,247</b>	<b>-</b>	<b>262,366,988</b>
<b>Disbursements</b>					
Personal Services	(3,880,376)	(1,198,709)	(2,731)	(13,560)	(5,095,376)
Fringe Benefits	(1,939,220)	(625,503)	-	(5,172)	(2,569,895)
Other Operating Expense	(7,641,376)	(37,892,831)	(2,303)	(0)	(45,536,510)
Capital Outlays	-	(36,383)	-	-	(36,383)
<b>Total Disbursements</b>	<b>(13,460,972)</b>	<b>(39,753,426)</b>	<b>(5,034)</b>	<b>(18,732)</b>	<b>(53,238,164)</b>
<b>Outstanding Accounts Payable Balance</b>	<b>(20)</b>	<b>(93,001)</b>	<b>(417)</b>	<b>-</b>	<b>(93,438)</b>
<b>Unreserved Cash Balance - 7/31/2016</b>	<b>\$ 194,122,039</b>	<b>\$ 15,606,721</b>	<b>\$ 1,670,365</b>	<b>\$ (2,542)<sup>2</sup></b>	<b>\$ 211,396,583</b>

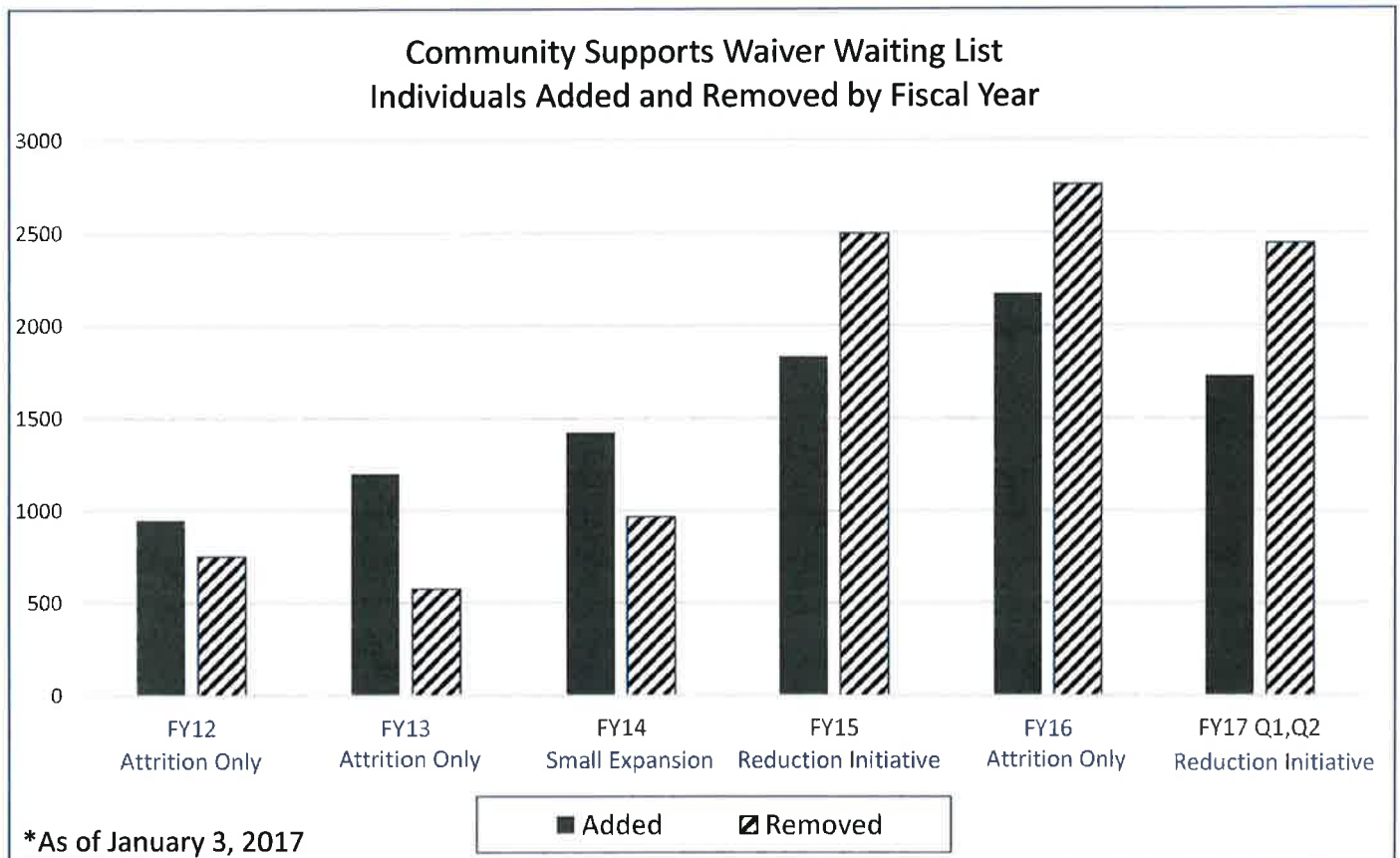
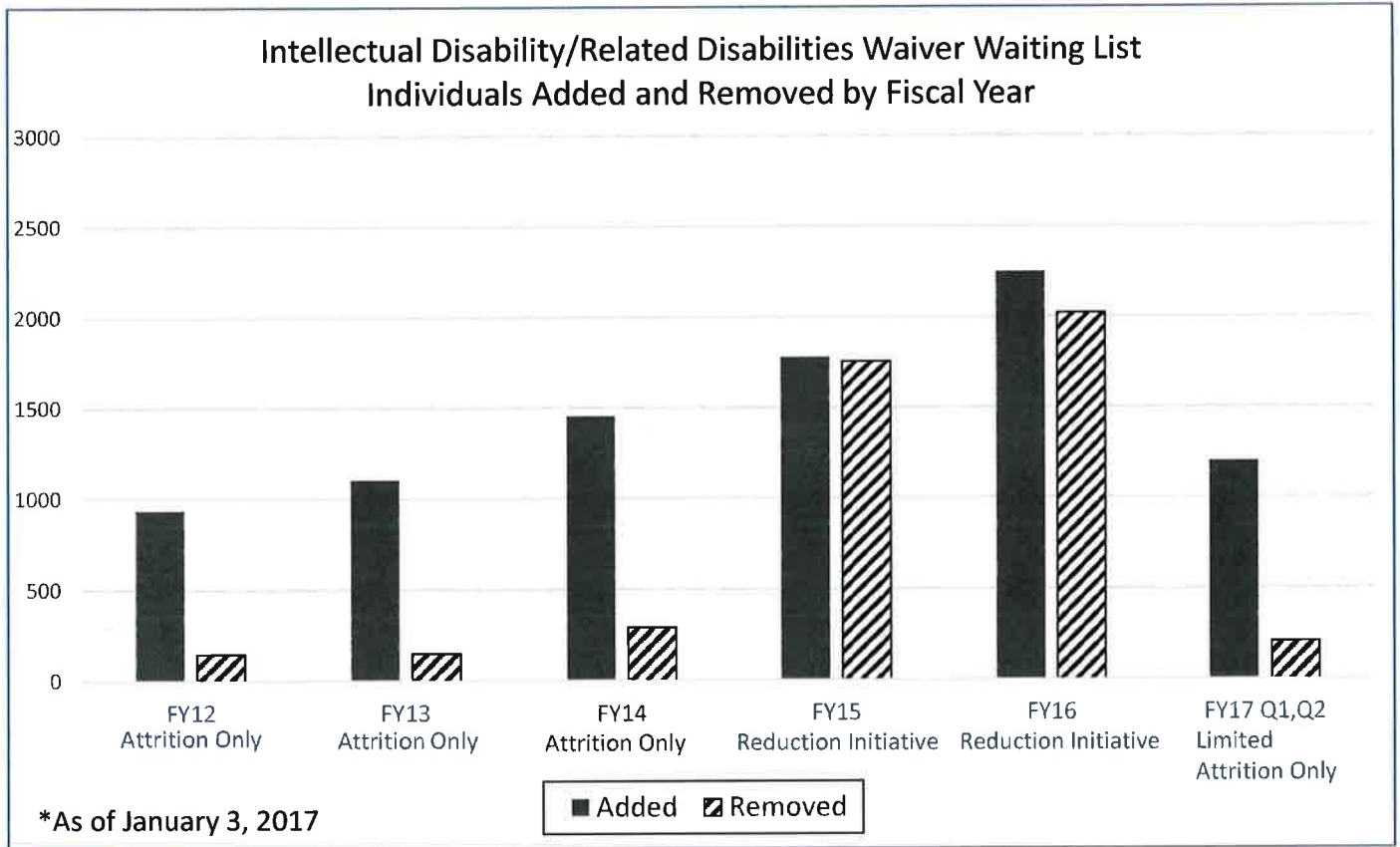
<sup>1</sup> \$5,000,000 of the total cash balance has been reserved for future Medicaid Settlements

<sup>2</sup> Education Improvement Act Funds (Federal and Restricted Funds) are typically received in August for 1st quarter expenditures.

**SC Department of Disabilities and Special Needs  
Other Authorization and Expenditures**

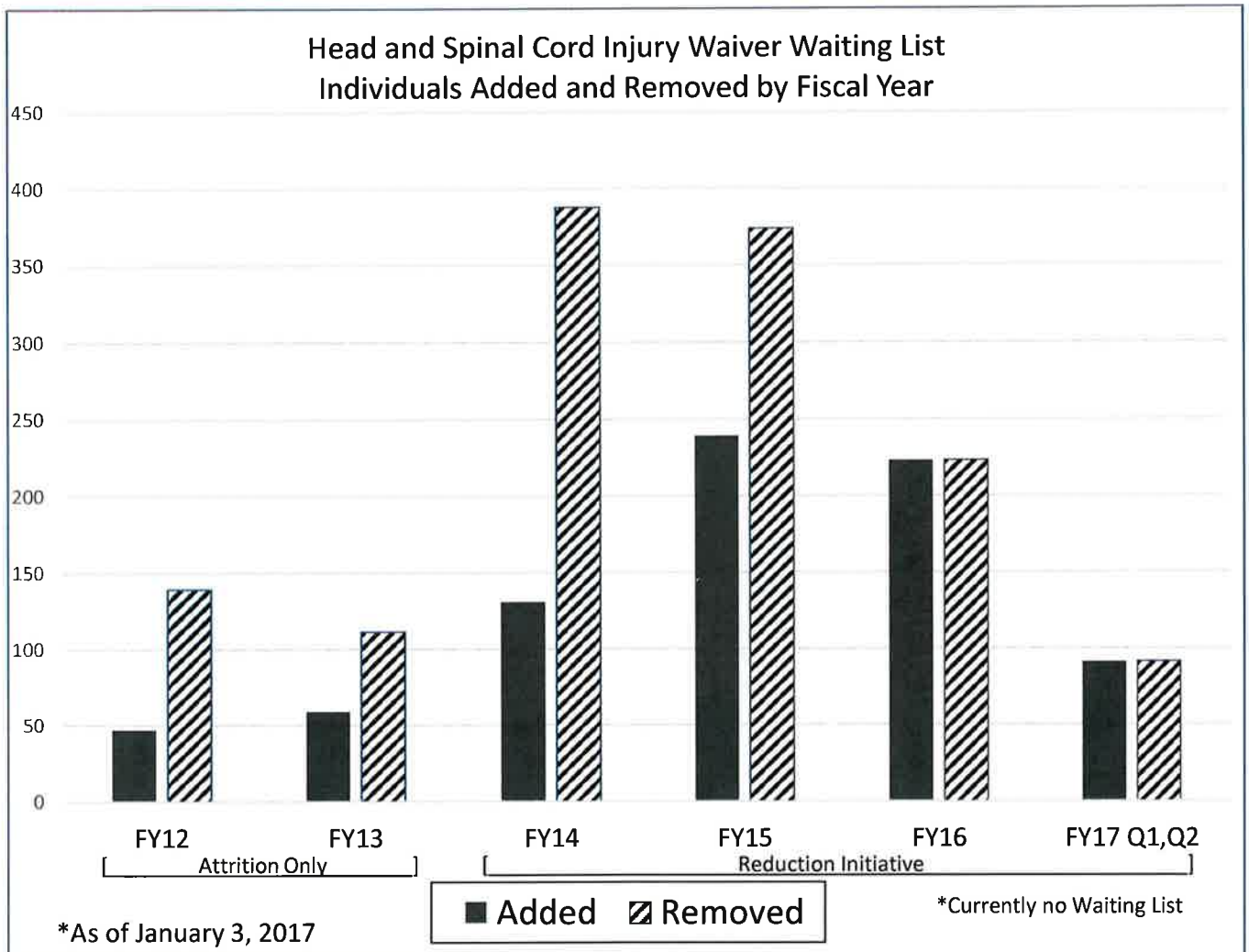
Funding Source	FY 2013-2014		FY 2014-2015		FY 2015-2016	
	Authorization	Expenditures	Authorization	Expenditures	Authorization	Expenditures
Other Authorization	\$ 394,319,270	\$ 343,908,421	\$ 430,209,270	\$ 371,328,706	\$ 452,524,335	\$ 385,781,033

# SC Department of Disabilities and Special Needs



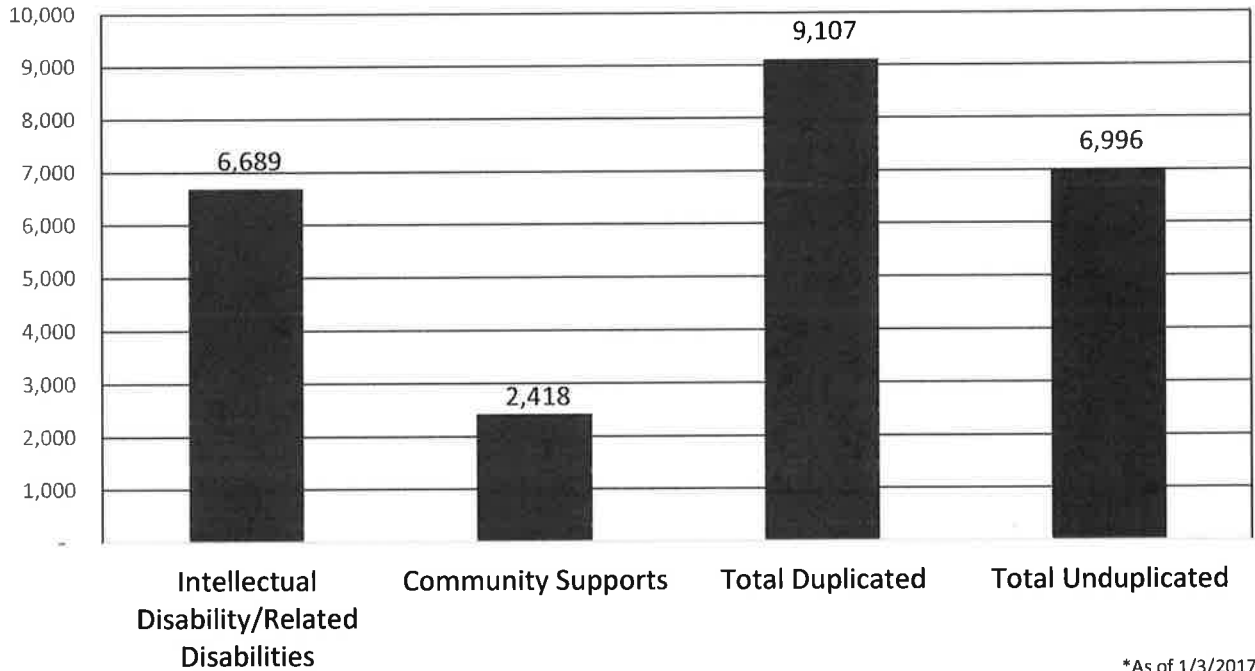


## SC Department of Disabilities and Special Needs

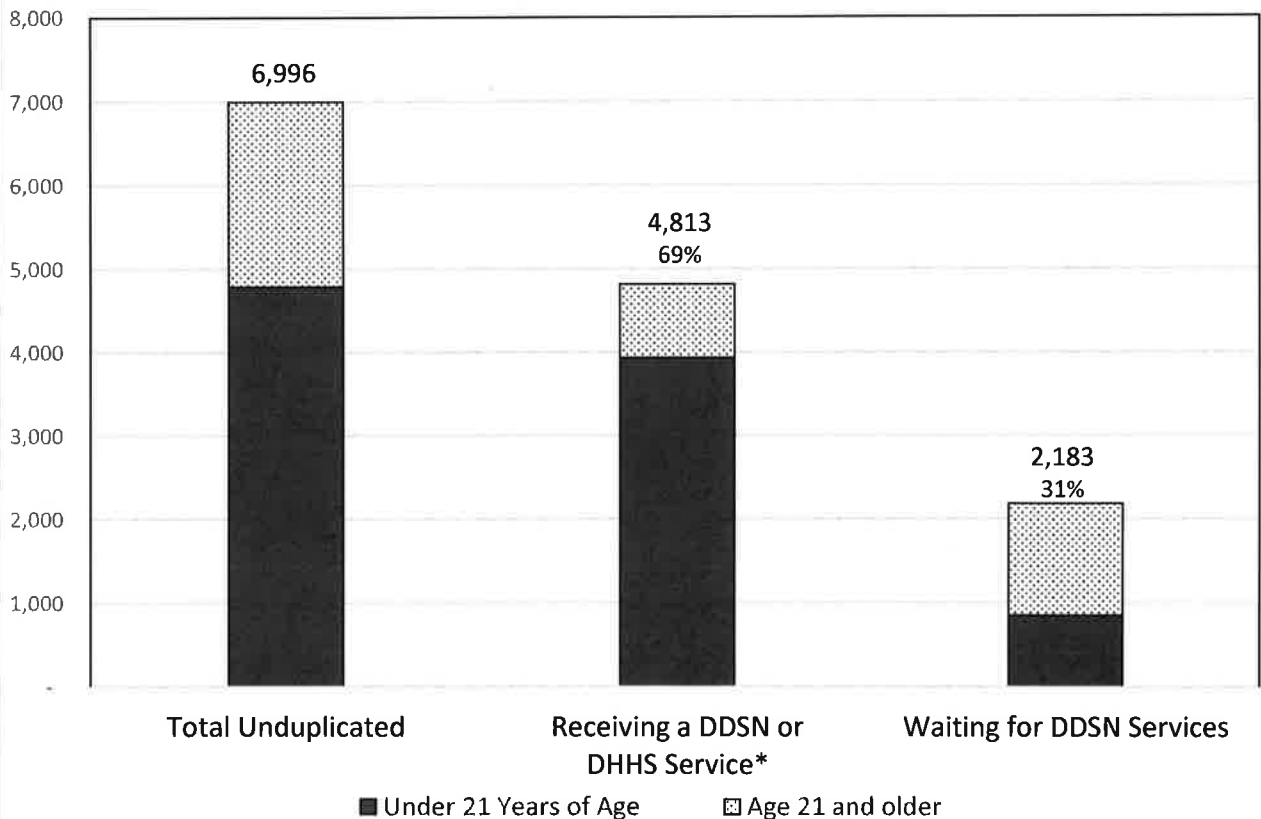


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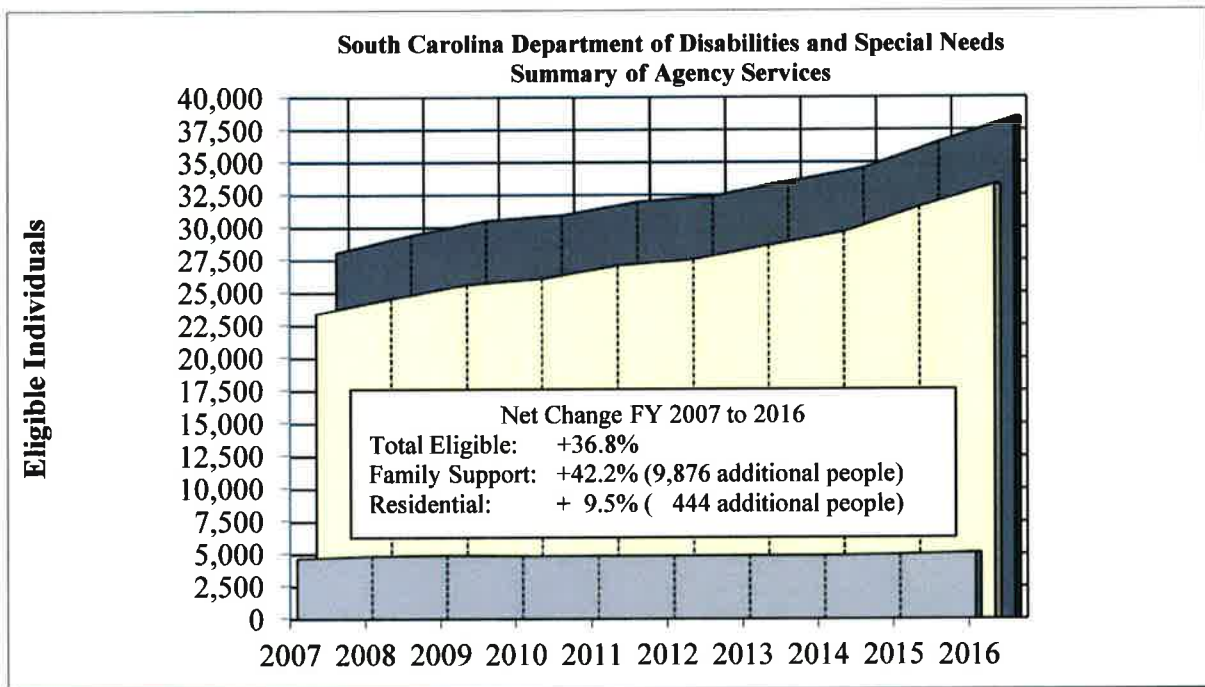
## Intellectual Disability/Related Disabilities and Community Supports Waiver Waiting List Numbers



## Additional Analysis of the Number of Individuals Waiting for DDSN Services



\*These services may include: DDSN Family Support Funding, DDSN Family Arranged Respite Funding, and/or Medicaid Services such as prescriptions, personal care, nursing, incontinence supplies, dental, vision, medically necessary Durable Medical Equipment services, etc.



- Serving people with severe lifelong disabilities in their homes with family is best for the person, preferred by families and is the most cost-efficient service alternative for taxpayers.
- Of the approximately 39,000 individuals eligible or receiving DDSN services, 87% live at home with their families or in their own home.
- In the ten-year period shown, there has been a 42% growth in the use of cost-efficient family support services compared to only 9% growth in residential services, which are more expensive.
- DDSN policies reflect federal and state laws by supporting people in the least restrictive setting possible.

Almost 12,000 individuals  
(11,822) have been removed from  
DDSN Waiting Lists since the  
Reduction Effort began.

## SC Department of Disabilities and Special Needs

### ID/RD\*

July 2014

July 2015

July 2016

Oct 2016

Jan 2017

### CS

July 2014

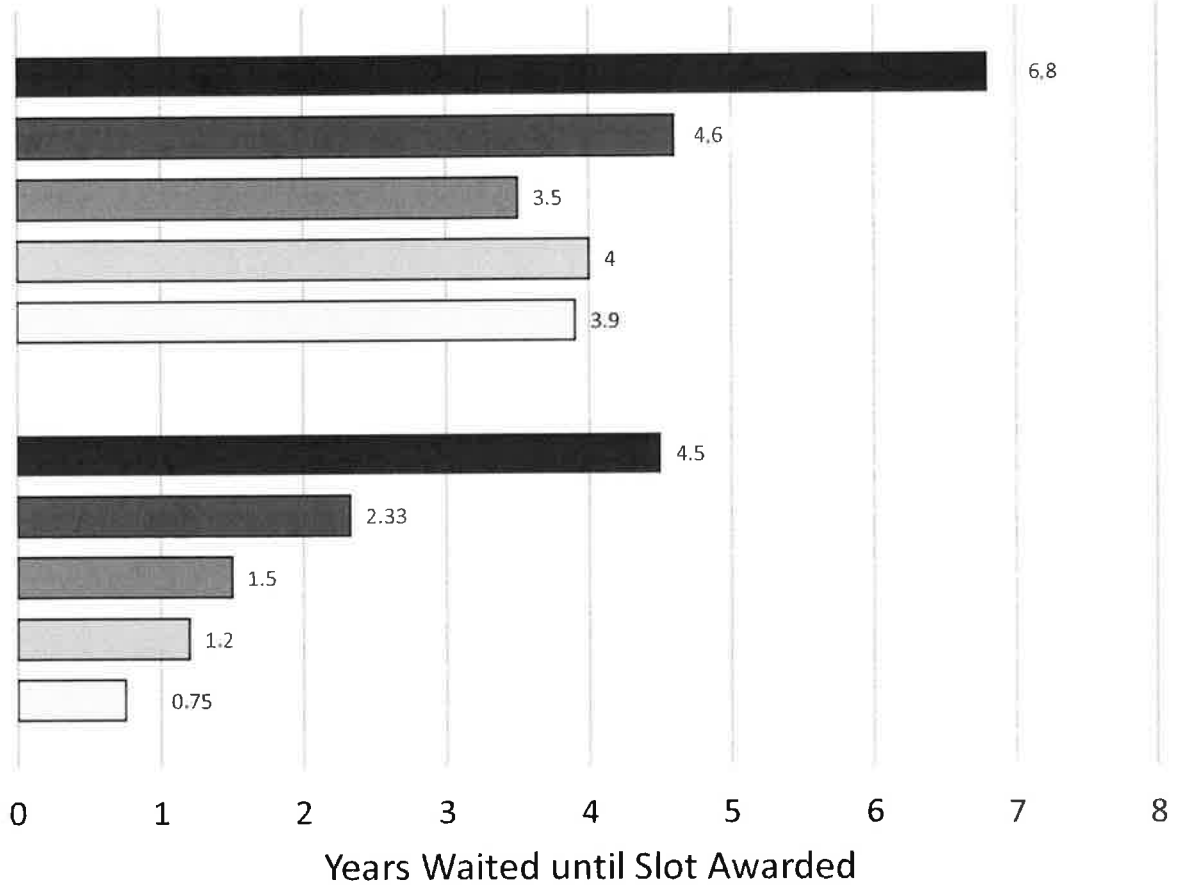
July 2015

July 2016

Oct 2016

Jan 2017

### Length of Time on the Waiting List



\*In May 2016, movement of the ID/RD Waiting List was limited to only individuals meeting Critical Needs Criteria. On December 5, 2016 attrition slots only were restarted.

ID/RD – Intellectual Disability/Related Disabilities Waiver  
 CS – Community Supports Waiver

\*As of January 3, 2017



# Greene Finney & Horton

CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

June 8, 2016

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

We have audited 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") for the year ended June 30, 2015. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards*, and OMB Circular A-133, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated February 23, 2016. Professional standards also require that we communicate to you the following information related to our audit.

## **Significant Audit Findings**

### ***Qualitative Aspects of Accounting Practices***

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Department are described in Note 1 to the financial statements.

The Department implemented Governmental Accounting Standard Boards ("GASB") Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* ("GASB #68") and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68* ("GASB #71" and collectively "Statements") in the year ended June 30, 2015. These Statements require the Department to recognize a net pension liability, deferred outflows of resources (including pension contributions made after the measurement date) and deferred inflows of resources for their participation in the South Carolina Retirement System and South Carolina Police Officers Retirement System, cost-sharing multiple-employer defined benefit pension plans, on financial statements prepared on the economic resources measurement focus and accrual basis of accounting (i.e. the Statement of Net Position) and presents more extensive note disclosures.

The adoption of these Statements had no impact on the Department's governmental fund financial statements, which continue to report expenditures in the amount of the contractually required contributions, as required by the South Carolina Public Employee Benefit Authority who administers the plans. See Note 9 in the notes to the financial statements for more information regarding the Department's retirement plans.

Except for the above, no new significant accounting policies were adopted and the application of existing policies was not significantly changed during the year ended June 30, 2015. We noted no transactions entered into by the Department during the year for which there was a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most significant sensitive estimates affecting the Department's financial statements were:

Management's estimate of the useful lives of capital assets and resulting depreciation expense is based on historical experience and industry standards. Management's estimate of the reserve for uncollectible receivables is based on historical experience and currently known facts. Management's estimate of the pension liabilities and related deferred inflows and outflows of resources is based on information provided by the pension plans' auditors. We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

***Difficulties Encountered in Performing the Audit***

We encountered no significant difficulties in dealing with management in performing and completing our audit.

***Corrected and Uncorrected Misstatements***

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. For purposes of this communication, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Department's financial reporting process (that may or may not cause future financial statements to be materially misstated). Since it is inherently judgmental to determine what adjustments would or would not have been detected except through our auditing procedures, a schedule of all adjusting and reporting journal entries is attached, including those prepared by the Department as part of their closing process after we obtained the initial trial balance.

In our judgment, there were no material known unrecorded and uncorrected misstatements, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

***Disagreements with Management***

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

***Management Representations***

We have requested certain representations from management that are included in the management representation letter dated June 8, 2016.

***Management Consultations with Other Independent Accountants***

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the governmental unit’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

***Other Audit Findings or Issues***

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Department’s auditor. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

***Matters for the Office of the State Auditor’s Consideration***

During the course of our audit, we became aware of a finding that has been reported in the schedule of findings and responses in the June 30, 2015 financial statements.

**Other Matters**

We applied certain limited procedures to the management’s discussion and analysis, budgetary comparison schedules, and pension plan schedules which are required supplementary information (“RSI”) that supplement the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the supplementary information, as listed in the table of contents, which accompany the financial statements but are not RSI. With respect to this information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled this information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

**Restriction on Use**

This information is intended for the use of the Commissioners of the South Carolina Department of Disabilities and Special Needs, the Office of the State Auditor, and management of the Department and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,



Greene, Finney & Horton, LLP  
Certified Public Accountants



SC Department of Disabilities and Special Needs  
 June 30, 2015

Journal Entries Report : Adjusting Entries

Prepared by: BKM  
 Reviewed by:  
 5/16/2016 9:20AM

Entry #	Status	Account/Code	Description	Debit	Credit
AJE 1	DELETED	*****			
AJE 2	Posted	SR.4890090000	SRF ALLOCATIONS EDUC IMPV ACT		355,737.00
		SR.3000010000	SRF UNRESERVED FUND BAL/UNRESTRICTED NET ASSETS (2	355,737.00	
		SR.4890090000	SRF ALLOCATIONS EDUC IMPV ACT	268,788.17	
		SR.2000030000	ACCOUNTS PAYABLE - IDT		268,788.17
			To adjust the EIA revenues for the unexpended amounts as of 6/30/2014 and accrue the unexpended amounts as of 6/30/2015.		
AJE 3	Posted	GF.1399999999	Allowance for Doubtful Accounts		1,200,000.00
		GF.1399999999	Allowance for Doubtful Accounts		5,122,063.00
		GF.2200000000	Unearned Revenue		3,359,647.00
		GF.3000020000	FUND BALANCE - DEPRECIATION (FULL ACCRUAL)	5,995,667.00	
		GF.4360020000	MEDICAID & MEDICARE REIMB	3,359,647.00	
		GF.5999999999	Bad debt expense	726,396.00	
		GF.4360020000	MEDICAID & MEDICARE REIMB		400,000.00
			To increase the allowance for doubtful accounts for the BabyNet receivable and the patient fees receivable that were determined to be uncollectible. This entry also records the unavailable revenue related to the Medicaid administrative fees receivable from SC DHHS.		
AJE 4	Posted	GF.3000010000	UNRESERVED FUND BAL/UNRESTRICTED NET ASSETS (ZG)		140,000.00
		GF.4360020000	MEDICAID & MEDICARE REIMB	140,000.00	
			To adjust the opening equity and current year revenues/expenditures related to the administrative fees paid via reduction of receivable from the prior year.		
AJE 5	Posted	SR.1300020000	SRF ACCOUNTS RECEIVABLE - IDT	41,193.00	
		SR.3000020000	SRF FUND BALANCE - DEPRECIATION (FULL ACCRUAL)		26,120.00
		SR.4890090000	SRF ALLOCATIONS EDUC IMPV ACT		41,193.00
		SR.4890090000	SRF ALLOCATIONS EDUC IMPV ACT	26,120.00	
			To record the additional receivable for EIA funding related to accrued salaries.		
AJE 6	Posted	GF.2999999999	Settlement Liabilities	200,232.00	
		GF.4360020000	MEDICAID & MEDICARE REIMB		200,232.00
TOTALS				<u>11,113,780.17</u>	<u>11,113,780.17</u>

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**

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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 cursive script 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

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

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

	2015
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	85,993,992
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	127,000
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	380,874
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 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 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	592,086,716
<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	370,846,339
Net (Expenses)	(221,240,377)
<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	218,881,537
Change in Net Position	(2,358,840)
Net Position - Beginning of year	(67,998,377)
Net Position - End of Year	\$ (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**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2015**

	General Fund	Capital Projects Fund	Nonmajor Governmental 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 RESOURCES, AND FUND BALANCES</b>				
<b>Liabilities:</b>				
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>
<b>Deferred Inflows of Resources:</b>				
Unavailable Revenue	3,521,526	-	-	3,521,526
<b>Fund balance:</b>				
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 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 Fund	Nonmajor Governmental Funds	Total 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>				
<b>Current:</b>				
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	(3,658,370)	-	-	(3,658,370)
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>(2,358,840)</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 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>
<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:

<u>Asset Category</u>	<u>Capitalization</u>	<u>Useful Life</u>
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  
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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.

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

**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 Department's 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  
Notes to the Financial Statements  
June 30, 2015

**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>\$ 408,336</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>\$ 10,136,463</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  
Notes to the Financial Statements  
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 Balance July 1, 2014	Additions	Disposals	Transfers	Ending Balance 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  
Notes to the Financial Statements  
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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 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  
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June 30, 2015

**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 <u>employee</u> contribution rates for fiscal year 2014-2015 are as follows:	
<b>SCRS</b>	
Employee Class Two	8.00% of earnable compensation
Employee Class Three	8.00% of earnable compensation
<b>State ORP Employee</b>	8.00% of earnable compensation
<b>PORS</b>	
Employee Class Two	8.41% of earnable compensation
Employee Class Three	8.41% of earnable compensation
Required <u>employer</u> contribution rates for fiscal year 2014-2015 are as follows:	
<b>SCRS</b>	
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
<b>State ORP Employee</b>	
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)*

**PORS**

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

<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.

**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.

	SCRS	PORS
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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June 30, 2015

**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 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  
Notes to the Financial Statements  
June 30, 2015

**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  
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**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 Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of 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 Ending June 30,	Fiscal Year Ending June 30,	SCRS	PORS
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)

South Carolina Department of Disabilities and Special Needs  
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**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 Balance June 30, 2014	Increases	Decreases	Ending Balance June 30, 2015	Current 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  
Notes to the Financial Statements  
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**

	<u>Nonspendable</u>	<u>Restricted</u>	<u>Assigned</u>	<u>Total</u>
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
<b>Total</b>	<b>\$ 217,477</b>	<b>\$ 15,828,671</b>	<b>\$ 3,862,510</b>	<b>\$ 19,908,658</b>

**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**

<b>Autism Community Residential Program</b>				
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	-
<b>Head and Spinal Cord Injury Residential</b>				
Other Operating Expenses	958,763	940,024	940,024	-
<b>Regional Center Residential Program</b>				
Classified Positions	34,109,291	31,594,399	31,594,399	-
Other Personal Services	1,836,989	6,308,560	6,308,560	-
<b>Lander University - Autism Services</b>				
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	-
<b>Employee Benefits</b>				
Employer Contributions	20,925,634	18,892,259	18,892,259	-
<b>Total Expenditures</b>	<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)
<b>Administration</b>				
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
<b>Program and Services</b>				
<b>Prevention Program</b>				
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	-
<b>Intellectual Disabilities - Family Support</b>				
<b>Children's Services</b>				
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	-
<b>In-Home Family Support</b>				
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
<b>Adult Development and Support</b>				
Other Operating Expenses	49,215,777	65,543,484	53,600,430	11,943,054
<b>Service Coordination</b>				
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
<b>Autism Family Support</b>				
<b>Autism Family Support Services</b>				
Other Operating Expenses	8,921,170	8,304,070	4,438,001	3,866,069
Case Services	17,000	17,000	-	17,000
<b>Pervasive Development Disorder</b>				
Other Operating Expenses	3,300,000	3,300,000	1,394,191	1,905,809
<b>Head and Spinal Cord Injury</b>				
Classified Positions	-	79,467	72,605	6,862
Other Operating Expenses	15,799,720	16,804,016	7,675,690	9,128,326
<b>Intellectual Disabilities Residential</b>				
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
<b>Autism Community Residential Program</b>				
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 Funds	Total
Total expenditures, budgetary basis	\$ 216,572,272	\$ 371,245,070	\$ 587,817,342
Perspective difference:			
Other budgeted funds attributable 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 reimbursement are considered an expenditure for GAAP but not for budget	560,000		560,000
Intermediate care fees remitted not considered an expenditure for 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
Department's proportionate share of the net pension liability as percentage of covered-employee payroll	188.6%	196.8%
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**

	2015	2014	2013
Contractually required contribution	\$ 6,460,093	\$ 6,118,522	\$ 6,142,087
Contributions in relation to the contractually required contribution	6,460,093	6,118,522	6,142,087
Contribution deficiency (excess)	\$ -	\$ -	\$ -
Department covered-employee payroll	\$ 59,266,908	\$ 57,721,905	\$ 57,944,213
Contributions as a percentage of 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
Department's proportionate share of the net pension liability as percentage of covered-employee payroll	159.1%	172.3%
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**

	2015	2014	2013
Contractually required contribution	\$ 2,914	\$ 2,710	\$ 2,596
Contributions in relation to the contractually required contribution	2,914	2,710	2,596
Contribution deficiency (excess)	\$ -	\$ -	\$ -
Department covered-employee payroll	\$ 21,100	\$ 21,105	\$ 21,105
Contributions as a percentage of 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 Improvement Act Fund	Total Governmental
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ -	\$ 268,788	\$ 268,788
Receivables, net	261,919	41,193	303,112
<b>Total Assets</b>	<b>\$ 261,919</b>	<b>\$ 309,981</b>	<b>\$ 571,900</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities:</b>			
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
<b>Total Liabilities</b>	<b>260,733</b>	<b>309,981</b>	<b>570,714</b>
<b>Fund balance:</b>			
Restricted	1,186	-	1,186
<b>Total Fund Balances</b>	<b>1,186</b>	<b>-</b>	<b>1,186</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 261,919</b>	<b>\$ 309,981</b>	<b>\$ 571,900</b>

**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 Improvement Act Fund	Total 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>Excess (Deficiency) of Revenues Over Expenditures</b>	<u>1,186</u>	<u>-</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.
-