SOUTH CAROLINA
EDUCATION LOTTERY COMMISSION

REPORT ON FINANCIAL STATEMENTS

FOR THE YEARS ENDED
JUNE 30, 2015 AND 2014

State of South Carolina

Office of the State Auditor

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September 30, 2015

The Honorable Nikki R. Haley, Governor
and
Members of the South Carolina Education Lottery Commission
Columbia, South Carolina

This report on the audit of the financial statements of the South Carolina Education Lottery Commission for the fiscal year ended June 30, 2015, was issued by Elliott Davis Decosimo, 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,

Richard H. Gilbert, Jr., CPA
Deputy State Auditor

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SOUTH CAROLINA EDUCATION LOTTERY COMMISSION

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Independent Auditor's Report

Mr. Richard H. Gilbert, Jr., CPA
Deputy State Auditor
Office of the State Auditor
Columbia, South Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of the South Carolina Education Lottery Commission (the "Commission"), a nonmajor component unit of the State of South Carolina, as of and for the years ended June 30, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the Commission'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 audits. We conducted our audits 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the South Carolina Education Lottery Commission as of June 30, 2015 and 2014, and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Implementation of New Accounting Standard

As discussed in Notes 2, 9 and 10 to the financial statements, the Commission adopted the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions (an amendment of GASB Statement No. 27)*, effective July 1, 2014. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 3 - 7 and the supplementary schedules of the Commission's proportionate share of the net pension liability and contributions on pages 31 – 32, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Commission's basic financial statements. The supplementary schedule of business-type activities for the statewide comprehensive annual financial report is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary schedule of business-type activities for the statewide comprehensive annual financial report is the responsibility of management and was derived from and relates 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 schedule of business-type activities for the statewide comprehensive annual financial report 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 September 30, 2015 on our consideration of the Commission'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 Commission's internal control over financial reporting and compliance.

Elliott Davis Decosimo, LLC

Columbia, South Carolina
September 30, 2015

SOUTH CAROLINA EDUCATION LOTTERY COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS

Management of the Commission provides this *Management's Discussion and Analysis* ("MD&A") of its financial performance for the readers of the Commission's financial statements. This narrative provides an overview of the Commission's financial activity for the fiscal year ended June 30, 2015. This MD&A is to be read in conjunction with the financial statements to provide a more comprehensive analysis of the Commission's financial activities based on facts, decisions, and conditions currently facing management. ***All dollar amounts, unless clear from the context, are expressed in millions.***

Understanding the Commission's Financial Statements

The Commission, an instrumentality of the State of South Carolina, is accounted for as an enterprise fund that reports all assets and liabilities using the accrual basis of accounting, much like a private business entity. In accordance with accounting principles generally accepted in the United States of America, this report consists of a series of financial statements, along with explanatory notes to the financial statements. The financial statements immediately follow this MD&A, and are designed to report the Commission's assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position, revenues, expenses, changes in net position and cash flows.

The Commission commenced operations in 2002 and its sole financial objective is to support education in the State of South Carolina. Accordingly, the Commission transfers all net proceeds ("Cash Transfers")[1] to the State Treasurer for the Education Lottery Account ("ELA"). Cash Transfers consist of all cash generated by the Commission, except for minimal amounts reserved to meet its current financial obligations. Accordingly, Cash Transfers may differ from the Commission's Change in Net Position (hereinafter referred to in this MD&A as "Net Income") which is measured on the accrual basis of accounting.

The Commission sells its lottery tickets through "Retailers," such as gas stations, grocery stores and convenience stores. Retailers receive a 7% commission and other incentives as compensation for selling the Commission's lottery tickets. The Commission offers two types of games for which Retailers sell lottery tickets: "Instant Games" and "Terminal Games." Instant Games generally involve "scratching off" certain areas on the ticket to determine if the ticket contains a prize (usually cash). Instant Game tickets are sold at $1, $2, $3, $5, and $10 price points. Terminal Games, also commonly referred to as "Draw Games," involve the player's selection of a sequence of numbers which if matched to periodic drawings (typically daily or several times weekly) result in the winning of prizes (usually cash).

Currently, the Commission sponsors three Terminal Games: *Pick 3, Pick 4 and Palmetto Cash 5*. During FY 2014, the Commission discontinued one Terminal Game, *Carolina Cash 6™.* In addition, the Commission participates in two national Terminal Games: *Powerball® and Mega Millions®*. In FY 2015, the Commission introduced one new Terminal Game, *Lucky for Life®*, which it offers in conjunction with seventeen other States.

Financial Highlights

Cash Transfers attributable to FY 2015 operations were $348.9 compared to $323.4 in FY 2014, an increase of $25.5. Net Income increased $12.7 in FY 2015 to $343.5 compared to Net Income in FY 2014 of $330.8. The overall increase in Net Income was the result of an increase in "Net Game Margin" of $14.5. Net Game Margin is defined as game revenue minus prize expense minus commissions and incentives (i.e., the purely variable components of Net Income). "Game Margin" is defined as game revenue minus prize expense.

[1]All proceeds of the Commission must be transferred to the State Treasurer for the ELA with the following exceptions: 1) the cost of capital assets, net of depreciation and amortization, and 2) the Restricted Fidelity Fund, derived from the licensing fees of new retailers, which may be retained by the Commission up to $500,000 and used to cover losses the Commission may experience due to nonfeasance, misfeasance, or malfeasance of a lottery retailer.

The following table sets forth the Commission's summarized financial information for the last three fiscal years.

Summary Financial Information

Operating Data

	2015	2014	2013
Revenues			
Instant games	$ 1,002.5	$ 875.5	$ 806.0
Terminal games	399.2	388.9	393.2
	1,401.7	1,264.4	1,199.2
Other revenues	3.6	3.7	3.7
Total revenues	1,405.3	1,268.1	1,202.9
Prize expense			
Instant games	727.1	630.0	578.9
Terminal games	197.0	181.0	196.6
Total prize expense	924.1	811.0	775.5
Margin	481.2	457.1	427.4
Commissions and incentives	98.8	89.2	84.8
Other game-related costs	17.0	16.5	16.1
Operating expenses	21.9	20.6	21.0
Change in net position ("Net income") before cash transfers to ELA	343.5	330.8	305.5
Cash transfers to ELA	(343.5)	(326.6)	(303.3)
Change in net position	-	4.2	2.2
Net Position - beginning of year, as originally reported	39.4	35.2	33.0
Implementation effect of GASB No. 68	(12.7)	-	-
Net Position - beginning of year, as restated	26.7	35.2	33.0
Net Position - end of year	$ 26.7	$ 39.4	$ 35.2
Other information			
Instant game margin	27.5%	28.0%	28.2%
Terminal game margin	50.7%	53.5%	50.0%
Total game margin	34.1%	35.9%	35.3%
Net instant game margin	20.4%	21.0%	21.1%
Net terminal game margin	43.6%	46.4%	42.9%
Net game margin	27.0%	28.8%	28.3%

Net Position Data

	2015	2014	2013
Current assets	$ 68.5	$ 63.3	$ 59.5
Non-current assets			
Capital assets, net	0.8	0.8	0.8
Other non-current assets	5.5	5.7	5.9
Total non-current assets	6.3	6.5	6.7
Total assets	74.8	69.8	66.2
Deferred outflows of resources	1.1	-	-
Current liabilities	35.0	30.2	30.8
Long-term liabilities	13.0	0.2	0.2
Total liabilities	48.0	30.4	31.0
Deferred inflows of resources	1.1	-	-
Net position			
Net investment in capital assets	0.8	0.8	0.8
Restricted fidelity fund	0.4	0.5	0.4
Restricted for ELA	25.5	38.1	34.0
Total net position	$ 26.7	$ 39.4	$ 35.2
Capital assets	$ 5.1	$ 4.9	$ 4.7
Less: accumulated depreciation and amortization	4.3	4.1	3.9
Net investment in capital assets	$ 0.8	$ 0.8	$ 0.8

Fiscal Year 2015 Compared to Fiscal Year 2014

Game Revenue and Margins

Total game revenues were $1,401.7 in FY 2015 and $1,264.4 in FY 2014, for an increase of $137.3, or 10.9%. Total prize expense was $924.1 in FY 2015 and $811.0 in FY 2014, for an increase of $113.1, or 13.9%. Accordingly, on the game revenue increase of $137.3, Game Margin increased $24.2. Net Game Margin (includes commissions and incentives) increased $14.5. As noted above, the increased Net Game Margin is the primary component of the increase in Net Income for the fiscal year.

Total Game Margin and total Net Game Margin increased due to the increased sales of Instant Tickets. In FY 2015, total Instant Game revenues were $1,002.5, an increase of $127.0, or 14.5%, compared to FY 2014. The increase was overwhelmingly attributable to the continued growth of $10 Instant Game revenues, which increased by $123.0, or 22.2% in FY 2015. The net effect of the increase in Instant Game revenues was that the Instant Game Margin increased $29.9, or 12.2%. The Instant Game Margin % was consistent between FY 2015 and FY 2014.

The primary components of the overall $127.0 increase in Instant Game revenues are as follows:

- $1 Tickets decreased $.5, or 1.0%;
- $2 Tickets increased $2.2, or 2.6%;
- $3 Tickets increased $5.4, or 18.7%;
- $5 Tickets decreased $3.1, or 1.9%; and,
- $10 Tickets increased $123.0, or 22.2%.

Even though Terminal Game revenues increased from $388.9 in FY 2014 to $399.2 in FY 2015, or $10.3, the Terminal Game Margin decreased $5.7, or 2.7%. The decrease in the Terminal Game Margin was a result of increased Prize Expense of $16.0. Accordingly, Terminal Game Margin % decreased from 53.5% to 50.7%.

Fluctuations in Terminal Game Margin %, will occur from period to period because the Terminal Games are based on statistical probability which will always be subject to statistical variation in any one given period. Accordingly, Management does not believe the decline in Terminal Game Margin % in FY 2015 is indicative of a continuing trend.

Jackpot "runs" (large increases in the amounts available for prizes) in Powerball® (PB) and Mega Millions® (MM) significantly affect total Terminal Game revenues. The amount of additional revenues that are generated due to jackpot runs are affected by the number of jackpot runs in a fiscal year, the size of the jackpots and the length of time before the jackpot is "hit." Even though it is not possible to measure the exact amount revenues are affected by jackpot runs, Management believes that it can reasonably estimate the amounts.

Total FY 2015 PB and MM revenues were $80.0 and $42.2, respectively. In FY 2014, PB and MM revenues were $93.6 and $51.6, respectively. Accordingly, PB revenues decreased $13.6 and MM revenues decreased $9.4 million in FY 2015 compared to FY 2014.

Management believes that approximately $3.7 of the overall decrease in PB revenues was due to lower revenues associated with jackpot runs and that the entire decrease in MM revenues was due to lower revenues associated with jackpot runs. Management estimates that jackpot runs added $16.8 and $17.4 to PB revenues in FY 2015 and FY 2014, respectively, and that jackpot runs added $19.6 to MM revenues in FY 2014, but added only $9.9 in FY 2015.

Other Revenue and Game Costs

Other revenue, which consists primarily of license and communication fees, was $3.6 in FY 2015 and $3.7 in FY 2014. Game costs were $17.0 in FY 2015 compared to $16.5 in FY 2014. Both of these items were relatively consistent from FY 2014 to FY 2015, as would be expected.

Operating Expenses

Operating expenses consist of advertising and administrative expenses (compensation, occupancy, etc.). In total, operating expenses increased by $1.3 in FY 2015 compared to FY 2014. Operating expenses were $21.9 and $20.6 in FY 2015 and FY 2014, respectively. Most operating expense components were consistent between the periods except for advertising and certain compensation expenses. Advertising expense increased by $.7 due to increased advertising related to the new *Lucky for Life* and other promotions. Salaries and benefits, in aggregate, increased by $.4, primarily as a result of higher pension and health care costs.

Assets, Liabilities and Cash Flows (See Notes 3 through 10 to the financial statements)

As more fully explained in Footnote 1 (on page 3) of this MD&A, the Commission must remit all proceeds, with the exception of amounts used for capital assets and the Fidelity Bond Fund, to the State Treasurer. On a monthly basis, the Commission transfers all its available cash to the State Treasurer. At the end of any given period, the Commission's assets and liabilities consist of cash which will be remitted to the State Treasurer the following month, other assets and liabilities incidental to its operations, capital assets and amounts in the Fidelity Bond Fund. Cash balances not transferred at the end of a reporting period and net assets not classified as capital or Fidelity Bond Fund assets are reflected in the Commission's financial statements as part of its net position under the classification "Restricted for ELA." In prior financial statements, amounts now classified as Restricted for ELA were classified as a liability under the caption "Due to ELA." Management believes the reclassification better reflects the economic substance of the amounts that will ultimately be remitted to the ELA.

The operations of the Commission are funded exclusively by cash flows generated from its primary business operations. The Commission has no outstanding debt. In FY 2015 and FY 2014, the Commission generated $344.4 and $326.4 from operating activities. Amounts used or provided by capital-related financing and investing activities were insignificant in FY 2015 and FY 2014.

At June 30, 2015, the Commission's current assets totaled $68.5 compared to $63.3 at the end of the preceding year. In both years, cash and accounts receivable from retailers composed most of the Commission's current assets. At the end of June 2015 and 2014, combined cash and accounts receivable were $65.5 and $60.5, respectively. Most of the cash held by the Commission, $19.5 and $18.7 at June 30, 2015 and 2014, respectively, was remitted to the State Treasurer the following month.

The only other substantive non-capital asset held by the Commission at June 30, 2015 and 2014 were amounts held on the Commission's behalf by the Multi-State Lottery Association (MUSL). Such amounts, $5.5 and $5.7, at June 30, 2015 and 2014, respectively, are maintained by MUSL to pay the Commission's share to PB and MM prizewinners.

At June 30, 2015, the Commission's current liabilities totaled $35.0 compared to $30.2 at the end of the preceding year. In both years, accrued prize expense composed most of the Commission's current liabilities. At the end of June 2015 and 2014, accrued prize expense was $30.9 and $26.6, respectively.

At June 30, 2015, the Commission's net position totaled $26.7 compared to $39.4 at the end of the preceding year. The primary component of net position are amounts Restricted for ELA which are restricted for future remittances to the ELA as the underlying net assets are realized in cash. Restricted for ELA was $25.5 and $38.1 at June 30, 2015 and 2014, respectively. At June 30, 2015, the Fidelity Bond Fund was $.4 compared to $.5 at June 30, 2014. At June 30, 2015 and 2014, property, equipment and other capital assets were $0.8. Additional discussion on capital assets can be found in Note 4 to the financial statements.

The Commission implemented Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions (an amendment of GASB Statement No. 27)*, in the fiscal year ended June 30, 2015. The implementation of the Statement required the Commission to record beginning net pension liability and the effects on net position of contributions made by the Commission during the measurement period (fiscal year ended June 30, 2014).

Assets, Liabilities and Cash Flows (See Notes 3 through 10 to the financial statements), ***continued***

To the extent practical, in the first period that this Statement is applied, changes made to comply with this Statement should be reported as an adjustment of prior periods, and financial statements presented for the periods affected should be restated. If restatement of all prior periods presented is not practical, the cumulative effect of applying this Statement, if any, should be reported as a restatement of beginning net position for the earliest period restated. In such circumstances, beginning balances for deferred outflows of resources and deferred inflows of resources related to pensions should not be reported. Since the information for the restatement of beginning balances of deferred outflows of resources or deferred inflows of resources is not available for the earliest period presented, the cumulative effect of the Statement implementation is shown as a restatement to beginning net position as of July 1, 2014. As a result, beginning net position for the Commission for the year ended June 30, 2015 decreased by $12.7.

Fiscal Year 2014 Compared to Fiscal Year 2013

Financial Highlights

Cash Transfers attributable to FY 2014 operations were $323.4 compared to $300.6 in FY 2013, an increase of $22.8. Net Income increased $25.3 in FY 2014 to $330.8 compared to Net Income in FY 2013 of $305.5. The increase in Net Income was related to an increase in Net Game Margin of $25.3.

Total game revenues were $1,264.4 in FY 2014 and $1,199.2 in FY 2013 for an increase of $65.2. Total prize expense was $811.0 in FY 2014 and $775.5 in FY 2013 for an increase of $35.5. Accordingly, Game Margin increased $29.7 and, as noted above, Net Game Margin increased $25.3.

Instant Game revenues increased $69.5 and Terminal Game revenues decreased $4.3. Terminal Game revenues decreased primarily as a result of decreased PB sales. The increase in Instant Game revenues was primarily related to the increase in the sales of $10 tickets of $74.1.

The relationship of commissions and incentives and other game-related costs to revenues was consistent in FY 2014 and FY 2013. Operating expenses were generally consistent and totaled $20.6 and $21.0 in FY 2014 and FY 2013, respectively.

Contacting the Commission's Financial Management

This financial report is designed to provide a general overview of the Commission’s financial activity for all those interested in the Commission’s operations. Questions concerning any of the information provided in this report, or requests for additional financial information, should be addressed to the Chief Financial Officer, South Carolina Education Lottery, Post Office Box 11949, Columbia, South Carolina 29211-1949.

SOUTH CAROLINA EDUCATION LOTTERY COMMISSION
STATEMENTS OF NET POSITION

	June 30, 2015	June 30, 2014
CURRENT ASSETS		
Cash and cash equivalents	$ 19,059,707	$ 18,158,945
Cash - restricted fidelity fund	436,550	493,049
Retailer accounts receivable, net of allowance for doubtful accounts of $1,280,639 and $1,372,745 for 2015 and 2014, respectively	46,014,175	41,818,626
Inventory	2,348,512	2,218,972
Prepaid expenses and other current assets	643,584	637,198
Total current assets	68,502,528	63,326,790
NONCURRENT ASSETS		
Capital assets, net	744,007	814,867
Deposits with Multi-State Lottery Association	5,536,660	5,660,409
Total noncurrent assets	6,280,667	6,475,276
TOTAL ASSETS	**74,783,195**	**69,802,066**
DEFERRED OUTFLOWS OF RESOURCES	**1,053,849**	**-**
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	**$ 75,837,044**	**$ 69,802,066**
CURRENT LIABILITIES		
Prizes payable	$ 30,295,033	$ 25,957,860
Prizes payable - Multi-State Lottery Association	600,945	688,642
Accounts payable	1,612,455	1,388,271
Accrued liabilities	1,354,634	1,095,694
Current portion of accrued compensated absences	492,895	492,497
Unearned revenue	618,960	566,494
Total current liabilities	34,974,922	30,189,458
NONCURRENT LIABILITIES		
Accrued compensated absences	219,993	212,907
Net pension liability	12,831,544	-
TOTAL LIABILITIES	**48,026,459**	**30,402,365**
DEFERRED INFLOWS OF RESOURCES	**1,083,718**	**-**
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	**$ 49,110,177**	**$ 30,402,365**
Net investment in capital assets	$ 744,007	$ 814,867
Restricted fidelity fund	436,550	493,049
Restricted for Education Lottery Account	25,546,310	38,091,785
TOTAL NET POSITION	**$ 26,726,867**	**$ 39,399,701**

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

SOUTH CAROLINA EDUCATION LOTTERY COMMISSION
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	For the years ended June 30, 2015	2014
OPERATING REVENUES		
Sales Revenues		
Instant games	$ 1,002,484,720	$ 875,535,083
Terminal games	399,176,420	388,904,509
Net sales revenues	1,401,661,140	1,264,439,592
Other Operating Revenues		
Retailer permit fees	560,130	526,140
Retailer on-line communication fees	2,970,630	2,991,390
Other	101,052	169,083
Total other operating revenues	3,631,812	3,686,613
Total revenues	1,405,292,952	1,268,126,205
DIRECT COSTS		
Commissions and incentives to retailers	98,836,424	89,234,224
Prize expense		
Instant games	727,137,718	630,024,643
Terminal games	196,999,099	181,030,725
Total prize expense	924,136,817	811,055,368
Instant and terminal game costs	16,950,887	16,499,874
Total direct costs	1,039,924,128	916,789,466
Gross profit	365,368,824	351,336,739
OPERATING EXPENSES		
Advertising and promotion	8,113,941	7,444,136
Security checks	277,559	273,400
Salaries, wages and benefits	9,836,159	9,371,885
Contracted and professional services	656,812	605,691
Depreciation and amortization	229,469	183,228
Rent	703,626	826,536
Office supplies	47,981	43,192
Other general and administrative	2,010,702	1,831,595
Total operating expenses	21,876,249	20,579,663
Operating income	343,492,575	330,757,076
NON-OPERATING INCOME		
Interest income	1,036	971
Gain on disposition of other assets	1,788	1,461
Total non-operating income	2,824	2,432
Change in net position before amount remitted to Education Lottery Account	343,495,399	330,759,508
REMITTED TO EDUCATION LOTTERY ACCOUNT	(343,516,852)	(326,571,794)
Change in net position before implementation effect of GASB No. 68	(21,453)	4,187,714
NET POSITION - BEGINNING OF YEAR, AS ORIGINALLY REPORTED	39,399,701	35,211,987
IMPLEMENTATION EFFECT OF GASB No. 68	(12,651,381)	-
NET POSITION - BEGINNING OF YEAR, AS RESTATED	26,748,320	35,211,987
NET POSITION - END OF YEAR	$ 26,726,867	$ 39,399,701

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

SOUTH CAROLINA EDUCATION LOTTERY COMMISSION
STATEMENTS OF CASH FLOWS

	For the years ended June 30, 2015	For the years ended June 30, 2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from retailers	$ 1,401,149,869	$ 1,264,614,887
Cash payments to prize winners	(919,887,341)	(811,301,176)
Cash payments for goods and services	(127,250,734)	(117,545,430)
Cash payments to employees for services	(9,618,643)	(9,340,444)
Net cash provided by operating activities	344,393,151	326,427,837
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Cash received from Multi-State Lottery Association	123,749	193,072
Payments to Education Lottery Account	(343,516,852)	(326,571,794)
Net cash used for noncapital financing activities	(343,393,103)	(326,378,722)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from disposition of other assets	1,788	1,461
Purchases of capital assets	(158,609)	(192,581)
Net cash used for capital and related financing activities	(156,821)	(191,120)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	1,036	971
Net cash provided by investing activities	1,036	971
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	844,263	(141,034)
CASH AND CASH EQUIVALENTS		
BEGINNING OF YEAR	18,651,994	18,793,028
END OF YEAR	**$ 19,496,257**	**$ 18,651,994**
OPERATING ACTIVITIES		
Operating income	$ 343,492,575	$ 330,757,076
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization	229,469	183,228
Changes in assets and liabilities		
Retailer accounts receivable	(4,195,549)	(3,585,418)
Inventory	(129,540)	(272,045)
Prepaid expenses and other current assets	(6,386)	(66,041)
Accounts payable and accrued liabilities	700,640	(417,256)
Prizes payable	4,249,476	(245,808)
Unearned revenue	52,466	74,101
Net cash provided by operating activities	**$ 344,393,151**	**$ 326,427,837**

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

SOUTH CAROLINA EDUCATION LOTTERY COMMISSION
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - REPORTING ENTITY

The State of South Carolina (the "State") established the South Carolina Education Lottery Commission (the "Commission") as an instrumentality of the State with enactment of Act 59 of 2001 (the "Act"). The Commission is responsible for the provision of lotteries on behalf of the State in accordance with the Act. The Act established a board of nine commissioners as an organization legally separate from the State. The Governor, the President *Pro Tempore* of the Senate, and the Speaker of the House of Representatives each appoint three commissioners. The Commission exercises powers comparable to those of a governing board of a private business enterprise. The Commission remits "net proceeds" as defined by the Act to the State. Therefore, the State reports the Commission as a nonmajor discretely presented component unit in its comprehensive annual financial report (CAFR).

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies of the Commission are as follows:

Method of Accounting

The Commission accounts for activities as an enterprise fund. The State uses enterprise funds to account for activities financed and operated in a manner similar to private business enterprises where the sale of lottery game tickets finances the costs of providing lottery games to the public on a continuing basis. The Act requires that all costs of providing lottery games, including capital costs, be recovered from the sale of lottery game tickets.

The Governmental Accounting Standards Board (GASB) is the recognized standard setting body for generally accepted accounting principles applicable to governmental proprietary activities in the United States of America. The Commission applies all applicable GASB pronouncements and all applicable Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, when not in conflict with GASB pronouncements. In accordance with GASB Code Sec. P80.103, the Commission has elected not to implement FASB Statements 103 and after.

Basis of Accounting

The financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Under this method, revenues are recognized when they are earned and expenses are recognized when they are incurred.

Use of Estimates

The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions. The estimates and assumptions made affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Operating Revenues

Operating revenue is defined as revenue earned from all operations related to the selling of tickets for instant and terminal games and fees charged to retailers for permits and licenses and communications.

Non-operating Income

Non-operating income is defined as all revenue that is not generated through ticket sale operations, such as interest income and gains recorded from the disposition of assets.

Revenue, Accounts Receivable, and Unearned Revenue Recognition

Revenue and accounts receivable for terminal games are recognized when tickets are sold to the public by contracted retailers, except for terminal game tickets sold in advance of the draw date for which unearned revenue is recorded.

Revenue and accounts receivable for instant games are recognized upon settlement of ticket packs for sale by the retailers. Settlement with the retailer occurs upon the earlier of 60 days after the ticket pack is activated or when 80% of the lower tier prizes in a ticket pack have been paid. The Commission evaluates its receivables on an ongoing basis for collectability.

Commissions

Retailers receive a commission of 7 percent on total sales.

Prizes

In accordance with the Act, as nearly as practical, at least 45 percent of ticket sales must be returned to the public in the form of prizes. Prize expense for instant ticket games is recorded as an estimate at the time the related revenue is recognized based on the predetermined prize structure for each game; periodically, the prize expense is adjusted to reflect amounts actually won. Prize expense for terminal games is recorded at the time the related revenue is recognized based on the known prizes.

Ticket Inventories

Inventories are carried at cost and consist of instant tickets located in the Commission's warehouse or held by retailers. The cost of tickets is charged to operations upon the recognition of revenue under the procedures described above.

Unclaimed Prizes

For instant games, prizes must be claimed within 90 days after the last day to sell that game. For terminal games, prizes must be claimed within 180 days after the draw date for that game. Unclaimed prize money must be deposited into the Education Lottery Account (ELA) with the State Treasurer.

Reclassification of Restricted for ELA

In Fiscal Year 2015, the Commission reclassified amounts previously classified as a liability under the caption "Due to ELA" to net position under the caption "Restricted for ELA." Amounts recorded as Restricted for ELA represent accumulated earnings and are composed of cash balances not transferred at the end of a reporting period and net assets not classified as capital or Fidelity Bond Fund. Management believes the reclassification better reflects the economic substance of the amounts that will ultimately be remitted to the ELA.

Net Position

Net position represents cumulative revenues, less expenses, in excess of net proceeds remitted to the ELA, as defined under the Act.

Change in Net Position

Change in net position consists of all revenues derived from the sale of lottery game tickets and all other monies derived from the lottery games, less operating expenses, prizes and amounts remitted to the ELA.

Operating Expenses

Operating expenses, as defined by the Act, in the determination of net proceeds, consist of all costs of doing business including, but not limited to, prizes, commissions, and other compensation paid to lottery retailers, advertising and marketing costs, rental fees, personnel costs, capital costs, depreciation and amortization of capital assets, and other operating costs.

Cash and Cash Equivalents

The Commission considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. This includes cash in banks and petty cash.

Retailer Accounts Receivable

Retailer accounts receivable represent lottery proceeds due from retailers for ticket sales, less commissions and prizes paid by the retailers. The Commission collects lottery proceeds weekly from retailer bank accounts. The Commission maintains allowances for potential losses which management believes are adequate to absorb losses to be incurred in realizing the amounts recorded in the accompanying financial statements. Credit risk with respect to accounts receivable is dispersed due to the nature of the business and the large number of retailers. Pursuant to licensing qualified retailers, the Commission obtains background information on prospective retailers from the South Carolina Department of Revenue and the South Carolina Law Enforcement Division.

Capital Assets

Capital assets, which consist of equipment, vehicles, leasehold improvements and intellectual property, in the form of a patent license, are stated at cost less accumulated depreciation or amortization. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the capital assets. Leasehold improvements are amortized over their expected useful lives or the lease term, whichever is shorter. When capital assets are retired or otherwise disposed of, the costs and related accumulated depreciation or amortization are removed from the accounts, and any resulting gain or loss is reflected in the results from operations in the period of disposal. The Commission capitalizes all capital asset purchases with a unit cost of $5,000 or more. The estimated useful lives used for the major capital asset categories are as follows:

Equipment	3 - 10 years;
Vehicles	3 - 5 years;
Leasehold improvements	5 - 10 years; and,
Intellectual property	7 years.

Prepaid Items

In accordance with the State's accounting policy, the consumption method is used to account for prepaid items.

Restricted Fidelity Fund

In accordance with the Act, retailers contribute a fee to a fidelity fund upon acceptance as a lottery retailer. The fund is used to cover losses the Commission may incur due to misfeasance, nonfeasance, or malfeasance of retailers. At the end of each fiscal year, any amount in the fund in excess of $500,000 is treated as net proceeds from the Commission and is payable to the ELA. As of June 30, 2015 and 2014, the balance in the restricted fidelity fund was $436,550 and $493,049, respectively.

Restricted Fidelity Fund (continued)

Transfers of $92,107 and $0 were made during the years ended June 30, 2015 and 2014, respectively, for retailer losses. The fidelity fund is held in a separate account and appears on the Statement of Net Position as "Restricted fidelity fund."

Insurance

The Commission is exposed to the risk of loss related to torts; theft of, damage to, and the destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Commission combines coverage provided by the South Carolina Insurance Reserve Fund with the purchase of commercial insurance to substantially cover these risks. The amount of settlements did not exceed insurance coverage in each of the past three fiscal years. The Commission is also exposed to custodial credit risk on deposits, which is discussed further in Note 3.

Compensated Absences

Employees earn the right to be compensated during absences for annual and sick leave. Unused annual leave benefits are paid to employees upon separation from service. The cost of annual and sick leave is accrued in the period in which it is earned.

Deposit with Multi-State Lottery Association (MUSL)

The Commission is required to maintain funds in reserve with MUSL. This reserve serves as a contingent source for prize payouts should MUSL games not generate sufficient funds to pay amounts due to prizewinners. MUSL is not a financial institution. Balances related to these deposits as of June 30, 2015 and 2014 were $5,536,660 and $5,660,409, respectively.

Prizes Payable - Multi-State Lottery Association (MUSL)

Prizes Payable – MUSL consists of the Commission's annual pro rata allocation of prizes for games administered by MUSL. Balances related to these payables as of June 30, 2015 and 2014 were $600,945 and $688,642, respectively.

Advertising

Costs incurred for producing and communicating advertising are expensed when incurred, which generally is when the advertising first takes place.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the South Carolina Retirement System (SCRS) and the South Carolina Police Officers Retirement System (PORS) and additions to/deductions from SCRS's and PORS' fiduciary net position have been determined on the same basis as they are reported by SCRS or PORS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Outflows of Resources and Deferred Inflows of Resources

Changes in net pension liability not included in pension expense are reported as deferred outflows of resources or deferred inflows of resources. Employer contributions subsequent to the measurement date of the net pension liability are reported as deferred outflows of resources. Deferred outflows of resources and deferred inflows of resources are also determined by the difference in actual and expected liability experience and projected and actual return on investments, respectively.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Adoption of New Accounting Standards

In March 2012, the GASB issued GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The objective of this Statement is to either (a) properly classify certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or (b) recognize certain items that were previously reported as assets and liabilities as outflows of resources (expenses or expenditures) or inflows of resources (revenues). These determinations are based on the definitions of those elements in Concepts Statement No. 4, *Elements of Financial Statements*. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012, with early adoption permitted. The Commission adopted this accounting standard for the fiscal year ended June 30, 2014.

Effective for the fiscal year ended June 30, 2015, the Commission adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions (an amendment of GASB Statement No. 27).* As a result of this implementation, the Commission reports its portion of the State of South Carolina's net pension liability. Since the information for the restatement of beginning balances of deferred outflows of resources or deferred inflows of resources is not available for the earliest period presented, the cumulative effect of the Statement implementation will be shown as a restatement to net position as of June 30, 2015. The effect of this implementation is discussed in Notes 9 and 10.

Subsequent Events

In preparing these financial statements, the Commission has evaluated events and transactions for potential recognition or disclosure through September 30, 2015, the date these financial statements were available to be issued.

Reclassifications

Certain prior year amounts have been reclassified to conform to current year presentation.

NOTE 3 - DEPOSITS

The Commission's cash and cash equivalents are considered to be cash-on-hand and interest bearing demand deposits held by banks and the State Treasurer.

As of June 30, 2015 and 2014, the amounts of the Commission's deposits were as follows:

	2015		2014	
	Carrying amounts	Bank balances	Carrying amounts	Bank balances
Demand deposits	$ 19,496,257	$ 19,863,157	$ 18,651,994	$ 19,224,936

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Commission's deposits may not be returned to it. For the years ended June 30, 2015 and 2014, all of the Commission's bank balances of $19,863,157 and $19,224,936, respectively, were covered by FDIC insurance or by collateral held by the pledging financial institutions' trust departments in the Commission's name. Therefore, none of the Commission's bank balances were exposed to custodial credit risk as of June 30, 2015 and 2014.

NOTE 3 - DEPOSITS, Continued

State Law

The Act requires the Commission to remit to the State Treasurer all net proceeds on a monthly basis. Net proceeds are not available to the Commission for long-term investment. State Code Section 11-13-60 requires full collateralization of all deposits held by the State Treasurer.

NOTE 4 - CAPITAL ASSETS

The following is a summary of changes in capital assets and accumulated depreciation and amortization during fiscal year 2015:

	Balance as of June 30, 2014	Additions	Deletions	Balance as of June 30, 2015
Cost				
Equipment	$ 2,983,368	$ 98,371	$ -	$ 3,081,739
Vehicles	78,120	60,238	-	138,358
Leasehold improvements	1,315,694	-	-	1,315,694
Intellectual property	555,815	-	-	555,815
	4,932,997	158,609	-	5,091,606
Accumulated depreciation / amortization				
Equipment	(2,644,118)	(147,043)	-	(2,791,161)
Vehicles	(51,072)	(5,762)	-	(56,834)
Leasehold improvements	(1,301,556)	-	-	(1,301,556)
Intellectual property	(121,384)	(76,664)	-	(198,048)
	(4,118,130)	(229,469)	-	(4,347,599)
Total capital assets, net	**$ 814,867**	**$ (70,860)**	**$ -**	**$ 744,007**

The following is a summary of changes in capital assets and accumulated depreciation and amortization during fiscal year 2014:

	Balance as of June 30, 2013	Additions	Deletions	Balance as of June 30, 2014
Cost				
Equipment	$ 2,821,081	$ 162,287	$ -	$ 2,983,368
Vehicles	47,826	30,294	-	78,120
Leasehold improvements	1,315,694	-	-	1,315,694
Intellectual property	555,815	-	-	555,815
	4,740,416	192,581	-	4,932,997
Accumulated depreciation/amortization				
Equipment	(2,540,800)	(103,318)	-	(2,644,118)
Vehicles	(47,826)	(3,246)	-	(51,072)
Leasehold improvements	(1,301,556)	-	-	(1,301,556)
Intellectual property	(44,720)	(76,664)	-	(121,384)
	(3,934,902)	(183,228)	-	(4,118,130)
Total capital assets, net	**$ 805,514**	**$ 9,353**	**$ -**	**$ 814,867**

NOTE 5 - ACCRUED LIABILITIES

	2015	2014
Accrued expenses as of June 30 consist of the following:		
Accrued payroll and related expenses	$ 878,636	$ 721,394
Accrued other expenses	475,998	374,300
Total accrued expenses	$ 1,354,634	$ 1,095,694

NOTE 6 - LONG-TERM CONTRACTS AND COMMITMENTS

In November 2008, the Commission began a ten-year contract with Intralot to provide terminal gaming services. The contract requires Intralot to provide and support the components of the Commission's lottery operations. Services to be provided under the contract include the replacement, as necessary, of hardware and software owned and maintained by Intralot. The Commission has agreed to pay an annual fee of $6,777,900 for these services.

Future minimum contract payments to Intralot are scheduled as follows for the years ending June 30:

Fiscal Year	Contract Payments to Intralot
2016	$ 6,777,900
2017	6,777,900
2018	6,777,900
2019	2,315,782

The monthly terminal gaming fee payments to Intralot totaled $6,777,900 for the years ended June 30, 2015 and 2014, respectively.

Scientific Games International (SGI) has provided services for the instant games contract since inception. During fiscal year 2013, the contract was rebid and SGI was again awarded the contract to provide instant tickets, including services of marketing support, warehousing, and distribution, among other items associated with providing instant tickets. Payments to SGI are contingent upon actual services provided. Total payments to SGI relating to instant ticket services were $8,889,901 and $8,356,177 for the years ended June 30, 2015 and 2014, respectively. The new contract period ends September 2020.

NOTE 7 - ACCRUED COMPENSATED ABSENCES

The following is a summary of changes in accrued compensated absences during fiscal year 2015:

	Balance as of June 30, 2014	Additions	Deductions	Balance as of June 30, 2015
Accrued compensated absences	$ 705,404	$ 503,188	$ 495,704	$ 712,888

Compensated absences due in the next fiscal year are estimated at $492,895, which is based on an average of the prior years' annual leave deductions.

The following is a summary of changes in accrued compensated absences during fiscal year 2014:

	Balance as of June 30, 2013	Additions	Deductions	Balance as of June 30, 2014
Accrued compensated absences	$ 673,963	$ 485,245	$ 453,804	$ 705,404

Compensated absences due in the next fiscal year are estimated at $492,497, which is based on an average of the prior years' annual leave deductions.

NOTE 8 - OPERATING LEASES

The Commission has entered into operating leases for the rental of office space for its headquarters and claim center. Certain operating leases contain provisions for scheduled rental increases and are renewable at the option of the Commission.

Future minimum rental payments, to entities outside the State reporting entity, on non-cancellable leases with original terms of one year or more are scheduled as follows for the year ending June 30:

Year	Leases
2016	$ 543,639
2017	536,929
2018	548,216
2019	559,503
2020	570,790
2021 - 2024	2,396,026

Rental expenses under all operating leases, including those on month-to-month terms, totaled $703,626 and $826,536 for the years ended June 30, 2015, and 2014, respectively. This amount includes $59,895 and $72,689, respectively, in vehicle rental paid to the State Fleet Management.

NOTE 9 - RESTATEMENT FOR CHANGE IN ACCOUNTING PRINCIPLE

The Commission implemented Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions (an amendment of GASB Statement No. 27),* in the fiscal year ended June 30, 2015. The implementation of the Statement required the Commission to record beginning net pension liability and the effects on net position of contributions made by the Commission during the measurement period (fiscal year ended June 30, 2014). As a result, beginning net position for the Commission for the year ended June 30, 2015 decreased by $12,651,381.

The implementation effect of adopting GASB Statement No. 68 reduced the amount of the component of net position classified as Restricted for ELA. The following table summarizes the activity in Restricted for ELA for the year ended June 30:

	2015	**2014**
Restricted for ELA, beginning of year, as originally reported	$ 38,091,785	$ 33,960,376
Implementation effect of GASB No. 68	(12,651,381)	-
Restricted for ELA, beginning of year, as restated	25,440,404	33,960,376
Change in net position before transfers to ELA	343,495,399	330,759,508
Cash transfers to ELA	(343,516,852)	(326,571,794)
Change in capital assets, net	70,860	(9,353)
Net amount paid from fidelity fund	56,499	(46,952)
Restricted for ELA, end of year	**$ 25,546,310**	**$ 38,091,785**

NOTE 10 - 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 eleven (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, which consists of five elected officials, also reviews certain PEBA Board decisions regarding the funding of the 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 South Carolina Retirement Systems' Pension Trust Funds. The CAFR is publicly available on the Retirement Benefits' link on PEBA's website at www.retirement.sc.gov, or a copy may be obtained by submitting a request to South Carolina Public Employee Benefit Authority, Retirement Systems Finance, 202 Arbor Lake Drive, Columbia, SC 29223. 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 of South Carolina.

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 (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.

NOTE 10 - PENSION PLANS, Continued

Plan descriptions (continued)

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 South Carolina General Assembly beginning with the November 2012 general election have the option to participate in the State Optional Retirement Program (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 (8.00 percent) and a portion of the employer contribution (5.00 percent). A direct remittance is also required to SCRS for the remaining portion of the employer contribution (5.75 percent) and an incidental death benefit contribution (0.15 percent), if applicable, which is retained by SCRS.

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 benefit terms for each system is presented below.

NOTE 10 - PENSION PLANS, Continued

Benefits (continued)

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 years earned service requirement, respectively.

The benefit formula for full benefits effective since July 1, 1989 for the SCRS is 1.82 percent of an employee's average final compensation (AFC) multiplied by the number of years of credited service. For Class Two members, AFC is the average annual earnable compensation during 12 consecutive quarters and includes an amount for up to 45 days termination pay at retirement for unused annual leave. For Class Three members, AFC is the average annual earnable compensation during 20 consecutive quarters and termination pay for unused annual leave at retirement is not included. 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.

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 2.90 percent of earnable compensation for SCRS and 5.00 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 the 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.

NOTE 10 - PENSION PLANS, Continued

Contributions (continued)

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

SCRS	
Employee Class Two	8.00% of earnable compensation
Employee Class Three	8.00% of earnable compensation
State ORP	8.00% of earnable compensation
PORS	
Employee Class One	$21 per month
Employee Class Two	8.41% of earnable compensation
Employee Class Three	8.41% of earnable compensation

- Required **employer** contributions for fiscal year 2014-2015 are as follows:

SCRS	
Employer Class Two	10.75% of earnable compensation
Employer Class Three	10.75% of earnable compensation
Employer Incidental Death Benefit	0.15% of earnable compensation
State ORP	
Employer Contribution	10.75% of earnable compensation
Employer Incidental Death Benefit	0.15% of earnable compensation
PORS	
Employer Class One	7.80% of earnable compensation
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

Of the ORP employer contribution of 10.75% of earnable compensation, 5.00% 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.

Contributions to the SCRS, ORP, and PORS pension plans from the Commission were $652,483, $32,701, and $5,187 for the year ended June 30, 2015, respectively.

Effective January 1, 2001, Section 9-1-2210 of the South Carolina Code of Laws allows employees eligible for service retirement to participate in the TERI Program. TERI participants may retire and begin accumulating retirement benefits on a deferred basis without terminating employment for up to five years. Upon termination of employment or at the end of the TERI period, whichever is earlier, participants will begin receiving monthly service retirement benefits which will include any benefit adjustments granted during the TERI period. Because participants are considered retired during the TERI period, they do not earn service credit, and are ineligible for disability retirement benefits. The TERI program will end effective June 30, 2018 and a member's participation may not continue after that date.

NOTE 10 - PENSION PLANS, Continued

Net pension liability

At June 30, 2015, the Commission reported liabilities of $12,768,753 and $62,791 for its proportionate shares of the SCRS and PORS net pension liabilities, respectively. The net pension liabilities were measured as of July 1, 2014, and the total pension liabilities used to calculate the net pension liabilities were determined by an actuarial valuation as of that date. The Commission's proportionate shares of the net pension liabilities were based on a projection of the its long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2014, the Commission's proportionate shares of the SCRS and PORS plans were 0.07417% and 0.00326%, which was the same as its proportionate shares of the net pension liabilities measured as of June 30, 2013, respectively.

Pension expense

For the year ended June 30, 2015, the Commission recognized pension expense for the SCRS and PORS plans of $894,945 and $5,458, respectively.

Deferred outflows of resources and deferred inflows of resources

At June 30, 2015, the Commission reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources for each of the respective plans:

	SCRS	
	Deferred outflows of resources	**Deferred inflows of resources**
Differences between expected and actual experience	$ 361,813	$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	1,076,499
Changes in proportion and differences between Commission contributions and proportionate share of contributions	-	-
Commission contributions subsequent to the measurement date	685,184	-
Total	$ 1,046,997	$ 1,076,499

	PORS	
	Deferred outflows of resources	**Deferred inflows of resources**
Differences between expected and actual experience	$ 1,665	$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	7,219
Changes in proportion and differences between Commission contributions and proportionate share of contributions	-	-
Commission contributions subsequent to the measurement date	5,187	-
Total	$ 6,852	$ 7,219

NOTE 10 - PENSION PLANS, Continued

Deferred outflows of resources and deferred inflows of resources (continued)

The $685,184 and $5,187 reported as deferred outflows of resources related to pensions resulting from Commission contributions subsequent to the measurement date for the SCRS and PORS plans, respectively, during the year ended June 30, 2015 will be recognized as a reduction of the net pension liabilities during the year ending June 30, 2016.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows for the SCRS and PORS plans, respectively:

		SCRS
Year ended June 30:		
2016	$	(157,212)
2017		(157,212)
2018		(157,212)
2019		(243,050)
2020		-

		PORS
Year ended June 30:		
2016	$	(1,373)
2017		(1,373)
2018		(1,373)
2019		(1,435)
2020		-

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 and Budget and Control Board are as of July 1, 2013. The net pension liability of each defined benefit pension plan was therefore determined by PEBA’s 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.

NOTE 10 - PENSION PLANS, Continued

Actuarial assumptions and methods (continued)

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

	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.

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%

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.

NOTE 10 - PENSION PLANS, Continued

Actuarial assumptions and methods (continued)

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**
Short Term	5.0%		
Cash	2.0%	0.3	0.01
Short Duration	3.0%	0.6	0.02
Domestic Fixed Income	13.0%		
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
Global Fixed Income	9.0%		
Global Fixed Income	3.0%	0.8	0.02
Emerging Markets Debt	6.0%	4.1	0.25
Global Public Equity	31.0%	7.8	2.42
Global Tactical Asset Allocation	10.0%	5.1	0.51
Alternatives	32.0%		
Hedge Funds (Low Beta)	8.0%	4	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

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.

NOTE 10 - PENSION PLANS, Continued

Sensitivity analysis

The following table presents the Commission's proportionate share of the net pension liabilities of the respective plans calculated using the discount rate of 7.50 percent, as well as what the Commission's proportionate share of the 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.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

System	1.00% Decrease (6.50%)	Current Discount Rate (7.50%)	1.00% Increase (8.50%)
SCRS	$ 16,523,558	$ 12,768,753	$ 9,636,171
PORS	87,190	62,791	41,872

Pension plan fiduciary net position

The net pension liability 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, net pension liability amounts for SCRS and PORS are as follows (amounts expressed in thousands):

System	Total Pension Liability	Plan Fiduciary Net Position	Employers' Net Pension Liability (Asset)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
SCRS	$ 42,955,205,796	$ 25,738,521,026	$ 17,216,684,770	59.9%
PORS	5,899,529,434	3,985,101,996	1,914,427,438	67.5%

The total pension liability is calculated by the System's actuary, and each plan's fiduciary net position is reported in the System's financial statements. The net pension liability is disclosed in accordance with the requirements of GASB Statement No. 67 in the System's notes to the financial statements and required supplementary information.

Detailed information regarding the fiduciary net position of the plans administered by PEBA is available in the separately issued comprehensive annual financial report containing financial statements and required supplementary information for SCRS and PORS which can be accessed via the contact information provided on page 19.

NOTE 11 - POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS

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 Commission 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, a part 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 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 participating in the Retiree Medical Plan 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 Commission paid approximately $350,277 and $344,075 applicable to the surcharge included with the employer contribution for retirement benefits 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. The Commission recorded employer contributions expenses applicable to these insurance benefits for active employees in the amount of approximately $4,125 and $4,015 for the years ended June 30, 2015 and 2014, respectively.

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 Insurance Benefits Division 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, PO Box 11960, Columbia, SC 29211-1960.

NOTE 12 - CONTINGENCIES

The Commission is subject to litigation in the ordinary course of its business. In the opinion of management and legal counsel, the outcome of such litigation will not have a material impact on the financial position or cash flows of the Commission as of and for the year ended June 30, 2015.

NOTE 13 - TRANSACTIONS WITH STATE ENTITIES AND RELATED PARTIES

For the year ended June 30, 2015, the Commission had certain transactions with the State and various other agencies as follows:

Related Party	Amount	Nature of Transaction
South Carolina Department of Revenue	$ 6,269,484	Transfers of state income tax withholdings for prizes, use taxes, prize debt setoffs, and retailer credit checks
South Carolina Law Enforcement Division	376,414	Security services and fees paid for background checks on employees and retailers
South Carolina State Treasurer	343,516,852	Remittances of net proceeds and unclaimed prizes
South Carolina State Treasurer	1,512	Unclaimed property return
South Carolina Budget & Control Board	115,962	Vehicles, telephone, printing, and miscellaneous services
South Carolina Public Employee Benefit Authority	1,024,449	Employee insurance
South Carolina Department of Social Services	114,585	Debt setoffs withheld from prize winnings
South Carolina Department of Public Safety	349,413	Security services
South Carolina State Accident Fund	32,465	Workers' compensation insurance
South Carolina Retirement Systems	1,540,170	Employee contributions / employer match
South Carolina Department of Employment & Workforce	1,902	Unemployment insurance
South Carolina Legislative Audit Council	134,260	Management Review
Other	5,718	State Codes, memberships, class registrations
Total	**$ 353,483,186**	

NOTE 13 - TRANSACTIONS WITH STATE ENTITIES AND RELATED PARTIES, Continued

For the year ended June 30, 2014, the Commission had certain transactions with the State and various other agencies as follows:

Related Party	Amount	Nature of Transaction
South Carolina Department of Revenue	$ 21,306,903	Transfers of state income tax withholdings for prizes, use taxes, prize debt setoffs, and retailer credit checks
South Carolina Law Enforcement Division	501,391	Security services and fees paid for background checks on employees and retailers
South Carolina State Treasurer	326,571,794	Remittances of net proceeds and unclaimed prizes
South Carolina State Treasurer	2,358	Unclaimed property return
South Carolina Budget & Control Board	101,183	Vehicles, telephone, printing, and miscellaneous services
South Carolina Public Employee Benefit Authority	963,141	Employee insurance
South Carolina Department of Social Services	45,869	Debt setoffs withheld from prize winnings
South Carolina Department of Public Safety	342,562	Security services
South Carolina State Accident Fund	31,285	Workers' compensation insurance
South Carolina Retirement Systems	1,728,713	Employee contributions / employer match
South Carolina Department of Employment & Workforce	11,736	Unemployment insurance
Other	6,635	State Codes, memberships, class registrations
Total	**$ 351,613,570**	

SOUTH CAROLINA EDUCATION LOTTERY COMMISSION
SUPPLEMENTARY SCHEDULE OF THE COMMISSION'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

	For the years ended June 30,	
	SCRS	
	2015	**2014**
Commission's proportion of the net pension liability	0.07417%	0.07417%
Commission's proportionate share of the net pension liability	$ 12,768,753	$ 13,302,555
Commission's covered payroll during the measurement period	$ 6,173,645	$ 6,247,542
Commission's proportionate share of the net pension liability as a percentage of its covered-employee payroll during the measurement period	206.82681%	212.92462%
Plan fiduciary net position as a percentage of the total pension liability	59.90000%	56.38821%
	PORS	
	2015	**2014**
Commission's proportion of the net pension liability	0.00326%	0.00326%
Commission's proportionate share of the net pension liability	$ 62,791	$ 67,579
Commission's covered payroll during the measurement period	$ 39,194	$ 36,802
Commission's proportionate share of the net pension liability as a percentage of its covered-employee payroll during the measurement period	160.20564%	183.62861%
Plan fiduciary net position as a percentage of the total pension liability	67.54949%	62.97880%

SOUTH CAROLINA EDUCATION LOTTERY COMMISSION
SUPPLEMENTARY SCHEDULE OF THE COMMISSION'S CONTRIBUTIONS

SCRS

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Contractually required contribution	$ 685,184	$ 703,992	$ 713,645	$ 666,552	$ 646,657	$ 688,811	$ 689,943	$ 658,613	$ 688,665	$ 497,486
Contributions in relation to the contractually required contribution	$ 685,184	$ 703,992	$ 713,645	$ 666,552	$ 646,657	$ 688,811	$ 689,943	$ 658,613	$ 688,665	$ 497,486
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Commission's covered-employee payroll	$ 5,948,790	$ 6,173,645	$ 6,247,542	$ 6,596,637	$ 6,620,028	$ 7,454,663	$ 7,466,920	$ 7,269,462	$ 7,312,606	$ 6,589,224
Contributions as a percentage of covered-employee payroll	11.51804%	11.40318%	11.42281%	10.10442%	9.76819%	9.24000%	9.23999%	9.06000%	9.41750%	7.54999%

PORS

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Contractually required contribution	$ 5,187	$ 4,876	$ 4,379	$ 4,051	$ 3,091	$ -	$ -	$ -	$ -	$ -
Contributions in relation to the contractually required contribution	$ 5,187	$ 4,876	$ 4,379	$ 4,051	$ 3,091	$ -	$ -	$ -	$ -	$ -
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Commission's covered-employee payroll	$ 44,072	$ 39,194	$ 36,802	$ 35,652	$ 27,772	$ -	$ -	$ -	$ -	$ -
Contributions as a percentage of covered-employee payroll	11.76938%	12.44068%	11.89881%	11.36262%	11.12992%	$ -	$ -	$ -	$ -	$ -

SOUTH CAROLINA EDUCATION LOTTERY COMMISSION
SUPPLEMENTARY SCHEDULE OF BUSINESS-TYPE ACTIVITIES FOR THE STATEWIDE CAFR

	For the years ended June 30,	
	2015	**2014**
Charges for services	$ 1,405,292,952	$ 1,268,126,204
Non-operating income	2,824	2,432
Less expenses	1,061,800,377	937,369,128
Net program revenue	343,495,399	330,759,508
Remittances out to state agencies/funds	(343,516,852)	(326,571,794)
Change in net position before implementation effect of GASB No. 68	(21,453)	4,187,714
Net position - beginning of year, as originally reported	39,399,701	35,211,987
Implementation effect of GASB No. 68	(12,651,381)	-
Net position - beginning of year, as restated	26,748,320	35,211,987
Net position - ending	**$ 26,726,867**	**$ 39,399,701**

elliott davis decosimo

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*

Mr. Richard H. Gilbert, Jr., CPA
Deputy 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 South Carolina Education Lottery Commission (the "Commission"), a component unit of the State of South Carolina, as of and for the years ended June 30, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements, and have issued our report thereon dated September 30, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Commission'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 Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control.

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 *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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commission'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.*

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.

Elliott Davis Decosimo, LLC

Columbia, South Carolina
September 30, 2015

SOUTH CAROLINA EDUCATION LOTTERY COMMISSION
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2015

<u>Section I - Summary of Auditor's Results</u>

Financial Statements

Type of auditor's report issued on financial statements:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	None reported
Noncompliance material to financial statements noted?	No
<u>Section II - Financial Statement Findings</u>	None