

# ANNUAL REPORT

A photograph of a palm tree against a blue sky with light clouds, positioned on the left side of the cover. The background is composed of several large, overlapping geometric shapes in shades of blue and white, creating a modern, abstract design.

for the years ended  
June 30, 2017 and 2016

**SOUTH CAROLINA  
EDUCATION LOTTERY COMMISSION**

**REPORT ON FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED  
JUNE 30, 2017 AND 2016**



George L. Kennedy, III, CPA  
State Auditor

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September 29, 2017

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, 2017, was issued by Elliott Davis Decosimo, LLC, Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

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

Respectfully submitted,

George L. Kennedy, III, CPA  
State Auditor

GLKIII/cwc

***SOUTH CAROLINA EDUCATION LOTTERY COMMISSION***

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## Independent Auditor's Report

Mr. George L. Kennedy, III, 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 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, 2017 and 2016, 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 an opinion 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, 2017 and 2016, 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.

### **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 32 - 33, 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 an opinion 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 29, 2017 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.



Columbia, South Carolina  
September 29, 2017

## ***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, 2017. 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")<sup>1</sup> 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*. In addition, the Commission participates in two national Terminal Games: *Powerball*<sup>®</sup> and *Mega Millions*<sup>®</sup>. During FY 2015, the Commission introduced one new Terminal Game, *Lucky for Life*<sup>®</sup>, which it offers in conjunction with twenty-three other States.

### ***Financial Highlights***

Cash Transfers attributable to FY 2017 operations were \$400.2 compared to \$405.0 in FY 2016, a decrease of \$4.8. Net Income decreased \$6.0 in FY 2017 to \$398.2 compared to Net Income in FY 2016 of \$404.4. The overall decrease in Net Income was the result of a decrease in "Net Game Margin" of \$6.1. 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.

<sup>1</sup>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**

	2017	2016	2015
Revenues			
Instant games	\$ 1,189.7	\$ 1,137.8	\$ 1,002.5
Terminal games	446.0	462.5	399.2
	<u>1,635.7</u>	<u>1,600.3</u>	<u>1,401.7</u>
Other revenues	3.6	3.7	3.6
Total revenues	<u>1,639.3</u>	<u>1,604.0</u>	<u>1,405.3</u>
Prize expense			
Instant games	862.3	823.1	727.1
Terminal games	223.9	224.1	197.0
Total prize expense	<u>1,086.2</u>	<u>1,047.2</u>	<u>924.1</u>
Margin	553.1	556.8	481.2
Commissions and incentives	115.4	112.9	98.8
Other game-related costs	17.4	18.1	17.0
Operating expenses	<u>22.0</u>	<u>21.4</u>	<u>21.9</u>
Change in net position ("Net income")			
before cash transfers to ELA	398.3	404.4	343.5
Cash transfers to ELA	<u>(410.5)</u>	<u>(398.9)</u>	<u>(343.5)</u>
Change in net position	<u>(12.2)</u>	<u>5.5</u>	<u>-</u>
Net Position - beginning of year, as originally reported	32.2	26.7	39.4
Implementation effect of GASB Statement No. 68	<u>-</u>	<u>-</u>	<u>(12.7)</u>
Net Position - beginning of year	<u>32.2</u>	<u>26.7</u>	<u>26.7</u>
Net Position - end of year	<u>\$ 20.0</u>	<u>\$ 32.2</u>	<u>\$ 26.7</u>
Other information			
Instant game margin	27.5%	27.7%	27.5%
Terminal game margin	49.8%	51.5%	50.7%
Total game margin	33.6%	34.6%	34.1%
Net instant game margin	20.5%	20.6%	20.4%
Net terminal game margin	42.7%	44.5%	43.6%
Net game margin	26.5%	27.5%	27.0%

**Net Position Data**

	2017	2016	2015
Current assets	\$ 67.1	\$ 77.2	\$ 68.5
Non-current assets			
Capital assets, net	0.6	0.7	0.8
Other non-current assets	5.1	5.2	5.5
Total non-current assets	<u>5.7</u>	<u>5.9</u>	<u>6.3</u>
Total assets	<u>72.8</u>	<u>83.1</u>	<u>74.8</u>
Deferred outflows of resources	2.2	1.0	1.1
Current liabilities	39.3	37.6	35.0
Long-term liabilities	15.3	13.9	13.0
Total liabilities	<u>54.6</u>	<u>51.5</u>	<u>48.0</u>
Deferred inflows of resources	0.5	0.4	1.1
Net position			
Net investment in capital assets	0.6	0.7	0.8
Restricted fidelity fund	0.5	0.5	0.4
Restricted for ELA	18.9	31.0	25.5
Total net position	<u>\$ 20.0</u>	<u>\$ 32.2</u>	<u>\$ 26.7</u>
Capital assets	\$ 5.5	\$ 5.3	\$ 5.1
Less: accumulated depreciation and amortization	4.9	4.6	4.3
Net investment in capital assets	<u>\$ 0.6</u>	<u>\$ 0.7</u>	<u>\$ 0.8</u>

## *Fiscal Year 2017 Compared to Fiscal Year 2016*

### *Game Revenue and Margins*

Total game revenues were \$1,635.7 in FY 2017 and \$1,600.3 in FY 2016, for an increase of \$35.4, or 2.2%. Total prize expense was \$1,086.2 in FY 2017 and \$1,047.2 in FY 2016, for an increase of \$39.0, or 3.7%. Accordingly, on the game revenue increase of \$35.4, Game Margin actually decreased \$3.6. Net Game Margin (includes commissions and incentives) decreased \$6.1. As noted above, the decreased Net Game Margin is the primary component of the decrease in Net Income for the fiscal year.

Net Game Margin decreased on overall increased game revenues due to product mix and to some extent statistical variation. As more fully discussed below, Instant Ticket revenues increased \$51.9 and Terminal Game revenues decreased \$16.5; however, Instant Game prize expense increased by \$39.2 and Terminal Game prize expense only decreased by \$0.2. Typically, prize expense on Instant Games is relatively higher as a percentage of Instant Game sales compared to Terminal Games. In FY 2017, Instant Game prize expense was 72.5% of Instant Game Sales compared to 50.2% for Terminal Games.

In FY 2017, total Instant Game revenues were \$1,189.7, an increase of \$51.9, or 4.6%, compared to FY 2016. The increase was primarily attributable to the continued growth of \$10 Instant Game revenues, which increased by \$41.1, or 5.4% in FY 2017. In addition, \$5 Instant Game revenues increased by \$12.5, or 6.3%. The net effect of the increase in Instant Game revenues was that the Instant Game Margin increased \$12.7, or 4.0%. The Instant Game Margin % was consistent between FY 2017 and FY 2016.

The primary components of the overall \$51.9 increase in Instant Game revenues are as follows:

- \$1 Tickets decreased \$3.5, or 7.9%;
- \$2 Tickets decreased \$3.0, or 3.4%;
- \$3 Tickets increased \$4.6, or 13.0%;
- \$5 Tickets increased \$12.5, or 6.3%; and,
- \$10 Tickets increased \$41.1, or 5.4%.

Terminal Game revenues were \$446.0, a decrease of \$16.5, or 3.6%. The decrease in Terminal Game revenues was primarily driven by the increase in FY 2016 revenues associated with the unprecedented Powerball “Jackpot Run” in January 2016. During a two-week period in which the Powerball Jackpot reached a record of \$1.6 billion, the Commission recognized revenues of about \$43 million (or, over half of all Powerball revenues recognized in FY 2017). For the entire year, Powerball revenues were down \$36.9, or 30.9%.

Jackpot “runs” (large increases in the amounts available for prizes) in Powerball® (PB) and Mega Millions® (MM) significantly affect total Terminal Game revenues and on occasion create large variances in revenues between periods. 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.”

Pick 3 and Pick 4 continued to perform well in FY 2017 and revenues were up by \$17.0, or 9.5%, and \$6.5, or 7.2%, respectively. Mega Millions revenues were down by \$2.1, or 5.7%. Palmetto Cash 5 revenues were up \$1.7, or 9.1%. Most of the increase in Palmetto Cash 5 revenues occurred between April and June 2017 due to a special promotion. The special promotion was terminated in August 2017. Lucky for Life revenues were \$14.4, down \$2.8, or 16.1%.

The Terminal Game Margin % was 49.8% in FY 2017 compared to 51.5% in FY 2016, a decrease of 1.7%. 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, Terminal Game Margin % may fluctuate significantly from period to period.

### ***Other Revenue and Game Costs***

Other revenue, which consists primarily of license and communication fees, was \$3.6 in FY 2017 and \$3.7 in FY 2016. Game costs were \$17.4 in FY 2017 compared to \$18.1 in FY 2016. Both of these items were relatively consistent from FY 2016 to FY 2017, as would be expected.

### ***Operating Expenses***

Operating expenses consist of advertising and administrative expenses (compensation, occupancy, etc.). In total, operating expenses increased by \$0.6 in FY 2017 compared to FY 2016. Operating expenses were \$22.0 and \$21.4 in FY 2017 and FY 2016, respectively. Management places a high degree of importance in controlling operating expenses. Over the past five years, operating expenses have been very consistent and have been maintained in a range from \$20.6 to \$22.0.

### ***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 Education Lottery Account."

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 2017 and FY 2016, the Commission generated \$402.4 and \$409.3 from operating activities. Amounts used or provided by capital-related financing and investing activities were insignificant in FY 2017 and FY 2016.

At June 30, 2017, the Commission's current assets totaled \$67.1 compared to \$77.2 at the end of the preceding year. In both years, cash and accounts receivable from retailers composed most of the Commission's current assets. As of June 30, 2017 and 2016, combined cash and accounts receivable were \$63.4 and \$73.7, respectively. Most of the cash held by the Commission, \$21.8 and \$30.0 at June 30, 2017 and 2016, respectively, was remitted to the State Treasurer the following month.

The only other substantive non-capital asset held by the Commission at June 30, 2017 and 2016 were amounts held on the Commission's behalf by the Multi-State Lottery Association (MUSL). Such amounts, \$5.1 and \$5.2, at June 30, 2017 and 2016, respectively, are maintained by MUSL to pay the Commission's share to PB and MM prize winners.

At June 30, 2017, the Commission's current liabilities totaled \$39.3 compared to \$37.6 at the end of the preceding year. In both years, prize expense composed most of the Commission's current liabilities. As of June 30, 2017 and 2016, accrued prize expense was \$34.1 and \$32.8, respectively.

At June 30, 2017, the Commission's net position totaled \$20.0 compared to \$32.2 at the end of the preceding year. The primary component of net position are amounts Restricted for Education Lottery Account which are restricted for future remittances to the ELA as the underlying net assets are realized in cash. Restricted for Education Lottery Account was \$18.8 and \$31.0 at June 30, 2017 and 2016, respectively. At June 30, 2017, the Fidelity Bond Fund was \$0.5 compared to \$0.5 at June 30, 2016. At June 30, 2017 and 2016, property, equipment and other capital assets were \$0.6 and \$0.8, respectively. Additional discussion on capital assets can be found in Note 4 to the financial statements.

## **Fiscal Year 2016 Compared to Fiscal Year 2015**

### ***Financial Highlights***

Cash Transfers attributable to FY 2016 operations were \$405.0 compared to \$348.9 in FY 2015, an increase of \$56.1. Net Income increased \$60.9 in FY 2016 to \$404.4 compared to Net Income in FY 2015 of \$343.5. The increase in Net Income was related to an increase in Net Game Margin of \$61.4.

Total game revenues were \$1,600.3 in FY 2016 and \$1,401.7 in FY 2015 for an increase of \$198.6, or 14.2%. Total prize expense was \$1,047.2 in FY 2016 and \$924.1 in FY 2015 for an increase of \$123.1, or 13.3%. Accordingly, Game Margin increased \$75.5 and, as noted above, Net Game Margin increased \$61.4.

Instant Game revenues increased \$135.3 and Terminal Game revenues increased \$63.3. The increase in Instant Game revenues was overwhelmingly related to the increase in the sales of \$10 Instant Game tickets of \$93.5. Terminal Game revenues increased in aggregate by \$63.3. As noted previously, due to the Powerball Jackpot Run, Powerball revenues were up \$39.5. Pick 3 and Pick 4 also performed well and, in aggregate, increased \$22.0.

The relationship of commissions and incentives and other game-related costs to revenues was consistent in FY 2016 and FY 2015. Operating expenses were generally consistent and totaled \$21.4 and \$21.9 in FY 2016 and FY 2015, respectively.

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 a 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).

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 was 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 in the Table on page 4 under the caption "Operating Data." As a result, beginning net position for the Commission for the year ended June 30, 2015 decreased by \$12.7.

### **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***

	<b>June 30,</b>	
	<b>2017</b>	<b>2016</b>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 21,316,187	\$ 29,477,185
Cash - restricted fidelity bond fund	492,198	489,575
Retailer accounts receivable, net of allowance for doubtful accounts of \$1,285,600 and \$1,310,427 for 2017 and 2016, respectively	41,640,025	43,670,423
Inventory	3,092,661	2,620,854
Prepaid expenses and other current assets	544,966	926,387
Total current assets	67,086,037	77,184,424
<b>NONCURRENT ASSETS</b>		
Capital assets, net	634,247	752,723
Deposits with Multi-State Lottery Association	5,126,600	5,213,752
Total noncurrent assets	5,760,847	5,966,475
<b>TOTAL ASSETS</b>	<b>72,846,884</b>	<b>83,150,899</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	<b>2,186,220</b>	<b>1,025,093</b>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b>75,033,104</b>	<b>84,175,992</b>
 <b>CURRENT LIABILITIES</b>		
Prizes payable	32,990,411	31,086,969
Prizes payable - Multi-State Lottery Association	1,144,120	1,676,619
Accounts payable	2,625,814	2,036,588
Accrued liabilities	1,351,373	1,473,667
Current portion of accrued compensated absences	480,944	468,328
Unearned revenue	680,941	847,148
Total current liabilities	39,273,603	37,589,319
<b>NONCURRENT LIABILITIES</b>		
Accrued compensated absences	289,916	325,585
Net pension liability	15,030,561	13,605,100
<b>TOTAL LIABILITIES</b>	<b>54,594,080</b>	<b>51,520,004</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>	<b>486,388</b>	<b>421,716</b>
<b>TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</b>	<b>55,080,468</b>	<b>51,941,720</b>
 Net investment in capital assets	634,247	752,723
Restricted fidelity bond fund	492,198	489,575
Restricted for Education Lottery Account	18,826,191	30,991,974
<b>TOTAL NET POSITION</b>	<b>\$ 19,952,636</b>	<b>\$ 32,234,272</b>

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,	
	2017	2016
<b>OPERATING REVENUES</b>		
<b>Sales Revenues</b>		
Instant games	\$ 1,189,676,209	\$ 1,137,836,641
Terminal games	446,022,172	462,547,785
Net sales revenues	1,635,698,381	1,600,384,426
<b>Other Operating Revenues</b>		
Retailer permit fees	535,765	547,770
Retailer on-line communication fees	3,006,165	2,995,209
Other	81,675	139,812
Total other operating revenues	3,623,605	3,682,791
Total revenues	1,639,321,986	1,604,067,217
<b>DIRECT COSTS</b>		
Commissions and incentives to retailers	115,388,940	112,940,145
Prize expense		
Instant games	862,331,501	823,149,996
Terminal games	223,868,971	224,060,470
Total prize expense	1,086,200,472	1,047,210,466
Instant and terminal game costs	17,415,966	18,104,454
Total direct costs	1,219,005,378	1,178,255,065
Gross profit	420,316,608	425,812,152
<b>OPERATING EXPENSES</b>		
Advertising and promotion	8,112,517	7,783,184
Security checks	271,790	262,062
Salaries, wages and benefits	10,332,555	10,107,922
Contracted and professional services	483,927	295,548
Depreciation and amortization	268,058	245,760
Rent	637,953	635,434
Office supplies	39,571	42,364
Other general and administrative	1,929,584	2,022,511
Total operating expenses	22,075,955	21,394,785
Operating income	398,240,653	404,417,367
<b>NON- OPERATING INCOME</b>		
Interest income	3,215	1,049
Gain on disposition of other assets	44	70
Total non-operating income	3,259	1,119
Change in net position before amount remitted to Education Lottery Account	398,243,912	404,418,486
<b>REMITTED TO EDUCATION LOTTERY ACCOUNT</b>	(410,525,548)	(398,911,081)
Change in net position	(12,281,636)	5,507,405
<b>NET POSITION - BEGINNING OF YEAR</b>	32,234,272	26,726,867
<b>NET POSITION - END OF YEAR</b>	\$ 19,952,636	\$ 32,234,272

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

***SOUTH CAROLINA EDUCATION LOTTERY COMMISSION***  
***STATEMENTS OF CASH FLOWS***

	<b>For the years ended</b>	
	<b>June 30,</b>	
	<b>2017</b>	<b>2016</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from retailers	\$ 1,641,186,177	\$ 1,606,639,158
Cash payments to prize winners	(1,084,829,529)	(1,045,342,856)
Cash payments for goods and services	(143,903,702)	(142,097,683)
Cash payments to employees for services	(10,026,602)	(9,886,587)
Net cash provided by operating activities	402,426,344	409,312,032
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Cash received from Multi-State Lottery Association	87,152	322,909
Payments to Education Lottery Account	(410,525,548)	(398,911,081)
Net cash used for noncapital financing activities	(410,438,396)	(398,588,172)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Proceeds from disposition of other assets	44	70
Purchases of capital assets	(149,582)	(254,476)
Net cash used for capital and related financing activities	(149,538)	(254,406)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest received	3,215	1,049
Net cash provided by investing activities	3,215	1,049
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	(8,158,375)	10,470,503
<b>CASH AND CASH EQUIVALENTS BEGINNING OF YEAR</b>	29,966,760	19,496,257
<b>END OF YEAR</b>	<b>\$ 21,808,385</b>	<b>\$ 29,966,760</b>
<b>OPERATING ACTIVITIES</b>		
Operating income	\$ 398,240,653	\$ 404,417,367
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	268,058	245,760
Changes in assets and liabilities:		
Retailer accounts receivable	2,030,398	2,343,753
Inventory	(471,807)	(272,342)
Prepaid expenses and other current assets	381,421	(282,805)
Accounts payable and accrued liabilities	1,869,340	1,397,747
Prizes payable	1,370,943	1,867,610
Unearned revenue and deferred outflows and inflows	(1,262,662)	(405,059)
Net cash provided by operating activities	<b>\$ 402,426,344</b>	<b>\$ 409,312,032</b>

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 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.

**Education Lottery Account (ELA)**

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 into the ELA. 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 position 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 Education Lottery Account."

**Net Position**

Net position represents cumulative revenues, less expenses, in excess of net proceeds remitted to the ELA, capital assets and amounts in the Fidelity Bond Fund. 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 as non-operating income or loss 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;
Leaseshold improvements	5 - 10 years; and,
Intellectual property	7 years.

### **Prepaid Expenses**

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

### **Restricted Fidelity Bond Fund**

In accordance with the Act, retailers contribute a fee to a Fidelity Bond Fund upon acceptance as a lottery retailer. The Fidelity Bond 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, 2017 and 2016, the balance in the Restricted Fidelity Bond Fund was \$492,198 and \$489,575, respectively.

The Commission transferred \$24,828 from the Fidelity Bond Fund to the Education Lottery Account during the year ended June 30, 2017. No transfers were made from the Fidelity Bond Fund during the year ended June 30, 2016 for retailer losses. The Fidelity Bond Fund is held in a separate account and appears on the Statements of Net Position as “restricted fidelity bond 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 prize winners. MUSL is not a financial institution. Balances related to these deposits as of June 30, 2017 and 2016 were \$5,126,600 and \$5,213,752, 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, 2017 and 2016 were \$1,144,120 and \$1,676,619, 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’ and PORS’ fiduciary net position have been determined on the same basis as they are reported by SCRS and 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 the net pension liability not included in current period 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.

**Reclassifications**

Certain amounts in the 2016 financial statements have been reclassified to be consistent with 2017 presentation.

**Subsequent Events**

In preparing these financial statements, the Commission has evaluated events and transactions for potential recognition or disclosure through September 29, 2017, the date these financial statements were available to be issued.

**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, 2017 and 2016, the amounts of the Commission's deposits were as follows:

	2017		2016	
	Carrying amounts	Bank balances	Carrying amounts	Bank balances
Demand deposits	\$ 21,808,385	\$ 22,086,762	\$ 29,966,760	\$ 30,833,021

**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, 2017 and 2016, all of the Commission's bank balances of \$22,086,762 and \$30,833,021, 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, 2017 and 2016.

**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 2017:

	<b><u>Balance as of June 30, 2016</u></b>	<b><u>Additions</u></b>	<b><u>Deletions</u></b>	<b><u>Balance as of June 30, 2017</u></b>
Cost				
Machinery and equipment	\$ 3,228,469	\$ 20,639	\$ -	\$ 3,249,108
Vehicles	246,103	128,943	-	375,046
Leasehold improvements	1,315,694	-	-	1,315,694
Intellectual property	555,815	-	-	555,815
	<u>5,346,081</u>	<u>149,582</u>	<u>-</u>	<u>5,495,663</u>
Accumulated depreciation / amortization				
Machinery and equipment	(2,916,606)	(135,663)	-	(3,052,269)
Vehicles	(100,484)	(55,731)	-	(156,215)
Leasehold improvements	(1,301,556)	-	-	(1,301,556)
Intellectual property	(274,712)	(76,664)	-	(351,376)
	<u>(4,593,358)</u>	<u>(268,058)</u>	<u>-</u>	<u>(4,861,416)</u>
Total capital assets, net	<b><u>\$ 752,723</u></b>	<b><u>\$ (118,476)</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 634,247</u></b>

The following is a summary of changes in capital assets and accumulated depreciation and amortization during fiscal year 2016:

	<b><u>Balance as of June 30, 2015</u></b>	<b><u>Additions</u></b>	<b><u>Deletions</u></b>	<b><u>Balance as of June 30, 2016</u></b>
Cost				
Machinery and equipment	\$ 3,081,737	\$ 146,732	\$ -	\$ 3,228,469
Vehicles	138,359	107,744	-	246,103
Leasehold improvements	1,315,694	-	-	1,315,694
Intellectual property	555,815	-	-	555,815
	<u>5,091,605</u>	<u>254,476</u>	<u>-</u>	<u>5,346,081</u>
Accumulated depreciation / amortization				
Machinery and equipment	(2,791,160)	(125,446)	-	(2,916,606)
Vehicles	(56,834)	(43,650)	-	(100,484)
Leasehold improvements	(1,301,556)	-	-	(1,301,556)
Intellectual property	(198,048)	(76,664)	-	(274,712)
	<u>(4,347,598)</u>	<u>(245,760)</u>	<u>-</u>	<u>(4,593,358)</u>
Total capital assets, net	<b><u>\$ 744,007</u></b>	<b><u>\$ 8,716</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 752,723</u></b>

**NOTE 5 - ACCRUED LIABILITIES**

	<u>2017</u>	<u>2016</u>
Accrued liabilities as of June 30 consist of the following:		
Accrued payroll and related expenses	\$ 822,637	\$ 1,094,067
Accrued other expenses	<u>528,736</u>	<u>379,600</u>
Total accrued liabilities	<u>\$ 1,351,373</u>	<u>\$ 1,473,667</u>

**NOTE 6 - LONG-TERM CONTRACTS AND COMMITMENTS**

In November 2008, the Commission began a ten-year contract with Intralot to provide services and supplies and/or equipment for the operation of the lottery (the “Contract”). 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 agreed to pay an annual fee of \$6,777,900 for these services. The Contract with Intralot is scheduled to end in March 2018.

In 2017, the Commission solicited proposals from vendors to provide essentially the same services as those provided by Intralot under the Contract. After a competitive procurement process, which included a proposal submitted by Intralot, the Commission awarded the new Contract to IGT Global Solutions Corporation (IGT). The term of the new Contract with IGT is ten (10) years and was scheduled to commence on March 15, 2018. Under the terms of the new Contract, IGT will receive an annual fee of \$7,750,000. Intralot filed a timely protest alleging inequities in the Commission’s procurement evaluation process. As a result of the protest, IGT’s conversion and implementation of the new system was subject to an Automatic Stay. Subsequently, the South Carolina Chief Procurement Officer (CPO) for Information Technology denied the protest and determined to lift the Automatic Stay, permitting IGT to commence implementation. As a result of these decisions, Intralot has appealed the CPO’s decisions to the South Carolina Procurement Review Panel and has requested that the Automatic Stay be reinstated.

Due to the period the Automatic Stay was in effect, IGT was unable to proceed with its system’s conversion and implementation plan until August 9, 2017. As a result, the planned conversion date has been moved to April 8, 2018. The future minimum payments set forth below include payments to Intralot through April 7, 2018 of \$5,359,045 and payments to IGT thereafter.

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

<u>Fiscal Year</u>	<u>Contract Payments to Terminal Gaming Services Vendors</u>
2018	\$ 7,124,323
2019	7,750,000
2020	7,750,000
2021	7,750,000
2022	7,750,000
Thereafter	44,734,722

The monthly terminal gaming fee payments to Intralot totaled \$6,777,900 for the years ended June 30, 2017 and 2016, 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 \$9,789,573 and \$10,210,369 for the years ended June 30, 2017 and 2016, 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 2017:

	<b><u>Balance as of June 30, 2016</u></b>	<b><u>Additions</u></b>	<b><u>Deductions</u></b>	<b><u>Balance as of June 30, 2017</u></b>
Accrued compensated absences	<b><u>\$ 793,913</u></b>	<b><u>\$ 475,335</u></b>	<b><u>\$ 498,388</u></b>	<b><u>\$ 770,860</u></b>

Compensated absences due in the next fiscal year are estimated at \$480,944, 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 2016:

	<b><u>Balance as of June 30, 2015</u></b>	<b><u>Additions</u></b>	<b><u>Deductions</u></b>	<b><u>Balance as of June 30, 2016</u></b>
Accrued compensated absences	<b><u>\$ 712,888</u></b>	<b><u>\$ 514,518</u></b>	<b><u>\$ 433,493</u></b>	<b><u>\$ 793,913</u></b>

Compensated absences due in the next fiscal year are estimated at \$468,328, 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 claims 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:

<b><u>Fiscal Year</u></b>	<b><u>Operating Leases</u></b>
2018	\$ 548,216
2019	559,503
2020	570,790
2021	582,076
2022	593,363
2023 - 2024	1,220,587

Rental expenses under all operating leases, including those on month-to-month terms, totaled \$637,593 and \$635,434 for the years ended June 30, 2017 and 2016, respectively.

**NOTE 9 – RESTRICTED FOR EDUCATION LOTTERY ACCOUNT**

The following table summarizes the activity in Restricted for ELA for the years ended June 30:

	<u>2017</u>	<u>2016</u>
Restricted for ELA, beginning of year	\$ 30,991,974	\$ 25,546,310
Change in net position before transfers to ELA	398,243,912	404,418,486
Cash transfers to ELA	(410,525,548)	(398,911,081)
Change in capital assets, net	118,476	(8,716)
Net amount paid from fidelity fund	(2,623)	(53,025)
Restricted for ELA, end of year	<u><b>\$ 18,826,191</b></u>	<u><b>\$ 30,991,974</b></u>

**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 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 State Fiscal Accountability Authority (SFAA), which consists of five elected officials, also reviews certain PEBA Board decisions regarding the funding of the South Carolina Retirement Systems (the “Systems”) and serves as a co-trustee of the Systems in conducting that review.

For purposes of measuring the net pension liability, deferred outflows and inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Systems and additions to/deductions from the Systems fiduciary net position have been determined on the accrual basis of accounting as they are reported by the Systems in accordance with generally accepted accounting principles (GAAP). For this purpose, revenues are recognized when earned and expenses are recognized when incurred. Benefit and refund expenses are recognized when due and payable in accordance with the terms of the plan. Investments are reported at fair value.

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, 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.

***Plan description***

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 SCRS 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 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 part of the retirement systems' trust funds 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 and a portion of the employer contribution (5 percent). A direct remittance is also required to SCRS for the remaining portion of the employer contribution and an incidental death benefit contribution, 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.

**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. 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. Upon recommendation by the actuary in the annual actuarial valuation, the PEBA Board may adopt and present to the State Fiscal Accountability Authority for approval an increase in the SCRS and PORS employer and employee contribution rates, but any such increase may not result in a differential between the employee and total employer contribution rate that exceeds 2.9 percent of earnable compensation for SCRS and 5 percent for PORS. An increase in the contribution rates adopted by the Board may not provide for an increase of more than one-half of one percent in any one year. If the scheduled employee and employer contributions provided in statute or the rates last adopted by the Board are insufficient to maintain a thirty year amortization schedule of the unfunded liabilities of the plans, the Board shall increase the contribution rates in equal percentage amounts for the employer and employee as necessary to maintain the thirty-year amortization period; and, this increase is not limited to one-half of one percent per year.

Required *employee* contribution rates are as follows:

	<b>For the Years Ended June 30,</b>	
	<b>2017</b>	<b>2016</b>
<b>SCRS</b>		
Employee Class Two	8.66%	8.16%
Employee Class Three	8.66%	8.16%
<b>State ORP</b>		
Employee	8.66%	8.16%
<b>PORS</b>		
Employee Class Two	9.24%	8.74%
Employee Class Three	9.24%	8.74%

Required *employer* contribution rates are as follows:

<b>SCRS</b>		
Employer Class Two	11.41%	10.91%
Employer Class Three	11.41%	10.91%
Employer Incidental Death Benefit	0.15%	0.15%
<b>State ORP</b>		
Employer Contribution	11.41%	10.91%
Employer Incidental Death Benefit	0.15%	0.15%
<b>PORS</b>		
Employer Class Two	13.84%	13.34%
Employer Class Three	13.84%	13.34%
Employer Incidental Death Benefit	0.20%	0.20%
Employer Accidental Death Program	0.20%	0.20%

Of the ORP employer contribution of 11.41% 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 \$744,571, \$37,843, and \$7,300 for the year ended June 30, 2017, respectively. Contributions to the SCRS, ORP, and PORS pension plans from the Commission were \$701,685, \$36,315, and \$6,765 for the year ended June 30, 2016, 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 Teacher and Employee Retention Incentive ("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.

***Pension expense***

For the year ended June 30, 2017 and 2016, the Commission recognized pension expense for the SCRS and PORS plans of \$1,066,226 and \$842,057, respectively and \$14,703 and \$6,703, respectively.

***Deferred outflows of resources and deferred inflows of resources***

At June 30, 2017 and 2016, 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:

	<b>SCRS</b>			
	<b>June 30, 2017</b>		<b>June 30, 2016</b>	
	<b>Deferred outflows of resources</b>	<b>Deferred inflows of resources</b>	<b>Deferred outflows of resources</b>	<b>Deferred inflows of resources</b>
Differences between expected and actual experience	\$ 154,759	\$ 16,212	\$ 254,186	\$ 24,191
Changes of assumptions	-	-	-	-
Net difference between projected and actual earnings on pension plan investments	1,256,030	-	49,099	-
Changes in proportion and differences between Commission contributions and proportionate share of contributions	-	470,176	-	392,278
Commission contributions subsequent to the measurement date	744,571	-	701,685	-
<b>Total</b>	<b>\$ 2,155,360</b>	<b>\$ 486,388</b>	<b>\$ 1,004,970</b>	<b>\$ 416,469</b>

  

	<b>PORS</b>			
	<b>June 30, 2017</b>		<b>June 30, 2016</b>	
	<b>Deferred outflows of resources</b>	<b>Deferred inflows of resources</b>	<b>Deferred outflows of resources</b>	<b>Deferred inflows of resources</b>
Differences between expected and actual experience	\$ 1,498	\$ -	\$ 1,385	\$ 5,247
Changes of assumptions	-	-	-	-
Net difference between projected and actual earnings on pension plan investments	11,447	-	6,763	-
Changes in proportion and differences between Commission contributions and proportionate share of contributions	10,615	-	5,210	-
Commission contributions subsequent to the measurement date	7,300	-	6,765	-
<b>Total</b>	<b>\$ 30,860</b>	<b>\$ -</b>	<b>\$ 20,123</b>	<b>\$ 5,247</b>

The \$744,571 and \$7,300 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, 2017 will be recognized as a reduction of the net pension liabilities during the year ending June 30, 2018.

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:

	<u>SCRS</u>
Year ended June 30:	
2018	\$ 157,405
2019	76,510
2020	415,554
2021	274,932
2022	-

	<u>PORS</u>
Year ended June 30:	
2018	\$ 6,118
2019	6,042
2020	7,519
2021	3,881
2022	-

***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. Actuarial assumptions and methods used during the annual valuation process are subject to periodic revision, typically with an experience study, as actual results over an extended period of time 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. An experience report on the Systems was most recently issued as of July 1, 2015. The June 30, 2016 total pension liability, net pension liability, and sensitivity information were determined by the Systems' consulting actuary, Gabriel, Roeder, Smith and Company (GRS) and are based on the July 1, 2015, actuarial valuations, as adopted by the PEBA Board and State Fiscal Accountability Authority which utilized membership data as of July 1, 2015. The total pension liability was rolled-forward from the valuation date to the plan's fiscal year ended June 30, 2016, using generally accepted actuarial principles. Information included in the following schedules is based on the certification provided by GRS.

The following table provides a summary of the actuarial assumptions and methods used in the July 1, 2015 valuations for SCRS and PORS.

	SCRS	PORS
Actuarial cost method	Entry age normal	Entry age normal
Actuarial assumptions:		
Investment rate of return	7.5%	7.5%
Projected salary increases, includes inflation at:	3.5% to 12.5% (varies by service)	4.0% to 10.0% (varies by service)
Benefit adjustments	2.75%	2.75%
	lesser of 1% or \$500 annually	lesser of 1% or \$500 annually

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. Assumptions used in the July 1, 2015, valuations for SCRS and PORS are as follows.

Former Job Class	Males	Females
Educators	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 and Firefighters	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. NPL totals, as of June 30, 2016, for SCRS and PORS are presented below.

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	\$ 45,356,214,752	\$ 23,996,362,354	\$ 21,359,852,398	52.9%
PORS	6,412,510,458	3,876,035,732	2,536,474,726	60.4%

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 net pension liability is disclosed in accordance with the requirements of GASB Statement No. 67 in the Systems' notes to the financial statements and required supplementary information. Liability calculations performed by the Systems' actuary for the purpose of satisfying the requirements of GASB Statement Nos. 67 and 68 are not applicable for other purposes, such as determining the plans' funding requirements.

At June 30, 2017, the Commission reported liabilities of \$14,929,635 and \$100,926 for its proportionate shares of the SCRS and PORS net pension liabilities, respectively. At June 30, 2016, the Commission reported liabilities of \$13,527,510 and \$77,590 for its proportionate shares of the SCRS and PORS net pension liabilities, respectively. The net pension liabilities were measured as of July 1, 2016 and 2015, respectively, and the total pension liabilities used to calculate the net pension liabilities were determined by an actuarial valuation as of those dates. 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, 2016 and 2015, the Commission's proportionate shares of the SCRS and PORS plans were 0.06989% and 0.07133%, respectively, and 0.00398% and 0.00356%, respectively

### ***Long-term expected rate of return***

The long-term expected rate of return on pension plan investments, as used in the July 1, 2015, actuarial valuations, was based upon the 30 year capital market outlook at the end of the third quarter 2014. The long-term expected rate of returns represent assumptions developed using an arithmetic building block approach, primarily based on consensus expectations and market based inputs. Expected returns are net of investment fees.

The expected returns, along with the expected inflation rate, form the basis for the target asset allocation adopted beginning January 1, 2016. The long-term expected rate of return is produced by weighting the expected future real rates of return by the target allocation percentage and by adding expected inflation and is summarized in the table on the following page. For actuarial purposes, the 7.50 percent assumed annual investment rate of return set in statute and 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.

<b>Asset Class</b>	<b>Target Asset Allocation</b>	<b>Expected Arithmetic Real Rate of Return</b>	<b>Long Term Expected Portfolio Real Rate of Return</b>
<b>Global Equity</b>	<b>43.00%</b>		
Global Public Equity	34.00%	6.52%	2.22%
Private Equity	9.00%	9.30%	0.84%
<b>Real Assets</b>	<b>8.00%</b>		
Real Estate	5.00%	4.32%	0.22%
Commodities	3.00%	4.53%	0.13%
<b>Opportunistic</b>	<b>20.00%</b>		
GTAA/Risk Parity	10.00%	3.90%	0.39%
HF (Low Beta)	10.00%	3.87%	0.39%
<b>Diversified Credit</b>	<b>17.00%</b>		
Mixed Credit	5.00%	3.52%	0.17%
Emerging Markets Debt	5.00%	4.91%	0.25%
Private Debt	7.00%	4.47%	0.31%
<b>Conservative Fixed Income</b>	<b>12.00%</b>		
Core Fixed Income	10.00%	1.72%	0.17%
Cash and Short Duration (Net)	2.00%	0.71%	0.01%
Total Expected Real Return	<u>100.00%</u>		<u>5.10%</u>
Inflation for Actuarial Purposes			<u>2.75%</u>
Total Expected Nominal Return			<u>7.85%</u>

**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 the funding policy specified in the South Carolina State Code of Laws will remain unchanged in future years. 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.

**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.

<b>Sensitivity of the 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>
<b>SCRS</b>	\$ 18,623,837	\$ 14,929,635	\$ 11,853,655
<b>PORS</b>	132,273	100,926	72,756

### ***Additional financial and actuarial information***

Detailed information regarding the fiduciary net position of the plans administered by PEBA is available in the Systems' audited financial statements for the fiscal year ended June 30, 2016 (including the unmodified audit opinion on the financial statements). Additional actuarial information is available in the accounting and financial reporting actuarial valuation as of June 30, 2016.

### **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, 5.33% of annual covered payroll for 2017 and 5.0% for 2016 and 2015. The Insurance Benefits Division sets the employer contribution rate based on a pay-as-you-go basis. The Commission paid \$388,818, \$378,259 and \$350,277 applicable to the surcharge included with the employer contribution for retirement benefits for the fiscal years ended June 30, 2017, 2016 and 2015 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, 2017, 2016 and 2015. The Commission recorded employer contributions expenses applicable to these insurance benefits for active employees in the amount of \$4,051, \$4,109 and \$4,125 for the years ended June 30, 2017, 2016 and 2015 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, 2017.

**NOTE 13 - TRANSACTIONS WITH STATE ENTITIES AND RELATED PARTIES**

For the year ended June 30, 2017, the Commission had certain transactions with the State and various other agencies as follows:

<b><u>Related Party</u></b>	<b><u>Amount</u></b>	<b><u>Nature of Transaction</u></b>
South Carolina Department of Revenue	\$ 7,405,190	Transfers of state income tax withholdings for prizes, use taxes, prize debt setoffs, and retailer credit checks
South Carolina Law Enforcement Division	392,261	Security services and fees paid for background checks on employees and retailers
South Carolina State Treasurer	400,254,937	Remittances of net proceeds and unclaimed prizes
South Carolina State Treasurer	2,679	Unclaimed property return
South Carolina Department of Administration	20,600	Vehicles, telephone, printing, and miscellaneous services
South Carolina Public Employee Benefit Authority (PEBA)	1,048,184	Employee health, life and dental insurance
South Carolina Department of Social Services	64,544	Debt setoffs withheld from prize winnings
South Carolina Department of Public Safety	171,777	Security services
South Carolina State Accident Fund	45,410	Workers' compensation insurance
South Carolina Public Employee Benefit Authority (PEBA)	1,767,432	Employee retirement contributions / employer match
South Carolina Department of Employment & Workforce	16,980	Unemployment insurance
South Carolina Department of Corrections	1,237	Furniture and miscellaneous maintenance
<b>Total</b>	<b><u>\$ 411,191,231</u></b>	

For the year ended June 30, 2016, the Commission had certain transactions with the State and various other agencies as follows:

<u>Related Party</u>	<u>Amount</u>	<u>Nature of Transaction</u>
South Carolina Department of Revenue	\$ 7,653,589	Transfers of state income tax withholdings for prizes, use taxes, prize debt setoffs, and retailer credit checks
South Carolina Law Enforcement Division	390,515	Security services and fees paid for background checks on employees and retailers
South Carolina State Treasurer	404,979,165	Remittances of net proceeds and unclaimed prizes
South Carolina State Treasurer	2,393	Unclaimed property return
South Carolina Department of Administration	43,638	Vehicles, telephone, printing, and miscellaneous services
South Carolina Public Employee Benefit Authority (PEBA)	1,043,169	Employee health, life and dental insurance
South Carolina Insurance Reserve Fund	61,873	Property Insurance
South Carolina Department of Social Services	82,847	Debt setoffs withheld from prize winnings
South Carolina Department of Public Safety	521,190	Security services
South Carolina State Accident Fund	26,348	Workers' compensation insurance
South Carolina Public Employee Benefit Authority (PEBA)	1,645,375	Employee retirement contributions / employer match
South Carolina Department of Employment & Workforce	14,773	Unemployment insurance
South Carolina Legislative Audit Council	134,260	Management review
South Carolina Department of Corrections	9,663	Furniture and miscellaneous maintenance
Other	6,834	State codes, memberships, class registrations
<b>Total</b>	<b><u>\$ 416,615,632</u></b>	

***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			
	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Commission's proportion of the net pension liability	0.06989%	0.07133%	0.007417%	0.007417%
Commission's proportionate share of the net pension liability	<u>\$ 14,929,635</u>	<u>\$ 13,527,510</u>	<u>\$ 12,768,753</u>	<u>\$ 13,302,555</u>
Commission's covered payroll during the measurement period	<u>\$ 6,431,575</u>	<u>\$ 6,372,987</u>	<u>\$ 6,173,645</u>	<u>\$ 6,247,542</u>
Commission's proportionate share of the net pension liability as a percentage of its covered-employee payroll during the measurement period	232.13031%	212.26326%	206.82681%	212.92462%
Plan fiduciary net position as a percentage of the total pension liability	52.90645%	57.99175%	59.91945%	56.38821%
	PORS			
	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Commission's proportion of the net pension liability	0.00398%	0.00356%	0.32600%	0.32600%
Commission's proportionate share of the net pension liability	<u>\$ 100,926</u>	<u>\$ 77,590</u>	<u>\$ 62,791</u>	<u>\$ 67,759</u>
Commission's covered payroll during the measurement period	<u>\$ 50,723</u>	<u>\$ 44,072</u>	<u>\$ 39,194</u>	<u>\$ 36,802</u>
Commission's proportionate share of the net pension liability as a percentage of its covered-employee payroll during the measurement period	198.97482%	176.05282%	160.20564%	183.62861%
Plan fiduciary net position as a percentage of the total pension liability	60.44490%	64.56865%	67.54949%	62.97880%

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

	<b>SCRS</b>									
	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
Contractually required contribution	\$ 739,830	\$ 701,685	\$ 685,184	\$ 703,992	\$ 713,645	\$ 666,552	\$ 646,657	\$ 688,811	\$ 689,943	\$ 658,613
Contributions in relation to the contractually required contribution	\$ 739,830	\$ 701,685	\$ 685,184	\$ 703,992	\$ 713,645	\$ 666,552	\$ 646,657	\$ 688,811	\$ 689,943	\$ 658,613
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Commission's covered-employee payroll	\$ 6,484,053	\$ 6,431,575	\$ 6,372,987	\$ 6,173,645	\$ 6,247,542	\$ 6,596,637	\$ 6,620,028	\$ 7,454,663	\$ 7,466,920	\$ 7,269,462
Contributions as a percentage of covered-employee payroll	11.41000%	10.91000%	10.75138%	11.40318%	11.42281%	10.10442%	9.76819%	9.24000%	9.23999%	9.06000%

	<b>PORS</b>									
	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
Contractually required contribution	\$ 7,470	\$ 6,765	\$ 5,187	\$ 4,876	\$ 4,379	\$ 4,051	\$ 3,091	n/a	n/a	n/a
Contributions in relation to the contractually required contribution	\$ 7,470	\$ 6,765	\$ 5,187	\$ 4,876	\$ 4,379	\$ 4,051	\$ 3,091	n/a	n/a	n/a
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	n/a	n/a	n/a
Commission's covered-employee payroll	\$ 53,979	\$ 50,723	\$ 44,072	\$ 39,194	\$ 36,802	\$ 35,652	\$ 27,772	n/a	n/a	n/a
Contributions as a percentage of covered-employee payroll	13.83834%	13.33714%	11.76938%	12.44068%	11.89881%	11.36262%	11.12992%	n/a	n/a	n/a

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

	For the years ended	
	June 30,	
	2017	2016
Charges for services	\$ 1,639,321,986	\$ 1,604,067,217
Non-operating income	3,259	1,119
Less expenses	1,241,081,333	1,199,649,850
Net program revenue	398,243,912	404,418,486
Remittances out to state agencies/funds	(410,525,548)	(398,911,081)
Change in net position	(12,281,636)	5,507,405
Net position - beginning of year	32,234,272	26,726,867
Net position - end of year	<b>\$ 19,952,636</b>	<b>\$ 32,234,272</b>

**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. George L. Kennedy, III, 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 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, 2017 and 2016, 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 29, 2017.

**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 opinion 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.

A handwritten signature in black ink that reads "Elliott Davis Decosimo, LLC". The signature is written in a cursive, flowing style.

Columbia, South Carolina  
September 29, 2017

***SOUTH CAROLINA EDUCATION LOTTERY COMMISSION  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED JUNE 30, 2017***

**Section I - Summary of Auditor's Results**

***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

**Section II - Financial Statement Findings**

None reported