SOUTH CAROLINA
EDUCATION LOTTERY COMMISSION

REPORT ON FINANCIAL STATEMENTS

FOR THE YEARS ENDED
JUNE 30, 2018 AND 2017

SOUTH CAROLINA OFFICE OF THE STATE AUDITOR
SOUTH CAROLINA OFFICE OF THE STATE AUDITOR
1401 Main Street, Suite 1200 • Columbia, SC 29201

October 1, 2018

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, 2018, was issued by Elliott Davis, 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

George L. Kennedy, III, CPA
State Auditor

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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, 2018 and 2017, 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, 2018 and 2017, and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Implementation of New Accounting Standard

As discussed in Notes 2, 9 and 11 to the financial statements, the Commission adopted the provisions of GASB Statement No. 75 *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, effective July 1, 2017. Our opinion is not modified with respect to this matter.

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, pension contributions, the Commission's proportionate share of the net OPEB liability, and OPEB contributions on pages 36 – 39, 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 October 1, 2018 on our consideration of the Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Commission's internal control over financial reporting and compliance.

Elliott Davis, LLC

Columbia, South Carolina
October 1, 2018

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, 2018. This MD&A is to be read in conjunction with the financial statements to provide a more comprehensive analysis of the Commission's financial activities based on facts, decisions, and conditions currently facing management. ***All dollar amounts, unless clear from the context, are expressed in millions.***

Understanding the Commission's Financial Statements

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

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

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

Currently, the Commission sponsors three Terminal Games: *Pick 3, Pick 4 and Palmetto Cash 5.* In addition, the Commission participates in two national Terminal Games: *Powerball® and Mega Millions®*. During FY 2015, the Commission introduced one new Terminal Game, *Lucky for Life®*, which it offers in conjunction with twenty-six other States and the District of Columbia.

Financial Highlights

Cash Transfers attributable to FY 2018 operations were $434.8 compared to $400.2 in FY 2017, an increase of $34.6, or 8.6%. Net Income increased $39.7 in FY 2018 to $437.9 compared to Net Income in FY 2017 of $398.3. The overall increase in Net Income was primarily the result of an increase in "Net Game Margin" of $42.9. 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.

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

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

Summary Financial Information

Operating Data

	2018	2017	2016
Revenues			
Instant games	$ 1,260.6	$ 1,189.7	$ 1,137.8
Terminal games	489.6	446.0	462.5
	1,750.2	1,635.7	1,600.3
Other revenues	3.7	3.6	3.7
Total revenues	1,753.9	1,639.3	1,604.0
Prize expense			
Instant games	911.3	862.3	823.1
Terminal games	238.5	223.9	224.1
Total prize expense	1,149.8	1,086.2	1,047.2
Margin	604.1	553.1	556.8
Commissions and incentives	123.5	115.4	112.9
Other game-related costs	18.7	17.4	18.1
Operating expenses	24.0	22.0	21.4
Change in net position ("Net income") before cash transfers to ELA	437.9	398.3	404.4
Cash transfers to ELA	(431.0)	(410.5)	(398.9)
Change in net position	6.9	(12.2)	5.5
Net Position - beginning of year, as originally reported	20.0	32.2	26.7
Implementation effect of GASB Statement No. 75	(12.1)	-	-
Net Position - beginning of year, as restated	7.9	32.2	26.7
Net Position - end of year	$ 14.8	$ 20.0	$ 32.2
Other information			
Instant game margin	27.7%	27.5%	27.7%
Terminal game margin	51.3%	49.8%	51.5%
Total game margin	34.3%	33.6%	34.6%
Net instant game margin	20.7%	20.5%	20.6%
Net terminal game margin	44.2%	42.7%	44.5%
Net game margin	27.2%	26.5%	27.5%

Net Position Data

	2018	2017	2016
Current assets	$ 76.0	$ 67.1	$ 77.2
Non-current assets			
Capital assets, net	0.5	0.6	0.7
Other non-current assets	5.4	5.1	5.2
Total non-current assets	5.9	5.7	5.9
Total assets	81.9	72.8	83.1
Deferred outflows of resources	2.7	2.2	1.0
Current liabilities	40.6	39.3	37.6
Long-term liabilities	27.6	15.3	13.9
Total liabilities	68.2	54.6	51.5
Deferred inflows of resources	1.6	0.5	0.4
Net position			
Net investment in capital assets	0.5	0.6	0.7
Restricted fidelity fund	0.5	0.5	0.5
Restricted for ELA	13.8	18.9	31.0
Total net position	$ 14.8	$ 20.0	$ 32.2
Capital assets	$ 5.2	$ 5.5	$ 5.3
Less: accumulated depreciation and amortization	4.7	4.9	4.6
Net investment in capital assets	$ 0.5	$ 0.6	$ 0.7

Fiscal Year 2018 Compared to Fiscal Year 2017

Game Revenue and Margins

Total game revenues were $1,750.2 in FY 2018 and $1,635.7 in FY 2017, for an increase of $114.5, or 7.0%. Total prize expense was $1,149.8 in FY 2018 and $1,086.2 in FY 2017, for an increase of $63.6, or 5.9%. Accordingly, on the game revenue increase of $114.5, Game Margin increased $50.9. Net Game Margin (includes commissions and incentives) increased $42.9. As noted above, the increased Net Game Margin is the primary component of the increase in Net Income for the fiscal year.

Net Game Margin increased on overall increased game revenues due to product mix and to some extent statistical variation. As more fully discussed below, Instant Ticket revenues increased $70.9 and Terminal Game revenues increased $43.6. Instant Game prize expense increased by $49.0 and Terminal Game prize expense increased by $14.6. Prize expense on Instant Games is relatively higher as a percentage of Instant Game revenues compared to Terminal Games. In FY 2018, Instant Game prize expense was 72.3% of Instant Game revenues compared to 48.7% for Terminal Games.

In FY 2018, total Instant Game revenues were $1,260.6, an increase of $70.9, or 6.0%, compared to FY 2017. The increase was primarily attributable to the continued growth of $10 Instant Game revenues, which increased by $60.1, or 7.4% in FY 2018. In addition, $5 Instant Game revenues increased by $6.1, or 2.9%. The net effect of the increase in Instant Game revenues was that the Instant Game Margin increased $21.9, or 6.7%. The Instant Game Margin % was relatively consistent between FY 2018 and FY 2017.

The primary components of the overall $70.9 increase in Instant Game revenues are as follows:

- $1 Tickets decreased $1.2 , or 3.0%;
- $2 Tickets increased $2.2, or 2.6%;
- $3 Tickets increased $5.3, or 13.4%;
- $5 Tickets increased $6.1, or 2.9%; and,
- $10 Tickets increased $60.1, or 7.4%.

Terminal Game revenues were $489.6, an increase of $43.6, or 9.8%. With the exception of Lucky for Life, all Terminal Game revenues were up for each Terminal Game. Pick 3 was up $16.9, or 8.6%. Pick 4 was up $3.9, or 4.0%. However, prize expense on Pick 4 decreased a significant $1.9 resulting in a Game Margin increase on Pick 4 of $5.8. As a result, the Game Margin % on Pick 4 was 56.8%, about 7% higher than the statistical model (positive result of statistical variation).

National Games, Powerball and Mega Millions also performed very well for the year. Powerball and Mega Millions revenues were up $10.6, or 12.8% and $10.7 or, 30.7%, respectively. Even though there were no “mega” jackpot runs, both Games experienced a number of solid jackpot runs that added significantly to their better performance in FY 2018.

Palmetto Cash 5 also performed well with a revenue increase of $3.2, or 15.2%. We believe the revenue growth was attributable to the second 10X promotion.

The Terminal Game Margin % was 51.3% in FY 2018 compared to 49.8% in FY 2017, an increase of 1.5%. 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 revenues, which consist primarily of license and telephone fees, were $3.7 in FY 2018 and $3.6 in FY 2017. Other direct game costs were $18.7 in FY 2018 compared to $17.4 in FY 2017. The increase of $1.3 was primarily attributable to expenses associated with a systems conversion and enhancements to Instant Tickets.

Operating Expenses

Operating expenses consist of advertising and administrative expenses (compensation, occupancy, etc.). In total, operating expenses increased by $1.9 in FY 2018 compared to FY 2017. Operating expenses were $24.0 and $22.1 in FY 2018 and FY 2017, respectively. Advertising increased a modest $0.2. Salaries and benefits increased $0.9 due to several factors. New accounting rules covering Post Employment Benefits were implemented in FY 2018 and increased benefits expense by $0.4. In addition, higher contribution rates to the state-sponsored pension plan and compensation increases that were implemented due to a compensation study increased salaries and benefits by another $0.6. Legal and consulting expenses were up, in aggregate, by $0.7 as a result of the conversion to a new lottery processing system.

Assets, Liabilities and Cash Flows (See Notes 3 through 11 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 2018 and FY 2017, the Commission generated $433.8 and $402.4 from operating activities. Amounts used or provided by capital-related financing and investing activities were insignificant in FY 2018 and FY 2017.

At June 30, 2018, the Commission's current assets totaled $76.0 compared to $67.1 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, 2018 and 2017, combined cash and accounts receivable were $71.0 and $63.4, respectively. Most of the cash held by the Commission, $24.2 and $21.8 at June 30, 2018 and 2017, respectively, was remitted to the State Treasurer the following month.

The only other substantive non-capital asset held by the Commission at June 30, 2018 and 2017 were amounts held on the Commission's behalf by the Multi-State Lottery Association (MUSL). Such amounts, $5.5 and $5.1, at June 30, 2018 and 2017, respectively, are maintained by MUSL to pay the Commission's share to Powerball and Mega Millions prize winners.

At June 30, 2018, the Commission's current liabilities totaled $40.6 compared to $39.3 at the end of the preceding year. In both years, accrued prize expense composed most of the Commission's current liabilities. As of June 30, 2018 and 2017, accrued prize expense was $35.0 and $34.1, respectively.

At June 30, 2018, the Commission's net position totaled $14.8 compared to $20.0 at the end of the preceding year. The primary component of net position are amounts reported as 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 $13.9 and $18.8 at June 30, 2018 and 2017, respectively. At June 30, 2018, the Fidelity Bond Fund was $0.5 compared to $0.5 at June 30, 2017. At June 30, 2018 and 2017, property, equipment and other capital assets were $0.5 and $0.6, respectively. Additional discussion on capital assets can be found in Note 4 to the financial statements.

The Commission implemented Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions (GASB No. 75)* in the fiscal year ended June 30, 2018. The implementation of GASB No. 75 required the Commission to record a beginning liability related to "Other Post-Employment Benefits" (OPEB) and the effects on net position of contributions made by the Commission during the measurement period (fiscal year ended June 30, 2017).

To the extent practical, in the first period that GASB No. 75 is applied, changes made to comply with the 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 GASB No. 75, 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 OPEB should not be reported. Since the information for the restatement of beginning balances of deferred outflows of resources or deferred inflows of resources is not available for the earliest period presented, the cumulative effect of the Statement implementation is shown as a restatement to beginning net position as of July 1, 2017. As a result, beginning net position for the Commission for the year ended June 30, 2017 decreased by $12.1.

Fiscal Year 2017 Compared to Fiscal Year 2016

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 $6.2 in FY 2017 to $398.2 compared to Net Income in FY 2016 of $404.4. The decrease in Net Income was related to an increase in Net Game Margin of $6.1.

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, Game Margin decreased $3.6 and, as noted above, Net Game Margin decreased $6.1.

Instant Game revenues increased $51.9 and Terminal Game revenues decreased $16.5. The increase in Instant Game revenues was overwhelmingly related to the increase in the sales of $10 Instant Game tickets of $41.1. Terminal Game revenues decreased in aggregate by $16.5. Due to an unprecedented Powerball Jackpot Run in FY 2016, Powerball revenues were unusually high at $119.5 in FY 2016 and a decrease was expected in FY 2017. Pick 3 and Pick 4 also performed well and, in aggregate, increased $23.5.

The relationship of commissions and incentives and other game-related costs to revenues was consistent in FY 2017 and FY 2016. Operating expenses were generally consistent and totaled $22.0 and $21.4 in FY 2017 and FY 2016, respectively.

Contacting the Commission's Financial Management

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

SOUTH CAROLINA EDUCATION LOTTERY COMMISSION
STATEMENTS OF NET POSITION

	June 30, 2018	June 30, 2017
CURRENT ASSETS		
Cash and cash equivalents	$ 23,733,985	$ 21,316,187
Cash - restricted fidelity bond fund	493,962	492,198
Retailer accounts receivable, net of allowance for doubtful accounts of $1,256,113 and $1,285,600 for 2018 and 2017, respectively	46,760,497	41,640,025
Inventory	4,226,494	3,092,661
Prepaid expenses and other current assets	752,478	544,966
Total current assets	75,967,416	67,086,037
NONCURRENT ASSETS		
Capital assets, net	474,028	634,247
Deposits with Multi-State Lottery Association	5,465,908	5,126,600
Total noncurrent assets	5,939,936	5,760,847
TOTAL ASSETS	**81,907,352**	**72,846,884**
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows related to the net pension liability	2,233,150	2,186,220
Deferred outflows related to the net OPEB liability	426,634	-
Total deferred outflows of resources	2,659,784	2,186,220
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	**84,567,136**	**75,033,104**
CURRENT LIABILITIES		
Prizes payable	33,374,232	32,990,411
Prizes payable - Multi-State Lottery Association	1,561,902	1,144,120
Accounts payable	2,861,716	2,625,814
Accrued liabilities	1,809,459	1,351,373
Current portion of accrued compensated absences	541,509	480,944
Unearned revenue	455,652	680,941
Total current liabilities	40,604,470	39,273,603
NONCURRENT LIABILITIES		
Accrued compensated absences	291,456	289,916
Net pension liability	15,535,361	15,030,561
Net OPEB liability	11,717,096	-
TOTAL LIABILITIES	**68,148,383**	**54,594,080**
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows related to the net pension liability	491,808	486,388
Deferred inflows related to the net OPEB liability	1,107,777	-
Total deferred inflows of resources	1,599,585	486,388
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	**69,747,968**	**55,080,468**
Net investment in capital assets	474,028	634,247
Restricted fidelity bond fund	493,962	492,198
Restricted for Education Lottery Account	13,851,178	18,826,191
TOTAL NET POSITION	**$ 14,819,168**	**$ 19,952,636**

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, 2018	For the years ended June 30, 2017
OPERATING REVENUES		
Sales Revenues		
Instant games	$ 1,260,581,630	$ 1,189,676,209
Terminal games	489,581,056	446,022,172
Total sales revenues	1,750,162,686	1,635,698,381
Other Operating Revenues		
Retailer permit fees	547,740	535,765
Retailer on-line communication fees	3,056,925	3,006,165
Other	111,527	81,675
Total other operating revenues	3,716,192	3,623,605
Total revenues	1,753,878,878	1,639,321,986
DIRECT COSTS		
Commissions and incentives to retailers	123,457,251	115,388,940
Prize expense		
Instant games	911,316,653	862,331,501
Terminal games	238,469,488	223,868,971
Total prize expense	1,149,786,141	1,086,200,472
Instant and terminal game costs	18,726,895	17,415,966
Total direct costs	1,291,970,287	1,219,005,378
Gross profit	461,908,591	420,316,608
OPERATING EXPENSES		
Advertising and promotion	8,340,042	8,112,517
Security checks	259,887	271,790
Salaries, wages and benefits	11,157,481	10,332,555
Contracted and professional services	1,237,807	483,927
Depreciation and amortization	275,004	268,058
Rent	618,718	637,953
Office supplies	53,884	39,571
Other general and administrative	2,040,423	1,929,584
Total operating expenses	23,983,246	22,075,955
Operating income	437,925,345	398,240,653
NON-OPERATING INCOME		
Interest income	10,957	3,215
Gain on disposition of other assets	-	44
Total non-operating income	10,957	3,259
Change in net position before amount remitted to Education Lottery Account	437,936,302	398,243,912
REMITTED TO EDUCATION LOTTERY ACCOUNT	(430,978,177)	(410,525,548)
Change in net position before implementation of GASB No. 75	6,958,125	(12,281,636)
NET POSITION - BEGINNING OF YEAR, AS ORIGINALLY REPORTED	19,952,636	32,234,272
IMPLEMENTATION EFFECT OF GASB No. 75	(12,091,593)	-
NET POSITION - BEGINNING OF YEAR, AS RESTATED	7,861,043	32,234,272
NET POSITION - END OF YEAR	$ 14,819,168	$ 19,952,636

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

SOUTH CAROLINA EDUCATION LOTTERY COMMISSION
STATEMENTS OF CASH FLOWS

	For the years ended June 30, 2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from retailers	$ 1,748,533,118	$ 1,641,186,177
Cash payments to prize winners	(1,148,984,538)	(1,084,829,529)
Cash payments for goods and services	(155,382,262)	(143,903,702)
Cash payments to employees for services	(10,325,443)	(10,026,602)
Net cash provided by operating activities	433,840,875	402,426,344
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Cash (paid to) received from Multi-State Lottery Association	(339,308)	87,152
Payments to Education Lottery Account	(430,978,177)	(410,525,548)
Net cash used for noncapital financing activities	(431,317,485)	(410,438,396)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from disposition of other assets	-	44
Purchases of capital assets	(114,785)	(149,582)
Net cash used for capital and related financing activities	(114,785)	(149,538)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	10,957	3,215
Net cash provided by investing activities	10,957	3,215
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,419,562	(8,158,375)
CASH AND CASH EQUIVALENTS		
BEGINNING OF YEAR	21,808,385	29,966,760
END OF YEAR	**$ 24,227,947**	**$ 21,808,385**
OPERATING ACTIVITIES		
Operating income	$ 437,925,345	$ 398,240,653
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	275,004	268,058
Changes in assets and liabilities		
Retailer accounts receivable	(5,120,472)	2,030,398
Inventory	(1,133,833)	(471,807)
Prepaid expenses and other current assets	(207,512)	381,421
Accounts payable and accrued liabilities	886,396	1,869,340
Prizes payable	801,603	1,370,943
Unearned revenue and deferred outflows and inflows	414,344	(1,262,662)
Net cash provided by operating activities	**$ 433,840,875**	**$ 402,426,344**

The accompanying notes are an integral part of these 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;
Leasehold 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, 2018 and 2017, the balance in the Restricted Fidelity Bond Fund was $493,962 and $492,198, respectively.

The Commission transferred $28,911 and $24,828 from the Fidelity Bond Fund to the Education Lottery Account during the years ended June 30, 2018 and 2017, respectively. 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 leave. Unused annual leave benefits are paid to employees upon separation from service. The cost of annual 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, 2018 and 2017 were $5,465,908 and $5,126,600, 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, 2018 and 2017 were $1,561,902 and $1,144,120, respectively.

Advertising

Costs incurred for producing and communicating advertising are expensed when incurred, which generally is when the advertising first takes place. Advertising costs for the years ended June 30, 2018 and 2017 were $8,340,042 and $8,112,517, respectively.

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.

Other Post-Employment Benefits (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows and inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the OPEB Trusts, and additions to and deductions from the OPEB Trusts fiduciary net position have been determined on the same basis as they were reported by the OPEB Trusts. For this purpose, revenues are recognized when earned and expenses are recognized when incurred. Therefore, benefit and administrative expenses are recognized when due and payable. Investments are reported at fair value.

Deferred Outflows of Resources and Deferred Inflows of Resources

Changes in the net pension and OPEB liabilities not included in current period expense are reported as deferred outflows of resources or deferred inflows of resources. Employer contributions subsequent to the measurement date of the net pension and OPEB liabilities 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

Adoption of New Accounting Standards

Effective for the fiscal year ended June 30, 2018, the Commission adopted GASB Statement No. 75, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions (GASB No. 75).* As a result of this implementation, the Commission reports its portion of the State of South Carolina's net liability for these OPEB. Since the information for the restatement of beginning balances of deferred outflows of resources or deferred inflows of resources is not available for the earliest period presented, the cumulative effect of the implementation of GASB No. 75 will be shown as a restatement to beginning net position for the year ended June 30, 2018. The effect of this implementation is discussed in Notes 9 and 11.

Subsequent Events

In preparing these financial statements, the Commission has evaluated events and transactions for potential recognition or disclosure through October 1, 2018, 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, 2018 and 2017, the amounts of the Commission's deposits were as follows:

	2018		2017	
	Carrying amounts	Bank balances	Carrying amounts	Bank balances
Demand deposits	$ 24,227,947	$ 24,891,526	$ 21,808,385	$ 22,086,762

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, 2018 and 2017, all of the Commission's bank balances of $24,891,526 and $22,086,762, 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, 2018 and 2017.

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 2018:

	Balance as of June 30, 2017	Additions	Deletions	Balance as of June 30, 2018
Cost				
Machinery and equipment	$ 3,249,108	$ 78,496	$ -	$ 3,327,604
Vehicles	375,046	36,289	-	411,335
Leasehold improvements	1,315,694	-	-	1,315,694
Intellectual property	555,815	-	-	555,815
	5,495,663	114,785	-	5,610,448
Accumulated depreciation / amortization				
Machinery and equipment	(3,052,269)	(142,604)	-	(3,194,873)
Vehicles	(156,215)	(55,736)	-	(211,951)
Leasehold improvements	(1,301,556)	-	-	(1,301,556)
Intellectual property	(351,376)	(76,664)	-	(428,040)
	(4,861,416)	(275,004)	-	(5,136,420)
Total capital assets, net	**$ 634,247**	**$ (160,219)**	**$ -**	**$ 474,028**

The following is a summary of changes in capital assets and accumulated depreciation and amortization during fiscal year 2017:

	Balance as of June 30, 2016	Additions	Deletions	Balance as of June 30, 2017
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
	5,346,081	149,582	-	5,495,663
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)
	(4,593,358)	(268,058)	-	(4,861,416)
Total capital assets, net	**$ 752,723**	**$ (118,476)**	**$ -**	**$ 634,247**

NOTE 5 - ACCRUED LIABILITIES

	2018	2017
Accrued expenses consist of the following as of June 30:		
Accrued payroll and related expenses	$ 987,913	$ 822,637
Accrued other expenses	821,546	528,736
Total accrued expenses	$ 1,809,459	$ 1,351,373

NOTE 6 - LONG-TERM CONTRACTS AND COMMITMENTS

In May 2018, the Commission began a ten-year contract with IGT Global Solutions Corporation (IGT) to provide services and supplies and/or equipment for the operation of the lottery (the "Contract"). The Contract requires IGT to provide and support the components necessary to operate the Commission's lottery business. Services to be provided under the Contract include the operation and replacement, as necessary, of hardware and software owned and maintained by IGT. The Commission agreed to pay an annual fee of $7,750,000 for these services.

The Contract awarded to IGT was subject to a competitive bid process. The Commission's previous contract was with Intralot and Intralot protested the selection of IGT. Intralot's protest was denied; however, Intralot has appealed the denial. The appeal has not been heard; however the Commission believes that the likelihood of the denial being reversed is remote.

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

Fiscal Year	Contract Payments to IGT
2019	$ 7,750,000
2020	7,750,000
2021	7,750,000
2022	7,750,000
2023	7,750,000
Thereafter	38,750,000

The monthly terminal gaming fee payments to Intralot totaled $6,328,790 and $6,777,900 for the years ended June 30, 2018 and 2017, respectively. The monthly terminal gaming fee payments to IGT totaled $525,988 for the year ended June 30, 2018.

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 $11,481,174 and $9,789,573 for the years ended June 30, 2018 and 2017, 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 2018:

	Balance as of June 30, 2017	Additions	Deductions	Balance as of June 30, 2018
Accrued compensated absences	**$ 770,860**	**$ 642,661**	**$ 580,556**	**$ 832,965**

Compensated absences due in the next fiscal year are estimated at $541,509, 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 2017:

	Balance as of June 30, 2016	Additions	Deductions	Balance as of June 30, 2017
Accrued compensated absences	**$ 793,913**	**$ 475,335**	**$ 498,388**	**$ 770,860**

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.

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:

Fiscal Year	Operating Leases
2019	$ 559,503
2020	570,790
2021	582,076
2022	593,363
2023	604,650
Thereafter	615,937

Rental expenses under all operating leases, including those on month-to-month terms, totaled $615,475 and $637,593 for the years ended June 30, 2018 and 2017, respectively.

NOTE 9 - RESTATEMENT FOR CHANGE IN ACCOUNTING PRINCIPLE AND RESTRICTED FOR EDUCATION LOTTERY ACCOUNT

The Commission implemented GASB No. 75, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, in the fiscal year ended June 30, 2018. The implementation of the Statement required the Commission to record the beginning net OPEB liability and the effects on net position of contributions made by the Commission during the measurement period (fiscal year ended June 30, 2017). As a result, beginning net position for the Commission for the year ended June 30, 2018 decreased by $12,091,593.

The implementation effect of adopting GASB No. 75 reduced the amount of the component of net position classified as Restricted for ELA. The following table summarizes the activity in Restricted for ELA for the year ended June 30:

	2018	**2017**
Restricted for ELA, beginning of year, as originally reported	$ 18,826,191	$ 30,991,974
Implementation effect of GASB No. 75	(12,091,593)	-
Restricted for ELA, beginning of year, as restated	6,734,598	30,991,974
Change in net position before transfers to ELA	437,936,302	398,243,912
Cash transfers to ELA	(430,978,177)	(410,525,548)
Change in capital assets, net	160,219	118,476
Net amount paid from fidelity fund	(1,764)	(2,623)
Restricted for ELA, end of year	**$ 13,851,178**	**$ 18,826,191**

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, 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:

	For the Years Ended June 30,	
	2018	**2017**
SCRS		
Employee Class Two	9.00%	8.66%
Employee Class Three	9.00%	8.66%
State ORP		
Employee	9.00%	8.66%
PORS		
Employee Class Two	9.75%	9.24%
Employee Class Three	9.75%	9.24%

Required ***employer*** contribution rates are as follows:

SCRS		
Employer Class Two	13.41%	11.41%
Employer Class Three	13.41%	11.41%
Employer Incidental Death Benefit	0.15%	0.15%
State ORP		
Employer Contribution	13.41%	11.41%
Employer Incidental Death Benefit	0.15%	0.15%
PORS		
Employer Class Two	15.84%	13.84%
Employer Class Three	15.84%	13.84%
Employer Incidental Death Benefit	0.20%	0.20%
Employer Accidental Death Program	0.20%	0.20%

Of the ORP employer contribution of 13.41% 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 $799,207, $65,686, and $8,381 for the year ended June 30, 2018, respectively. 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.

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 ended effective June 30, 2018 and a member’s participation may not continue after that date.

Pension Expense

For the year ended June 30, 2018 and 2017, the Commission recognized pension expense for the SCRS plan of $1,308,994 and $1,066,226, respectively and for the PORS plan of $16,901 and $14,703, respectively.

Deferred outflows of resources and deferred inflows of resources

At June 30, 2018 and 2017, the Commission reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources for each of the respective plans:

	SCRS			
	June 30, 2018		June 30, 2017	
	Deferred outflows of resources	Deferred inflows of resources	Deferred outflows of resources	Deferred inflows of resources
Differences between expected and actual experience	$ 68,765	$ 8,550	$ 154,759	$ 16,212
Changes of assumptions	902,979	-	-	-
Net difference between projected and actual earnings on pension plan investments	430,598	-	1,256,030	-
Changes in proportion and differences between Commission contributions and proportionate share of contributions	-	483,258	-	470,176
Commission contributions subsequent to the measurement date	799,207	-	744,571	-
Total	$ 2,201,549	$ 491,808	$ 2,155,360	$ 486,388

	PORS			
	June 30, 2018		June 30, 2017	
	Deferred outflows of resources	Deferred inflows of resources	Deferred outflows of resources	Deferred inflows of resources
Differences between expected and actual experience	$ 979	$ -	$ 1,498	$ -
Changes of assumptions	10,421	-	-	-
Net difference between projected and actual earnings on pension plan investments	3,913	-	11,447	-
Changes in proportion and differences between Commission contributions and proportionate share of contributions	7,907	-	10,615	-
Commission contributions subsequent to the measurement date	8,381	-	7,300	-
Total	$ 31,601	$ -	$ 30,860	$ -

The $799,207 and $8,381 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, 2018 will be recognized as a reduction of the net pension liabilities during the year ending June 30, 2019.

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:

Year ended June 30:	SCRS
2019	$ 174,841
2020	499,689
2021	360,278
2022	(124,274)
2023	-

Year ended June 30:	PORS
2019	$ 9,792
2020	7,778
2021	5,162
2022	488
2023	-

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, 2017 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, 2016, actuarial valuations, as adopted by the PEBA Board and State Fiscal Accountability Authority which utilized membership data as of July 1, 2016. The total pension liability was rolled-forward from the valuation date to the plan's fiscal year ended June 30, 2017, using generally accepted actuarial principles. The Retirement System Funding and Administration Act of 2017 was signed into law April 25, 2017, and included a provision to reduce the assumed rate of return from 7.50% to 7.25% effective July 1, 2017. As a result of this legislation, GRS made an adjustment to the calculation of the roll-forward total pension liability for this assumption change as of the measurement date of June 30, 2017. 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, 2016 valuations for SCRS and PORS.

	SCRS	PORS
Actuarial cost method	Entry age normal	Entry age normal
Actuarial assumptions:		
Investment rate of return	7.25%	7.25%
Projected salary increases, includes	3.0% to 12.5% (varies by service)	3.5% to 9.5% (varies by service)
inflation at:	2.25%	2.25%
Benefit adjustments	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, 2016, valuations for SCRS and PORS are as follows.

Former Job Class	Males	Females
Educators	2016 PRSC Males multiplied by 92%	2016 PRSC Females multiplied by 98%
General Employees and Members of the General Assembly	2016 PRSC Males multiplied by 100%	2016 PRSC Females multiplied by 111%
Public Safety and Firefighters	2016 PRSC Males multiplied by 125%	2016 PRSC Females multiplied by 111%

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 No. 67 less that System's fiduciary net position. NPL totals, as of June 30, 2017, 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	$ 48,244,437,494	$ 25,732,829,268	$ 22,511,608,226	53.3%
PORS	7,013,684,001	4,274,123,178	2,739,560,823	60.9%

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 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 Nos. 67 and 68 are not applicable for other purposes, such as determining the plans' funding requirements.

At June 30, 2018, the Commission reported liabilities of $15,425,179 and $110,182 for its proportionate shares of the SCRS and PORS net pension liabilities, respectively. 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. The net pension liabilities were measured as of July 1, 2017 and 2016, 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, 2017 and 2016, the Commission's proportionate shares of the SCRS and PORS plans were 0.06852 % and 0.06989%, respectively, and 0.00401 % and 0.00398%, respectively

Long-term Expected Rate of Return

The long-term expected rate of return on pension plan investments, as used in the July 1, 2016, actuarial valuations, was based upon the 30 year capital market outlook. 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, 2017. 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 7.25 percent assumed annual investment rate of return set in statute and used in the calculation of the total pension liability includes a 5.00 percent real rate of return and a 2.25 percent inflation component.

Asset Class	Target Asset Allocation	Real Rate of Return	Real Rate of Return
Global Equity	**45.00%**		
Global Public Equity	31.00%	6.72%	2.08%
Private Equity	9.00%	9.60%	0.86%
Equity Options Strategies	5.00%	5.91%	0.30%
Real Assets	**8.00%**		
Real Estate (Private)	5.00%	4.32%	0.22%
Real Estate (REITs)	2.00%	6.33%	0.13%
Infrastructure	1.00%	6.26%	0.06%
Opportunistic	**17.00%**		
GTAA/Risk Parity	10.00%	4.16%	0.42%
Hedge Funds (non-PA)	4.00%	3.82%	0.15%
Other Opportunistice Strategies	3.00%	4.16%	0.12%
Diversified Credit	**18.00%**		
Mixed Credit	6.00%	3.92%	0.24%
Emerging Markets Debt	5.00%	5.01%	0.25%
Private Debt	7.00%	4.37%	0.31%
Conservative Fixed Income	**12.00%**		
Core Fixed Income	10.00%	1.60%	0.16%
Cash and Short Duration (Net)	2.00%	0.92%	0.02%
Total Expected Real Return	100.00%		5.31%
Inflation for Actuarial Purposes			2.25%
Total Expected Nominal Return			7.56%

Discount Rate

The discount rate used to measure the total pension liability was 7.25 percent. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers in SCRS and PORS will be made based on the actuarially determined rates based on provisions in the South Carolina Code of Laws. Based on those assumptions, each System's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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 7.25 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 (6.25 percent) or 1.00 percent higher (8.25 percent) than the current rate.

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

System	1.00% Decrease (6.25%)	Current Discount Rate (7.25%)	1.00% Increase (8.25%)
SCRS	$ 19,880,646	$ 15,425,179	$ 12,721,395
PORS	148,327	110,182	79,553

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, 2017 (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, 2017.

NOTE 11 - POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS

Plan Description

Employees of the Commission are provided with OPEB through Plans established by the state of South Carolina. The Other Post-Employment Benefits Trust Funds (OPEB Trusts), which collectively refers to the South Carolina Retiree Health Insurance Trust Fund (SCRHITF) and the South Carolina Long-Term Disability Insurance Trust Fund (SCLTDITF), were established by the State of South Carolina as Act 195. Act 195 became effective on May 2008. The SCRHITF was created to fund and account for the employer costs of the State's retiree health and dental plans. The SCLTDITF was created to fund and account for the employer costs of the State's Basic Long-Term Disability Income Benefit Plan. Costs related to Long-Term Disability insurance were insignificant for the year ended June 30, 2018.

In accordance with Act 195, the OPEB Trusts are administered by the PEBA, Insurance Benefits and the State Treasurer is the custodian of the funds held in trust. The Board of Directors of PEBA has been designated as the Trustee.

The OPEB Trusts are cost-sharing multiple-employer defined benefit plans. Article 5 of the State Code of Laws defines the two plans and authorizes the Trustee to at any time adjust the plans, including its benefits and contributions, as necessary to insure the fiscal stability of the plans. 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.

As discussed in ***NOTE 9 - RESTATEMENT FOR CHANGE IN ACCOUNTING PRINCIPLE AND RESTRICTED FOR EDUCATION LOTTERY ACCOUNT,*** The Commission implemented GASB No. 75, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions,* in the fiscal year ended June 30, 2018. The implementation of the Statement required the Commission to change the manner in which it had been accounting for its liabilities associated with the OPEB Trusts and to record the beginning net OPEB liability and the effects on net position of contributions made by the Commission during the measurement period. The OPEB liability associated with the SCLTDITF was immaterial to the Commission's net position and operations and, accordingly, no adjustments were made to the Commission's financial statements pursuant to the requirements of GASB No. 75.

Benefits

The SCRHITF is a healthcare plan that covers retired employees of the State of South Carolina, including all agencies, and public school districts. The SCRHITF provides health and dental insurance benefits to eligible retirees. 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 15-24 years of service for 50% employer funding.

Contributions and 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 to be funded through annual appropriations by the General Assembly for active employees to the PEBA, Insurance Benefits and participating retirees to PEBA, except for the portion funded through the pension surcharge and provided from the other applicable sources of the PEBA, Insurance Benefits. For active employees who are not funded by State General Fund appropriations, participating employers are mandated by State statute to contribute at a rate assessed each year by the Department of Administration Executive Budget Office. The covered payroll surcharge for the year ended June 30, 2017 was 5.33 percent. The South Carolina Retirement System (SCRS) collects the monthly surcharge for all participating employers and remits it directly to the SCRHITF. Other sources of funding for the SCRHITF include mandatory transfers of accumulated PEBA, Insurance Benefits' reserves and income generated from investments. Employer contributions also include the implicit subsidy, or age-related subsidy inherent in the healthcare premiums structure. The implicit subsidy represents a portion of the health care expenditures paid on behalf of the employer's active employees. For purposes of GASB No. 75, this expenditure on behalf of the active employee is reclassified as a retiree health care expenditure so that the employer's contributions towards the plan reflect the underlying age-adjusted, retiree benefit costs. . For the years ended June 30, 2017 and 2016 the Commission remitted $406,501 and $389,088, respectively, to SCRS for SCLTHITF surcharges.

In accordance with part (b) of paragraph 69 of GASB No. 75, participating employers should recognize revenue in an amount equal to the employer's proportionate share of the change in the collective net OPEB liability arising from contributions to the OPEB plan during the measurement period from non-employer contributing entities for purposes other than the separate financing of specific liabilities to the OPEB plan. Therefore, employers should classify this revenue in the same manner as it classifies grants from other entities.

PEBA, Insurance Benefits issues audited financial statements and required supplementary information for the OPEB Trust Funds. This information is publicly available through the Insurance Benefits' link on PEBA's website at www.peba.sc.gov or a copy may be obtained by submitting a request to PEBA – Insurance Benefits, 202 Arbor Lake Drive, Columbia, SC 29223. PEBA is considered a division of the primary government of the state of South Carolina and therefore, OPEB Trust fund financial information is also included in the comprehensive annual financial report of the state.

OPEB Liability, OPEB Expense and Deferred Outflows and Inflows of Resources Related to OPEB

At June 30, 2018, the Commission reported a liability of $11,717,096 for its proportionate share of the net OPEB liability. The Commission's proportionate share of the net OPEB liability was $12,091,593 and was determined by an actuarial valuation which was performed as of June 30, 2016 and "rolled-forward" to June 30, 2017. The Commission's proportionate share of the net OPEB liability was based on a projection of the Commission's long-term share of contributions to the OPEB Trust relative to the projected contributions of all participants, as actuarially determined. As of the actuarial valuation date the Commission's proportionate share related to the SCRHITF was 0.086506%.

For the year ended June 30, 2018, the Commission recognized OPEB expense related to the SCRHITF of $713,147. At June 30, 2018, the Commission recognized deferred outflows and inflows of resources related to OPEB from the following sources:

	June 30, 2018	
	Deferred outflows of resources	**Deferred inflows of resources**
Differences between expected and actual experience	$ -	$ 5,085
Changes of assumptions	-	1,102,524
Net difference between projected and actual earnings on pension plan investments	20,133	-
Changes in proportion and differences between Commission contributions and proportionate share of contributions	-	168
Commission contributions subsequent to the measurement date	406,501	-
Total	$ 426,634	$ 1,107,777

Deferred outflows related to Commission contributions subsequent to the measurement date of $406,501 will be recognized as a reduction of the OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended June 30:

2019	$ (172,325)
2020	(172,325)
2021	(172,325)
2022	(172,325)
2023	(177,358)
Thereafter	(220,986)

Actuarial Assumptions and Methods

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedules of funding progress, presented as required supplementary information following the notes to the financial statements, present multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plans (as understood by the employer and plan participants) and include the types of benefits provided at the time the valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

__NOTE 11 - POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS, Continued__

Additional information as of the latest actuarial valuation for SCRHITF:

Valuation Date:	June 30, 2016
Actuarial Cost Method:	Entry Age Normal
Inflation:	2.25%
Investment Rate of Return:	4.00%, net of OPEB Plan investment expense; including inflation
Single Discount Rate:	3.56% as of June 30, 2017
Demographic Assumptions:	Based on the experience study performed for the South Carolina Retirement Systems for the 5-year period ending June 30, 2015
Mortality:	For healthy retirees, the 2016 Public Retirees of South Carolina Mortality Table for Males and the 2016 Public Retirees of South Carolina Mortality Table for Females are used with fully generational mortality projections based on Scale AA from the year 2016. Multipliers are applied to the base tables based on gender and employment type.
Health Care Trend Rate:	Initial trend starting at 7.00% and gradually decreasing to an ultimate trend rate of 4.15% over a period of 15 years
Aging Factors:	Based on plan specific experience
Retiree Participation:	79% for retirees who are eligible for funded premiums
Notes:	There were no benefit changes during the year; the discount rate changed from 2.92% as of June 30, 2016 to 3.56% as of June 30, 2017

The actuarial valuation was performed as of June 30, 2016. Update procedures were used to roll forward the total OPEB liability to June 30, 2017.

Net OPEB Liability

The Net OPEB Liability (NOL) is calculated separately for each OPEB Trust Fund and represents that particular Trust's Total OPEB Liability (TOL) determined in accordance with GASB No. 74 less that Trust's fiduciary net position. The allocation of each employer's proportionate share of the collective Net OPEB Liability and collective OPEB Expense was determined using the employer's payroll-related contributions over the measurement period.

The following table represents the components of the net OPEB liability related to the SCRHITF as of June 30, 2017:

OPEB Trust	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability	Plan Fiduciary Net Position as a % of Total OPEB Liability
SCRHITF	$ 14,659,610,970	$ 1,114,774,760	$ 13,544,836,210	7.60%

The NOL is calculated by the Trusts' actuary, and the Trust's fiduciary net position is reported in the Trust's financial statements. The NOL is determined in accordance with the requirements of GASB No. 74.

Single Discount Rate

The Single Discount Rate of 3.56% was used to measure the total OPEB liability for the SCRHITF. The accounting policy for this plan is to set the Single Discount Rate equal to the prevailing municipal bond rate. Due to the plan's investment and funding policies, the difference between a blended discount rate and the municipal bond rate would be less than several basis points (several hundredths of one percent).

Long-term Expected Rate of Return

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. The expected returns, along with the expected inflation rate, form the basis for the target asset allocation adopted at the beginning of the 2017 fiscal year. The long-term expected rate of return is produced by weighting the expected future real rates of return by the target allocation percentage and adding expected inflation. This information is summarized in the following table:

Asset Class	Target Asset Allocation	Expected Arithmetic Real Rate of Return	Allocation-Weighted Long-Term Expected Real Rate of Return
U.S. Domestic Fixed Income	80.00%	2.09%	1.67%
Cash	20.00%	0.84%	0.17%
Total	100.00%		1.84%
Expected Inflation			2.25%
Total Return			4.09%
Investment Return Assumption			**4.00%**

Sensitivity Analysis

The following table presents the SCRHITF's net OPEB liability and the Commission's proportionate share calculated using a Single Discount Rate of 3.56%, as well as what the plan's net OPEB liability would be if it were calculated using a Single Discount Rate that is one percent lower or one percent higher:

	1% Decrease 2.56%	Current Discount Rate 3.56%	1% Increase 4.56%
SCRHITF Net OPEB Liability	$ 15,951,988,645	$ 13,544,836,210	$ 11,604,082,103
Commission's Proportionate Share	13,799,427	11,717,096	10,038,227

Regarding the sensitivity of the SCRHITF's net OPEB liability and the Commission's proportionate share to changes in the healthcare cost trend rates, the following table presents SCRHITF's net OPEB liability and the Commission's proportionate share, calculated using the assumed trend rates as well as what the plan's net OPEB liability would be if were calculated using a trend rate that is one percent lower or one percent higher:

	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
SCRHITF Net OPEB Liability	$ 11,107,326,981	$ 13,544,836,210	$ 16,700,824,804
Commission's Proportionate Share	9,608,504	11,717,096	14,447,216

Additional Financial and Actuarial Information

Detailed information regarding the fiduciary net position of the SCRHITF is available in its audited financial statements for the fiscal year ended June 30, 2017 (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, 2017. A copy of the separately issued financial statements for 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.

<u>NOTE 12 - CONTINGENCIES</u>

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, 2018.

NOTE 13 - TRANSACTIONS WITH STATE ENTITIES AND RELATED PARTIES

For the year ended June 30, 2018, the Commission had certain transactions with the State and various other agencies as follows:

Related Party	Amount	Nature of Transaction
South Carolina Department of Revenue	$ 7,635,971	Transfers of state income tax withholdings for prizes, use taxes, prize debt setoffs, and retailer credit checks
South Carolina Law Enforcement Division	387,556	Security services and fees paid for background checks on employees and retailers
South Carolina State Treasurer	434,799,739	Remittances of net proceeds and unclaimed prizes
South Carolina State Treasurer	3,492	Unclaimed property return
South Carolina Deparment of Administration	14,482	Vehicles, telephone, printing, and miscellaneous services
South Carolina Public Employee Benefit Authority (PEBA)	1,107,367	Employee health, life and dental insurance
South Carolina Department of Social Services	65,821	Debt setoffs withheld from prize winnings
South Carolina Department of Public Safety	172,827	Security services
South Carolina State Accident Fund	26,848	Workers' compensation insurance
South Carolina Public Employee Benefit Authority (PEBA)	1,692,050	Employee retirement contributions / employer match
South Carolina Department of Employment & Workforce	21,773	Unemployment insurance
South Carolina Department of Corrections	1,022	Furniture and miscellaneous maintenance
Total	**$ 445,928,948**	

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

Related Party	Amount	Nature of Transaction
South Carolina Department of Revenue	$ 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 Deparment 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
Total	**$ 411,191,231**	

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		
	2018	**2017**	**2016**	**2015**	**2014**
Commission's proportion of the net pension liability	0.06852%	0.06989%	0.07133%	0.007417%	0.007417%
Commission's proportionate share of the net pension liability	$ 15,425,179	$ 14,929,635	$ 13,527,510	$ 12,768,753	$ 13,302,555
Commission's covered payroll during the measurement period	$ 6,484,053	$ 6,431,575	$ 6,372,987	$ 6,173,645	$ 6,247,542
Commission's proportionate share of the net pension liability as a percentage of its covered-employee payroll during the measurement period	237.89409%	232.13031%	212.26326%	206.82681%	212.92462%
Plan fiduciary net position as a percentage of the total pension liability	52.90645%	52.90645%	57.99175%	59.91945%	56.38821%

			PORS		
	2018	**2017**	**2016**	**2015**	**2014**
Commission's proportion of the net pension liability	0.00401%	0.00398%	0.00356%	0.32600%	0.32600%
Commission's proportionate share of the net pension liability	$ 110,182	$ 100,926	$ 77,590	$ 62,791	$ 67,759
Commission's covered payroll during the measurement period	$ 53,979	$ 50,723	$ 44,072	$ 39,194	$ 36,802
Commission's proportionate share of the net pension liability as a percentage of its covered-employee payroll during the measurement period	204.12012%	198.97482%	176.05282%	160.20564%	183.62861%
Plan fiduciary net position as a percentage of the total pension liability	60.44490%	60.44490%	64.56865%	67.54949%	62.97880%

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

SCRS

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Contractually required contribution	$ 868,731	$ 739,830	$ 701,685	$ 685,184	$ 703,992	$ 713,645	$ 666,552	$ 646,657	$ 688,811	$ 689,943
Contributions in relation to the contractually required contribution	$ 868,731	$ 739,830	$ 701,685	$ 685,184	$ 703,992	$ 713,645	$ 666,552	$ 646,657	$ 688,811	$ 689,943
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Commission's covered-employee payroll	$ 6,478,230	$ 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
Contributions as a percentage of covered-employee payroll	13.41001%	11.41000%	10.91000%	10.75138%	11.40318%	11.42281%	10.10442%	9.76819%	9.24000%	9.23999%

PORS

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Contractually required contribution	$ 8,380	$ 7,470	$ 6,765	$ 5,187	$ 4,876	$ 4,379	$ 4,051	$ 3,091	n/a	n/a
Contributions in relation to the contractually required contribution	$ 8,380	$ 7,470	$ 6,765	$ 5,187	$ 4,876	$ 4,379	$ 4,051	$ 3,091	n/a	n/a
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	n/a	n/a
Commission's covered-employee payroll	$ 52,901	$ 53,979	$ 50,723	$ 44,072	$ 39,194	$ 36,802	$ 35,652	$ 27,772	n/a	n/a
Contributions as a percentage of covered-employee payroll	15.84091%	13.83834%	13.33714%	11.76938%	12.44068%	11.89881%	11.36262%	11.12992%	n/a	n/a

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

	For the years ended June 30,	
	SCRHITF	
	2018	**2017**
Commission's proportion of the net OPEB liability	0.08651%	0.08651%
Commission's proportionate share of the net OPEB liability	$11,717,096	$12,516,244
Commission's covered payroll during the measurement period	$ 6,484,053	$ 6,431,575
Commission's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll during the measurement period	180.70636%	194.60620%
Plan fiduciary net position as a percentage of the total OPEB liability	7.60000%	7.60000%

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

SCRHITF

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Contractually required contribution	$ 406,277	$ 388,818	$ 378,258	$ 350,277	$ 344,075	$ 321,716	$ 316,517	$ 296,154	$333,492	$334,041
Contributions in relation to the contractually required contribution	$ 406,277	$ 388,818	$ 378,258	$ 350,277	$ 344,075	$ 321,716	$ 316,517	$ 296,154	$ 333,492	$ 334,041
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Commission's covered-employee payroll	$ 6,478,230	$ 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
Contributions as a percentage of covered-employee payroll	6.27141%	5.99652%	5.88127%	5.49628%	5.57328%	5.14948%	4.79816%	4.47360%	4.47361%	4.47361%

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

	For the years ended June 30,	
	2018	**2017**
Charges for services	$ 1,753,878,878	$ 1,639,321,986
Non-operating income	10,957	3,259
Less expenses	1,315,953,533	1,241,081,333
Net program revenue	437,936,302	398,243,912
Remittances out to state agencies/funds	(430,978,177)	(410,525,548)
Change in net position before implentation effect of GASB No. 75	6,958,125	(12,281,636)
Net position - beginning of year, as originally reported	19,952,636	32,234,272
Implementation effect of GASB No. 75	(12,091,593)	-
Net position - beginning of year, as restated	7,861,043	32,234,272
Net position - end of year	**$ 14,819,168**	**$ 19,952,636**

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, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements, and have issued our report thereon dated October 1, 2018.

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.

Elliott Davis, LLC

Columbia, South Carolina
October 1, 2018

SOUTH CAROLINA EDUCATION LOTTERY COMMISSION
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2018

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